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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 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 Number 000-55409

QVC, Inc.

(Exact name of Registrant as specified in its charter)

State of Delaware (State or other jurisdiction of incorporation or organization)	**23-2414041** (I.R.S. Employer Identification Number)
1200 Wilson Drive **West Chester, Pennsylvania** (Address of principal executive offices)	**19380** (Zip Code)

Registrant's telephone number, including area code: **(484) 701-1000**

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 Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☒ (do not check if 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 ☒

None of the voting stock of the registrant is held by a non-affiliate of the registrant. There is no publicly traded market for any class of voting stock of the registrant. There is one holder of record of the registrant's equity, Liberty QVC Holding, LLC, an indirect wholly-owned subsidiary of Liberty Interactive Corporation.

QVC, Inc.
2017 QUARTERLY REPORT ON FORM 10-Q

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Item 1. Financial Statements

QVC, Inc.

Condensed Consolidated Balance Sheets

(unaudited)

(in millions, except share amounts)		June 30, 2017	December 31, 2016
Assets			
Current assets:			
Cash and cash equivalents	$	306	284
Restricted cash		11	10
Accounts receivable, less allowance for doubtful accounts of $89 at June 30, 2017 and $97 at December 31, 2016		839	1,246
Inventories		1,071	950
Prepaid expenses and other current assets		63	46
Total current assets		2,290	2,536
Property and equipment, net of accumulated depreciation of $1,109 at June 30, 2017 and $1,004 at December 31, 2016		1,002	1,031
Television distribution rights, net		111	183
Goodwill		5,046	4,995
Other intangible assets, net		2,637	2,738
Other noncurrent assets		60	62
Total assets	$	11,146	11,545
Liabilities and equity			
Current liabilities:			
Current portion of debt and capital lease obligations	$	16	14
Accounts payable-trade		618	678
Accrued liabilities		639	769
Total current liabilities		1,273	1,461
Long-term portion of debt and capital lease obligations		4,975	5,275
Deferred income taxes		743	778
Other long-term liabilities		136	136
Total liabilities		7,127	7,650
Equity:			
QVC, Inc. stockholder's equity:			
Common stock, $0.01 par value, 1 authorized share		—	—
Additional paid-in capital		6,862	6,851
Accumulated deficit		(2,800)	(2,832)
Accumulated other comprehensive loss		(146)	(224)
Total QVC, Inc. stockholder's equity		3,916	3,795
Noncontrolling interest		103	100
Total equity		4,019	3,895
Total liabilities and equity	$	11,146	11,545

See accompanying notes to condensed consolidated financial statements.

QVC, Inc.

Condensed Consolidated Statements of Operations

(unaudited)

	Three months ended June 30,		Six months ended June 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
Net revenue	$ 1,979	2,063	3,944	4,076
Cost of goods sold	1,230	1,285	2,473	2,565
Gross profit	749	778	1,471	1,511
Operating expenses:				
Operating	137	146	274	288
Selling, general and administrative, including stock-based compensation	152	179	309	361
Depreciation	37	31	78	65
Amortization	117	115	233	229
	443	471	894	943
Operating income	306	307	577	568
Other (expense) income:				
Equity in losses of investee	(1)	(1)	(3)	(2)
Interest expense, net	(56)	(54)	(111)	(107)
Foreign currency (loss) gain	(8)	20	(10)	22
	(65)	(35)	(124)	(87)
Income before income taxes	241	272	453	481
Income tax expense	(90)	(104)	(167)	(180)
Net income	151	168	286	301
Less net income attributable to the noncontrolling interest	(10)	(11)	(21)	(19)
Net income attributable to QVC, Inc. stockholder	$ 141	157	265	282

See accompanying notes to condensed consolidated financial statements.

QVC, Inc.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

(in millions)	Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Net income	$ 151	168	286	301
Foreign currency translation adjustments, net of tax	55	5	82	39
Total comprehensive income	206	173	368	340
Comprehensive income attributable to noncontrolling interest	(8)	(20)	(25)	(35)
Comprehensive income attributable to QVC, Inc. stockholder	$ 198	153	343	305

See accompanying notes to condensed consolidated financial statements.

QVC, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in millions)		Six months ended June 30, 2017	2016
Operating activities:			
Net income	$	286	301
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in losses of investee		3	2
Deferred income taxes		(54)	(37)
Foreign currency loss (gain)		10	(22)
Depreciation		78	65
Amortization		233	229
Change in fair value of financial instruments and noncash interest		3	3
Stock-based compensation		14	16
Change in other long-term liabilities		(1)	(1)
Effects of changes in working capital items		91	51
Net cash provided by operating activities		663	607
Investing activities:			
Capital expenditures		(44)	(98)
Expenditures for television distribution rights		(29)	(6)
Changes in other noncurrent assets		(1)	(2)
Other investing activities		—	2
Net cash used in investing activities		(74)	(104)
Financing activities:			
Principal payments of debt and capital lease obligations		(1,406)	(923)
Principal borrowings of debt from senior secured credit facility		1,094	778
Payment of debt origination fees		—	(2)
Dividends paid to Liberty Interactive Corporation		(233)	(323)
Dividends paid to noncontrolling interest		(22)	(21)
Other financing activities		(9)	(8)
Net cash used in financing activities		(576)	(499)
Effect of foreign exchange rate changes on cash and cash equivalents		9	4
Net increase in cash and cash equivalents		22	8
Cash and cash equivalents, beginning of period		284	327
Cash and cash equivalents, end of period	$	306	335
Effects of changes in working capital items:			
Decrease in accounts receivable	$	415	526
Increase in inventories		(105)	(91)
Increase in prepaid expenses and other current assets		(14)	(19)
Decrease in accounts payable-trade		(80)	(129)
Decrease in accrued liabilities and other		(125)	(236)
Effects of changes in working capital items	$	91	51

See accompanying notes to condensed consolidated financial statements.

QVC, Inc.

Condensed Consolidated Statement of Equity

(unaudited)

(in millions, except share data)	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interest	Total equity
Balance, December 31, 2016	1	$ —	6,851	(2,832)	(224)	100	3,895
Net income	—	—	—	265	—	21	286
Foreign currency translation adjustments, net of tax	—	—	—	—	78	4	82
Dividends paid to Liberty Interactive Corporation and noncontrolling interest and other	—	—	—	(233)	—	(22)	(255)
Impact of tax liability allocation and indemnification agreement with Liberty Interactive Corporation	—	—	6	—	—	—	6
Withholding taxes on net share settlements of stock-based compensation	—	—	(9)	—	—	—	(9)
Stock-based compensation	—	—	14	—	—	—	14
Balance, June 30, 2017	1	$ —	6,862	(2,800)	(146)	103	4,019

See accompanying notes to condensed consolidated financial statements.

QVC, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

(1) Basis of Presentation

QVC, Inc. and its consolidated subsidiaries ("QVC" or the "Company") is a retailer of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised shopping programs, the Internet and mobile applications.

In the United States ("U.S."), QVC's televised shopping programs, including live and recorded content, are broadcast across multiple channels nationally on a full-time basis, including QVC, QVC2 (f/k/a QVC Plus) and the recently launched Beauty iQ. The Company's U.S. programming is also available on QVC.com, QVC's U.S. website; mobile applications via streaming video; over-the-air broadcasters; and over-the-top content platforms (Roku, Apple TV, etc.).

QVC believes that the Company's digital platforms complement the Company's televised shopping programs by allowing consumers to purchase a wide assortment of goods offered on QVC's televised programs, as well as other products that are available only onthe Company's digital platforms. The Company views e-commerce as a natural extension of the Company's business, allowing the Company to stream live video and offer on-demand video segments of items recently presented live onQVC's televised programs. The Company's digital platforms allow shoppers to browse, research, compare and perform targeted searches for products, control the order-entry process and conveniently access their QVC account.

QVC's international televised shopping programs, including live and recorded content, are distributed to households outside of the U.S., primarily in Germany, Austria, Japan, the United Kingdom ("U.K."), the Republic of Ireland, Italy and France. In some of the countries where QVC operates, QVC's televised shopping programs are broadcast across multiple QVC channels: QVC Beauty & Style and QVC Plus in Germany and QVC Beauty, QVC Extra, QVC Style and QVC +1 in the U.K. The programming created for most of these markets is also available via streaming video on QVC's digital platforms. QVC's international business employs product sourcing teams who select products tailored to the interests of each local market.

The Company's Japanese operations ("QVC-Japan") are conducted through a joint venture with Mitsui & Co., LTD ("Mitsui") for a television and multimedia retailing service in Japan. QVC-Japan is owned 60% by the Company and 40% by Mitsui. The Company and Mitsui share in all profits and losses based on their respective ownership interests. During the six months ended June 30, 2017 and 2016, QVC-Japan paid dividends to Mitsui of $22 million and $21 million, respectively.

The Company also has a joint venture with CNR Media Group, formerly known as China Broadcasting Corporation, a limited liability company owned by China National Radio ("CNR"). The Company owns a 49% interest in a CNR subsidiary, CNR Home Shopping Co., Ltd. ("CNRS"). CNRS operates a retail business in China through a shopping television channel with an associated website. This joint venture is accounted for as an equity method investment recorded as equity in losses of investee in the condensed consolidated statements of operations.

The Company is an indirect wholly-owned subsidiary of Liberty Interactive Corporation ("Liberty"), which owns interests in a broad range of digital commerce businesses, and is attributed to Liberty's QVC Group. The QVC Group common stock (Nasdaq: QVCA and QVCB) tracks the assets and liabilities of the QVC Group. The QVC Group tracks the Company, zulily, llc and Liberty's 38% equity interest in HSN, Inc. ("HSN"), one of the Company's two closest televised shopping competitors, cash and certain liabilities. On July 6, 2017, Liberty announced plans to acquire the remaining interest in HSN, Inc., which would make it a wholly-owned subsidiary of Liberty following the closing. On April 4, 2017, Liberty entered into an agreement with General Communications, Inc. ("GCI"), an Alaska corporation, and Liberty Interactive LLC, a Delaware limited liability company and a direct wholly-owned subsidiary of Liberty, whereby Liberty will acquire GCI through a reorganization in which certain assets and liabilities attributed to Liberty’s Ventures Group will be contributed to GCI in exchange for a controlling interest in GCI. Liberty will then effect a tax-free separation of its controlling interest in the combined company, leaving QVC Group common stock as the only outstanding common stock of Liberty. Neither the proposed transactions involving GCI nor the acquisition of HSN is conditioned on the completion of the other, and no assurance can be given as to which of these transactions will be completed first. The QVC Group does not represent a separate legal entity; rather, it represents those businesses, assets and liabilities that are attributed to that group.

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

On October 1, 2015, Liberty acquired all of the outstanding shares of zulily, inc. ("zulily") (now known as zulily, llc).zulily is an online retailer offering customers a fun and entertaining shopping experience with a fresh selection of new product styles launched each day for a limited time period. zulily is attributed to the QVC Group and the Company believes that its business is complementary to the Company. zulily is not part of the results of operations or financial position of QVC presented in these condensed consolidated financial statements. During each of the six months ended June 30, 2017 and 2016, QVC and zulily engaged in multiple transactions relating to sales, sourcing of merchandise, marketing initiatives, business advisory services and software development. The gross value of these transactions totaled approximately $5 million and $7 million, respectively, which did not have a material impact on QVC's financial position, results of operations, or liquidity.

On June 23, 2016, QVC amended and restated its senior secured credit facility (the "Third Amended and Restated Credit Agreement") increasing the revolving credit facility from $2.25 billion to $2.65 billion as explained further in note 6. The Third Amended and Restated Credit Agreement includes a $400 million tranche that may be borrowed by QVC or zulily. Under the terms of the Third Amended and Restated Credit Agreement, QVC and zulily are jointly and severally liable for all amounts borrowed on the $400 million tranche. In accordance with the accounting guidance for obligations resulting from joint and several liability arrangements, QVC will record a liability for amounts it has borrowed under the credit facility plus any additional amount it expects to repay on behalf of zulily. As of June 30, 2017, there was $320 million borrowed by zulily on the $400 million tranche of the Third Amended and Restated Credit Agreement, none of which the Company expects to repay on behalf of zulily.

The condensed consolidated financial statements include the accounts of QVC, Inc. and its majority-owned subsidiaries. All significant intercompany accounts and transactions were eliminated in consolidation.

The accompanying (a) condensed consolidated balance sheet as of December 31, 2016, which has been derived from audited financial statements, and (b) the interim unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for such periods have been included. The results of operations for any interim period are not necessarily indicative of results for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in QVC's Annual Report on Form 10-K for the year ended December 31, 2016.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Estimates include, but are not limited to, sales returns, uncollectible receivables, inventory obsolescence, depreciable lives of fixed assets, internally-developed software, valuation of acquired intangible assets and goodwill, income taxes and stock-based compensation.

On May 28, 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This new guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In March 2016, the FASB issued ASU No. 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies principal versus agent considerations, in April 2016, the FASB issued ASU No. 2016-10, *Identifying Performance Obligations and Licensing*, which clarifies the identification of performance obligations and the implementation guidance for licensing, and in May 2016, the FASB issued ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients*, which clarifies assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The updated guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or modified retrospective transition method. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and early adoption is permitted only for fiscal years beginning after December 15, 2016. The Company has reviewed the applicable ASU and has selected the modified retrospective transition method. At the current time, the Company has not quantified the effects of this pronouncement, but it is working through the relevant aspects to evaluate the quantitative effects of the new guidance. However, the Company expects to elect the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component when its payment terms are less than one year. The Company plans to be able to quantify the effects of these ASUs no later than the fourth quarter of 2017. The Company is currently assessing the presentation and financial disclosures to evaluate the impact of the amended guidance on the Company's existing revenue recognition policies and procedures. The Company will continue to provide updates as to the progress of the Company's evaluation in its quarterly reports during 2017.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*, which changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. The new principle is part of the FASB's simplification initiative and applies to entities that measure inventory using a method other than last-in, first-out (LIFO) or the retail inventory method. The Company has adopted this guidance as of January 1, 2017, and there was no significant effect of the standard on its financial reporting.

In January 2016, the FASB issued ASU No. 2016-01, *Financial Statements - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires equity investments with readily determinable fair values (except those accounted for under the equity method of accounting or those that result in consolidation) to be measured at fair value with changes in fair value recognized in net income and simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The new standard is effective for the Company for fiscal years and interim periods beginning after December 15, 2017. The adoption of this standard is not expected to have a material impact on the Company's ongoing financial reporting.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which revises the accounting treatment related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The new lease guidance also simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. The amendments in this ASU are effective for the Company beginning on January 1, 2019 and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. The Company has not yet determined what the effects of adopting this ASU will be on its ongoing financial reporting.

In March 2016, the FASB issued ASU No. 2016-09, *Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"), which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted this guidance in the third quarter of 2016. In accordance with the new guidance, excess tax benefits and tax deficiencies are recognized as income tax benefit or expense rather than as additional paid-in capital. The Company has elected to recognize forfeitures as they occur rather than continue to estimate expected forfeitures. In addition, pursuant to the new guidance, excess tax benefits are classified as an operating activity on the condensed consolidated statements of cash flows. The recognition of excess tax benefits and deficiencies are applied prospectively from January 1, 2016. See the "Reclassifications" section below for additional detail of the adoption of this guidance.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230)*: *Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues to reduce the diversity in practice for appropriate classification on the statement of cash flows. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. The Company does not expect the adoption will have a material effect on its condensed consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which requires an entity to recognize at the transaction date the income tax consequences of intercompany asset transfers other than inventory. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the effect that the updated standard will have on its condensed consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption will have a material effect on its condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the measurement for impairment by calculating the difference between the carrying amount and the fair value of the reporting unit. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company does not expect the adoption will have a material effect on its condensed consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*, to provide clarity to which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. The Company does not expect the adoption will have a material effect on its condensed consolidated financial statements.

Reclassifications

Certain prior period amounts have been reclassified to conform with current period presentation. In relation to the adoption of ASU 2016-09 in the third quarter of 2016, the Company has reclassified excess tax benefits from stock-based compensation previously recorded in additional paid-in capital of $2 million and $6 million as a tax benefit on the condensed consolidated statement of operations for the three and six months ended June 30, 2016, respectively.

(2) Television Distribution Rights, Net

Television distribution rights consisted of the following:

(in millions)		June 30, 2017	December 31, 2016
Television distribution rights	$	2,332	2,279
Less accumulated amortization		(2,221)	(2,096)
Television distribution rights, net	$	111	183

The Company recorded amortization expense of $52 million and $49 million for the three months ended June 30, 2017 and 2016, respectively, related to television distribution rights. For the six months ended June 30, 2017 and 2016, amortization expense for television distribution rights was $102 million and $96 million, respectively.

As of June 30, 2017, related amortization expense for each of the next five years ended December 31 was as follows (in millions):

Remainder of 2017	$	46
2018		34
2019		15
2020		10
2021		4

The decrease in future amortization expense in 2018 is primarily due to the end of affiliation agreement terms for contracts in place at the time of Liberty's acquisition of QVC in 2003.

(3) Goodwill

The changes in the carrying amount of goodwill for thesix months ended June 30, 2017 were as follows:

(in millions)		QVC-U.S.	QVC-Germany	QVC-Japan	QVC-U.K.	QVC-Italy	Total
Balance as of December 31, 2016	$	4,190	267	258	161	119	4,995
Exchange rate fluctuations		—	23	10	8	10	51
Balance as of June 30, 2017	$	4,190	290	268	169	129	5,046

(4) Other Intangible Assets, Net

Other intangible assets consisted of the following:

		June 30, 2017			December 31, 2016		
(in millions)		Gross cost	Accumulated amortization	Other intangible assets, net	Gross cost	Accumulated amortization	Other intangible assets, net
Purchased and internally developed software	$	680	(515)	165	646	(466)	180
Affiliate and customer relationships		2,409	(2,371)	38	2,397	(2,274)	123
Debt origination fees		8	(2)	6	8	(1)	7
Trademarks (indefinite life)		2,428	—	2,428	2,428	—	2,428
	$	5,525	(2,888)	2,637	5,479	(2,741)	2,738

The Company recorded amortization expense of $65 million and $66 million for the three months ended June 30, 2017 and 2016, respectively, related to other intangible assets. For the six months ended June 30, 2017 and 2016, amortization expense for other intangible assets was $131 million and $133 million, respectively.

As of June 30, 2017, the related amortization and interest expense for each of the next five years ended December 31 was as follows (in millions):

Remainder of 2017	$	78
2018		78
2019		41
2020		11
2021		1

The decrease in future amortization expense in 2018 is primarily due to the end of the useful lives of the affiliate and customer relationships in place at the time of Liberty's acquisition of QVC in 2003.

(5) Accrued Liabilities

Accrued liabilities consisted of the following:

(in millions)		June 30, 2017	December 31, 2016
Accounts payable non-trade	$	167	215
Accrued compensation and benefits		95	92
Income taxes		85	120
Deferred revenue		73	69
Allowance for sales returns		65	93
Accrued interest		58	58
Sales and other taxes		39	62
Other		57	60
	$	639	769

(6) Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations consisted of the following:

(in millions)		June 30, 2017	December 31, 2016
3.125% Senior Secured Notes due 2019, net of original issue discount	$	399	399
5.125% Senior Secured Notes due 2022		500	500
4.375% Senior Secured Notes due 2023, net of original issue discount		750	750
4.85% Senior Secured Notes due 2024, net of original issue discount		600	600
4.45% Senior Secured Notes due 2025, net of original issue discount		599	599
5.45% Senior Secured Notes due 2034, net of original issue discount		399	399
5.95% Senior Secured Notes due 2043, net of original issue discount		300	300
Senior secured credit facility		1,291	1,596
Capital lease obligations		75	69
Build to suit lease obligation		103	105
Less debt issuance costs, net		(25)	(28)
Total debt and capital lease obligations		4,991	5,289
Less current portion		(16)	(14)
Long-term portion of debt and capital lease obligations	$	4,975	5,275

Senior Secured Notes

All of QVC's senior secured notes are secured by the capital stock of QVC and certain of its subsidiaries and have equal priority tothe senior secured credit facility. The interest on all of QVC's senior secured notes is payable semi-annually.

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Senior Secured Credit Facility

On June 23, 2016, QVC entered into a Third Amended and Restated Credit Agreement with zulily as borrowers (collectively, the "Borrowers"), which is a multi-currency facility that provides for a $2.65 billion revolving credit facility with a $300 million sub-limit for standby letters of credit and $1.5 billion of uncommitted incremental revolving loan commitments or incremental term loans. The Third Amended and Restated Credit Agreement includes a $400 million tranche that may be borrowed by the Company or zulily with an additional $50 million sub-limit for standby letters of credit (see notes 1 and 13). The remaining $2.25 billion and any incremental loans may be borrowed only by the Company. Borrowings that are alternate base rate loans will bear interest at a per annum rate equal to the base rate plus a margin that varies between 0.25% and 0.75% depending on the Borrowers' combined ratio of Consolidated Total Debt to Consolidated EBITDA for the most recent four fiscal quarter periods (the "Combined Consolidated Leverage Ratio"). Borrowings that are London Interbank Offered Rate ("LIBOR") loans will bear interest at a per annum rate equal to the applicable LIBOR rate plus a margin that varies between 1.25% and 1.75% depending on the Borrowers' Combined Consolidated Leverage Ratio. Because the calculation of the Combined Consolidated Leverage Ratio was revised to include zulily, the effective interest rate margins, on the date that the Third Amended and Restated Credit Agreement was entered into, decreased from the interest rate margins under the previous bank credit facility. Each loan may be prepaid at any time and from time to time without penalty other than customary breakage costs. No mandatory prepayments will be required other than when borrowings and letter of credit usage exceed availability; provided that, if zulily ceases to be controlled by Liberty, all of its loans must be repaid and its letters of credit cash collateralized. The facility matures on June 23, 2021, except that $140 million of the $2.25 billion commitment available to QVC matures on March 9, 2020. Any amounts prepaid on the revolving facility may be reborrowed. Payment of loans may be accelerated following certain customary events of default.

QVC had $1.03 billion, including the remaining portion of the $400 million tranche that zulily may also borrow on, available under the terms of the Third Amended and Restated Credit Agreement at June 30, 2017. The interest rate on the Third Amended and Restated Credit Agreement was 2.7% at June 30, 2017.

The purpose of the amendment was to, among other things, extend the maturity of the Company's senior secured credit facility, provide zulily the opportunity to borrow on the senior secured credit facility (see note 1), and lower the interest rate on borrowings. The payment and performance of the Borrowers' obligations under the Third Amended and Restated Credit Agreement are guaranteed by each of QVC's Material Domestic Subsidiaries (as defined in the Third Amended and Restated Credit Agreement). Further, the borrowings under the Third Amended and Restated Credit Agreement are secured, *pari passu* with QVC's existing notes, by a pledge of all of the capital stock of QVC. The payment and performance of the Borrowers' obligations with respect to the $400 million tranche available to both QVC and zulily are also guaranteed by each of zulily's Material Domestic Subsidiaries (as defined in the Third Amended and Restated Credit Agreement), if any, and are secured by a pledge of all of zulily's equity interests.

The Third Amended and Restated Credit Agreement contains certain affirmative and negative covenants, including certain restrictions on the Company and zulily and each of their respective restricted subsidiaries (subject to certain exceptions) with respect to, among other things: incurring additional indebtedness; creating liens on property or assets; making certain loans or investments; selling or disposing of assets; paying certain dividends and other restricted payments; dissolving, consolidating or merging; entering into certain transactions with affiliates; entering into sale or leaseback transactions; restricting subsidiary distributions; and limiting the Company's consolidated leverage ratio and the Borrowers' Combined Consolidated Leverage Ratio.

Interest Rate Swap Arrangements

During the year ended December 31, 2016, QVC entered into a three-year interest rate swap arrangement with a notional amount of $125 million to mitigate the interest rate risk associated with interest payments related to its variable rate debt. The swap arrangement does not qualify as a cash flow hedge under U.S. GAAP. Accordingly, changes in the fair value of the swap are reflected in gain on financial instruments in the accompanying condensed consolidated statements of operations. At June 30, 2017, the fair value of the swap instrument was in a net asset position of approximately $2 million which was included in other noncurrent assets.

Other Debt Related Information

QVC was in compliance with all of its debt covenants at June 30, 2017.

During the quarter, there were no significant changes to QVC's debt credit ratings.

The weighted average rate applicable to all of the outstanding debt (excluding capital and build to suit leases) prior to amortization of bond discounts and related debt issuance costs was 4.2% as of June 30, 2017.

(7) Leases

Future minimum payments under noncancelable operating leases and capital transponder leases with initial terms of one year or more and the lease related to the Company's California distribution center (build to suit lease) at June 30, 2017 consisted of the following:

(in millions)		Capital Leases	Operating leases	Build to suit lease
Remainder of 2017	$	7	10	3
2018		16	18	6
2019		16	13	6
2020		12	10	6
2021		11	8	6
Thereafter		18	68	67
Total	$	80	127	94

The Company has entered into fourteen separate capital lease agreements with transponder and transmitter network suppliers to transmit its signals in the U.S., Germany and France at an aggregate monthly cost of $1 million. Depreciation expense related to the capital leases was $3 million and $2 million for the three months ended June 30, 2017 and 2016, respectively. For the six months ended June 30, 2017 and 2016, depreciation expense related to the capital leases was $6 million and $5 million, respectively. Total future minimum capital lease payments of $80 million include $5 million of imputed interest. The transponder service agreements for our U.S. transponders expire between 2019 and 2023. The transponder and transmitter network service agreements for our international transponders expire between 2019 and 2027.

Expenses for operating leases, principally for data processing equipment, facilities, satellite uplink service agreements and the California distribution center land, amounted to $6 million and $5 million for the three months ended June 30, 2017 and 2016, respectively. For both the six months ended June 30, 2017 and 2016, expenses for operating leases were $12 million.

On July 2, 2015, QVC entered into a lease (the "Lease") for a California distribution center. Pursuant to the Lease, the landlord built an approximately one million square foot rental building in Ontario, California (the "Premises"), and thereafter leased the Premises to QVC as its new California distribution center for an initial term of 15 years. Under the Lease, QVC is required to pay an initial base rent of approximately $6 million per year, increasing to approximately $8 million per year by the final year of the initial term, as well as all real estate taxes and other building operating costs. QVC also has an option to extend the term of the Lease for up to two consecutive terms of 10 years each.

QVC has the right to purchase the Premises and related land from the landlord by entering into an amended and restated agreement at any time during the twenty-fifth or twenty-sixth months of the Lease's initial term, which will occur in June and July of 2018, with a $10 million initial payment and annual payments of $12 million over a term of 13 years.

The Company concluded that it was the deemed owner (for accounting purposes only) of the Premises during the construction period under build to suit lease accounting. Building construction began in July of 2015. During the construction period, the Company recorded estimated project construction costs incurred by the landlord as a projects in progress asset and a corresponding long-term liability in Property and equipment, net and Other long-term liabilities, respectively, on its consolidated balance sheet. In addition, the Company paid for normal tenant improvements and certain structural improvements and recorded these amounts as part of the projects in progress asset. Upon completion of construction, the long-term liability was reclassified to debt.

On August 29, 2016, the California distribution center officially opened. The Company evaluated whether the Lease met the criteria for "sale-leaseback" treatment under U.S. GAAP and concluded that it did not. Therefore, the Company treats the Lease as a financing obligation and lease payments are attributed to: (1) a reduction of the principal financing obligation; (2) imputed interest expense; and (3) land lease expense representing an imputed cost to lease the underlying land of the Premises. In addition, the building asset is being depreciated over its estimated useful life of 20 years. Although the Company did not begin making monthly lease payments pursuant to the Lease until February 2017, the portion of the lease obligations allocated to the land has been treated for accounting purposes as an operating lease that commenced in 2015. If the Company does not exercise its right to purchase the Premises and related land, the Company will derecognize both the net book values of the asset and the financing obligation at the conclusion of the lease term.

(8) Income Taxes

The Company calculates its interim income tax provision by applying its best estimate of the annual expected effective tax rate to its ordinary year-to-date income or loss. The tax or benefit related to significant unusual or extraordinary items that will be separately reported or reported net of their related tax effect are individually computed and recognized in the interim period in which those items occur.

The computation of the annual estimated effective tax rate at each interim period requires certain estimates and significant judgment including, but not limited to, the expected operating income for the year, projections of the proportion of income earned and taxed in foreign jurisdictions, permanent and temporary differences as a result of differences between amounts measured and recognized in accordance with tax laws and financial accounting standards, and the likelihood of recovering deferred tax assets. The accounting estimates used to compute the provision for income taxes may change as new events occur, additional information is obtained or as the tax environment changes. To the extent that the estimated annual effective tax rate changes during a quarter, the effect of the change on the prior quarters is included in the tax expense for the current quarter.

For the three months ended June 30, 2017, the Company recorded a tax provision of$90 million, which represented an effective tax rate of37.3%. For the six months ended June 30, 2017 the Company recorded a tax provision of $167 million, which represented an effective tax rate of36.9%. These rates differ from the U.S. federal income tax rate of 35.0% due primarily to state tax expense.

QVC is party to ongoing discussions with the Internal Revenue Service under the Compliance Assurance Process audit program. The Company files Federal tax returns on a consolidated basis with its parent company, Liberty. The Company, or one of its subsidiaries, files income tax returns in various states and foreign jurisdictions. As of June 30, 2017, tax returns of the Company, or one of its subsidiaries, were under examination in Germany for 2012 through 2014 and the U.K. for 2015. In addition, as of June 30, 2017, tax returns of the Company, or one of its subsidiaries, were under examination in California, New York State, and Pennsylvania.

The Company is a party to a Tax Liability Allocation and Indemnification Agreement (the “Tax Agreement”) with Liberty. The Tax Agreement establishes the methodology for the calculation and payment of income taxes in connection with the consolidation of the Company with Liberty for income tax purposes. Generally, the Tax Agreement provides that the Company will pay Liberty an amount equal to the tax liability, if any, that it would have if it were to file as a consolidated group separate and apart from Liberty, with exceptions for the treatment and timing of certain items, including but not limited to deferred intercompany transactions, credits, and net operating and capital losses. To the extent that the separate company tax expense is different from the payment terms of the Tax Agreement, the difference is recorded as either a dividend or capital contribution.

The amounts of the tax-related balances due to Liberty atJune 30, 2017 and December 31, 2016 were $30 million and $75 million, respectively, and were included in accrued liabilities in the accompanying condensed consolidated balance sheets.

(9) Commitments and Contingencies

The Company has contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. Although it is reasonably possible the Company may incur losses upon conclusion of such matters, an estimate of any loss or range of loss cannot be made. In the opinion of management, it is expected that the amounts, if any, which may be required to satisfy such contingencies will not be material in relation to the accompanying condensed consolidated financial statements.

Network and information systems, including the Internet and telecommunication systems, third party delivery services and other technologies are critical to our business activities. Substantially all our customer orders, fulfillment and delivery services are dependent upon the use of network and information systems, including the use of third party telecommunication and delivery service providers. If information systems including the Internet or telecommunication services are disrupted, or if the third party delivery services experience a disruption in their transportation delivery services, we could face a significant disruption in fulfilling our customer orders and shipment of our products. We have active disaster recovery programs in place to help mitigate risks associated with these critical business activities.

(10) Financial Instruments and Fair Value Measurements

For assets and liabilities required to be reported or disclosed at fair value, U.S. GAAP provides a hierarchy that prioritizes inputs to valuation techniques used to measure fair value into three broad levels. Level 1 inputs are quoted market prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 2 inputs, other than quoted market prices included within Level 1, are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

The Company's assets and liabilities measured or disclosed at fair value were as follows:

		Fair value measurements at June 30, 2017 using		
(in millions)	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Current assets:				
Cash equivalents	$ 134	134	—	—
Noncurrent assets:				
Interest rate swap arrangements	2	—	2	—
Long-term liabilities:				
Debt (note 6)	4,873	—	4,873	—

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

		Fair value measurements at December 31, 2016 using		
(in millions)	**Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Current assets:				
Cash equivalents	$ 113	113	—	—
Noncurrent assets:				
Interest rate swap arrangements	2	—	2	—
Long-term liabilities:				
Debt (note 6)	5,092	—	5,092	—

The majority of the Company's Level 2 financial liabilities are debt instruments with quoted market prices that are not considered to be traded on "active markets," as defined in U.S. GAAP. Accordingly, the financial instruments are reported in the foregoing tables as Level 2 fair value instruments.

During the year ended December 31, 2016, QVC entered into a three-year interest rate swap arrangement with a notional amount of $125 million to mitigate the interest rate risk associated with interest payments related to its variable rate debt. The swap arrangement did not qualify as a cash flow hedge under U.S. GAAP. Accordingly, changes in the fair value of the swap are reflected in gain on financial instruments in the accompanying condensed consolidated statements of operations. At June 30, 2017, the fair value of the swap instrument was in a net asset position of $2 million which is included in other noncurrent assets.

(11) Information about QVC's Operating Segments

The Company has identified two reportable operating segments: QVC-U.S. and QVC-International. Both operating segments are retailers of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised-shopping programs as well as via the Internet and mobile applications in certain markets.

QVC's chief operating decision maker ("CODM") is QVC's Chief Executive Officer. QVC's CODM has ultimate responsibility for enterprise decisions. QVC's CODM determines, in particular, resource allocation for, and monitors performance of, the consolidated enterprise, QVC-U.S. and QVC-International. The segment managers have responsibility for operating decisions, allocating resources and assessing performance within their respective segments. QVC's CODM relies on internal management reporting that analyzes enterprise results and segment results to the Adjusted OIBDA level (see below).

The Company evaluates performance and makes decisions about allocating resources to its operating segments based on financial measures such as net revenue, Adjusted OIBDA, gross margin, average sales price per unit, number of units shipped and revenue or sales per subscriber equivalent. The Company defines Adjusted OIBDA as revenue less cost of goods sold, operating expenses, and selling, general and administrative expenses (excluding stock-based compensation). The Company believes this measure is an important indicator of the operational strength and performance of its segments, including the ability to service debt and fund capital expenditures. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking among the Company's businesses and identify strategies to improve performance. This measure of performance excludes depreciation, amortization and stock-based compensation, that are included in the measurement of operating income pursuant to U.S. GAAP. Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with U.S. GAAP.

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Performance measures

	Three months ended June 30,				Six months ended June 30,			
	2017		2016		2017		2016	
(in millions)	Net revenue	Adjusted OIBDA	Net revenue	Adjusted OIBDA	Net revenue	Adjusted OIBDA	Net revenue	Adjusted OIBDA
QVC-U.S.	$ 1,367	361	1,428	363	2,737	697	2,835	689
QVC-International	612	107	635	100	1,207	205	1,241	189
Consolidated QVC	$ 1,979	468	2,063	463	3,944	902	4,076	878

Net revenue amounts by product category are not available from our general purpose financial statements.

Other information

	Three months ended June 30,				Six months ended June 30,			
	2017		2016		2017		2016	
(in millions)	Depreciation	Amortization	Depreciation	Amortization	Depreciation	Amortization	Depreciation	Amortization
QVC-U.S.	$ 22	105	16	103	46	210	33	205
QVC-International	15	12	15	12	32	23	32	24
Consolidated QVC	$ 37	117	31	115	78	233	65	229

	June 30, 2017		December 31, 2016	
(in millions)	Total assets	Capital expenditures	Total assets	Capital expenditures
QVC-U.S.	$ 9,136	34	9,595	152
QVC-International	2,010	10	1,950	27
Consolidated QVC	$ 11,146	44	11,545	179

Long-lived assets, net of accumulated depreciation, by segment were as follows:

(in millions)	June 30, 2017	December 31, 2016
QVC-U.S.	$ 558	594
QVC-International	444	437
Consolidated QVC	$ 1,002	1,031

The following table provides a reconciliation of Adjusted OIBDA to income before income taxes:

	Three months ended June 30,		Six months ended June 30,	
(in millions)	2017	2016	2017	2016
Adjusted OIBDA	$ 468	463	902	878
Stock-based compensation	(8)	(10)	(14)	(16)
Depreciation and amortization	(154)	(146)	(311)	(294)
Equity in losses of investee	(1)	(1)	(3)	(2)
Interest expense, net	(56)	(54)	(111)	(107)
Foreign currency (loss) gain	(8)	20	(10)	22
Income before income taxes	$ 241	272	453	481

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

(12) Other Comprehensive (Loss) Income

The change in the component of accumulated other comprehensive loss, net of taxes ("AOCL"), is summarized as follows:

(in millions)	Foreign currency translation adjustments	AOCL
Balance at January 1, 2017	$ (224)	(224)
Other comprehensive income attributable to QVC, Inc. stockholder	78	78
Balance at June 30, 2017	(146)	(146)
Balance at January 1, 2016	$ (140)	(140)
Other comprehensive income attributable to QVC, Inc. stockholder	23	23
Balance at June 30, 2016	(117)	(117)

The component of other comprehensive income is reflected in QVC's condensed consolidated statements of comprehensive income, net of taxes. The following table summarizes the tax effects related to the component of other comprehensive income:

(in millions)	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Three months ended June 30, 2017			
Foreign currency translation adjustments	$ 54	1	55
Other comprehensive income	54	1	55
Three months ended June 30, 2016			
Foreign currency translation adjustments	$ 2	3	5
Other comprehensive income	2	3	5
Six months ended June 30, 2017:			
Foreign currency translation adjustments	$ 101	(19)	82
Other comprehensive income	101	(19)	82
Six months ended June 30, 2016:			
Foreign currency translation adjustments	$ 30	9	39
Other comprehensive income	30	9	39

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

(13) Subsequent Event

Subsequent to June 30, 2017, QVC declared and paid dividends to Liberty in the amount of $33 million.

As of August 1, 2017, zulily had $325 million outstanding on the shared tranche within the Third Amended and Restated Credit Agreement.

On July 6, 2017, Liberty announced that it had entered into an Agreement and Plan of Merger, dated as of July 5, 2017 (the “HSN Merger Agreement”), by and among Liberty, Liberty Horizon, Inc., a Delaware corporation and a direct, wholly owned subsidiary of Liberty (“Merger Sub”), and HSN. Pursuant to the terms of the HSN Merger Agreement, Merger Sub will merge with and into HSN, with HSN surviving as a wholly-owned subsidiary of Liberty (the “HSN Merger”). As a result of the HSN Merger, Liberty will acquire the approximately 62% of HSN it does not already own in an all-stock transaction. Liberty currently owns approximately 38% of HSN and, under the HSN Merger Agreement, will acquire the remaining stake, making HSN a wholly-owned subsidiary that will be attributed to the QVC Group.

The HSN Merger is expected to be completed by the fourth quarter of 2017. The completion of the acquisition is subject to certain customary conditions, including (i) the receipt of requisite regulatory approvals, including approval from the Federal Communications Commission and the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act and (ii) approval by a majority of the outstanding voting power of HSN shareholders. A voting agreement has been obtained from Liberty to vote its HSN shares in-favor of the transaction. Approval of the Liberty stockholders is not required, and is not being sought, for the HSN Merger.

(14) Guarantor/Non-guarantor Subsidiary Financial Information

The following information contains the condensed consolidating financial statements for the Company, the parent on a stand-alone basis (QVC, Inc.), the combined subsidiary guarantors (Affiliate Relations Holdings, Inc.; Affiliate Investment, Inc.; AMI 2, Inc.; ER Marks, Inc.; QVC Rocky Mount, Inc.; QVC San Antonio, LLC; QVC Global Holdings I, Inc.; and QVC Global Holdings II, Inc.) and the combined non-guarantor subsidiaries pursuant to Rule 3-10 of Regulation S-X.

In connection with the Third Amended and Restated Credit Agreement (see notes 1 and 6), QVC International Ltd is no longer a guarantor subsidiary, and is reflected with the combined non-guarantor subsidiaries.

These condensed consolidating financial statements have been prepared from the Company's financial information on the same basis of accounting as the Company's condensed consolidated financial statements. The principal elimination entries relate to investments in subsidiaries and intercompany balances and transactions, such as management fees, royalty revenue and expense, interest income and expense and gains on intercompany asset transfers. Goodwill and other intangible assets have been allocated to the subsidiaries based on management’s estimates. Certain costs have been partially allocated to all of the subsidiaries of the Company.

The subsidiary guarantors are 100% owned by the Company. All guarantees are full and unconditional and are joint and several. There are no significant restrictions on the ability of the Company to obtain funds from its U.S. subsidiaries, including the guarantors, by dividend or loan. The Company has not presented separate notes and other disclosures concerning the subsidiary guarantors as the Company has determined that such material information is available in the notes to the Company's condensed consolidated financial statements.

QVC, Inc.
Notes to Condensed Consolidated Financial Statements (continued)
(unaudited)

Condensed Consolidating Balance Sheets

					June 30, 2017
(in millions)	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
Assets					
Current assets:					
Cash and cash equivalents	$ 1	119	186	—	306
Restricted cash	8	—	3	—	11
Accounts receivable, net	581	—	258	—	839
Inventories	807	—	264	—	1,071
Prepaid expenses and other current assets	27	—	36	—	63
Total current assets	1,424	119	747	—	2,290
Property and equipment, net	289	60	653	—	1,002
Television distribution rights, net	—	106	5	—	111
Goodwill	4,190	—	856	—	5,046
Other intangible assets, net	570	2,048	19	—	2,637
Other noncurrent assets	15	—	45	—	60
Investments in subsidiaries	3,379	198	—	(3,577)	—
Total assets	$ 9,867	2,531	2,325	(3,577)	11,146
Liabilities and equity					
Current liabilities:					
Current portion of debt and capital lease obligations	$ 3	—	13	—	16
Accounts payable-trade	371	—	247	—	618
Accrued liabilities (1)	(88)	231	496	—	639
Intercompany accounts payable (receivable)	627	(1,273)	646	—	—
Total current liabilities	913	(1,042)	1,402	—	1,273
Long-term portion of debt and capital lease obligations	4,828	—	147	—	4,975
Deferred income taxes	104	704	(65)	—	743
Other long-term liabilities	106	—	30	—	136
Total liabilities	5,951	(338)	1,514	—	7,127
Equity:					
QVC, Inc. stockholder's equity	3,916	2,869	708	(3,577)	3,916
Noncontrolling interest	—	—	103	—	103
Total equity	3,916	2,869	811	(3,577)	4,019
Total liabilities and equity	$ 9,867	2,531	2,325	(3,577)	11,146

(1) The negative balance is due to the impact of allocated income tax position of respective underlying entities relative to total consolidated net income tax liability.

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Condensed Consolidating Balance Sheets

	December 31, 2016				
(in millions)	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
Assets					
Current assets:					
Cash and cash equivalents	$ 2	97	185	—	284
Restricted cash	8	—	2	—	10
Accounts receivable, net	958	—	288	—	1,246
Inventories	726	—	224	—	950
Prepaid expenses and other current assets	22	—	24	—	46
Total current assets	1,716	97	723	—	2,536
Property and equipment, net	317	63	651	—	1,031
Television distribution rights, net	—	167	16	—	183
Goodwill	4,190	—	805	—	4,995
Other intangible assets, net	666	2,049	23	—	2,738
Other noncurrent assets	15	—	47	—	62
Investments in subsidiaries	3,389	1,030	—	(4,419)	—
Total assets	$ 10,293	3,406	2,265	(4,419)	11,545
Liabilities and equity					
Current liabilities:					
Current portion of debt and capital lease obligations	$ 3	—	11	—	14
Accounts payable-trade	425	—	253	—	678
Accrued liabilities	74	234	461	—	769
Intercompany accounts payable (receivable)	623	(246)	(377)	—	—
Total current liabilities	1,125	(12)	348	—	1,461
Long-term portion of debt and capital lease obligations	5,132	—	143	—	5,275
Deferred income taxes	145	707	(74)	—	778
Other long-term liabilities	96	—	40	—	136
Total liabilities	6,498	695	457	—	7,650
Equity:					
QVC, Inc. stockholder's equity	3,795	2,711	1,708	(4,419)	3,795
Noncontrolling interest	—	—	100	—	100
Total equity	3,795	2,711	1,808	(4,419)	3,895
Total liabilities and equity	$ 10,293	3,406	2,265	(4,419)	11,545

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Condensed Consolidating Statements of Operations

	Three months ended June 30, 2017				
(in millions)	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
Net revenue	$ 1,402	220	660	(303)	1,979
Cost of goods sold	838	32	397	(37)	1,230
Gross profit	564	188	263	(266)	749
Operating expenses:					
Operating	95	60	66	(84)	137
Selling, general and administrative, including stock-based compensation	239	—	95	(182)	152
Depreciation	16	2	19	—	37
Amortization	60	45	12	—	117
	410	107	192	(266)	443
Operating income	154	81	71	—	306
Other (expense) income:					
Equity in losses of investee	—	—	(1)	—	(1)
Interest expense, net	(54)	—	(2)	—	(56)
Foreign currency loss	(2)	—	(6)	—	(8)
Intercompany interest (expense) income	(1)	23	(22)	—	—
	(57)	23	(31)	—	(65)
Income before income taxes	97	104	40	—	241
Income tax expense	(39)	(32)	(19)	—	(90)
Equity in earnings (losses) of subsidiaries, net of tax	93	(2)	—	(91)	—
Net income	151	70	21	(91)	151
Less net income attributable to the noncontrolling interest	(10)	—	(10)	10	(10)
Net income attributable to QVC, Inc. stockholder	$ 141	70	11	(81)	141

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Condensed Consolidating Statements of Operations

	Three months ended June 30, 2016				
(in millions)	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
Net revenue	$ 1,459	231	682	(309)	2,063
Cost of goods sold	871	36	420	(42)	1,285
Gross profit	588	195	262	(267)	778
Operating expenses:					
Operating	93	60	68	(75)	146
Selling, general and administrative, including stock-based compensation	264	—	107	(192)	179
Depreciation	13	2	16	—	31
Amortization	60	44	11	—	115
	430	106	202	(267)	471
Operating income	158	89	60	—	307
Other (expense) income:					
Equity in losses of investee	—	—	(1)	—	(1)
Interest expense, net	(54)	—	—	—	(54)
Foreign currency gain	6	—	14	—	20
Intercompany interest (expense) income	(1)	—	1	—	—
	(49)	—	14	—	(35)
Income before income taxes	109	89	74	—	272
Income tax expense	(40)	(33)	(31)	—	(104)
Equity in earnings of subsidiaries, net of tax	99	50	—	(149)	—
Net income	168	106	43	(149)	168
Less net income attributable to the noncontrolling interest	(11)	—	(11)	11	(11)
Net income attributable to QVC, Inc. stockholder	$ 157	106	32	(138)	157

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Condensed Consolidating Statements of Operations

	Six months ended June 30, 2017				
(in millions)	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
Net revenue	$ 2,806	445	1,304	(611)	3,944
Cost of goods sold	1,693	69	788	(77)	2,473
Gross profit	1,113	376	516	(534)	1,471
Operating expenses:					
Operating	195	118	134	(173)	274
Selling, general and administrative, including stock-based compensation	481	—	189	(361)	309
Depreciation	33	4	41	—	78
Amortization	120	90	23	—	233
	829	212	387	(534)	894
Operating income	284	164	129	—	577
Other (expense) income:					
Equity in losses of investee	—	—	(3)	—	(3)
Interest expense, net	(109)	—	(2)	—	(111)
Foreign currency loss	(3)	—	(7)	—	(10)
Intercompany interest (expense) income	(2)	45	(43)	—	—
	(114)	45	(55)	—	(124)
Income before income taxes	170	209	74	—	453
Income tax expense	(71)	(62)	(34)	—	(167)
Equity in earnings of subsidiaries, net of tax	187	15	—	(202)	—
Net income	286	162	40	(202)	286
Less net income attributable to the noncontrolling interest	(21)	—	(21)	21	(21)
Net income attributable to QVC, Inc. stockholder	$ 265	162	19	(181)	265

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Condensed Consolidating Statements of Operations

	Six months ended June 30, 2016				
(in millions)	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
Net revenue	$ 2,903	464	1,347	(638)	4,076
Cost of goods sold	1,747	78	829	(89)	2,565
Gross profit	1,156	386	518	(549)	1,511
Operating expenses:					
Operating	202	119	140	(173)	288
Selling, general and administrative, including stock-based compensation	527	—	210	(376)	361
Depreciation	25	4	36	—	65
Amortization	120	84	25	—	229
	874	207	411	(549)	943
Operating income	282	179	107	—	568
Other (expense) income:					
Equity in losses of investee	—	—	(2)	—	(2)
Interest expense, net	(107)	—	—	—	(107)
Foreign currency gain	9	—	13	—	22
Intercompany interest (expense) income	(1)	1	—	—	—
	(99)	1	11	—	(87)
Income before income taxes	183	180	118	—	481
Income tax expense	(64)	(59)	(57)	—	(180)
Equity in earnings of subsidiaries, net of tax	182	82	—	(264)	—
Net income	301	203	61	(264)	301
Less net income attributable to the noncontrolling interest	(19)	—	(19)	19	(19)
Net income attributable to QVC, Inc. stockholder	$ 282	203	42	(245)	282

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Condensed Consolidating Statements of Comprehensive Income

(in millions)	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
	Three months ended June 30, 2017				
Net income	$ 151	70	21	(91)	151
Foreign currency translation adjustments, net of tax	55	—	55	(55)	55
Total comprehensive income	206	70	76	(146)	206
Comprehensive income attributable to noncontrolling interest	(8)	—	(8)	8	(8)
Comprehensive income attributable to QVC, Inc. stockholder	$ 198	70	68	(138)	198

Condensed Consolidating Statements of Comprehensive Income

(in millions)	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
	Three months ended June 30, 2016				
Net income	$ 168	106	43	(149)	168
Foreign currency translation adjustments, net of tax	5	—	5	(5)	5
Total comprehensive income	173	106	48	(154)	173
Comprehensive income attributable to noncontrolling interest	(20)	—	(20)	20	(20)
Comprehensive income attributable to QVC, Inc. stockholder	$ 153	106	28	(134)	153

Condensed Consolidating Statements of Comprehensive Income

(in millions)	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
	Six months ended June 30, 2017				
Net income	$ 286	162	40	(202)	286
Foreign currency translation adjustments, net of tax	82	—	82	(82)	82
Total comprehensive income	368	162	122	(284)	368
Comprehensive income attributable to noncontrolling interest	(25)	—	(25)	25	(25)
Comprehensive income attributable to QVC, Inc. stockholder	$ 343	162	97	(259)	343

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Condensed Consolidating Statements of Comprehensive Income

	Six months ended June 30, 2016				
(in millions)	**Parent issuer-QVC, Inc.**	**Combined subsidiary guarantors**	**Combined non-guarantor subsidiaries**	**Eliminations**	**Consolidated-QVC, Inc. and subsidiaries**
Net income	$ 301	203	61	(264)	301
Foreign currency translation adjustments, net of tax	39	—	39	(39)	39
Total comprehensive income	340	203	100	(303)	340
Comprehensive income attributable to noncontrolling interest	(35)	—	(35)	35	(35)
Comprehensive income attributable to QVC, Inc. stockholder	$ 305	203	65	(268)	305

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Condensed Consolidating Statements of Cash Flows

	Six months ended June 30, 2017				
(in millions)	Parent issuer-QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated-QVC, Inc. and subsidiaries
Operating activities:					
Net cash provided by operating activities	$ 318	235	110	—	663
Investing activities:					
Capital expenditures	(29)	—	(15)	—	(44)
Expenditures for television distribution rights	—	(29)	—	—	(29)
Changes in other noncurrent assets	(1)	—	—	—	(1)
Intercompany investing activities	270	(668)	—	398	—
Net cash provided by (used in) investing activities	240	(697)	(15)	398	(74)
Financing activities:					
Principal payments of debt and capital lease obligations	(1,402)	—	(4)	—	(1,406)
Principal borrowings of debt from senior secured credit facility	1,094	—	—	—	1,094
Dividends paid to Liberty	(233)	—	—	—	(233)
Dividends paid to noncontrolling interest	—	—	(22)	—	(22)
Other financing activities	(9)	—	—	—	(9)
Net short-term intercompany debt borrowings (repayments)	4	(1,027)	1,023	—	—
Other intercompany financing activities	(13)	1,511	(1,100)	(398)	—
Net cash (used in) provided by financing activities	(559)	484	(103)	(398)	(576)
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	9	—	9
Net (decrease) increase in cash and cash equivalents	(1)	22	1	—	22
Cash and cash equivalents, beginning of period	2	97	185	—	284
Cash and cash equivalents, end of period	$ 1	119	186	—	306

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Condensed Consolidating Statements of Cash Flows

	Six months ended June 30, 2016				
(in millions)	Parent issuer-QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated-QVC, Inc. and subsidiaries
Operating activities:					
Net cash provided by (used in) operating activities	$ 428	182	(3)	—	607
Investing activities:					
Capital expenditures	(75)	(3)	(20)	—	(98)
Expenditures for television distribution rights	—	(6)	—	—	(6)
Changes in other noncurrent assets	1	—	(3)	—	(2)
Other investing activities	(6)	—	8	—	2
Intercompany investing activities	316	127	—	(443)	—
Net cash provided by (used in) investing activities	236	118	(15)	(443)	(104)
Financing activities:					
Principal payments of debt and capital lease obligations	(920)	—	(3)	—	(923)
Principal borrowings of debt from senior secured credit facility	778	—	—	—	778
Payment of debt origination fees	(2)	—	—	—	(2)
Dividends paid to Liberty	(323)	—	—	—	(323)
Dividends paid to noncontrolling interest	—	—	(21)	—	(21)
Other financing activities	(8)	—	—	—	(8)
Net short-term intercompany debt (repayments) borrowings	(90)	(1,473)	1,563	—	—
Other intercompany financing activities	(96)	1,198	(1,545)	443	—
Net cash used in financing activities	(661)	(275)	(6)	443	(499)
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	4	—	4
Net increase (decrease) in cash and cash equivalents	3	25	(20)	—	8
Cash and cash equivalents, beginning of period	—	112	215	—	327
Cash and cash equivalents, end of period	$ 3	137	195	—	335

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, product and marketing strategies; new service offerings; revenue growth and subscriber trends; the recoverability of our goodwill and other long-lived assets; our projected sources and uses of cash and the anticipated impact of certain contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. Where, in any forward-looking statement, we express an expectation or belief as to future results or events, such expectation or belief is expressed in good faith and believed to have a reasonable basis, but there can be no assurance that the expectation or belief will result or be achieved or accomplished. The following include some but not all of the factors that could cause actual results or events to differ materially from those anticipated:

- customer demand for our products and services and our ability to adapt to changes in demand;
- competitor responses to our products and services;
- increased digital TV penetration and the impact on channel positioning of our programs;
- the levels of online traffic on our websites and our ability to convert visitors into consumers or contributors;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our future financial performance, including availability, terms and deployment of capital;
- our ability to successfully integrate and recognize anticipated efficiencies and benefits from the businesses we acquire;
- the ability of suppliers and vendors to deliver products, equipment, software and services;
- the outcome of any pending or threatened litigation;
- availability of qualified personnel;
- changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings;
- changes in the nature of key strategic relationships with partners, distributors, suppliers and vendors;
- domestic and international economic and business conditions and industry trends;
- changes in tariffs, trade policy and trade relations following the 2016 U.S. presidential election and the vote by the U.K. to exit from the European Union (“Brexit”);
- consumer spending levels, including the availability and amount of individual consumer debt;
- advertising spending levels;
- changes in distribution and viewing of television programming, including the expanded deployment of personal video recorders, video on demand and Internet Protocol television and their impact on home shopping programming;
- rapid technological changes;
- failure to protect the security of personal information, subjecting us to potentially costly government enforcement actions and/or private litigation and reputational damage;
- the regulatory and competitive environment of the industries in which we operate;
- threatened terrorist attacks, political unrest in international markets and ongoing military action around the world;
- fluctuations in foreign currency exchange rates; and

- Liberty Interactive Corporation's ("Liberty") dependence on our cash flow for servicing its debt and for other purposes.

For additional risk factors, please see Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016 as well as Part II, Item 1A. Risk Factors of this Quarterly Report on Form 10-Q. These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Quarterly Report on Form 10-Q, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our accompanying condensed consolidated financial statements and the notes thereto and our Annual Report on Form 10-K for the year ended December 31, 2016.

Overview

QVC, Inc. (unless otherwise indicated or required by the context, the terms "we," "our," "us," the "Company" and "QVC" refer to QVC, Inc. and its consolidated subsidiaries) is a retailer of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised shopping programs, the Internet and mobile applications.

In the United States ("U.S."), our televised shopping programs, including live and recorded content, are broadcast across multiple channels nationally on a full-time basis, including QVC, QVC2 (f/k/a QVC Plus) and the recently launched Beauty iQ. Our U.S. programming is also available on QVC.com, our U.S. website; mobile applications via streaming video; over-the-air broadcasters; and over-the-top content platforms (Roku, Apple TV, etc.).

We believe that our digital platforms complement our televised shopping programs by allowing consumers to purchase a wide assortment of goods offered on our televised programs, as well as other products that are available only on our digital platforms. We view e-commerce as a natural extension of our business, allowing us to stream live video and offer on-demand video segments of items recently presented live on our televised programs. Our digital platforms allow shoppers to browse, research, compare and perform targeted searches for products, control the order-entry process and conveniently access their QVC account.

Our international televised shopping programs, including live and recorded content, are distributed to households outside of the U.S., primarily in Germany, Austria, Japan, the United Kingdom ("U.K."), the Republic of Ireland, Italy and France. In some of the countries where we operate, our televised shopping programs are broadcast across multiple QVC channels: QVC Beauty & Style and QVC Plus in Germany and QVC Beauty, QVC Extra, QVC Style and QVC +1 in the U.K. The programming created for most of these markets is also available via streaming video on our digital platforms. Our international business employs product sourcing teams who select products tailored to the interests of each local market.

The Company's Japanese operations ("QVC-Japan") are conducted through a joint venture with Mitsui & Co., LTD ("Mitsui") for a television and multimedia retailing service in Japan. QVC-Japan is owned 60% by the Company and 40% by Mitsui. The Company and Mitsui share in all profits and losses based on their respective ownership interests. During the six months ended June 30, 2017 and 2016, QVC-Japan paid dividends to Mitsui of $22 million and $21 million, respectively.

The Company also has a joint venture with CNR Media Group, formerly known as China Broadcasting Corporation, a limited liability company owned by China National Radio ("CNR"). The Company owns a 49% interest in a CNR subsidiary, CNR Home Shopping Co., Ltd. ("CNRS"). CNRS operates a retail business in China through a shopping television channel with an associated website. This joint venture is accounted for as an equity method investment recorded as equity in losses of investee in the condensed consolidated statements of operations.

The Company is an indirect wholly-owned subsidiary of Liberty, which owns interests in a broad range of digital commerce businesses, and is attributed to Liberty's QVC Group. The QVC Group common stock (Nasdaq: QVCA and QVCB) tracks the assets and liabilities of the QVC Group. The QVC Group tracks the Company, zulily, llc and Liberty's 38% equity interest in HSN, Inc. ("HSN"), one of the Company's two closest televised shopping competitors, cash and certain liabilities. On July 6, 2017, Liberty announced plans to acquire the remaining interest in HSN, Inc., which would make it a wholly-owned subsidiary of Liberty following the closing. On April 4, 2017, Liberty entered into an agreement with General Communications, Inc. ("GCI"), an Alaska corporation, and Liberty Interactive LLC, a Delaware limited liability company and a direct wholly-owned subsidiary of Liberty, whereby Liberty will acquire GCI through a reorganization in which certain assets and liabilities attributed to Liberty's Ventures Group will be contributed to GCI in exchange for a controlling interest in GCI. Liberty will then effect a tax-free separation of its controlling interest in the combined company, leaving QVC Group common stock as the only outstanding common stock of Liberty. Neither the proposed transactions involving GCI nor the acquisition of HSN is conditioned on the completion of the other, and no assurance can be given as to which of these transactions will be completed first. The QVC Group does not represent a separate legal entity; rather, it represents those businesses, assets and liabilities that are attributed to that group.

On October 1, 2015, Liberty acquired all of the outstanding shares of zulily, inc. ("zulily") (now known as zulily, llc).zulily is an online retailer offering customers a fun and entertaining shopping experience with a fresh selection of new product styles launched each day for a limited time period. zulily is attributed to the QVC Group and the Company believes that its business is complementary to the Company. zulily is not part of the results of operations or financial position of QVC presented in the accompanying condensed consolidated financial statements. During each of the six months ended June 30, 2017 and 2016, QVC and zulily engaged in multiple transactions relating to sales, sourcing of merchandise, marketing initiatives, business advisory services and software development. The gross value of these transactions totaled approximately $5 million and $7 million, respectively, which did not have a material impact on QVC's financial position, results of operations, or liquidity.

On June 23, 2016, QVC amended and restated its senior secured credit facility (the "Third Amended and Restated Credit Agreement") increasing the revolving credit facility from $2.25 billion to $2.65 billion as explained further in note 6 to the Company's condensed consolidated financial statements. The Third Amended and Restated Credit Agreement includes a $400 million tranche that may be borrowed by QVC or zulily. Under the terms of the Third Amended and Restated Credit Agreement, QVC and zulily are jointly and severally liable for all amounts borrowed on the $400 million tranche. In accordance with the accounting guidance for obligations resulting from joint and several liability arrangements, QVC will record a liability for amounts it has borrowed under the credit facility plus any additional amount it expects to repay on behalf of zulily. As of June 30, 2017, there was $320 million borrowed by zulily on the $400 million tranche of the Third Amended and Restated Credit Agreement, none of which the Company expects to repay on behalf of zulily.

Strategies and challenges of business units

QVC's goal is to become the preeminent global multimedia shopping community for people who love to shop, and to offer a shopping experience that is as much about entertainment and enrichment as it is about buying. QVC's objective is to provide an integrated shopping experience that utilizes all forms of media including television, the Internet and mobile devices. QVC intends to employ several strategies to achieve these goals and objectives. Among these strategies are to (i) extend the breadth, relevance and exposure of the QVC brand; (ii) source products that represent unique quality and value; (iii) create engaging presentation content in televised programming, mobile and online; (iv) leverage customer loyalty and continue multi-platform expansion; and (v) create a compelling and differentiated customer experience.

QVC's future net revenue growth will primarily depend on sales growth from e-commerce and mobile platforms, additions of new customers from households already receiving QVC's television programming and increased spending from existing customers. QVC's future net revenue may also be affected by (i) the willingness of cable television and direct-to-home satellite system operators to continue carrying QVC's programming service; (ii) QVC's ability to maintain favorable channel positioning, which may become more difficult due to governmental action or from distributors converting analog customers to digital; (iii) changes in television viewing habits because of personal video recorders, video-on-demand and Internet video services; and (iv) general economic conditions.

The prolonged economic uncertainty in various regions of the world in which our subsidiaries and affiliates operate could adversely affect demand for our products and services since a substantial portion of our revenue is derived from discretionary spending by individuals, which typically falls during times of economic instability. Global financial markets continue to experience disruptions, including increased volatility and diminished liquidity and credit availability. If economic and financial market conditions in the U.S. or other key markets, including Japan and Europe, remain uncertain, persist, or deteriorate further, our customers may respond by suspending, delaying, or reducing their discretionary spending. A suspension, delay or reduction in discretionary spending could adversely affect revenue. Accordingly, our ability to increase or maintain revenue and earnings could be adversely affected to the extent that relevant economic environments remain weak or decline. We currently are unable to predict the extent of any of these potential adverse effects.

On June 23, 2016, the U.K. held a referendum in which British citizens approved an exit from the European Union (the "E.U."), commonly referred to as “Brexit.” As a result of the referendum, the global markets and currencies have been adversely impacted, including a sharp decline in the value of the U.K. Pound Sterling as compared to the U.S. Dollar. Volatility in exchange rates is expected to continue in the short term as the U.K. negotiates its exit from the E.U. In the longer term, any impact from Brexit on us will depend, in part, on the outcome of tariff, trade, regulatory and other negotiations. Although it is unknown what the result of those negotiations will be, it is possible that new terms may adversely affect our operations and financial results. On March 29, 2017, the U.K. invoked Article 50 of the Treaty of Lisbon, which is the first step of the U.K.’s formal exit from the EU. This started the two-year window in which the U.K. and the European Commission can negotiate future terms for imports, exports, taxes, employment, immigration and other areas, ending in the exit of the U.K. from the E.U.

The current President of the U.S. has expressed apprehension towards existing trade agreements, such as the North American Free Trade Agreement and the Trans-Pacific Partnership, and suggested that the U.S. would renegotiate or withdraw from these agreements. He also raised the possibility of significantly increasing tariffs on goods imported into the United States, particularly from China and Mexico. On January 23, 2017, the President of the U.S. signed a presidential memorandum to withdraw the U.S. from the Trans-Pacific Partnership. This and the other proposed actions, if implemented, could adversely affect our business because we sell imported products.

Results of Operations

QVC's operating results were as follows:

(in millions)		Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Net revenue	$	1,979	2,063	3,944	4,076
Costs of goods sold		1,230	1,285	2,473	2,565
Gross profit		749	778	1,471	1,511
Operating expenses:					
Operating		137	146	274	288
Selling, general and administrative, excluding stock-based compensation		144	169	295	345
Adjusted OIBDA		468	463	902	878
Stock-based compensation		8	10	14	16
Depreciation		37	31	78	65
Amortization		117	115	233	229
Operating income		306	307	577	568
Other (expense) income:					
Equity in losses of investee		(1)	(1)	(3)	(2)
Interest expense, net		(56)	(54)	(111)	(107)
Foreign currency (loss) gain		(8)	20	(10)	22
		(65)	(35)	(124)	(87)
Income before income taxes		241	272	453	481
Income tax expense		(90)	(104)	(167)	(180)
Net income		151	168	286	301
Less net income attributable to the noncontrolling interest		(10)	(11)	(21)	(19)
Net income attributable to QVC, Inc. stockholder	$	141	157	265	282

Net revenue

Net revenue by segment was as follows:

(in millions)		Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
QVC-U.S.	$	1,367	1,428	2,737	2,835
QVC-International		612	635	1,207	1,241
Consolidated QVC	$	1,979	2,063	3,944	4,076

QVC's consolidated net revenue decreased 4.1% and 3.2% for the three and six months ended June 30, 2017, respectively, as compared to the corresponding periods in the prior year. The three month decrease in net revenue of $84 million was primarily comprised of $43 million due to a 1.8% decrease in units sold, $31 million due to unfavorable foreign currency rates, $12 million due to a 0.5% decrease in average selling price per unit ("ASP"), $10 million due to a decrease in shipping and handling revenue, and a $8 million decrease in miscellaneous income. The decrease was offset by a decrease in estimated product returns of $20 million. The six month decrease in net revenue of $132 million was primarily comprised of $107 million due to a 2.3%decrease in ASP, $58 million due to unfavorable foreign currency rates, a decrease in shipping and handling revenue of $12 million, and a $8 million decrease in miscellaneous income. The decrease was partially offset by a $47 million decrease in estimated product returns and a $6 million increase due to a slight increase in units sold.

During the three and six months ended June 30, 2017 and 2016, the changes in revenue and expenses were affected by changes in the exchange rates for the Japanese Yen, the Euro and the U.K. Pound Sterling. In the event the U.S. Dollar strengthens against these foreign currencies in the future, QVC's revenue and operating cash flow will be negatively affected. Our product margins may continue to be under pressure due to the devaluation of the U.K. Pound Sterling, which we will try to offset as much of this as possible through pricing and vendor negotiations, as Brexit develops as mentioned above.

In discussing our operating results, the term currency exchange rates refers to the currency exchange rates we use to convert the operating results for all countries where the functional currency is not the U.S. Dollar. We calculate the effect of changes in currency exchange rates as the difference between current period activity translated using the prior period's currency exchange rates. Throughout our discussion, we refer to the results of this calculation as the impact of currency exchange rate fluctuations. When we refer to constant currency operating results, this means operating results without the impact of the currency exchange rate fluctuations. The disclosure of constant currency amounts or results permits investors to understand better QVC’s underlying performance without the effects of currency exchange rate fluctuations.

The percentage (decrease) increase in net revenue for each of QVC's segments in U.S. Dollars and in constant currency was as follows:

	Three months ended June 30, 2017			Six months ended June 30, 2017		
	U.S. Dollars	Foreign Currency Exchange Impact	Constant currency	U.S. Dollars	Foreign Currency Exchange Impact	Constant currency
QVC-U.S.	(4.3)%	— %	(4.3)%	(3.5)%	— %	(3.5)%
QVC-International	(3.6)%	(5.1)%	1.5 %	(2.7)%	(4.7)%	2.0 %

QVC-U.S. net revenue decline for the three and six months ended June 30, 2017 was primarily due to a 3.3% and 1.2% decrease in units shipped, 1.0% and 2.9% decreases in ASP, and decreases of $9 million and $13 million in net shipping and handling revenue, respectively. The decreases for the three and six months ended June 30, 2017 were partially offset by decreases in estimated product returns of $22 million and $49 million, respectively. QVC-U.S. experienced a system outage that had an estimated 1% negative impact to net revenue during the second quarter that resulted in shipment backlog into the third quarter. The decrease in net shipping and handling revenue was a result of a decrease in shipping and handling revenue per unit from promotional offers and lower sales. The decrease in estimated product returns was primarily due to an overall lower return rate and reduced sales. For the three months ended June 30, 2017, QVC-US experienced shipped sales declines in all categories except home, and for the six months ended June 30, 2017 QVC-US experienced shipped sales declines in all categories except apparel.

QVC-International net revenue growth in constant currency for the three months ended June 30, 2017 was primarily due to a 1.0% increase in ASP, mainly in the U.K., Germany and Italy, offset by a decrease in ASP in Japan. Additionally, there was a 0.7% increase in units shipped, mainly in Japan. Net revenue growth in constant currency for the six months ended June 30, 2017 was primarily due to a 2.4% increase in units shipped, mainly in Japan and Germany, offset by a 0.6% decrease in ASP, primarily in Japan. For the three and six months ended June 30, 2017, QVC-International experienced shipped sales growth in constant currency in beauty, accessories and apparel with declines in home, jewelry and electronics.

Gross profit

QVC's gross profit percentage was 37.8% and 37.3% for the three and six months ended June 30, 2017, respectively, compared to 37.7% and 37.1% for the three and six months ended June 30, 2016. For the three and six months ended June 30, 2017, the gross profit percentage increased primarily due to an increase in product margins, offset by increases in warehouse costs in the U.S. due in part to the addition of the California distribution center that opened in the third quarter of 2016.

Operating expenses

QVC's operating expenses are principally comprised of commissions, order processing and customer service expenses, credit card processing fees and telecommunications expenses. Operating expenses decreased $9 million or 6.2% and decreased $14 million or 4.9% for the three and six months ended June 30, 2017 as compared to the three and six months ended June 30, 2016, respectively.

For the three and six months ended June 30, 2017, operating expenses decreased primarily due to decreases in customer service expense of $3 million and $7 million, decreases in commissions expense of $3 million and $2 million and $3 million and $5 million in favorable foreign currency exchange rates, respectively. The decreases in customer service expenses was primarily due to lower call volumes for the three and six months ended June 30, 2017 and the closure of the Port St. Lucie call center in March of 2016 for the six months ended June 30, 2017. The decreases in commission expenses were due to a decrease in U.S. sales for both periods offset by additional channel placement fees in the U.K.

Selling, general and administrative expenses (excluding stock-based compensation)

QVC's selling, general, and administrative expenses (excluding stock-based compensation) include personnel, information technology, provision for doubtful accounts, production costs, credit card income, marketing and advertising expenses. Such expenses decreased $25 million for the three months ended June 30, 2017, and decreased $50 million for the six months ended June 30, 2017, respectively, compared to the same period in the prior year. Such expenses decreased from 8.2% to 7.3% and 8.5% to 7.5%, as a percentage of net revenue, as compared to the three and six months ended June 30, 2016, respectively.

For the three months ended June 30, 2017, the decrease was primarily due to a decrease in bad debt expense of $19 million, $4 million from favorable foreign currency rates, a $4 million decrease in external services, a $2 million increase in credit card income and a $2 million decrease in various other expenses offset by increases of $3 million in both software expense and personnel costs. The decrease in bad debt expense was primarily related to lower default rates experienced from prior periods mostly related to the Easy-Pay program in the U.S. and lower sales in the period. The decrease in external services was primarily due to costs related to internal control enhancements, a decrease in outside legal services and the establishment of a global business service center incurred in the prior year. The increase in credit card income was due to the favorable economics of the QVC-branded credit card portfolio in the U.S. Software expense increased primarily due to increases in software licenses and maintenance. The increase in personnel costs was primarily due to an increase in bonus compensation mostly in the U.S. offset by decreases in salaries and wages.

For the six months ended June 30, 2017, the decrease was primarily due to a decrease in bad debt expense of $21 million, $8 million from favorable foreign currency rates, reduced personnel costs of $5 million, a $5 million increase in credit card income, a $4 million decrease in external services, a $3 million decrease in marketing expenses and a $9 million decrease in various other expenses offset by an increase of $5 million in software expense. The decrease in bad debt expense was primarily related to lower default rates experienced from prior periods mostly related to the Easy-Pay program in the U.S. and lower sales in the period. The decrease in personnel costs was primarily due to a decrease in wages and severance offset partially by higher bonus expenses. The increase in credit card income was due to the favorable economics of the QVC-branded credit card portfolio in the U.S. The decrease in external services was primarily due to costs related to internal control enhancements, a decrease in outside legal services and the establishment of a global business service center incurred in the prior year. The decrease in marketing expenses was primarily due to a decrease in promotional advertising with zulily. Software expense increased primarily due to increases in software licenses and maintenance.

Stock-based compensation

Stock-based compensation includes compensation related to options and restricted stock granted to certain officers and employees. QVC recorded $8 million and $10 million of stock-based compensation expense for the three months ended June 30, 2017 and 2016, respectively, and $14 million and $16 million of stock-based compensation expense for the six months ended June 30, 2017 and 2016, respectively.

Depreciation and amortization

Depreciation and amortization consisted of the following:

(in millions)		Three months ended June 30, 2017	Three months ended June 30, 2016	Six months ended June 30, 2017	Six months ended June 30, 2016
Affiliate agreements	$	37	37	73	73
Customer relationships		43	42	84	85
Acquisition related amortization		80	79	157	158
Property and equipment		37	31	78	65
Software amortization		22	23	46	47
Channel placement amortization and related expenses		15	13	30	24
Total depreciation and amortization	$	154	146	311	294

For the three and six months ended June 30, 2017, depreciation and amortization increased primarily due to expense related to the addition of the California distribution center in the third quarter of 2016 and additional channel placement related to Beauty iQ in the U.S.

Equity in losses of investee

The losses were associated with our joint venture in China that is accounted for as an equity method investment.

Interest expense, net

For the three and six months ended June 30, 2017, consolidated interest expense, net increased $2 million or 3.7% and increased $4 million or 3.7%, respectively, as compared to the corresponding period in the prior year. For the three and six months ended June 30, 2017, interest expense, net increased primarily due to income related to the ineffective portion of a hedge of a net investment in the prior year.

Foreign currency (loss) gain

Certain loans between QVC and its subsidiaries are deemed to be short-term in nature, and accordingly, the translation of these loans is recorded in the accompanying condensed consolidated statements of operations. For the three and six months ended June 30, 2017, the change in foreign currency (loss) gain was also due to variances in interest and operating payables balances between QVC and its international subsidiaries denominated in the currency of the subsidiary and the effects of currency exchange rate changes on those balances.

Income taxes

Our effective tax rate was37.3% and 36.9% for the three and six months ended June 30, 2017, respectively, and our effective tax rate for thethree and six months ended June 30, 2016 was 38.2% and 37.4%, respectively. These rates differ from the U.S. federal income tax rate of 35.0% primarily due to state tax expense.

Adjusted Operating Income before Depreciation and Amortization (Adjusted OIBDA)

QVC defines Adjusted OIBDA as net revenue less cost of goods sold, operating expenses and selling, general and administrative expenses (excluding stock-based compensation). QVC's chief operating decision maker and management team use this measure of performance in conjunction with other measures to evaluate the businesses and make decisions about allocating resources among the businesses. QVC believes that this is an important indicator of the operational strength and performance of the businesses, including the ability to service debt and fund capital expenditures. In addition, this measure allows QVC to view operating results, perform analytical comparisons and perform benchmarking among its businesses and identify strategies to improve performance. This measure of performance excludes such costs as depreciation, amortization and stock-based compensation that are included in the measurement of operating income pursuant to U.S. generally accepted accounting principles ("U.S. GAAP"). Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with U.S. GAAP.

The primary material limitations associated with the use of Adjusted OIBDA as compared to U.S. GAAP results are (i) it may not be comparable to similarly titled measures used by other companies in the industry, and (ii) it excludes financial information that some may consider important in evaluating QVC's performance. QVC compensates for these limitations by providing disclosure of the difference between Adjusted OIBDA and U.S. GAAP results, including providing a reconciliation of Adjusted OIBDA to U.S. GAAP results, to enable investors to perform their own analysis of QVC's operating results. See to note 11 to the accompanying condensed consolidated financial statements for a reconciliation of Adjusted OIBDA to income before income taxes.

Seasonality

QVC's business is seasonal due to a higher volume of sales in the fourth calendar quarter related to year-end holiday shopping. In recent years, QVC has earned, on average, between 22% and 24% of its revenue in each of the first three quarters of the year and between 30% and 32% of its revenue in the fourth quarter of the year.

Financial Position, Liquidity and Capital Resources

General

Historically, QVC's primary sources of cash have been cash provided by operating activities and borrowings. In general, QVC uses this cash to fund its operations, make capital purchases, make payments to Liberty, make interest payments and minimize QVC's outstanding senior secured credit facility balance.

As of June 30, 2017, substantially all of QVC's cash and cash equivalents were invested in AAA rated money market funds and time deposits with banks rated equal to or above A.

Senior Secured Notes

All of QVC's senior secured notes are secured by the capital stock of QVC and certain of its subsidiaries and have equal priority to QVC's senior secured credit facility. The interest on all of QVC's senior secured notes is payable semi-annually.

Senior Secured Credit Facility

On June 23, 2016, QVC entered into the Third Amended and Restated Credit Agreement with zulily as borrowers (collectively, the “Borrowers”), which is a multi-currency facility that provides for a $2.65 billion revolving credit facility with a $300 million sub-limit for standby letters of credit and $1.5 billion of uncommitted incremental revolving loan commitments or incremental term loans. The Third Amended and Restated Credit Agreement includes a $400 million tranche that may be borrowed by the Company or zulily with an additional $50 million sub-limit for standby letters of credit. The remaining $2.25 billion and any incremental loans may be borrowed only by the Company. Borrowings that are alternate base rate loans will bear interest at a per annum rate equal to the base rate plus a margin that varies between 0.25% and 0.75% depending on the Borrowers’ combined ratio of Consolidated Total Debt to Consolidated EBITDA for the most recent four fiscal quarter periods (the “Combined Consolidated Leverage Ratio”). Borrowings that are London Interbank Offered Rate ("LIBOR") loans will bear interest at a per annum rate equal to the applicable LIBOR rate plus a margin that varies between 1.25% and 1.75% depending on the Borrowers’ Combined Consolidated Leverage Ratio. Because the calculation of the Combined Consolidated Leverage Ratio was revised to include zulily, the effective interest rate margins, on the date that the Third Amended and Restated Credit Agreement was entered into, decreased from the interest rate margins under the previous bank credit facility. Each loan may be prepaid at any time and from time to time without penalty other than customary breakage costs. No mandatory prepayments will be required other than when borrowings and letter of credit usage exceed availability; provided that, if zulily ceases to be controlled by Liberty, all of its loans must be repaid and its letters of credit cash collateralized. The facility matures on June 23, 2021, except that $140 million of the $2.25 billion commitment available to QVC matures on March 9, 2020. Any amounts prepaid on the revolving facility may be reborrowed. Payment of loans may be accelerated following certain customary events of default.

QVC had $1.03 billion, including the remaining portion available under the $400 million tranche that zulily may also borrow on, available under the terms of the Third Amended and Restated Credit Agreement at June 30, 2017. The interest rate on the Third Amended and Restated Credit Agreement was 2.7% at June 30, 2017.

The purpose of the amendment was to, among other things, extend the maturity of the Company's senior secured credit facility, provide zulily the opportunity to borrow on the senior secured credit facility (see notes 1 and 6 to the accompanying condensed consolidated financial statements), and lower the interest rate on borrowings. The payment and performance of the Borrowers' obligations under the Third Amended and Restated Credit Agreement are guaranteed by each of QVC's Material Domestic Subsidiaries (as defined in the Third Amended and Restated Credit Agreement). Further, the borrowings under the Third Amended and Restated Credit Agreement are secured, *pari passu* with QVC's existing notes, by a pledge of all of the capital stock of QVC. The payment and performance of the Borrowers' obligations with respect to the $400 million tranche available to both QVC and zulily are also guaranteed by each of zulily's Material Domestic Subsidiaries (as defined in the Third Amended and Restated Credit Agreement), if any, and are secured by a pledge of all of zulily's equity interests.

The Third Amended and Restated Credit Agreement contains certain affirmative and negative covenants, including certain restrictions on the Company and zulily and each of their respective restricted subsidiaries (subject to certain exceptions) with respect to, among other things: incurring additional indebtedness; creating liens on property or assets; making certain loans or investments; selling or disposing of assets; paying certain dividends and other restricted payments; dissolving, consolidating or merging; entering into certain transactions with affiliates; entering into sale or leaseback transactions; restricting subsidiary distributions; and limiting the Company's consolidated leverage ratio and the Borrowers' Combined Consolidated Leverage Ratio.

Other Debt Related Information

QVC was in compliance with all of its debt covenants at June 30, 2017.

During the quarter, there were no significant changes to QVC's debt credit ratings.

There are no restrictions under QVC's debt agreements on QVC's ability to pay dividends or make other restricted payments if QVC is not in default on its senior secured notes or senior secured credit facility, and as long as both QVC's consolidated leverage ratio, and a Combined Consolidated Leverage Ratio for both QVC and zulily, would be no greater than 3.5 to 1.0. As a result, Liberty will, in many instances, be permitted to rely on QVC's cash flow for servicing Liberty's debt and for other purposes, including repurchases of Liberty's common stock, or to fund acquisitions or other operational requirements of Liberty and its subsidiaries. These events may deplete QVC's equity or require QVC to borrow under the senior secured credit facility, increasing QVC's leverage and decreasing liquidity. QVC has made significant distributions to Liberty in the past.

Interest Rate Swap Arrangements

During the year ended December 31, 2016, QVC entered into a three-year interest rate swap arrangement with a notional amount of $125 million to mitigate the interest rate risk associated with interest payments related to its variable rate debt. The swap arrangement does not qualify as a cash flow hedge under U.S. GAAP. Accordingly, changes in the fair value of the swap are reflected in gain on financial instruments in the accompanying condensed consolidated statements of operations. At June 30, 2017, the fair value of the swap instrument was in a net asset position of approximately $2 million which was included in other noncurrent assets.

Additional Cash Flow Information

During the six months ended June 30, 2017, QVC's primary uses of cash were $1,406 million of principal payments on debt and capital lease obligations, $233 million of dividend payments to Liberty, $73 million of capital and television distribution rights expenditures and $22 million in dividend payments from QVC-Japan to Mitsui. These uses of cash were funded primarily with $1,094 million of principal borrowings from the senior secured credit facility and $663 million of cash provided by operating activities. As of June 30, 2017, QVC's cash and cash equivalents balance (excluding restricted cash) was $306 million.

During the six months ended June 30, 2016, QVC's primary uses of cash were $923 million of principal payments on debt and capital lease obligations, $323 million of dividends to Liberty, $104 million of capital and television distribution rights expenditures and $21 million in dividend payments from QVC-Japan to Mitsui. These uses of cash were funded primarily with $778 million of principal borrowings from the senior secured credit facility and $607 million of cash provided by operating activities. As of June 30, 2016, QVC's cash and cash equivalents balance (excluding restricted cash) was $335 million.

The change in cash provided by operating activities for the six months ended June 30, 2017 compared to the previous year was primarily due to variances in accrued liabilities and accounts payable offset by variances in accounts receivable and inventories. The variances in accrued liabilities and accounts payable balances are primarily due to the timing of payments to vendors. The variance in accounts receivable is primarily due to decreases in the Easy-Pay receivable balance. The variance in inventories are primarily due to the level of increases in inventory balances.

As of June 30, 2017, $162 million of the $306 million in cash and cash equivalents was held by foreign subsidiaries. Cash in foreign subsidiaries is generally accessible, but certain tax consequences may reduce the net amount of cash we are able to utilize for U.S. purposes. QVC accrues taxes on the unremitted earnings of its international subsidiaries. Approximately 80% of this foreign cash balance was that of QVC-Japan. QVC owns 60% of QVC-Japan and shares all profits and losses with the 40% minority interest holder, Mitsui. We believe that we currently have appropriate legal structures in place to repatriate foreign cash as tax-efficiently as possible and meet the business needs of QVC.

Other

Capital expenditures spending in 2017 is expected to be between $165 and $175 million, including $44 million already expended.

Refer to the chart under the "Off-balance Sheet Arrangements and Aggregate Contractual Obligations" section below for additional information concerning the amount and timing of expected future payments under QVC's contractual obligations at June 30, 2017.

QVC has contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. Although it is reasonably possible QVC may incur losses upon the conclusion of such matters, an estimate of any loss or range of loss cannot be made. In the opinion of management, it is expected that amounts, if any, that may be required to satisfy such contingencies will not be material in relation to the accompanying condensed consolidated financial statements.

Off-balance Sheet Arrangements and Aggregate Contractual Obligations

Information concerning the amount and timing of required payments, both accrued and off-balance sheet, under our contractual obligations at June 30, 2017 is summarized below:

	Payments due by period						
(in millions)	**Remainder of 2017**	**2018**	**2019**	**2020**	**2021**	**Thereafter**	**Total**
Long-term debt (1)	$ —	—	400	—	1,291	3,150	4,841
Interest payments (2)	102	204	197	192	172	908	1,775
Capital lease obligations (including imputed interest)	7	16	16	12	11	18	80
Operating lease obligations	10	18	13	10	8	68	127
Build to suit lease	3	6	6	6	6	67	94

(1) Amounts exclude capital lease obligations and the issue discounts on our 3.125%, 4.375%, 4.85%, 4.45%, 5.45% and 5.95% Senior Secured Notes. Additionally, the presentation assumes there is no amount outstanding on the $140 million commitment under our senior secured credit facility that matures on March 9, 2020.

(2) Amounts (i) are based on the terms of QVC's senior secured credit facility and senior secured notes, (ii) assumes the interest rates on the floating rate debt remain constant at the rates in effect as of June 30, 2017, (iii) assumes that our existing debt is repaid at maturity and (iv) excludes capital lease obligations.

Our purchase obligations did not materially change as of June 30, 2017.

Recent Accounting Pronouncements

On May 28, 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standards Update ("ASU") No. 2014-09*Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. This new guidance also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In March 2016, the FASB issued ASU No. 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, which clarifies principal versus agent considerations, in April 2016, the FASB issued ASU No. 2016-10, *Identifying Performance Obligations and Licensing*, which clarifies the identification of performance obligations and the implementation guidance for licensing, and in May 2016, the FASB issued ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients*, which clarifies assessing collectibility, presentation of sales taxes, noncash consideration, and completed contracts and contract modifications at transition. The updated guidance will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or modified retrospective transition method. This guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, and early adoption is permitted only for fiscal years beginning after December 15, 2016. The Company has reviewed the applicable ASU and has selected the modified retrospective transition method. At the current time, the Company has not quantified the effects of this pronouncement, but it is working through the relevant aspects to evaluate the quantitative effects of the new guidance. However, the Company expects to elect the practical expedient to not adjust the promised amount of consideration for the effects of a significant financing component when its payment terms are less than one year. The Company plans to be able to quantify the effects of these ASUs no later than the fourth quarter of 2017. The Company is currently assessing the presentation and financial disclosures to evaluate the impact of the amended guidance on the Company's existing revenue recognition policies and procedures. The Company will continue to provide updates as to the progress of the Company's evaluation in its quarterly reports during 2017.

In July 2015, the FASB issued ASU No. 2015-11,*Simplifying the Measurement of Inventory*, which changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value. The new principle is part of the FASB's simplification initiative and applies to entities that measure inventory using a method other than last-in, first-out (LIFO) or the retail inventory method. The Company has adopted this guidance as of January 1, 2017, and there was no significant effect of the standard on its financial reporting.

In January 2016, the FASB issued ASU No. 2016-01,*Financial Statements - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires equity investments with readily determinable fair values (except those accounted for under the equity method of accounting or those that result in consolidation) to be measured at fair value with changes in fair value recognized in net income and simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. The new standard is effective for the Company for fiscal years and interim periods beginning after December 15, 2017. The adoption of this standard is not expected to have a material impact on the Company's ongoing financial reporting.

In February 2016, the FASB issued ASU No. 2016-02,*Leases (Topic 842)*, which revises the accounting treatment related to lessee accounting. Under the new guidance, lessees will be required to recognize a lease liability and a right-of-use asset for all leases. The new lease guidance also simplifies the accounting for sale and leaseback transactions primarily because lessees must recognize lease assets and lease liabilities. The amendments in this ASU are effective for the Company beginning on January 1, 2019 and should be applied through a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. Early adoption is permitted. The Company has not yet determined what the effects of adopting this ASU will be on its ongoing financial reporting.

In March 2016, the FASB issued ASU No. 2016-09,*Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting*, which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted this guidance in the third quarter of 2016. In accordance with the new guidance, excess tax benefits and tax deficiencies are recognized as income tax benefit or expense rather than as additional paid-in capital. The Company has elected to recognize forfeitures as they occur rather than continue to estimate expected forfeitures. In addition, pursuant to the new guidance, excess tax benefits are classified as an operating activity on the condensed consolidated statements of cash flows. The recognition of excess tax benefits and deficiencies are applied prospectively from January 1, 2016. See the "Reclassifications" section in note 1 to the accompanying condensed consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230)*: *Classification of Certain Cash Receipts and Cash Payments*, which addresses eight specific cash flow issues to reduce the diversity in practice for appropriate classification on the statement of cash flows. The amendments in this ASU are effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. The Company does not expect the adoption will have a material effect on its condensed consolidated financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*, which requires an entity to recognize at the transaction date the income tax consequences of intercompany asset transfers other than inventory. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company is currently evaluating the effect that the updated standard will have on its condensed consolidated financial statements and related disclosures.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*, which requires entities to show the changes in the total of cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted. The Company does not expect the adoption will have a material effect on its condensed consolidated financial statements.

In January 2017, the FASB issued ASU No. 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*, which simplifies the measurement for impairment by calculating the difference between the carrying amount and the fair value of the reporting unit. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company does not expect the adoption will have a material effect on its condensed consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting* to provide clarity to which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. The amendments in this update are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017 with early adoption permitted. The Company does not expect the adoption will have a material effect on its condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

QVC is exposed to market risk in the normal course of business due to ongoing investing and financial activities and the conduct of operations by subsidiaries in different foreign countries. Market risk refers to the risk of loss arising from adverse changes in stock prices, interest rates and foreign currency exchange rates. The risk of loss can be assessed from the perspective of adverse changes in fair values, cash flows and future earnings. QVC has established procedures and internal processes governing the management of market risks and the use of financial instruments to manage exposure to such risks.

Interest rate risk

QVC is exposed to changes in interest rates primarily as a result of borrowing activities. Over the long-term, QVC manages the exposure to interest rates by maintaining what QVC believes is an appropriate mix of fixed and variable rate debt.

The table below summarizes the Company's debt obligations, related interest rates and fair value of debt at June 30, 2017:

(in millions, except percentages)		Remainder of 2017	2018	2019	2020	2021	Thereafter	Total	Fair Value
Fixed rate debt (1)	$	—	—	400	—	—	3,150	3,550	3,582
Weighted average interest rate on fixed rate debt		—%	—%	3.1%	—%	—%	4.9%	4.7%	N/A
Variable rate debt	$	—	—	—	—	1,291	—	1,291	1,291
Average interest rate on variable rate debt		—%	—%	—%	—%	2.7%	—%	2.7%	N/A

(1) Amounts exclude capital lease and build to suit lease obligations and the issue discounts on our 3.125%, 4.375%, 4.85%, 4.45%, 5.45% and 5.95% Senior Secured Notes. Additionally, the presentation assumes there is no amount outstanding on the $140 million commitment under our senior secured credit facility that matures on March 9, 2020.

N/A - Not applicable.

During the year ended December 31, 2016, QVC entered into a three-year interest rate swap arrangement with a notional amount of $125 million to mitigate the interest rate risk associated with interest payments related to its variable rate debt. The swap arrangement does not qualify as a cash flow hedge under U.S. GAAP. Accordingly, changes in the fair value of the swap are reflected in gain on financial instruments in the accompanying condensed consolidated statements of operations. At June 30, 2017, the fair value of the swap instrument was in a net asset position of approximately $2 million which was included in other noncurrent assets. A 1% change in the one-month U.S. LIBOR rate (floating portion of the interest rate swap) would result in a change in the value of the swap instrument of less than $1 million.

Foreign currency exchange rate risk

QVC is exposed to foreign exchange rate fluctuations related to the monetary assets and liabilities and the financial results of its foreign subsidiaries. Assets and liabilities of foreign subsidiaries for which the functional currency is the local currency are translated into U.S. Dollars at period-end exchange rates, and the statements of operations are translated at the average exchange rate for the period. Exchange rate fluctuations on translating foreign currency financial statements into U.S. Dollars that result in unrealized gains or losses are referred to as translation adjustments. Cumulative translation adjustments are recorded in other comprehensive income as a separate component of stockholder's equity. Transactions denominated in currencies other than the functional currency are recorded based on exchange rates at the time such transactions arise. Subsequent changes in exchange rates result in transaction gains and losses, which are reflected in income as unrealized (based on period-end transactions) or realized upon settlement of the transactions. Cash flows from operations in foreign countries are translated at the average rate for the period. Accordingly, QVC may experience economic loss and a negative impact on earnings and equity with respect to its holdings solely as a result of foreign currency exchange rate fluctuations. QVC's reported Adjusted OIBDA for the three and six months ended June 30, 2017 would have been impacted by approximately $1 million and $2 million, respectively, for every 1% change in foreign currency exchange rates relative to the U.S. Dollar.

The Third Amended and Restated Credit Agreement provides QVC with the ability to borrow in multiple currencies. This allows QVC to somewhat mitigate foreign currency exchange rate risks. As of June 30, 2017, no borrowings in foreign currencies were outstanding.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company carried out an evaluation, under the supervision and with the participation of management, including its chief executive officer and its principal accounting and financial officer (the "Executives"), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company's disclosure controls and procedures were effective as of June 30, 2017 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting that occurred during the three months ended June 30, 2017 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II

Item 1A. Risk Factors

Except as discussed below, there have been no material changes in QVC's risk factors from those disclosed in Part I, Item 1A of its Annual Report on Form 10-K for the year ended December 31, 2016.

The announcement and pendency of Liberty's acquisition of HSN (the "HSN Merger") could divert the attention of management and cause disruptions in the businesses of HSN and Liberty, including QVC, which could have an adverse effect on the business and financial results of HSN, Liberty and QVC.

Liberty, including QVC, and HSN are currently operated independently of each other. Management of HSN, Liberty and QVC may be required to divert a disproportionate amount of attention away from their respective day-to-day activities and operations, and devote time and effort to consummating the HSN Merger. The risks, and adverse effects, of such disruptions and diversions could be exacerbated by a delay in the completion of the HSN Merger. These factors could adversely affect the financial position or results of operations of Liberty, QVC and HSN, regardless of whether the HSN Merger is completed.

Item 6. Exhibits

(a) *Exhibits*

Listed below are the exhibits which are filed as a part of this Report (according to the number assigned to them in Item 601 of Regulation S-K):

31.1	Rule 13a-14(a)/15d-14(a) Certification*
31.2	Rule 13a-14(a)/15d-14(a) Certification*
32.1	Section 1350 Certification**
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema Document*
101.CAL	XBRL Taxonomy Calculation Linkbase Document*
101.LAB	XBRL Taxonomy Label Linkbase Document*
101.PRE	XBRL Taxonomy Presentation Linkbase Document*
101.DEF	XBRL Taxonomy Definition Document*

*Filed herewith.

**Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

	QVC, Inc.
Date: August 8, 2017	By:/s/ MICHAEL A. GEORGE
	Michael A. George
	President and Chief Executive Officer (Principal Executive Officer)
Date: August 8, 2017	By:/s/ THADDEUS J. JASTRZEBSKI
	Thaddeus J. Jastrzebski
	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

EXHIBIT INDEX

31.1	Rule 13a-14(a)/15d-14(a) Certification*
31.2	Rule 13a-14(a)/15d-14(a) Certification*
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101.DEF	XBRL Taxonomy Definition Document*

* Filed herewith.

**Furnished herewith.

Exhibit 31.1

CERTIFICATION

I, Michael A. George, certify that:

1. I have reviewed this report on Form 10-Q of QVC, 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 we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2017

By:/s/ MICHAEL A. GEORGE

Michael A. George
President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Thaddeus J. Jastrzebski, certify that:

1. I have reviewed this report on Form 10-Q of QVC, 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 we have:

   a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 8, 2017

By:/s/ THADDEUS J. JASTRZEBSKI

Thaddeus J. Jastrzebski
Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 32.1

Certification

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of QVC, Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Report on Form 10-Q for the quarter endedJune 30, 2017 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 8, 2017	By:/s/ MICHAEL A. GEORGE
	Michael A. George
	President and Chief Executive Officer (Principal Executive Officer)
Date: August 8, 2017	By:/s/ THADDEUS J. JASTRZEBSKI
	Thaddeus J. Jastrzebski
	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

The foregoing certification is being furnished solely pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code) and is not being filed as part of the Form 10-Q or as a separate disclosure document.