Table of Contents -- Click here to rapidly navigate through this document

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 September 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, a 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

Table of Contents

Item 1. Financial Statements

QVC, Inc.

Condensed Consolidated Balance Sheets

(unaudited)

(in millions, except share amounts)		September 30, 2017	December 31, 2016
Assets			
Current assets:			
Cash and cash equivalents	$	343	284
Restricted cash		11	10
Accounts receivable, less allowance for doubtful accounts of $84 at September 30, 2017 and $97 at December 31, 2016		888	1,246
Inventories		1,164	950
Prepaid expenses and other current assets		55	46
Total current assets		2,461	2,536
Property and equipment, net of accumulated depreciation of $1,161 at September 30, 2017 and $1,004 at December 31, 2016		998	1,031
Television distribution rights, net		78	183
Goodwill		5,066	4,995
Other intangible assets, net		2,599	2,738
Other noncurrent assets		61	62
Total assets	$	11,263	11,545
Liabilities and equity			
Current liabilities:			
Current portion of debt and capital lease obligations	$	17	14
Accounts payable-trade		726	678
Accrued liabilities		630	769
Total current liabilities		1,373	1,461
Long-term portion of debt and capital lease obligations		5,073	5,275
Deferred income taxes		730	778
Other long-term liabilities		127	136
Total liabilities		7,303	7,650
Equity:			
QVC, Inc. stockholder's equity:			
Common stock, $0.01 par value, 1 authorized share		—	—
Additional paid-in capital		6,867	6,851
Accumulated deficit		(2,904)	(2,832)
Accumulated other comprehensive loss		(118)	(224)
Total QVC, Inc. stockholder's equity		3,845	3,795
Noncontrolling interest		115	100
Total equity		3,960	3,895
Total liabilities and equity	$	11,263	11,545

See accompanying notes to condensed consolidated financial statements.

QVC, Inc.

Condensed Consolidated Statements of Operations

(unaudited)

(in millions)	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Net revenue	$ 2,010	1,948	5,954	6,024
Cost of goods sold	1,282	1,251	3,755	3,816
Gross profit	728	697	2,199	2,208
Operating expenses:				
Operating	145	140	419	428
Selling, general and administrative, including stock-based compensation	180	172	489	533
Depreciation	38	38	116	103
Amortization	91	116	324	345
	454	466	1,348	1,409
Operating income	274	231	851	799
Other (expense) income:				
Equity in losses of investee	—	(2)	(3)	(4)
Interest expense, net	(54)	(52)	(165)	(159)
Foreign currency gain (loss)	4	5	(6)	27
	(50)	(49)	(174)	(136)
Income before income taxes	224	182	677	663
Income tax expense	(58)	(66)	(225)	(244)
Net income	166	116	452	419
Less net income attributable to the noncontrolling interest	(12)	(9)	(33)	(28)
Net income attributable to QVC, Inc. stockholder	$ 154	107	419	391

See accompanying notes to condensed consolidated financial statements.

QVC, Inc.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	**2017**	**2016**	**2017**	**2016**
Net income	$ 166	116	452	419
Foreign currency translation adjustments, net of tax	28	(3)	110	36
Total comprehensive income	194	113	562	455
Comprehensive income attributable to noncontrolling interest	(12)	(11)	(37)	(46)
Comprehensive income attributable to QVC, Inc. stockholder	$ 182	102	525	409

See accompanying notes to condensed consolidated financial statements.

QVC, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in millions)		Nine months ended September 30, 2017	2016
Operating activities:			
Net income	$	452	419
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in losses of investee		3	4
Deferred income taxes		(73)	(68)
Foreign currency loss (gain)		6	(27)
Depreciation		116	103
Amortization		324	345
Change in fair value of financial instruments and noncash interest		5	5
Stock-based compensation		23	24
Change in other long-term liabilities		(7)	—
Effects of changes in working capital items		58	44
Net cash provided by operating activities		907	849
Investing activities:			
Capital expenditures		(83)	(140)
Expenditures for television distribution rights		(35)	(8)
Changes in other noncurrent assets		(2)	(2)
Other investing activities		—	(3)
Net cash used in investing activities		(120)	(153)
Financing activities:			
Principal payments of debt and capital lease obligations		(1,791)	(1,300)
Principal borrowings of debt from senior secured credit facility		1,574	1,048
Payment of debt origination fees		—	(2)
Dividends paid to Liberty Interactive Corporation		(491)	(427)
Dividends paid to noncontrolling interest		(22)	(21)
Other financing activities		(10)	(9)
Net cash used in financing activities		(740)	(711)
Effect of foreign exchange rate changes on cash and cash equivalents		12	7
Net increase (decrease) in cash and cash equivalents		59	(8)
Cash and cash equivalents, beginning of period		284	327
Cash and cash equivalents, end of period	$	343	319
Effects of changes in working capital items:			
Decrease in accounts receivable	$	369	583
Increase in inventories		(191)	(192)
Increase in prepaid expenses and other current assets		(4)	(14)
Increase (decrease) in accounts payable-trade		20	(40)
Decrease in accrued liabilities and other		(136)	(293)
Effects of changes in working capital items	$	58	44

See accompanying notes to condensed consolidated financial statements.

QVC, Inc.

Condensed Consolidated Statement of Equity

(unaudited)

	Common stock						
(in millions, except share data)	**Shares**	**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	—	—	—	419	—	33	452
Foreign currency translation adjustments, net of tax	—	—	—	—	106	4	110
Dividends paid to Liberty Interactive Corporation and noncontrolling interest and other	—	—	—	(491)	—	(22)	(513)
Impact of tax liability allocation and indemnification agreement with Liberty Interactive Corporation	—	—	3	—	—	—	3
Withholding taxes on net share settlements of stock-based compensation	—	—	(10)	—	—	—	(10)
Stock-based compensation	—	—	23	—	—	—	23
Balance, September 30, 2017	1	$ —	6,867	(2,904)	(118)	115	3,960

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 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 nine months ended September 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 ("zulily") 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, which would make it a wholly-owned subsidiary of Liberty following the closing. On April 4, 2017, Liberty entered into an agreement with General Communication, 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. (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 nine months ended September 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 $7 million and $11 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 September 30, 2017, there was $300 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, 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. In addition, 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, as well as the practical expedient to exclude from the measurement of the transaction price sales and similar taxes collected from customers. To date, the Company has concluded it will recognize revenue at the time of shipment to its customers consistent with when title passes. This is a change from the current practice whereby the Company recognizes revenue at the time of delivery to the customers and deferred revenue is recorded to account for the shipments in-transit. At the current time, the Company is continuing to evaluate the impact of the standard including its determination of whether the Company acts as principal or agent in certain vendor arrangements. The Company is also evaluating the impact of the standard on the presentation and timing of credit card income for its QVC-branded credit card and its financial statement disclosures, among other areas. 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. The Company plans to be able to quantify the effects of these ASU's no later than the fourth quarter of 2017 in its annual report for the year ending December 31, 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 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 is currently evaluating the effect that the updated standard will have on its ongoing financial reporting.

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

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.

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.

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

(2) Television Distribution Rights, Net

Television distribution rights consisted of the following:

(in millions)	September 30, 2017	December 31, 2016
Television distribution rights	$ 2,348	2,279
Less accumulated amortization	(2,270)	(2,096)
Television distribution rights, net	$ 78	183

The Company recorded amortization expense of $39 million and $47 million for the three months ended September 30, 2017 and 2016, respectively, related to television distribution rights. For the nine months ended September 30, 2017 and 2016, amortization expense for television distribution rights was $141 million and $143 million, respectively.As of September 30, 2017, related amortization expense for each of the next five years ended December 31 was as follows (in millions):

Remainder of 2017	$ 11
2018	37
2019	16
2020	10
2021	3

(3) Goodwill

The changes in the carrying amount of goodwill for thenine months ended September 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	—	33	11	13	14	71
Balance as of September 30, 2017	$ 4,190	300	269	174	133	5,066

(4) Other Intangible Assets, Net

Other intangible assets consisted of the following:

	September 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	$ 696	(541)	155	646	(466)	180
Affiliate and customer relationships	2,416	(2,406)	10	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
	$ 5,548	(2,949)	2,599	5,479	(2,741)	2,738

The Company recorded amortization expense of $52 million and $69 million for the three months ended September 30, 2017 and 2016, respectively, related to other intangible assets. For the nine months ended September 30, 2017 and 2016, amortization expense for other intangible assets was $183 million and $202 million, respectively.

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

As of September 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	$	25
2018		83
2019		47
2020		15
2021		1

(5) Accrued Liabilities

Accrued liabilities consisted of the following:

(in millions)		September 30, 2017	December 31, 2016
Accounts payable non-trade	$	193	215
Accrued compensation and benefits		116	92
Allowance for sales returns		73	93
Deferred revenue		63	69
Sales and other taxes		50	62
Income taxes		40	120
Accrued interest		37	58
Other		58	60
	$	630	769

(6) Long-Term Debt and Capital Lease Obligations

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

(in millions)		September 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		1,390	1,596
Capital lease obligations		74	69
Build to suit lease obligation		102	105
Less debt issuance costs, net		(23)	(28)
Total debt and capital lease obligations		5,090	5,289
Less current portion		(17)	(14)
Long-term portion of debt and capital lease obligations	$	5,073	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 toQVC'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 (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 $950 million, 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 September 30, 2017. The interest rate on the Third Amended and Restated Credit Agreement was 2.7% at September 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 September 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 September 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 4.1% as of September 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 September 30, 2017 consisted of the following:

(in millions)		Capital Leases	Operating leases	Build to suit lease
Remainder of 2017	$	4	5	1
2018		16	18	6
2019		16	14	6
2020		13	11	6
2021		12	9	6
Thereafter		18	71	67
Total	$	79	128	92

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 for each of the three months ended September 30, 2017 and 2016. For the nine months ended September 30, 2017 and 2016, depreciation expense related to the capital leases was $9 million and $8 million, respectively. Total future minimum capital lease payments of $79 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 $5 million and $6 million for the three months ended September 30, 2017 and 2016, respectively. For the nine months ended September 30, 2017 and 2016, expenses for operating leases were $17 million and $18 million, respectively.

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 items that will be separately reported 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 September 30, 2017, the Company recorded a tax provision of $58 million, which represented an effective tax rate of 25.9%. For the nine months ended September 30, 2017, the Company recorded a tax provision of $225 million, which represented an effective tax rate of 33.2%. These rates differ from the U.S. federal income tax rate of 35.0% due primarily to the impact of discrete permanent differences related to foreign currency losses realized for tax purposes offset by 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 September 30, 2017, the income 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 September 30, 2017, income 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 amount of the tax-related balances due from Liberty at September 30, 2017 were $3 million. The amount of tax related balances due to Liberty at December 31, 2016 were $75 million. These amounts 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 September 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	$ 88	88	—	—
Noncurrent assets:				
Interest rate swap arrangements	2	—	2	—
Long-term liabilities:				
Debt (note 6)	5,044	—	5,044	—

	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.

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

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 September 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.

Performance measures

		Three months ended September 30,				Nine months ended September 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.	$	1,374	313	1,338	308	4,111	1,010	4,173	997
QVC-International		636	99	610	85	1,843	304	1,851	274
Consolidated QVC	$	2,010	412	1,948	393	5,954	1,314	6,024	1,271

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

Table of Contents

Other information

	Three months ended September 30,				Nine months ended September 30,			
	2017		2016		2017		2016	
(in millions)	Depreciation	Amortization	Depreciation	Amortization	Depreciation	Amortization	Depreciation	Amortization
QVC-U.S.	$ 24	83	22	103	70	293	55	308
QVC-International	14	8	16	13	46	31	48	37
Consolidated QVC	$ 38	91	38	116	116	324	103	345

	September 30, 2017		December 31, 2016	
(in millions)	Total assets	Capital expenditures	Total assets	Capital expenditures
QVC-U.S.	$ 9,107	63	9,595	152
QVC-International	2,156	20	1,950	27
Consolidated QVC	$ 11,263	83	11,545	179

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

(in millions)	September 30, 2017	December 31, 2016
QVC-U.S.	$ 552	594
QVC-International	446	437
Consolidated QVC	$ 998	1,031

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

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	2017	2016	2017	2016
Adjusted OIBDA	$ 412	393	1,314	1,271
Stock-based compensation	(9)	(8)	(23)	(24)
Depreciation and amortization	(129)	(154)	(440)	(448)
Equity in losses of investee	—	(2)	(3)	(4)
Interest expense, net	(54)	(52)	(165)	(159)
Foreign currency gain (loss)	4	5	(6)	27
Income before income taxes	$ 224	182	677	663

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	106	106
Balance at September 30, 2017	(118)	(118)
Balance at January 1, 2016	$ (140)	(140)
Other comprehensive income attributable to QVC, Inc. stockholder	18	18
Balance at September 30, 2016	(122)	(122)

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 (expense) benefit	Net-of-tax amount
Three months ended September 30, 2017			
Foreign currency translation adjustments	$ 33	(5)	28
Other comprehensive income	33	(5)	28
Three months ended September 30, 2016			
Foreign currency translation adjustments	$ (7)	4	(3)
Other comprehensive loss	(7)	4	(3)
Nine months ended September 30, 2017:			
Foreign currency translation adjustments	$ 135	(25)	110
Other comprehensive income	135	(25)	110
Nine months ended September 30, 2016:			
Foreign currency translation adjustments	$ 23	13	36
Other comprehensive income	23	13	36

(13) Subsequent Event

Subsequent to September 30, 2017, QVC declared and paid dividends to Liberty in the amount of$300 million.

As of November 9, 2017, zulily had $275 million outstanding on the shared tranche within the Third Amended and Restated Credit Agreement.

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

(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

					September 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	$ 3	50	290	—	343
Restricted cash	8	—	3	—	11
Accounts receivable, net	628	—	260	—	888
Inventories	868	—	296	—	1,164
Prepaid expenses and other current assets	26	1	28	—	55
Total current assets	1,533	51	877	—	2,461
Property and equipment, net	286	59	653	—	998
Television distribution rights, net	—	78	—	—	78
Goodwill	4,190	—	876	—	5,066
Other intangible assets, net	534	2,048	17	—	2,599
Other noncurrent assets	15	—	46	—	61
Investments in subsidiaries	3,190	64	—	(3,254)	—
Total assets	$ 9,748	2,300	2,469	(3,254)	11,263
Liabilities and equity					
Current liabilities:					
Current portion of debt and capital lease obligations	$ 3	—	14	—	17
Accounts payable-trade	458	—	268	—	726
Accrued liabilities	70	157	403	—	630
Intercompany accounts payable (receivable)	270	(1,434)	1,164	—	—
Total current liabilities	801	(1,277)	1,849	—	1,373
Long-term portion of debt and capital lease obligations	4,927	—	146	—	5,073
Deferred income taxes	73	718	(61)	—	730
Other long-term liabilities	102	—	25	—	127
Total liabilities	5,903	(559)	1,959	—	7,303
Equity:					
QVC, Inc. stockholder's equity	3,845	2,859	395	(3,254)	3,845
Noncontrolling interest	—	—	115	—	115
Total equity	3,845	2,859	510	(3,254)	3,960
Total liabilities and equity	$ 9,748	2,300	2,469	(3,254)	11,263

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 September 30, 2017				
(in millions)	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
Net revenue	$ 1,419	234	688	(331)	2,010
Cost of goods sold	864	37	422	(41)	1,282
Gross profit	555	197	266	(290)	728
Operating expenses:					
Operating	106	64	70	(95)	145
Selling, general and administrative, including stock-based compensation	262	—	113	(195)	180
Depreciation	17	2	19	—	38
Amortization	47	35	9	—	91
	432	101	211	(290)	454
Operating income	123	96	55	—	274
Other (expense) income:					
Interest expense, net	(54)	—	—	—	(54)
Foreign currency (loss) gain	(1)	1	4	—	4
Intercompany interest (expense) income	(1)	23	(22)	—	—
	(56)	24	(18)	—	(50)
Income before income taxes	67	120	37	—	224
Income tax expense	(13)	(24)	(21)	—	(58)
Equity in earnings of subsidiaries, net of tax	112	19	—	(131)	—
Net income	166	115	16	(131)	166
Less net income attributable to the noncontrolling interest	(12)	—	(12)	12	(12)
Net income attributable to QVC, Inc. stockholder	$ 154	115	4	(119)	154

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

Condensed Consolidating Statements of Operations

	Three months ended September 30, 2016				
(in millions)	Parent issuer-QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated-QVC, Inc. and subsidiaries
Net revenue	$ 1,369	224	662	(307)	1,948
Cost of goods sold	847	38	416	(50)	1,251
Gross profit	522	186	246	(257)	697
Operating expenses:					
Operating	94	61	64	(79)	140
Selling, general and administrative, including stock-based compensation	246	—	104	(178)	172
Depreciation	16	1	21	—	38
Amortization	62	41	13	—	116
	418	103	202	(257)	466
Operating income	104	83	44	—	231
Other (expense) income:					
Equity in losses of investee	—	—	(2)	—	(2)
Interest expense, net	(52)	—	—	—	(52)
Foreign currency gain	3	—	2	—	5
	(49)	—	—	—	(49)
Income before income taxes	55	83	44	—	182
Income tax expense	(13)	(26)	(27)	—	(66)
Equity in earnings of subsidiaries, net of tax	74	24	—	(98)	—
Net income	116	81	17	(98)	116
Less net income attributable to the noncontrolling interest	(9)	—	(9)	9	(9)
Net income attributable to QVC, Inc. stockholder	$ 107	81	8	(89)	107

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Condensed Consolidating Statements of Operations

	Nine months ended September 30, 2017				
(in millions)	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
Net revenue	$ 4,225	679	1,992	(942)	5,954
Cost of goods sold	2,557	106	1,210	(118)	3,755
Gross profit	1,668	573	782	(824)	2,199
Operating expenses:					
Operating	301	182	204	(268)	419
Selling, general and administrative, including stock-based compensation	743	—	302	(556)	489
Depreciation	50	6	60	—	116
Amortization	167	125	32	—	324
	1,261	313	598	(824)	1,348
Operating income	407	260	184	—	851
Other (expense) income:					
Equity in losses of investee	—	—	(3)	—	(3)
Interest expense, net	(163)	—	(2)	—	(165)
Foreign currency (loss) gain	(4)	1	(3)	—	(6)
Intercompany interest (expense) income	(3)	68	(65)	—	—
	(170)	69	(73)	—	(174)
Income before income taxes	237	329	111	—	677
Income tax expense	(84)	(86)	(55)	—	(225)
Equity in earnings of subsidiaries, net of tax	299	34	—	(333)	—
Net income	452	277	56	(333)	452
Less net income attributable to the noncontrolling interest	(33)	—	(33)	33	(33)
Net income attributable to QVC, Inc. stockholder	$ 419	277	23	(300)	419

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

Condensed Consolidating Statements of Operations

	Nine months ended September 30, 2016				
(in millions)	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
Net revenue	$ 4,272	688	2,009	(945)	6,024
Cost of goods sold	2,594	116	1,245	(139)	3,816
Gross profit	1,678	572	764	(806)	2,208
Operating expenses:					
Operating	296	180	204	(252)	428
Selling, general and administrative, including stock-based compensation	773	—	314	(554)	533
Depreciation	41	5	57	—	103
Amortization	182	125	38	—	345
	1,292	310	613	(806)	1,409
Operating income	386	262	151	—	799
Other (expense) income:					
Equity in losses of investee	—	—	(4)	—	(4)
Interest expense, net	(159)	—	—	—	(159)
Foreign currency gain	12	—	15	—	27
Intercompany interest (expense) income	(1)	1	—	—	—
	(148)	1	11	—	(136)
Income before income taxes	238	263	162	—	663
Income tax expense	(75)	(85)	(84)	—	(244)
Equity in earnings of subsidiaries, net of tax	256	106	—	(362)	—
Net income	419	284	78	(362)	419
Less net income attributable to the noncontrolling interest	(28)	—	(28)	28	(28)
Net income attributable to QVC, Inc. stockholder	$ 391	284	50	(334)	391

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

Condensed Consolidating Statements of Comprehensive Income

					Three months ended September 30, 2017
(in millions)	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
Net income	$ 166	115	16	(131)	166
Foreign currency translation adjustments, net of tax	28	—	28	(28)	28
Total comprehensive income	194	115	44	(159)	194
Comprehensive income attributable to noncontrolling interest	(12)	—	(12)	12	(12)
Comprehensive income attributable to QVC, Inc. stockholder	$ 182	115	32	(147)	182

Condensed Consolidating Statements of Comprehensive Income

					Three months ended September 30, 2016
(in millions)	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
Net income	$ 116	81	17	(98)	116
Foreign currency translation adjustments, net of tax	(3)	—	(3)	3	(3)
Total comprehensive income	113	81	14	(95)	113
Comprehensive income attributable to noncontrolling interest	(11)	—	(11)	11	(11)
Comprehensive income attributable to QVC, Inc. stockholder	$ 102	81	3	(84)	102

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Condensed Consolidating Statements of Comprehensive Income

	Nine months ended September 30, 2017				
(in millions)	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
Net income	$ 452	277	56	(333)	452
Foreign currency translation adjustments, net of tax	110	—	110	(110)	110
Total comprehensive income	562	277	166	(443)	562
Comprehensive income attributable to noncontrolling interest	(37)	—	(37)	37	(37)
Comprehensive income attributable to QVC, Inc. stockholder	$ 525	277	129	(406)	525

Condensed Consolidating Statements of Comprehensive Income

	Nine months ended September 30, 2016				
(in millions)	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
Net income	$ 419	284	78	(362)	419
Foreign currency translation adjustments, net of tax	36	—	36	(36)	36
Total comprehensive income	455	284	114	(398)	455
Comprehensive income attributable to noncontrolling interest	(46)	—	(46)	46	(46)
Comprehensive income attributable to QVC, Inc. stockholder	$ 409	284	68	(352)	409

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Condensed Consolidating Statements of Cash Flows

			Nine months ended September 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	$ 550	306	51	—	907
Investing activities:					
Capital expenditures	(54)	(2)	(27)	—	(83)
Expenditures for television distribution rights	—	(35)	—	—	(35)
Changes in other noncurrent assets	(1)	—	(1)	—	(2)
Intercompany investing activities	385	(1,087)	—	702	—
Net cash provided by (used in) investing activities	330	(1,124)	(28)	702	(120)
Financing activities:					
Principal payments of debt and capital lease obligations	(1,785)	—	(6)	—	(1,791)
Principal borrowings of debt from senior secured credit facility	1,574	—	—	—	1,574
Dividends paid to Liberty Interactive Corporation	(491)	—	—	—	(491)
Dividends paid to noncontrolling interest	—	—	(22)	—	(22)
Other financing activities	(10)	—	—	—	(10)
Net short-term intercompany debt (repayments) borrowings	(353)	(1,188)	1,541	—	—
Other intercompany financing activities	186	1,959	(1,443)	(702)	—
Net cash (used in) provided by financing activities	(879)	771	70	(702)	(740)
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	12	—	12
Net increase (decrease) in cash and cash equivalents	1	(47)	105	—	59
Cash and cash equivalents, beginning of period	2	97	185	—	284
Cash and cash equivalents, end of period	$ 3	50	290	—	343

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

Condensed Consolidating Statements of Cash Flows

	Nine months ended September 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 operating activities	$ 586	256	7	—	849
Investing activities:					
Capital expenditures	(113)	(3)	(24)	—	(140)
Expenditures for television distribution rights	—	(8)	—	—	(8)
Changes in other noncurrent assets	6	—	(8)	—	(2)
Other investing activities	(12)	—	9	—	(3)
Intercompany investing activities	432	137	—	(569)	—
Net cash provided by (used in) investing activities	313	126	(23)	(569)	(153)
Financing activities:					
Principal payments of debt and capital lease obligations	(1,295)	—	(5)	—	(1,300)
Principal borrowings of debt from senior secured credit facility	1,048	—	—	—	1,048
Payment of debt origination fees	(2)	—	—	—	(2)
Dividends paid to Liberty Interactive Corporation	(427)	—	—	—	(427)
Dividends paid to noncontrolling interest	—	—	(21)	—	(21)
Other financing activities	(9)	—	—	—	(9)
Net short-term intercompany debt (repayments) borrowings	(83)	(1,474)	1,557	—	—
Other intercompany financing activities	(129)	1,079	(1,519)	569	—
Net cash (used in) provided by financing activities	(897)	(395)	12	569	(711)
Effect of foreign exchange rate changes on cash and cash equivalents	—	—	7	—	7
Net increase (decrease) in cash and cash equivalents	2	(13)	3	—	(8)
Cash and cash equivalents, beginning of period	—	112	215	—	327
Cash and cash equivalents, end of period	$ 2	99	218	—	319

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 our Quarterly Report on Form 10-Q for the quarter ended June 30, 2017. 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 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 nine months ended September 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 ("zulily") 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, which would make it a wholly-owned subsidiary of Liberty following the closing. On April 4, 2017, Liberty entered into an agreement with General Communication, 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. (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 nine months ended September 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 $7 million and $11 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. TheThird Amended and Restated Credit Agreement includes a $400 million tranche that may be borrowed by QVC or zulily. Under the terms of theThird 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 September 30, 2017, there was $300 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 September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Net revenue	$	2,010	1,948	5,954	6,024
Costs of goods sold		1,282	1,251	3,755	3,816
Gross profit		728	697	2,199	2,208
Operating expenses:					
Operating		145	140	419	428
Selling, general and administrative, excluding stock-based compensation		171	164	466	509
Adjusted OIBDA		412	393	1,314	1,271
Stock-based compensation		9	8	23	24
Depreciation		38	38	116	103
Amortization		91	116	324	345
Operating income		274	231	851	799
Other (expense) income:					
Equity in losses of investee		—	(2)	(3)	(4)
Interest expense, net		(54)	(52)	(165)	(159)
Foreign currency gain (loss)		4	5	(6)	27
		(50)	(49)	(174)	(136)
Income before income taxes		224	182	677	663
Income tax expense		(58)	(66)	(225)	(244)
Net income		166	116	452	419
Less net income attributable to the noncontrolling interest		(12)	(9)	(33)	(28)
Net income attributable to QVC, Inc. stockholder	$	154	107	419	391

Net revenue

Net revenue by segment was as follows:

(in millions)		Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
QVC-U.S.	$	1,374	1,338	4,111	4,173
QVC-International		636	610	1,843	1,851
Consolidated QVC	$	2,010	1,948	5,954	6,024

QVC's consolidated net revenue increased 3.2% and decreased 1.2% for the three and nine months ended September 30, 2017, respectively, as compared to the corresponding periods in the prior year. The three month increase in net revenue of $62 million was primarily comprised of an increase of $199 million due to a 9.2% increase in units sold. This was offset by a decrease of $92 million due to a 3.9% decrease in average selling price per unit ("ASP"), an increase in estimated product returns of $26 million, $8 million due to a decrease in shipping and handling revenue, $7 million due to unfavorable foreign currency rates, and a $4 million decrease in miscellaneous income. The nine month decrease in net revenue of $70 million was primarily comprised of $206 million due to a 2.9%decrease in ASP, $65 million due to unfavorable foreign currency rates, a decrease in shipping and handling revenue of $20 million, and a $12 million decrease in miscellaneous income. The decrease was offset by a $212 million increase in units sold and a $21 million decrease in estimated product returns.

During the three and nine months ended September 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, we will attempt to reduce our exposure through pricing and vendor negotiations, as Brexit negotiations progress.

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

	Three months ended September 30, 2017			Nine months ended September 30, 2017		
	U.S. Dollars	Foreign Currency Exchange Impact	Constant currency	U.S. Dollars	Foreign Currency Exchange Impact	Constant currency
QVC-U.S.	2.7%	— %	2.7%	(1.5)%	— %	(1.5)%
QVC-International	4.3%	(1.0)%	5.3%	(0.4)%	(3.4)%	3.0 %

QVC-U.S. net revenue increase for the three months ended September 30, 2017 was primarily due to a 8.7% increase in units shipped. The increase was offset by a decrease of 3.5% in ASP, a $19 million increase in estimated product returns, a $11 million decrease in shipping and handling revenue, and a $5 million decrease in miscellaneous income. QVC-U.S. experienced a system outage during the second quarter of 2017 which resulted in an estimated 1% shift in net revenue to the third quarter. The increase in returns is driven by an increase in sales during the third quarter. Additionally, the Company experienced a decrease in shipping and handling revenue per unit due to promotional offers. For the three months ended September 30, 2017, QVC-U.S. experienced shipped sales increases in apparel, electronics, beauty and accessories offset by decreases in jewelry and home. For the nine months ended September 30, 2017, QVC U.S. net revenue decline was due to a decrease of 3.2% in ASP, a $24 million decrease in shipping and handling revenue, and an $11 million decrease in miscellaneous income. The decrease was offset by a 2.1% increase in units shipped, and a $30 million decrease in estimated product returns. The decrease in net shipping and handling revenue was a result of a decrease in shipping and handling revenue per unit from promotional offers. The decrease in estimated product returns was primarily due to an overall lower return rate and reduced sales. For the nine months ended September 30, 2017, QVC-U.S. experienced shipped sales increases in apparel, beauty and electronics offset by decreases in jewelry, home and accessories.

QVC-International net revenue growth in constant currency for thethree months ended September 30, 2017 was primarily due to a 9.9% increase in units shipped, driven by increases in Japan, Germany, the U.K., and France, offset by a decrease in Italy. There was a $3 million increase in shipping and handling revenue, primarily driven by Japan and Germany. This was offset by a 4.5% decrease in ASP, primarily driven by Japan and Germany, and a $7 million increase in estimated product returns driven by all markets except for Japan. For the three months ended September 30, 2017, QVC-International experienced shipped sales growth in constant currency in apparel, accessories, home and beauty with declines in electronics and jewelry. Net revenue growth in constant currency for the nine months ended September 30, 2017 was primarily due to a 4.9% increase in units shipped, driven by increases in Japan, Germany, and France, offset by decreases in units shipped in the U.K. and Italy. There was a $4 million increase in shipping and handling revenue, primarily driven by Japan. This was offset by a 2% decrease in ASP, primarily driven in Japan and Germany offset by increases in the U.K. and Italy and France, and a $9 million increase in estimated product returns, driven by all markets except for Japan. For the nine months ended September 30, 2017, QVC-International experienced shipped sales growth in constant currency in apparel, beauty and accessories with declines in electronics, jewelry and home.

Gross profit

QVC's gross profit percentage was 36.2% and 36.9% for the three and nine months ended September 30, 2017, respectively, compared to 35.8% and 36.7% for the three and nine months ended September 30, 2016. For the three months ended September 30, 2017, the gross profit percentage increased primarily due to an increase in product margins. The increase was offset by an unfavorable inventory obsolescence provision in the U.S. and increased freight costs. The increase in freight and warehouse costs was primarily due to increased units shipped in both segments. For the nine months ended September 30, 2017, the gross profit percentage increased primarily due to increased product margins.

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 increased $5 million or 3.6% and decreased $9 million or 2.1% for the three and nine months ended September 30, 2017 as compared to the three and nine months ended September 30, 2016, respectively.

For the three months ended September 30, 2017, operating expenses increased primarily due to a $3 million increase in credit card processing fees and a $3 million increase in commissions offset by $1 million from favorable foreign currency exchange rates. Credit card fees and commissions increased primarily due to the increase in U.S. sales. In addition, credit card interchange processing fees have increased compared to the three months ended September 30, 2016.

For the nine months ended September 30, 2017 operating expenses decreased primarily due to a $6 million decrease in customer service expenses related to lower call volumes in the U.S., favorable foreign currency exchange rates and offset somewhat by higher credit card fees primarily in the U.S.

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 increased $7 million for the three months ended September 30, 2017, and decreased $43 million for the nine months ended September 30, 2017, compared to the same periods in the prior year. Such expenses increased from8.4% to 8.5% and decreased from 8.4% to 7.8%, as a percentage of net revenue, as compared to thethree and nine months ended September 30, 2016, respectively.

For the three months ended September 30, 2017, the increase was primarily due to an increase in personnel costs of $10 million and an increase in franchise taxes of $4 million offset by a decrease in bad debt expense of $5 million and a $2 million decrease in marketing expenses. The increase in personnel costs was primarily due to an increase in bonus expense offset by decreases in severance expense and salaries and wages, mostly in the U.S. The decrease in bad debt expense was primarily related to lower default rates experienced from prior periods mostly associated with the Easy-Pay program in the U.S. The decrease in marketing expenses is primarily related to discontinuing the naming rights to the Chiba Marine Stadium in Japan.

For the nine months ended September 30, 2017, the decrease was primarily due to a decrease in bad debt expense of $26 million, $8 million from favorable foreign currency rates, a $7 million increase in credit card income, a $4 million decrease in marketing expenses, and a $5 million decrease in various other expenses offset by an increase in personnel cost of $7 million. The decrease in bad debt expense was primarily related to lower default rates experienced from prior periods mostly associated with the Easy-Pay program in the U.S. 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 marketing expenses is primarily related to discontinuing the naming rights to the Chiba Marine Stadium in Japan. The increase in personnel costs was primarily due to an increase in bonus expense offset by decreases in severance expenses and salaries and wages.

Stock-based compensation

Stock-based compensation includes compensation related to options and restricted stock units granted to certain officers and employees. QVC recorded $9 million and $8 million of stock-based compensation expense for the three months ended September 30, 2017 and 2016, respectively, and $23 million and $24 million of stock-based compensation expense for the nine months ended September 30, 2017 and 2016, respectively.

Depreciation and amortization

Depreciation and amortization consisted of the following:

		Three months ended September 30,		Nine months ended September 30,	
(in millions)		**2017**	**2016**	**2017**	**2016**
Affiliate agreements	$	25	37	98	110
Customer relationships		28	43	112	128
Acquisition related amortization		53	80	210	238
Property and equipment		38	38	116	103
Software amortization		24	26	70	73
Channel placement amortization and related expenses		14	10	44	34
Total depreciation and amortization	$	129	154	440	448

For the three and nine months ended September 30, 2017, acquisition related amortization expense decreased primarily due to the end of the useful lives of certain affiliate agreements and customer relationships established at the time of Liberty's acquisition of QVC in 2003. This was offset by an increase in channel placement amortization related to the addition of Beauty iQ in the U.S. For the nine months ended September 30, 2017, the amortization decrease mentioned above was offset by an increase in depreciation related to the addition of the California distribution center in the third quarter of 2016.

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 nine months ended September 30, 2017, consolidated interest expense, net increased $2 million or 3.8% and increased $6 million or 3.8%, respectively, as compared to the corresponding period in the prior year. For the three and nine months ended September 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 gain (loss)

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 nine months ended September 30, 2017, the change in foreign currency gain (loss) 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 was 25.9% and 33.2% for the three and nine months ended September 30, 2017. These rates differed from the U.S. federal income tax rate of 35% primarily due to the impact of discrete permanent differences related to foreign currency losses realized for tax purposes offset somewhat by state tax expense. Our effective tax rate for the three and nine months ended September 30, 2016 was 36.3% and 36.8%, 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 September 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 toQVC'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 theThird 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 $950 million, including the remaining portion of the $400 million tranche that zulily may also borrow on, available under the terms of theThird Amended and Restated Credit Agreement at September 30, 2017. The interest rate on theThird Amended and Restated Credit Agreement was 2.7% at September 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 atSeptember 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 September 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 nine months ended September 30, 2017, QVC's primary uses of cash were $1,791 million of principal payments on debt and capital lease obligations, $491 million of dividend payments to Liberty, $118 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 $1,574 million of principal borrowings from the senior secured credit facility and $907 million of cash provided by operating activities. As of September 30, 2017, QVC's cash and cash equivalents balance (excluding restricted cash) was $343 million.

During the nine months ended September 30, 2016, QVC's primary uses of cash were $1,300 million of principal payments on debt and capital lease obligations, $427 million of dividends to Liberty, $148 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 $1,048 million of principal borrowings from the senior secured credit facility and $849 million of cash provided by operating activities. As of September 30, 2016, QVC's cash and cash equivalents balance (excluding restricted cash) was $319 million.

The change in cash provided by operating activities for the nine months ended September 30, 2017 compared to the previous year was primarily due to the increase in net income, excluding non-cash charges such as depreciation, amortization, and stock-based compensation. Cash provided by operating activities is also subject to changes in working capital. Working capital at any specific point in time is subject to many variables, including seasonality, inventory management and category expansion, the timing of cash receipts and payments, vendor payment terms, and fluctuations in foreign exchange rates.

As of September 30, 2017, $263 million of the $343 million in cash and cash equivalents was held by foreign subsidiaries. Cash in foreign subsidiaries is available for domestic purposes with no significant tax consequences upon repatriation to the U.S. QVC accrues taxes on the unremitted earnings of its international subsidiaries. Approximately 60% 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 $150 and $160 million, including $83 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 September 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 September 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	—	1,390	3,150	4,940
Interest payments (2)	31	207	200	195	173	908	1,714
Capital lease obligations (including imputed interest)	4	16	16	13	12	18	79
Operating lease obligations	5	18	14	11	9	71	128
Build to suit lease	1	6	6	6	6	67	92

(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 September 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 September 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, 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. In addition, 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, as well as the practical expedient to exclude from the measurement of the transaction price sales and similar taxes collected from customers. To date, the Company has concluded it will recognize revenue at the time of shipment to its customers consistent with when title passes. This is a change from the current practice whereby the Company recognizes revenue at the time of delivery to the customers and deferred revenue is recorded to account for the shipments in-transit. At the current time, the Company is continuing to evaluate the impact of the standard including its determination of whether the Company acts as principal or agent in certain vendor arrangements. The Company is also evaluating the impact of the standard on the presentation and timing of credit card income for its QVC-branded credit card and its financial statement disclosures, among other areas. 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. The Company plans to be able to quantify the effects of these ASU's no later than the fourth quarter of 2017 in its annual report for the year ending December 31, 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 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 is currently evaluating the effect that the updated standard will have 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.

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 September 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	3,654
Weighted average interest rate on fixed rate debt		—%	—%	3.1%	—%	—%	4.9%	4.7%	N/A
Variable rate debt	$	—	—	—	—	1,390	—	1,390	1,390
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 September 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 nine months ended September 30, 2017 would have been impacted by approximately $1 million and $3 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 September 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 September 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 September 30, 2017 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II

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: November 9, 2017	By:/s/ MICHAEL A. GEORGE
	Michael A. George
	President and Chief Executive Officer (Principal Executive Officer)
Date: November 9, 2017	By:/s/ THADDEUS J. JASTRZEBSKI
	Thaddeus J. Jastrzebski
	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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: November 9, 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: November 9, 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 endedSeptember 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: November 9, 2017	By:/s/ MICHAEL A. GEORGE
	Michael A. George
	President and Chief Executive Officer (Principal Executive Officer)
Date: November 9, 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.