

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019

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 001-38654

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 **19380**
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(484) 701-1000**
Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol</u>	<u>Name of each exchange on which registered</u>
6.375% Senior Secured Notes due 2067	QVCD	New York Stock Exchange
6.250% Senior Secured Notes due 2068	QVCC	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, \$0.01 par value**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 every Interactive Data File required to be submitted 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 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 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 or non-voting common stock of the registrant is held by a non-affiliate of the registrant. There is no publicly traded market for any class of voting or non-voting common stock of the registrant. There is one holder of record of our equity, Qurate Retail Group, Inc., an indirect wholly-owned subsidiary of Qurate Retail, Inc.

THE REGISTRANT MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTIONS I(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT PERMITTED BY GENERAL INSTRUCTION I(2)

QVC, Inc.
2019 ANNUAL REPORT ON FORM 10-K

Table of Contents

Part I

Page

Item 1.	Business	I-1
Item 1A.	Risk Factors	I-13
Item 1B.	Unresolved Staff Comments	I-28
Item 2.	Properties	I-28
Item 3.	Legal Proceedings	I-29
Item 4.	Mine Safety Disclosures	I-29

Part II

Item 5.	Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	II-1
Item 6.	Selected Financial Data	II-1
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	II-1
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	II-16
Item 8.	Financial Statements and Supplementary Data	II-18
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	II-18
Item 9A.	Controls and Procedures	II-18
Item 9B.	Other Information	II-19

Financial Statements

Management's Report on Internal Control Over Financial Reporting	II-20
Report of Independent Registered Public Accounting Firm	II-21
Consolidated Balance Sheets	II-22
Consolidated Statements of Operations	II-23
Consolidated Statements of Comprehensive Income	II-24
Consolidated Statements of Cash Flows	II-25
Consolidated Statement of Equity	II-26
Notes to Consolidated Financial Statements	II-27

Part III

Item 10.	Directors, Executive Officers and Corporate Governance	III-1
Item 11.	Executive Compensation	III-1
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	III-1
Item 13.	Certain Relationships and Related Transactions, and Director Independence	III-1
Item 14.	Principal Accounting Fees and Services	III-1

Part IV

Item 15.	Exhibits and Financial Statement Schedules	IV-1
Item 16.	Form 10-K Summary	IV-3
	Signatures	IV-4

PART I

Item 1. Business

Overview

QVC, Inc. and its consolidated subsidiaries (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) curates and sells a wide variety of consumer products via highly engaging, video-rich, interactive shopping experiences, distributed to approximately 216 million worldwide households each day (excluding our joint venture in China as discussed below in further detail) through our broadcast networks. We also reach audiences through our websites (including QVC.com, HSN.com and others), our applications via streaming video; Facebook Live, Roku, Apple TV, and Amazon Fire; mobile applications; our social pages and over-the-air broadcasters. We believe we are a global leader in video retailing, e-commerce, mobile commerce and social commerce, with operations based in the United States ("U.S."), Germany, Japan, the United Kingdom ("U.K."), and Italy. Additionally, we have a 49% interest in a retailing joint venture in China, which operates through a television shopping channel with an associated website. The joint venture is accounted for as an equity method investment.

Our operating strategies are to (i) Curate special products at compelling values; (ii) Extend video reach and relevance; (iii) Reimagine daily digital discovery; (iv) Expand and engage our passionate community; and (v) Deliver joyful customer service. In addition, we are exploring opportunities to evolve the International operating model to pursue growth opportunities in a more leveraged way across markets.

For the year ended December 31, 2019, approximately 93% of QVC's worldwide shipped sales were from repeat and reactivated customers (i.e., customers who made a purchase from us during the prior twelve months and customers who previously made a purchase from us but not during the prior twelve months). In the same period, QVC attracted approximately 4.3 million new customers and the global e-commerce operation comprised \$5.8 billion, or 53%, of QVC's consolidated net revenue for the year ended December 31, 2019.

In the U.S., we distribute programming live 20 hours per day, 364 days per year. The QVC and HSN brands present on average 710 products and 580 products, respectively, every week. Internationally, we distribute live programming 8 to 24 hours per day, depending on the market.

We offer a wide assortment of high-quality merchandise and classify our products into six groups: home, beauty, apparel, jewelry, accessories and electronics. It is our product sourcing team's mission to research and curate compelling and differentiated products from manufacturers who have sufficient scale to meet anticipated demand. We offer many exclusive and proprietary products, leading national brands and limited distribution brands offering unique items. Many of our products are endorsed by celebrities, designers and other well-known personalities who often join our presenters on our live programming and provide lead-in publicity on their own social pages, websites and other customer touchpoints. We believe that our ability to demonstrate product features and present "faces and places" differentiates and defines the QVC shopping experience. We closely monitor customer demand and our product mix to remain well-positioned and relevant in popular and growing retail segments, which we believe is a significant competitive advantage relative to competitors who operate brick-and-mortar stores.

We operate fifteen distribution centers and eight call centers worldwide. In 2019, our work force consisted of approximately 20,400 employees who handled approximately 120 million customer calls, shipped approximately 233 million units globally and served approximately 15.2 million unique customers. We believe our long-term relationships with major U.S. television distributors, including cable operators (e.g., Comcast, Charter Communications and Cox), satellite television providers (e.g., DISH Network and DIRECTV) and telecommunications companies (e.g., Verizon and AT&T), provide us with broad distribution, favorable channel positioning and significant competitive advantages. We believe that our significant market share, brand awareness, outstanding customer service, repeat customer base, flexible payments options, international reach and scalable infrastructure distinguish us from our competitors.

History

QVC was founded on June 13, 1986 by Joseph Segel. Our first U.S. live broadcast took place at 7:30 PM ET on November 24 of that year, reaching 7.6 million homes. Initially broadcast live from 7:30 PM ET until midnight each weekday and all day Saturdays and Sundays, the channel extended its live U.S. programming to 24 hours per day in January 1987. QVC began its International operations in 1993.

In 1995, Comcast purchased a majority shareholding in QVC. In 2003, Comcast sold its majority share to Qurate Retail, Inc. ("Qurate Retail") (formerly known as Liberty Interactive Corporation).

HSN, Inc. ("HSN"), now a subsidiary of QVC, began broadcasting television home shopping programming from its studios in St. Petersburg, Florida in 1981 and, by 1985, was broadcasting its programming through a national network of cable and local television stations 24 hours a day, seven days a week.

On December 29, 2017, Qurate Retail completed the acquisition of the remaining 62% ownership interest of HSN it did not previously own in an all-stock transaction. On December 31, 2018, Qurate Retail transferred its 100% ownership interest in HSN to QVC through a transaction among entities under common control. As a result of the transaction, QVC has presented the operations and financial position of HSN in the accompanying consolidated financial statements as of December 29, 2017.

Operating segments

During the first quarter of 2019, the Company changed its reportable operating segments to combine QVC-U.S. and HSN into one reportable segment called QxH and presented prior period information to conform with this change. QVC now has two reportable segments: QxH and QVC-International. These segments reflect the way the Company evaluates its business performance and manages its operations. For financial information about our operating segments, please refer to note 16 of our accompanying consolidated financial statements, as well as to Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations."

QxH

QxH's live programming is distributed nationally, 20 hours per day, 364 days per year, to approximately 92 million television households and distributes our programming to approximately 99% of households subscribing to services offered by television distributors. QxH's televised shopping programs, including live and recorded content, are broadcast across multiple channels nationally on a full time basis, including the main QVC and HSN channels as well as the additional channels of QVC2, QVC3 and HSN2. These additional channels offer viewers access to a broader range of QxH programming options as well as more relevant programming for viewers in different time zones. During the first quarter of 2019, QxH transitioned its Beauty iQ broadcast channel to QVC 3 and Beauty iQ content was moved to a digital only platform. QxH also has over-the-air broadcasting in designated U.S. markets that can be accessed by any household with a digital antenna in such markets, regardless of whether it subscribes to a paid television service. This allows QxH to reach customers who previously did not have access to the program through other television platforms.

QxH's programming is also available through QVC.com and HSN.com (our "Websites") as well as applications via streaming video; Facebook Live, Roku, Apple TV, and Amazon Fire; mobile applications; our social pages and over-the-air broadcasters (collectively, our "Digital Platforms"). Our Digital Platforms enable consumers to purchase goods offered on our broadcast programming along with a wide assortment of products that are available only on our Websites. Our Websites and other Digital Platforms are natural extensions of our business model, allowing customers to engage in our shopping experience wherever they are, with live or on-demand content customized to the device they are using. In addition, our Websites and mobile applications allow shoppers to browse, research, compare and perform targeted searches for products, read customer reviews, control the order-entry process and conveniently access their account. For the year ended December 31, 2019, approximately 80% of our new QxH customers made their first purchase through our digital platforms. QxH, including our Digital Platforms, contributed \$8.3 billion, or 75%, of consolidated net revenue, \$1,120 million of operating income and \$1,536 million of Adjusted OIBDA (defined in note 16 to the accompanying consolidated financial statements) for the year ended December 31, 2019.

The table below illustrates QxH's digital sales growth since 2017:

(in millions)		Years ended December 31,		
		2019	2018	2017 (1)
QxH digital platform revenue	\$	4,708	4,748	4,520
Total QxH net revenue		8,277	8,544	8,483
QxH digital platform % of total QxH net revenue		56.9%	55.6%	53.3%

(1) Net Revenue for QxH for the year ended December 31, 2017 includes HSN's standalone results which are not included within the accompanying consolidated financial statements.

QVC-International

Our international business brings the QVC shopping experience to approximately 124 million households outside the U.S., primarily in Germany, Austria, Japan, the U.K., the Republic of Ireland, and Italy. In addition, our joint venture in China reaches approximately 167 million households. Similar to the U.S. business, our international business engages customers via multiple platforms, including broadcast networks, websites, mobile applications and social pages. Our international product sourcing teams select products tailored to the interests of each local market. For the year ended December 31, 2019, our international operations, including our Digital platforms, generated \$2.7 billion, or 25%, of consolidated net revenue, \$354 million of operating income and \$446 million of Adjusted OIBDA (defined in note 16 to the accompanying notes to our consolidated financial statements).

The table below illustrates QVC-International's digital sales growth since 2017:

(in millions)	Years ended December 31,		
	2019	2018	2017
QVC - International digital platform revenue	\$ 1,114	1,051	942
Total QVC - International net revenue	2,706	2,738	2,631
QVC - International digital platform % of total QVC - International net revenue	41.2%	38.4%	35.8%

QVC-Japan. We own 60% of QVC-Japan through a venture with Mitsui & Co., LTD. QVC-Japan launched in April 2001 and currently broadcasts 19 hours of live programming each day and reaches approximately 29 million households. QVC-Japan also operates digital platforms including a website, mobile applications and social pages. In 2014, QVC-Japan launched Q-plus, which consists of infomercial programming distributed by purchasing available airtime on certain channels. On December 1, 2018, QVC-Japan launched 4K high dynamic range broadcasting ("HDR"), making QVC-Japan the first network in Japan to broadcast native, full-scale 4K HDR programming 24 hours a day.

QVC-Germany. QVC-Germany went on air in December 1996 and currently broadcasts 17 hours of live programming each day and reaches approximately 42 million households that are located in both Germany and Austria. Beyond the main channel, QVC-Germany also broadcasts shows on two additional channels, QVC Style and QVC2, which provide a broader range of programming options. QVC-Germany also operates digital platforms including a website, a mobile application, smart TV applications, and social pages.

QVC-U.K. QVC-U.K. went on air in October 1993 and currently broadcasts 17 hours of live programming each day and reaches approximately 28 million households that are located in both the U.K. and the Republic of Ireland. Beyond the main channel, QVC-U.K. also broadcasts shows on three additional channels, QVC Beauty, QVC Extra, and QVC Style, which provides a broader range of programming options, along with digital platforms including a website, mobile applications and social pages.

QVC-Italy. QVC-Italy went on air in October 2010 and currently reaches approximately 25 million households. QVC-Italy broadcasts live for 17 hours each day on satellite and digital terrestrial television. QVC-Italy also operates digital platforms including a website, a mobile application and social pages.

QVC-France. In June 2015, QVC expanded its global presence into France. In March 2019, QVC-France ceased commercial operations.

China Joint Venture. On July 4, 2012, we entered into a joint venture with Beijing-based CNR Media Group, formerly known as China Broadcasting Corporation, a limited liability company owned by China National Radio ("CNR"), China's government-owned radio division. The joint venture, CNR Home Shopping Co., Ltd. ("CNRS"), is owned 49% by QVC and 51% by CNR through subsidiaries of each company. CNRS operates a retailing business in China through a television shopping channel with an associated website. CNRS distributes live programming for approximately 10 hours each day. The CNRS joint venture is accounted for as an equity method investment recorded as equity in losses of investee in our consolidated statements of operations.

Merchandise

We believe that our ability to combine product and programming helps us create competitive advantages over traditional brick-and-mortar and Internet retailers. We seek to offer our customers an assortment of compelling, high-quality products. In the U.S., the QVC and HSN brands present on average 710 products and 580 products, respectively, every week on our live programming, approximately 21% and 28%, respectively, of which have not been presented previously to our television audience. We offer customers high-quality and brand name products, presented in a creative, informative, entertaining and engaging style. We provide a differentiated shopping experience by offering customers the opportunity to experience not only the product being sold, but also the people and places behind that product, thereby enhancing their overall shopping experience.

Our global merchandise mix features: (i) home, (ii) apparel, (iii) beauty, (iv) accessories, (v) electronics and (vi) jewelry. Many of our brands are exclusive, while others are created by well-known designers. Our global sales mix is provided in the table below:

Product category	Years ended December 31,		
	2019	2018	2017 (1)
Home	37 %	38 %	34 %
Beauty	18 %	18 %	17 %
Apparel	16 %	16 %	19 %
Accessories	12 %	11 %	13 %
Electronics	11 %	11 %	9 %
Jewelry	6 %	6 %	8 %
Total	100 %	100 %	100 %

(1) Our global sales mix for the year ended December 31, 2017 does not include HSN.

Unlike traditional brick-and-mortar retailers with inventories across a network of stores, we are able to quickly adapt our offerings in direct response to changes in our customer's purchasing patterns. We utilize a test and re-order model to determine initial customer demand. Through constant monitoring, we manage our product offerings to maximize net revenue and fulfill current demand in large growth segments where we can gain a greater share of our customers' purchases. Our merchandising team is dedicated to continually researching, pursuing and launching new products and brands. With a mandate to deliver hard-to-find value, our merchants find and curate collections of high quality goods from manufacturers with the scale to offer sufficient supply to our existing and future customers. We maintain strong relationships with our vendors, which are attracted by the showcasing and story-telling elements of our programming, and the volume of sales during featured presentations.

We purchase, or obtain on consignment, products from U.S. and foreign manufacturers and wholesalers, often on favorable terms based upon the volume of the transactions. We have attracted some of the world's most respected consumer brands as well as celebrities, entrepreneurs and designers to promote these brands. Brand leaders such as Dell, Dooney & Bourke, Dyson, Judith Ripka and Philosophy reach a broad audience while product representatives share the stories behind these brands. We have agreements with celebrities, entrepreneurs and designers such as Isaac Mizrahi, Rachael Ray and Martha Stewart enabling us to provide entertaining and engaging programming that develops a lifestyle bond with our customers. These celebrity personalities and product representatives often provide pre-appearance publicity for their QVC products on their own social pages and broadcast shows, enhancing demand during their QVC appearances. We present and promote across our networks, websites, mobile applications and social platforms, allowing shoppers to engage with us on multiple platforms and devices.

We do not depend on any single supplier or designer for a significant portion of our inventory purchases.

Distribution

QVC distributes its programmings via satellite and optical fiber, to cable television and direct-to-home satellite system operators for retransmission to its subscribers in the U.S., Germany, Japan, the U.K., Italy and neighboring countries. The Company also transmits its programmings over digital terrestrial broadcast television to viewers throughout Italy, Germany, and the U.K. and to viewers in certain geographic regions in the U.S. In the U.S., the Company uplinks its digital programming transmissions using a third party service or internal resources. The transmissions are uplinked to protected, non-preemptible transponders on U.S. satellites. "Protected" status means that, in the event of a transponder failure, QVC's signal will be transferred to a spare transponder or, if none is available, to a preemptible transponder located on the same satellite or, in certain cases, to a transponder on another satellite owned by the same service provider if one is available at the time of the failure. "Non-preemptible" status means that, in the event of a transponder failure, QVC's transponders cannot be preempted in favor of a user of a failed transponder, even another user with "protected status." The Company's international business units each obtain uplinking services from third parties and transmit their programming to non-preemptible transponders on international satellites and terrestrial transmitters. QVC's transponder service agreements for the Company's U.S. transponders expire at the earlier of the end of the lives of the satellites or the service agreements. The service agreements for QxH expire between 2020 and 2025. The service agreements for QVC-International transponders and terrestrial transmitters expire between 2020 and 2029.

We continually seek to expand and enhance our broadcast and e-commerce platforms, as well as to further our international operations and multimedia capabilities. We offer native high definition ("HD") programming in addition to standard definition programming, which provides additional channel locations and allows us to utilize a typically wider screen with crisper and more colorful images to present a larger "storefront," which we believe captures the attention of channel "surfers" and engages our customers. In the U.S., our HD programming reaches approximately 80 million households. We continue to develop and launch features to further enrich the viewing experience.

Affiliation agreements

QVC enters into long-term affiliation agreements with certain of our television distributors who downlink our programming and distribute the programming to their customers. Our affiliation agreements with QVC distributors have termination dates ranging from 2020 to 2024. Our ability to continue to sell products to our customers is dependent on our ability to maintain and renew these affiliation agreements in the future. Although we are typically successful in obtaining and renewing these agreements, we do not have distribution agreements with some of the distributors that carry our programming. We are currently providing programming without affiliation agreements to distributors representing approximately 5.8% of our QVC channel distribution and 1.1% of our HSN channel distribution. Some of our international programming may continue to be carried by distributors after the expiration dates on our affiliation agreements with them have passed.

In return for carrying our signals, each programming distributor for our U.S. distribution receives an allocated portion, based upon market share, of up to 5% of the net sales of merchandise sold via the television programs and from certain Internet sales to customers located in the programming distributor's service areas. In some cases, pay television operators receive additional compensation in the form of commission guarantees in exchange for their commitments to deliver a specified number of subscribers, channel placement incentives and advertising insertion time. QVC-International programming distributors predominantly receive an agreed-upon annual fee, a monthly or yearly fee per subscriber regardless of the net sales, a variable percentage of net sales or some combination of the above arrangements.

In addition to sales-based commissions or per-subscriber fees, QVC also makes payments to distributors primarily in the U.S. for carriage and to secure channel positioning within a broadcast area or within the general entertainment area on the distributor's channel line-up. We believe that a portion of our sales is attributable to purchases resulting from channel "surfing" and that a channel position near broadcast networks and more popular cable networks increases the likelihood of such purchases. As technology evolves, we will continue to monitor optimal channel placement and attempt to negotiate agreements with our distributors to maximize the viewership of our television programming.

Demographics of customers

We enjoy a very loyal customer base, as demonstrated by the fact that for the twelve months ended December 31, 2019, approximately 86% of our shipped sales came from repeat customers (i.e., customers who made a purchase from us during the prior twelve months), who spent an average of \$1,281 each during this period. An additional 7% of shipped sales in that period came from reactivated customers (i.e., customers who previously made a purchase from us, but not during the prior twelve months).

We had a slight decline in customer count during 2019. On a trailing twelve month basis, total consolidated customers (excluding the joint venture in China) were approximately 15.2 million which includes 10.6 million QxH customers and 4.6 million QVC-International customers. We believe our core customer base represents an attractive demographic target market. Based on internal customer data for QxH, approximately 44% of our 10.6 million customers for the twelve months ended December 31, 2019 were women between the ages of 35 and 64.

We do not depend on any single customer for a significant portion of our revenue.

Order taking and fulfillment

We take a majority of our orders via our websites and via mobile applications on iPhone, iPad, Apple Watch, Android and other devices. QxH and QVC-International customers placed approximately 39% and 32%, respectively, of all orders directly through their mobile devices in 2019.

We have three customer contact centers in the US and five international customer contact centers that can direct calls, e-mail contacts and social contacts from one center to the other as volume mandates. Many markets also utilize home agents to handle calls, allowing staffing flexibility for peak hours. In addition, we utilize computerized interactive voice response order systems for telephonic orders, which handle approximately 28% of all orders taken on a worldwide basis. QxH has eleven distribution centers and QVC-International has four distribution centers. Our distribution centers and drop ship partners have shipped on average 454,000 units per day at QxH and 183,000 units per day for QVC-International during 2019. Refer to Item 2. "Properties" for further details.

QVC has built a scalable operating infrastructure focused on sustaining efficient, flexible and cost-effective sale and distribution of our products. Since our physical store locations are minimal, we require lower inventory levels and capital expenditures compared to traditional brick-and-mortar retailers. In recent years, we have made and continue to make significant investments in our distribution centers that we believe will accommodate our foreseeable growth needs. Further, since we have no set "floor plan" and can closely manage inventory levels at our centralized warehouses, we believe we have the flexibility to analyze and react quickly to changing trends and demand by shifting programming time and product mix. Our cost structure is highly variable, which we believe allows us to consistently achieve attractive margins relative to brick-and-mortar retailers.

Third party carriers transport our packages from our distribution centers to our customers. In each market where we operate, we have negotiated long-term contracts with shipping companies, which in certain circumstances provide for favorable shipping rates.

Competition

We operate in a rapidly evolving and highly competitive retail business environment. We have numerous and varied competitors at the national and local levels, ranging from large department stores to specialty shops, e-commerce retailers, direct marketing retailers, wholesale clubs, discount retailers, infomercial retailers, and mail-order and catalog companies. Some of our competitors, such as Amazon and Walmart, have a significantly greater web-presence. We believe that the principal competitive factors for our web-commerce operations are high-quality products, brand recognition, selection, value, convenience, price, website performance, customer service and accuracy of order shipment.

We believe that QxH is a leader in video shopping, e-commerce, mobile commerce and social commerce by curating quality products at outstanding values, providing exceptional customer service, establishing favorable channel positioning and multiple touchpoints across digital platforms and generating repeat business from our core customer base and that it also compares favorably in terms of sales to general, non-video based retailers due to our extensive customer reach and efficient cost structure. QxH's closest video shopping competitor is ShopHQ (formerly referred to as Evine) and our international operations face similar competition in their respective markets, such as Jupiter Shop Channel in Japan, HSE 24 in Germany, Austria, and Italy, and Ideal World in the U.K.

We also compete for access to customers and audience share with other providers of broadcast, digital and hard copy entertainment and content. The price and availability of other programming and the conversion to digital programming platforms may unfavorably affect the placement of our programming in the channel line-ups of our distributors, and may affect our ability to obtain distribution agreements with small cable distributors. Competition from other programming also affects the compensation that must be paid to distributors for carriage. Principal competitive factors for us include (i) value, quality and selection of merchandise; (ii) customer experience, including customer service and speed, cost and reliability of fulfillment and delivery services and (iii) convenience and accessibility of sales channels.

Employees

QVC employed approximately 20,400 full-time and part-time employees as of December 31, 2019. Employment levels fluctuate due to seasonal factors affecting our business. Additionally, we utilize independent contractors and temporary personnel to supplement our workforce, particularly on a seasonal basis. We consider our employee relations to be good.

Government regulation

The manner in which we sell and promote merchandise and related claims and representations made in connection with these efforts is regulated by federal and state law. Some examples of regulatory agencies and regulations that affect the manner in which we sell and promote merchandise include the following:

- The Federal Trade Commission ("FTC") and the state attorneys general regulate the advertising of retail products and services offered for sale in the U.S., including the FTC's Guides Concerning the Use of Endorsements and Testimonials in Advertising and Guides for the Use of Environmental Marketing Claims.
- The Food and Drug Administration has specific regulations regarding claims that can be made about food products and regulates marketing claims that can be made for cosmetic beauty products, medical devices and over-the-counter drugs.
- The Environmental Protection Agency ("EPA") requires products that make certain types of claims, such as "anti-bacterial," to be registered with the EPA prior to making such claims.
- Each of the FTC's Telemarketing Sales Rules, the Federal Communication Commission's ("FCC") rules implementing the Telephone Consumer Protection Act and similar state laws, establish procedures that must be followed when telemarketing or placing particular types of calls to consumers.
- The Consumer Product Safety Commission has specific regulations regarding products that present unreasonable risks of injuries to consumers.
- Import and export laws, including U.S. economic sanction and embargo regulations, U.S. homeland security laws and regulations and other laws such as the U.S. anti-boycott law and U.S. export controls regulations.
- Comparable regulatory agencies and regulations in countries in which we have our non-U.S. operations.

In addition, the FCC regulates the cable television systems, direct broadcast satellite ("DBS") distributors and other multichannel video programming distributors ("MVPDs") that distribute the Company's services, has adopted various requirements related to the Company's programming, and also licenses radio transmission facilities that the Company uses in connection with its business, such as satellite uplink facilities and internal private radio systems.

As a result of an interest in various cable operators attributed to Qurate Retail, the Company may be deemed to be a satellite cable programming vendor in which a cable operator has an attributable interest for purposes of various FCC rules regarding the distribution of video programming to MVPDs. These include, for example, the FCC's program access rules, which, in general, prohibit various unfair practices involving the distribution of video programming to MVPDs; and its program carriage rules, which, among other things, prohibit cable operators from favoring affiliated programmers so as to restrain unreasonably the ability of unaffiliated programmers to compete. The FCC program access and program carriage rules also make provision for enforcement of alleged violations through complaint proceedings initiated by aggrieved entities. The Company also may be subject to program access rules as a result of an FCC condition adopted in connection with its 2008 approval of a transaction involving a predecessor of Qurate Retail and News Corp. Previously adopted FCC channel occupancy rules, which limited carriage by a cable operator of national programming services in which that operator holds an attributable interest, were vacated and remanded by the U.S. Court of Appeals for the District of Columbia Circuit in 2001. The FCC issued further notices of proposed rulemaking in 2001 and 2005 to consider channel occupancy limitations, but has not adopted any rules.

In 2000, we became subject to a consent decree issued by the FTC barring us from making certain deceptive claims for dietary supplements and specified products related to the common cold, pneumonia, hay fever and allergies. We also became subject to an expanded consent decree issued by the FTC in 2009 that terminates on the later of May 26, 2029, or 20 years from the most recent date that the U.S. or the FTC files a complaint in federal court alleging any violation thereunder. Pursuant to this expanded consent decree, we are prohibited from making certain claims about specified weight-loss, dietary supplement and anti-cellulite products unless we have competent and reliable scientific evidence to substantiate such claims. Violation of the

QVC order may result in the imposition of significant civil penalties for non-compliance and related redress to consumers and/or the issuance of an injunction enjoining us from engaging in prohibited activities. Additionally, HSN was subject to a consent order issued by the FTC that expired in 2019 and which barred HSN (including its subsidiaries and affiliates) from making certain claims with respect to specified categories of products.

Congress enacted the Commercial Advertisement Loudness Mitigation ("CALM") Act in 2010. The CALM Act directs the FCC to incorporate into its rules and make mandatory a technical standard that is designed to prevent digital television commercial advertisements from being transmitted at louder volumes than the program material they accompany. Although the FCC's CALM Act regulations place direct compliance responsibility on broadcasters and MVPDs, the FCC adopted a "safe harbor" compliance approach applicable to commercials embedded in programming provided by programmers, such as the Company. Under the FCC's safe harbor approach, broadcasters and MVPDs may meet their CALM Act compliance obligations through reliance on programmer-provided CALM Act compliance certifications that are made "widely available" to broadcasters and MVPDs through a website or other means. The Company has determined that its programming is CALM Act compliant, and in response to requests from its distributors, and in order to allow its distributors to meet the FCC's safe harbor, the Company has posted a CALM Act compliance certification to a website that is available to its distributors.

FCC rules adopted pursuant to the Telecommunications Act of 1996 generally require closed captioning of the Company's televised programming distributed on broadcast television stations, cable television systems, DBS and other MVPDs, with only limited exemptions. The FCC's closed captioning rules applicable to televised programming place closed captioning compliance obligations directly on the Company's distributors, and are enforced with respect to the Company's programming through its affiliation agreements with its distributors. 2016 amendments to those rules adopted by the FCC extend direct compliance responsibility, jointly with distributors, to video programmers such as the Company, impose certain registration and certification requirements on the Company, and subject the Company to new captioning complaint procedures. Certain aspects of these amended rules have not yet become effective.

Beginning in 2012, the FCC adopted regulations pursuant to the Twenty-First Century Communications and Video Accessibility Act of 2010 that impose captioning requirements on various types of programming distributed via Internet protocol ("IP") that was previously televised with captions. A multi-year implementation period for previously televised IP-delivered programming was completed in 2016. The Company is subject to the IP-captioning rules as a Video Programming Owner and as a Video Programming Distributor that distributes covered programming on its website and via mobile and video streaming platforms. In 2014, the FCC adopted closed captioning quality standards for televised programming distributed by the Company's distributors. Although compliance obligations for the captioning quality standards are placed directly on the Company's distributors, under the captioning quality rules, the Company's distributors can demonstrate compliance with the quality rules by relying on a certification from programmers, such as the Company, that its programming satisfies the caption quality standards adopted by the FCC, that the programmer has adopted and follows captioning best practices for video programmers adopted by the FCC, or that its programming is exempt from captioning requirements. These closed captioning quality requirements took effect in March 2015. In the 2016 amendments to the closed captioning rules noted above, the FCC also extended direct responsibility for televised captioning quality to video programmers such as the Company. As a result of the foregoing changes and rules involving captioning of IP-delivered programming and captioning quality standards, QVC may incur additional costs and compliance obligations related to closed captioning of its programming.

We market and provide a broad range of merchandise through our broadcast networks, websites, mobile applications and social pages. As a result, we are subject to a wide variety of statutes, rules, regulations, policies and procedures in various jurisdictions that are subject to change at any time, including laws regarding consumer protection, privacy, the regulation of retailers generally, the importation, sale and promotion of merchandise and the operation of retail stores and warehouse facilities, as well as laws and regulations applicable to the Internet and businesses engaged in online commerce, such as those regulating the sending of unsolicited, commercial electronic mail and texts.

For example, the Children's Online Privacy Protection Act prohibits web sites from collecting personally identifiable information online from children under age 13 without parental consent and imposes a number of operational requirements. Certain email activities are subject to the Controlling the Assault of Non-Solicited Pornography and Marketing Act of 2003, commonly known as the CAN-SPAM Act. The CAN-SPAM Act regulates the sending of unsolicited commercial email by requiring the email sender, among other things, to comply with specific disclosure requirements and to provide an "opt-out" mechanism for recipients. Both of these laws include statutory penalties for non-compliance. The Digital Millennium Copyright Act limits, but does not eliminate, liability for listing or linking to third party websites that may include content that infringes on copyrights or other rights so long as our Internet businesses comply with the statutory requirements. Various states also have adopted laws regulating certain aspects of Internet communications. Federal legislation enacted in 2016 permanently extended the moratorium on state and local taxes on Internet access and commerce.

Our online commerce businesses are subject to domestic and foreign laws governing the collection, use, retention, security and transfer of personally-identifiable information about their users. The enactment, interpretation and application of user data protection laws are in a state of flux, and the interpretation and application of such laws may vary from country to country. For example, the European Union's ("E.U.") General Data Protection Regulation ("GDPR"), which established new data laws that give customers additional rights and impose additional restrictions and penalties on companies for illegal collection and misuse of personal information, took effect in May 2018. Further, in 2015, the Court of Justice of the E.U. invalidated the "Safe Harbor Framework," which had allowed companies to collect and process personal data in E.U. nations for use in the U.S. The EU-U.S. Privacy Shield, which replaced the Safe Harbor Framework, became fully operational on August 1, 2016, but is the subject of litigation in the E.U. The European Commission proposed new regulations regarding privacy and electronic communications in 2017 which remain pending, including additional regulation of the Internet tracking tools known as "cookies." Finally, countries in other regions, most notably Asia, Eastern Europe and Latin America, are increasingly implementing new privacy regulations, resulting in additional compliance burdens and uncertainty as to how some of these laws will be enforced.

In the U.S., the FTC has proposed a privacy policy framework, and Congress may consider legislation that would require organizations that suffer a breach of security related to personal information to notify owners of such information. Many states have adopted laws requiring notification to users when there is a security breach affecting personal data, such as California's Information Practices Act. California also has enacted the California Consumer Privacy Act of 2018 ("CCPA"), which, among other things, allows California consumers to request that certain companies disclose the types of personal information collected by such companies. The CCPA took effect on January 1, 2020. The California Attorney General is drafting implementation regulations and guidance regarding the law. Complying with these different national and state privacy requirements may cause us to incur substantial costs. In addition, we generally have and post on our websites privacy policies and practices regarding the collection, use and disclosure of user data. A failure to comply with such posted privacy policies or with the regulatory requirements of federal, state, or foreign privacy laws could result in proceedings or actions by governmental agencies or others (such as class action litigation) which could adversely affect our business.

Our business is also dependent upon our continued ability to transmit our programming to television distributors from our third party FCC-licensed satellite uplink facilities, which are subject to FCC compliance in the U.S. and foreign regulatory requirements in our international operations.

Intellectual property

We regard our tradenames, service marks, patents, copyrights, domain names, trade dress, trade secrets, proprietary technologies and similar intellectual property as critical to our success. We rely on a combination of tradename, patent and copyright law, trade-secret protection, and confidentiality and/or license agreements with our employees, customers, suppliers, affiliates and others to protect these proprietary rights. We have registered, or applied for the registration of, a number of tradenames, service marks, patents, copyrights and domain names through U.S. and foreign governmental authorities and vigorously protect our proprietary rights against infringement.

In the U.S., we have registered tradenames and service marks including, but not limited to our brand names and logo, "QVC," "Quality Value Convenience," "Find What You Love, Love What You Find," the "Q Logo," and "Q" and trademarks for our proprietary products sold such as "Arte D'Oro," "Cook's Essentials," "Denim & Co.," "Diamonique," "Nature's Code," "Northern Nights" and "Ultrafine Silver." Similarly, foreign registrations have been obtained for many tradenames and service marks for our brand names, logo and propriety products including, but not limited to, "QVC," the "Q Logo," "Q," "Cook's Essentials," "Denim & Co.," "Diamonique" and "Northern Nights."

HSN has numerous trademark registrations or pending applications in the United States which help to expand HSN's brand awareness. These registrations and applications include the "HSN" brand name and the "HSN logo" as well as registrations for HSN's propriety products and services, including, but not limited to, "HSN Shop By Remote," "Technibond," and "Concierge Collection."

We consider the "QVC" and "HSN" names the most significant tradenames and service marks held by us because of their impact on market awareness across all of our geographic markets and on customers' identification with us. As with all U.S. tradenames or service marks, our tradename and service mark registrations in the U.S. are for a ten year period and are renewable every ten years, prior to their respective expirations, as long as the tradenames or service marks are used in the regular course of trade.

Qurate Retail relationship and related party transactions

The Company is an indirect wholly-owned subsidiary of Qurate Retail (Nasdaq: QRTEA and QRTEB), which owns interests in a broad range of digital commerce businesses, including Qurate Retail's other wholly-owned subsidiaries Zulily, LLC ("Zulily") and Cornerstone Brands, Inc. ("CBI"), as well as other minority investments. QVC is part of the Qurate Retail Group ("QRG"), formerly QVC Group, a portfolio of brands including QVC, HSN, Zulily and CBI. On March 9, 2018, Qurate Retail, GCI Liberty, Inc. ("GCI Liberty") (formerly General Communication, Inc.), an Alaska corporation, and Liberty Interactive LLC, a Delaware limited liability company and a direct wholly-owned subsidiary of Qurate Retail completed transactions whereby Qurate Retail acquired GCI Liberty through a reorganization in which certain assets and liabilities attributed to Qurate Retail's Ventures Group were contributed to GCI Liberty in exchange for a controlling interest in GCI Liberty. Qurate Retail then effected a tax-free separation of its controlling interest in the combined company. Qurate Retail's QVC Group common stock became the only outstanding common stock of Qurate Retail.

On October 1, 2015, Qurate Retail acquired all of the outstanding shares of Zulily, 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. The Company believes Zulily's business is complementary to our Company. Zulily is not part of the results of operations or financial position of QVC presented in this Form 10-K. QVC and Zulily engaged in multiple transactions relating to sales, sourcing of merchandise, marketing initiatives, and business advisory services. Refer to note 14 to the consolidated financial statements for further details.

On December 31, 2018, QVC amended and restated its senior secured credit facility (the "Fourth Amended and Restated Credit Agreement") increasing the revolving credit facility from \$2.65 billion to \$3.65 billion (which was reduced to \$2.95 billion, effective February 4, 2020 upon the closing of QVC's offering of the 4.75% Senior Secured Notes due 2027 (the "2027 Notes")) as explained further in note 8 to our consolidated financial statements. The Fourth Amended and Restated Credit Agreement includes a \$400 million tranche that may be borrowed by QVC or Zulily. Under the terms of the Fourth 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 December 31, 2019, there was \$130 million borrowed by Zulily on the \$400 million tranche of the senior secured credit facility, none of which the Company expects to repay on behalf of Zulily.

On October 17, 2018, QRG announced a series of initiatives designed to better position its QxH business ("QRG Initiatives"). As part of the QRG Initiatives, QVC will close its fulfillment centers in Lancaster, Pennsylvania and Roanoke, Virginia and has entered into an agreement to lease a new fulfillment center in Bethlehem, Pennsylvania, which commenced in 2019 (see note 9 to the accompanying consolidated financial statements). QVC recorded transaction related costs of \$1 million and \$60 million during the years ended December 31, 2019 and 2018, respectively, which primarily related to severance, other QRG Initiatives and the closure of operations in France as discussed below.

In the fourth quarter of 2018, QVC recorded a charge related to the potential closure of its operations in France. For the year ended December 31, 2018, QVC recorded \$9 million in severance expenses, which is included in transaction related costs (see note 16 to the accompanying consolidated financial statements), and \$4 million in inventory obsolescence related to these exit activities. No material severance or inventory obsolescence expenses related to these exit activities were recorded during 2019. The formal announcement to execute the closure was made in March 2019 and broadcasting for QVC in France was subsequently terminated on March 13, 2019.

QVC engages with CBI, which is a wholly owned subsidiary of Qurate Retail and prior to the common control transaction between QVC and Qurate Retail, included as part of HSN. CBI is not part of the results of operations or financial position of QVC presented in the accompanying consolidated financial statements. During the year ended December 31, 2019, QVC and CBI engaged in multiple transactions relating to sourcing of merchandise, personnel and business advisory services. Refer to note 14 to the accompanying consolidated financial statements for further details.

We are a "close corporation" under Delaware law and, as such, our stockholder, rather than a board of directors, manages our business. Since our stockholder is an indirect wholly owned subsidiary of Qurate Retail, certain aspects of our management, including the approval of significant corporate transactions such as a change of control, are controlled by Qurate Retail, rather than an independent governing body. Our Chief Executive Officer and President, Michael A. George, also became president and chief executive officer of Qurate Retail during 2018.

Qurate Retail's interests may not coincide with our interests or yours and Qurate Retail may cause us to enter into transactions or agreements with related parties or approve corporate actions that could involve conflicts of interest. For example, Qurate Retail's dependence on our cash flow for servicing its debt and for other purposes is likely to result in our payment of large dividends to Qurate Retail, which may increase our leverage and decrease our liquidity. We paid \$879 million, \$367 million, and \$866 million of dividends to Qurate Retail during the years ended December 31, 2019, 2018, and 2017, respectively. See also Item 1A. "Risk Factors."

* * * * *

Certain statements in this Annual Report on Form 10-K 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; QRG Initiatives; capital expenditures; revenue growth; remediation of a material weakness; the recoverability of our goodwill and other long-lived assets; our projected sources and uses of cash; repayment of debt; and the anticipated impact of certain contingent liabilities related to legal and tax proceedings and other matters arising in the ordinary course of business. In particular, statements under Item 1. "Business," Item 1A. "Risk-Factors," Item 2. "Properties," Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," and Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" contain forward-looking statements. 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 anticipate customer demand and 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 cost and ability of shipping companies, 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 FCC, 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 U.K.'s exit from the E.U. ("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 IP 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
- Qurate Retail's dependence on our cash flow for servicing its debt and for other purposes.

These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Annual Report, 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. When considering such forward-looking statements, one should keep in mind the factors described in Item 1A. "Risk Factors" and other cautionary statements contained in this Annual Report. Such risk factors and statements describe circumstances which could cause actual results to differ materially from those contained in any forward-looking statement.

Item 1A. Risk Factors

The retail business environment is subject to intense competition, and we may not be able to effectively compete for customers

We operate in a rapidly evolving and highly competitive retail business environment. Although we are the U.S.'s largest television shopping retailer, we have numerous and varied competitors at the national and local levels, ranging from large department stores to specialty shops, electronic retailers, direct marketing retailers, wholesale clubs, discount retailers, other televised shopping retailers such as ShopHQ (formerly referred to as Evine) in the U.S., Jupiter Shop Channel in Japan, HSE 24 in Germany and Italy, and Ideal World in the U.K., infomercial retailers, Internet retailers, including livestream shopping retailers, and mail-order and catalog companies. Many of our current and potential competitors have greater resources, longer histories, more customers and greater brand recognition than we do. They may secure better terms from vendors, adopt more aggressive pricing, offer free or subsidized shipping and devote more resources to technology, fulfillment and marketing. Other companies also may enter into business combinations or alliances that strengthen their competitive positions. Such business combinations or alliances may result in competitors with greatly improved financial resources, improved access to merchandise, greater market penetration than they previously enjoyed and other improvements in their competitive positions. This may cause our customers to elect to purchase products from a competitor that they would have historically purchased from QVC, resulting in less revenue to QVC.

Although we sell a variety of exclusive products, one of the most significant challenges we face is competition on the basis of price. Price is of great importance to most customers, and price transparency and comparability continues to increase, particularly as a result of digital technology. The ability of consumers to compare prices on a real-time basis puts additional pressure on us to maintain competitive prices.

In addition, many retailers, especially online retailers with whom we compete, are increasingly offering customers aggressive shipping terms, including free or discounted expedited shipping. As these practices become more prevalent, we may experience further competitive pressures to attract customers and/or to change our shipping program. Our ability to be competitive on delivery times and shipping costs depends on many factors, and our failure to successfully manage these factors and offer competitive shipping terms could negatively impact the demand for our products and our profit margins. We also compete for access to customers and audience share with other providers of televised, online and hard copy entertainment and content. Our inability to compete effectively with regard to the assortment, product price, shipping terms, shipping pricing or free shipping and quality of the merchandise we offer for sale or to keep pace with competitors in our marketing, service, location, reputation, credit availability and technologies, could have a material adverse effect.

Our net revenue and operating results depend on our ability to predict or respond to consumer preferences

Our net revenue and operating results depend, in part, on our ability to predict or respond to changes in consumer preferences and fashion trends in a timely manner. We develop new retail concepts and continuously adjust our product mix in an effort to satisfy customer demands. Consumer preferences may be affected by many factors outside of our control, including responses of competitors and general economic conditions. Any sustained failure by us to identify and respond to emerging trends in lifestyle and consumer preferences could have a material adverse effect on our relationship with our customers and the demand for the products we sell.

Management's efforts to realize the anticipated synergies from Qurate Retail's acquisitions of HSN and Zulily may divert management's time and attention and other resources from QVC's business

On December 29, 2017, Qurate Retail completed the acquisition of the 62% ownership interest of HSN it did not already own in an all-stock transaction. On December 31, 2018, Qurate Retail transferred its 100% ownership interest in HSN to QVC. As entities under the common control of Qurate Retail, QVC, HSN and Zulily are cooperating to recognize meaningful synergies by seeking opportunities to leverage their combined scale and capabilities to accelerate each company's sales and deliver cost savings.

QVC, HSN and Zulily engage in transactions relating to personnel, sales, sourcing of merchandise, marketing initiatives, fulfillment integration and business advisory services with the expectation that these transactions will result in various synergies including, among other things, enhanced revenues, procurement cost savings and operating efficiencies, innovation and sharing of best practices. We currently anticipate that these efforts will continue for the foreseeable future.

Achieving the anticipated benefits from these transactions will require the dedication of management and other resources, which may distract their attention from QVC's other operations. Additionally, the anticipated benefits from these transactions are subject to a number of significant challenges and uncertainties, including, whether unique corporate cultures of separate organizations will work collaboratively in an efficient and effective manner, the possibility of faulty assumptions underlying expectations regarding potential synergies, unforeseen expenses or delays and contractual limitations. Many of these challenges and uncertainties are difficult to quantify and any of them could result in disruptions to our operations, increased costs, decreased revenue, decreased synergies and the diversion of the time and attention of management and other resources, which could have a material adverse impact on our business, financial condition and results of operations.

Our long-term success depends in large part on our continued ability to attract new customers and retain existing customers and we may not be able to do that in a cost-effective manner

In an effort to attract and retain customers, we engage in various merchandising and marketing initiatives, which involve the expenditure of money and resources, particularly in the case of the production and distribution of our television programming and, to an increasing extent, digital advertising. We have spent, and expect to continue to spend, increasing amounts of money on, and devote greater resources to, certain of these initiatives, particularly in our continuing efforts to increasingly engage customers through online digital marketing and to personalizing our customers' shopping experience. These initiatives, however, may not resonate with existing customers or consumers generally or may not be cost-effective. In addition, costs associated with the production and distribution of our television programming and costs associated with digital marketing, including marketing on third-party platforms such as Google and Facebook, have increased and are likely to continue to increase in the foreseeable future and, if significant, could have a material adverse effect to the extent that they do not result in corresponding increases in net revenue.

Weak economic conditions worldwide may reduce consumer demand for our products and services

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 may 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 China, Japan and Europe deteriorate 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 decline. Such weak economic conditions may also inhibit our expansion into new European and other markets. We currently are unable to predict the extent of any of these potential adverse effects.

We depend on the television distributors that carry our programming and no assurance can be given that we will be able to maintain and renew our affiliation agreements on favorable terms or at all

In the U.S., we currently distribute our programming through affiliation or transmission agreements with many television providers, including, but not limited to, Comcast, AT&T/DIRECTV, Charter, DISH Network, Verizon and Cox. Internationally, we currently distribute our programming through Vodafone Kabel Deutschland GmbH, Media Broadcast GmbH, SES ASTRA, Telekom Deutschland GmbH, Unitymedia GmbH, Tele Columbus and Primacom, Jupiter Telecommunications, Ltd., Sky Perfect and World Hi-Vision Channel, Inc., A1 Telekom Austria AG, UPC Telekabel Wien GmbH, British Sky Broadcasting, Freesat, Freeview and Virgin Media, and Mediaset, Hot Bird and Sky Italia. Our affiliation agreements with distributors are scheduled to expire between 2020 to 2024.

As part of normal course renewal discussions, occasionally we have disagreements with our distributors over the terms of our carriage, such as channel placement or other contract terms. If not resolved through business negotiation, such disagreements could result in litigation or termination of an existing agreement. Termination of an existing agreement resulting in the loss of distribution of our programming to a material portion of our television households may adversely affect our growth, net revenue and earnings.

The renewal negotiation process for affiliation agreements is typically lengthy. In some cases, renewals are not agreed upon prior to the expiration of a given agreement while the programming continues to be carried by the relevant distributor without an effective agreement in place. We do not have distribution agreements with some of the cable operators that carry our programming. In total, we are currently providing programming without affiliation agreements to distributors representing approximately 5.8% of our QVC-U.S. distribution and approximately 1.1% of our HSN distribution. Some of our international programming may continue to be carried by distributors after the expiration dates on our affiliation agreements with them have passed.

We may be unable to obtain renewals with our current distributors on acceptable terms, if at all. We may also be unable to successfully negotiate affiliation agreements with new or existing distributors to carry our programming and no assurance can be given that we will be successful in negotiating renewals with these distributors or that the financial and other terms of these renewals will be acceptable. Although we consider our current levels of distribution without written agreement to be ordinary course, the failure to successfully renew or negotiate new affiliation agreements covering a material portion of television households could result in a discontinuation of carriage that may adversely affect our viewership, growth, net revenue and earnings.

The failure to maintain suitable placement for our programming or to adapt to changes in consumer behavior driven by online video distribution platforms for viewing content could adversely affect our ability to attract and retain television viewers and could result in a decrease in revenue

We are dependent upon the continued ability of our programming to compete for viewers. Effectively competing for television viewers is dependent, in substantial part, on our ability to negotiate and maintain placement of our programming at a favorable channel position, such as in a basic tier or within a general entertainment or general broadcasting tier. Less favorable channel position for our programming, such as placement adjacent to programming that does not complement our programming, a position next to our televised home shopping competitors or isolation in a "shopping" tier could adversely affect our ability to attract television viewers to our programming.

In addition, if our programming is carried exclusively by a distributor on a digital programming tier, we may experience a reduction in revenue to the extent that the digital programming tier has less television viewer penetration than the basic or expanded basic programming tier. We may experience a further reduction in revenue due to increased television viewing audience fragmentation to the extent that not all television sets within a digital cable home are equipped to receive television programming in a digital format.

Changes in consumer behavior driven by online video distribution platforms for viewing content may have an adverse impact on our business. Distribution platforms for viewing content over the internet have been, and will likely continue to be, developed that further increase the competition for viewers of programming. These distribution platforms are driving changes in consumer behavior as consumers seek more control over when, where and how they consume content.

Consumers are increasingly turning to online sources for viewing content, which has and likely will continue to reduce the number of viewers of our television programming. Although we have attempted to adapt our offerings to changing consumer behaviors, virtual multichannel video providers, online video distributors and programming networks providing their content directly to consumers over the internet rather than through traditional television services continue to emerge, gain consumer acceptance and disrupt traditional television distribution services, which we rely on for the distribution of our television programming.

An increasing number of companies offering streaming services, including some with exclusive high-quality original video programming, as well as programming networks offering content directly to consumers over the internet, have increased the number of entertainment choices available to consumers, which has intensified audience fragmentation. The increase in entertainment choices adversely affects the viewership of our programming. Additionally, time-shifting technologies, such as video on demand services and DVR and cloud-based recording services, could adversely affect our ability to attract television viewers to our programming.

Our future success will depend, in part, on our ability to anticipate and adapt to technological changes and to offer elements of our programming via new technologies in a cost-effective manner that meets customer demands and evolving industry standards. Our failure to effectively anticipate or adapt to emerging technologies or competitors or changes in consumer behavior, including among younger consumers, could have an adverse effect on our competitive position, businesses and results of operations.

Any continued or permanent inability to transmit our programming via satellite would result in lost revenue and could result in lost customers

Our success is dependent upon our continued ability to transmit our programming to television providers from our satellite uplink facilities, and for our distributors to continue to receive our programming at their satellite earth station downlink facilities. These transmissions are subject to FCC regulation and compliance in the U.S. and foreign regulatory requirements in our international operations. In most cases, we have entered into long-term satellite transponder leases to provide for continued carriage of our programming on replacement transponders and/or replacement satellites, as applicable, in the event of a failure of either the transponders and/or satellites currently carrying our programming. Although we believe we take reasonable and customary measures to ensure continued satellite transmission capability and we believe that these international transponder service agreements can be renewed (or replaced, if necessary) in the ordinary course of business, termination or interruption of satellite transmissions may occur, particularly if we are not able to successfully negotiate renewals or replacements of any of our expiring transponder service agreements in the future.

In order to free up additional spectrum for the provision of next generation commercial wireless broadband services, commonly referred to as 5G, the FCC has commenced and is in the process of completing, a rulemaking proceeding that is expected to reallocate for 5G a portion of the 500 MHz in the 3.7 to 4.2 GHz (“C-Band”) spectrum, which is currently used for the delivery of our programming to our distributors’ satellite earth stations. Currently, there is no immediately available, ubiquitous alternative to C-Band delivery of our programming, particularly outside of our major markets. Depending on the parameters for the reallocation adopted by the FCC, there could be an impact on our ability to deliver our programming reliably and without interruption to our distributors. The Company is actively looking at alternatives to C-Band distribution to mitigate the risks posed to our operations from the C-Band reallocation proceeding, but the Company can give no assurance that these alternatives will adequately mitigate such risks.

Our Ecommerce business could be negatively affected by changes in third-party digital platform algorithms and dynamics as well as our inability to monetize the resulting web traffic

The success of our Ecommerce business depends on a high degree of website traffic, which is dependent on many factors, including the availability of appealing website content, user loyalty and new user generation from various digital marketing channels that charge a fee. Third-party digital platforms, such as Google and Facebook, frequently update and change the logic that determines the placement and display of results of a user's search, or advertiser content, such that the purchased or algorithmic placement of advertisements or links to the websites of our Ecommerce business can be negatively affected. If a major search engine or third-party digital platform changes its algorithms in a manner that negatively affects our paid advertisement distribution or unpaid search ranking, the business and financial performance of our Ecommerce business would be adversely affected, potentially to a material extent. Furthermore, our failure to successfully manage our digital marketing strategies could result in a substantial decrease in traffic to our website, as well as increase costs if we were to replace free traffic with paid traffic. Even if our Ecommerce business is successful in generating a high level of website traffic, no assurance can be given that our Ecommerce business will be successful in achieving repeat user loyalty or that new visitors will explore the offerings on our site. Monetizing this traffic by converting users to consumers is dependent on many factors, including availability of inventory, consumer preferences, price, ease of use and website quality. No assurance can be given that the fees paid to third-party digital platforms will not exceed the revenue generated by our visitors. Any failure to sustain user traffic or to monetize such traffic could materially adversely affect the financial performance of our Ecommerce business and, as a result, adversely affect our financial results.

Our Ecommerce business may experience difficulty in the ongoing development, implementation and customer acceptance of, applications for personal electronic devices, which could harm our business

Although our Ecommerce business has developed services and applications to address user and consumer interaction with website content on personal electronic devices, such as smartphones and tablets, the ways in which consumers use or rely on these personal electronic devices is continually changing. If the services or applications we develop in response to changes in consumer behavior are less effective or are not accepted by consumers, our Ecommerce business may experience difficulty attracting and retaining traffic on these platforms. Any failure to attract and retain traffic on these personal electronic devices could materially adversely affect the financial performance of our Ecommerce business and, as a result, adversely affect our financial results. Additionally, as new devices and new platforms are continually being released, it is difficult to predict the challenges that may be encountered in developing versions of our Ecommerce business offering for use on these alternative devices, and our Ecommerce business may need to devote significant resources to the creation, support, and maintenance of their services on such devices.

Our business is subject to online security risks, including security breaches and identity theft

Through our operations, sales, marketing activities, and use of third-party information, we collect and store certain non-public personal information that customers provide to purchase products, enroll in promotional programs, register on websites, or otherwise communicate to us. This may include phone numbers, driver license numbers, contact preferences, personal information stored on electronic devices, and payment information, including credit and debit card data. We gather and retain information about employees in the normal course of business. We may share information about such persons with vendors, contractors and other third-parties that assist with certain aspects of our business. In addition, our online operations depend upon the transmission of confidential information over the Internet, such as information permitting cashless payments. Unauthorized parties may attempt to gain access to our or our vendors' computer systems by, among other things, hacking into our systems or those of our vendors, through fraud or other means of deceiving our employees or vendors, burglaries, errors by our or our vendors' employees, misappropriation of data by employees, vendors or unaffiliated third-parties, or other irregularities that may result in persons obtaining unauthorized access to our company's data. The techniques used to gain such access to our or our vendors' computer systems, data or customer information, disable or degrade service, or sabotage systems are constantly evolving, may be difficult to detect quickly, and often are not recognized until launched against a target. We have implemented systems and processes intended to secure our computer systems and prevent unauthorized access to or loss of sensitive data, but as with all companies, these security measures may not be sufficient for all eventualities and there is no guarantee that they will be adequate to safeguard against all cyber attacks, system compromises or misuses of data. Although we have not detected a material security breach or cybersecurity incident to date, we have been the target of events of this nature and expect to be subject to similar attacks in the future. Any penetration of network security or other misappropriation or misuse of customer, employee or other personal information, whether at our company or any of our vendors, could cause interruptions in the operations of our business and subject us to increased costs, fines, litigation, regulatory actions and other liabilities. Security breaches could also significantly damage our reputation with consumers and third parties with whom we do

business, which could result in lost sales and customer and vendor attrition. We continue to invest in new and emerging technology and other solutions to protect our retail commerce websites, mobile commerce applications and information systems, but there can be no assurance that these investments and solutions will prevent any of the risks described above. If we are unable to maintain the security of our retail commerce websites and mobile commerce applications, we could suffer loss of sales, reductions in traffic, diversion of management attention, and deterioration of our competitive position and incur liability for any damage to customers whose personal information is unlawfully obtained and used. We may be required to expend significant additional capital and other resources to protect against and remedy any potential or existing security breaches and their consequences, such as additional infrastructure capacity spending to mitigate any system degradation and the reallocation of resources from development activities. We also face similar risks associated with security breaches affecting third parties with which we are affiliated or otherwise conduct business.

System interruption and the lack of integration and redundancy in these systems and infrastructures may adversely affect our ability to transmit our television programs, operate websites, process and fulfill transactions, respond to customer inquiries and generally maintain cost-efficient operations

Our success depends, in part, on our ability to maintain the integrity of our transmissions, systems and infrastructures, including the transmission of our television programs, as well as our websites, information and related systems, call centers and fulfillment facilities. We may experience occasional system interruptions that make some or all transmissions, systems or data unavailable or prevent us from transmitting our signal or efficiently providing services or fulfilling orders. We are in the process of implementing new technology systems and upgrading others. Our failure to properly implement new systems or delays in implementing new systems could impair our ability to provide services, fulfill orders and/or process transactions. We also rely on affiliate and third-party computer systems, broadband, transmission and other communications systems and service providers in connection with the transmission of our signals, as well as to facilitate, process and fulfill transactions. Any interruptions, outages or delays in our signal transmissions, systems and infrastructures, our business, our affiliates and/or third parties, or deterioration in the performance of these transmissions, systems and infrastructures, could impair our ability to provide services, fulfill orders and/or process transactions. Fire, flood, power loss, telecommunications failure, hurricanes, tornadoes, earthquakes, acts of war or terrorism, acts of God and similar events or disruptions may damage or interrupt television transmissions, computer, broadband or other communications systems and infrastructures at any time.

Any of these events could cause transmission or system interruption, delays and loss of critical data, and could prevent us from providing services, fulfilling orders and/or processing transactions. While we have backup systems for certain aspects of our operations, these systems are not fully redundant and disaster recovery planning is not sufficient for all possible risks. In addition, we may not have adequate insurance coverage to compensate for losses from a major interruption.

We may be subject to claims for representations made in connection with the sale and promotion of merchandise or for harm experienced by customers who purchase merchandise from us

The manner in which we sell and promote merchandise and related claims and representations made in connection with these efforts is regulated by federal, state and local law, as well as the laws of the foreign countries in which we operate. We may be exposed to potential liability from claims by purchasers or from regulators and law enforcement agencies, including, but not limited to, claims for personal injury, wrongful death and damage to personal property relating to merchandise sold and misrepresentation of merchandise features and benefits. In certain instances, we have the right to seek indemnification for related liabilities from our vendors and may require such vendors to carry minimum levels of product liability and errors and omissions insurance. These vendors, however, may be unable to satisfy indemnification claims, obtain suitable coverage or maintain this coverage on acceptable terms, or insurance may provide inadequate coverage or be unavailable with respect to a particular claim. See Item 1. "Business - Government regulation" for further discussion of regulations to which we are subject.

In 2000, we became subject to a consent decree issued by the FTC barring us from making certain deceptive claims for dietary supplements and specified products related to the common cold, pneumonia, hay fever and allergies. We also became subject to an expanded consent decree issued by the FTC in 2009 that terminates on the later of May 26, 2029, or 20 years from the most recent date that the U.S. or the FTC files a complaint in federal court alleging any violation thereunder. Pursuant to this expanded consent decree, we are prohibited from making certain claims about specified weight-loss, dietary supplement and anti-cellulite products unless we have competent and reliable scientific evidence to substantiate such claims. Violation of the QVC order may result in the imposition of significant civil penalties for non-compliance and related redress to consumers and/or the issuance of an injunction enjoining us from engaging in prohibited activities. Additionally, HSN was subject to a consent order issued by the FTC that had expired in 2019 and which barred HSN (including its subsidiaries and affiliates) from making certain claims with respect to specified categories of products.

Failure to comply with existing laws, rules and regulations, or to obtain and maintain required licenses and rights, could subject us to additional liabilities

We market and provide a broad range of merchandise through television shopping programs and our websites. As a result, we are subject to a wide variety of statutes, rules, regulations, policies and procedures in various jurisdictions, including foreign jurisdictions, which are subject to change at any time, including laws regarding consumer protection, privacy, the regulation of retailers generally, the license requirements for television retailers in foreign jurisdictions, the importation, sale and promotion of merchandise and the operation of retail stores and warehouse facilities, as well as laws and regulations applicable to the Internet and businesses engaged in online and mobile commerce, such as those regulating the sending of unsolicited, commercial electronic mail and texts. Our failure to comply with these laws and regulations could result in a revocation of required licenses, fines and/or proceedings against us by governmental agencies and/or consumers, which could adversely affect our business, financial condition and results of operations. Moreover, unfavorable changes in the laws, rules and regulations applicable to us could decrease demand for merchandise offered by us, increase costs and/or subject us to additional liabilities. Similarly, new disclosure and reporting requirements, established under existing or new state or federal laws, such as regulatory rules regarding requirements to disclose efforts to identify the origin and existence of certain "conflict minerals" or abusive labor practices in portions of our supply chain, could increase the cost of doing business, adversely affecting our results of operations. Finally, certain of these regulations impact the marketing efforts of our brands and business.

The processing, storage, sharing, use, disclosure and protection of personal data could give rise to liabilities as a result of governmental regulation, conflicting legal requirements or differing views of personal privacy rights

In the processing of consumer transactions and managing our employees, our business receives, transmits and stores a large volume of personally identifiable information and other user data. The processing, storage, sharing, use, disclosure and protection of this information are governed by the privacy and data security policies maintained by us. Moreover, there are federal, state and international laws regarding privacy and the processing, storage, sharing, use, disclosure and protection of personally identifiable information and user data. Specifically, personally identifiable information is increasingly subject to changing legislation and regulations, in numerous jurisdictions around the world, which are intended to protect the privacy of personal information that is collected, processed and transmitted in or from the governing jurisdiction. Compliance with these laws and regulations may be onerous and expensive and may be inconsistent from jurisdiction to jurisdiction, further increasing the cost of compliance. For example, the European Court of Justice in 2015 invalidated the U.S.-EU Safe Harbor Framework, which facilitated personal data transfers to the U.S. in compliance with applicable European data protection laws. The EU-U.S. Privacy Shield, which replaced the U.S.-EU Safe Harbor Framework, became fully operational on August 1, 2016, but is subject to legal challenge in the E.U. The EU-U.S. Privacy Shield provides a mechanism to comply with data protection requirements when transferring personal data from the E.U. to the U.S. In addition, Standard Contractual Clauses - another key mechanism to allow data transfers between the U.S. and the E.U. - are also subject to litigation over whether Standard Contractual Clauses can be used for transferring personal data from the E.U. to the U.S. The Court of Justice of the E.U. is expected to rule on the challenges to the EU-U.S. Privacy Shield and Standard Contractual Clauses in 2020. Further, the GDPR, which became effective on May 25, 2018, gives consumers in the E.U. additional rights and imposes additional restrictions and penalties on companies for illegal collection and misuse of personal information. The European Commission is continuing to consider whether to propose new regulations regarding privacy and electronic communications that would complement GDPR, including additional regulation of the Internet tracking tools known as "cookies." In the absence of such new regulations, European data regulators are indicating their intent to take greater enforcement efforts with respect to the use of cookies. The "Brexit" withdrawal of the United Kingdom (U.K.) from the E.U. may cause transfers of personal data from the E.U. to the U.K. to be subject to increased regulations that would adversely impede the continued sharing of E.U. personal data with the U.K. California has enacted the California Consumer Privacy Act of 2018 ("CCPA"), which, among other things, allows California consumers to request that certain companies disclose the types of personal information collected by such companies. The CCPA became effective on January 1, 2020. The California Attorney General is drafting implementing regulations and guidance regarding the law. Other states in the United States are also separately proposing laws to regulate privacy and security of personal data. Our failure, and/or the failure by the various third party vendors and service providers with which we do business, to comply with applicable privacy policies or federal, state or similar international laws and regulations, or changes in applicable laws and regulations, or any compromise of security that results in the unauthorized release of personally identifiable information or other user data could damage our reputation and the reputation of our third party vendors and service providers, discourage potential users from trying our products and services and/or result in fines and/or proceedings by governmental agencies and/or consumers, any one or all of which could adversely affect our business, financial condition and results of operations. In addition, we may not have adequate insurance coverage to compensate for losses.

We may fail to adequately protect our intellectual property rights or may be accused of infringing intellectual property rights of third parties

We regard our intellectual property rights, including service marks, trademarks and domain names, copyrights (including our programming and our websites), trade secrets and similar intellectual property, as critical to our success. Our business also relies heavily upon software codes, informational databases and other components that make up their products and services.

From time to time, we are subject to legal proceedings and claims in the ordinary course of business, including claims of alleged infringement of the trademarks, patents, copyrights and other intellectual property rights of third parties. In addition, litigation may be necessary to enforce our intellectual property rights, protect trade secrets or to determine the validity and scope of proprietary rights claimed by others. Any litigation of this nature, regardless of outcome or merit, could result in substantial costs and diversion of management and technical resources, any of which could adversely affect our business, financial condition and results of operations. Our failure to protect our intellectual property rights, particularly our proprietary brands, in a meaningful manner or third party challenges to related contractual rights could result in erosion of brand names and limit our ability to control marketing on or through the Internet using our various domain names or otherwise, which could adversely affect our business, financial condition and results of operations.

We have operations outside of the U.S. that are subject to numerous operational and financial risks

We have operations in countries other than the U.S. and we are subject to the following risks inherent in international operations:

- fluctuations in currency exchange rates;
- longer payment cycles for sales in foreign countries that may increase the uncertainty associated with recoverable accounts;
- recessionary conditions and economic instability, including fiscal policies that are implementing austerity measures in certain countries, which are affecting markets overseas;
- our ability to repatriate funds held by our foreign subsidiaries to the U.S. at favorable tax rates;
- potentially adverse tax consequences;
- export and import restrictions, changes in tariffs, trade policies and trade relations;
- increases in taxes and governmental royalties and fees;
- our ability to obtain and maintain required licenses or certifications, such as for web services and electronic devices, that enable us to operate our business in foreign jurisdictions;
- changes in foreign and U.S. laws, regulations and policies that govern operations of foreign-based companies;
- changes to general consumer protection laws and regulations;
- difficulties in staffing and managing international operations; and
- threatened and actual terrorist attacks, political unrest in international markets and ongoing military action around the world that may result in disruptions of services that are critical to our international businesses.

Additionally, in many foreign countries, particularly in certain developing economies, it is not uncommon to encounter business practices that are prohibited by regulations applicable to us, such as the Foreign Corrupt Practices Act and similar laws. Although we have undertaken compliance efforts with respect to these laws, our employees, contractors and agents, as well as those companies to which we outsource certain of our business operations, may take actions in violation of our policies and procedures. Any such violation, even if prohibited by our policies and procedures or the law, could have a material adverse effect. Any failure by us to effectively manage the challenges associated with the international operation of our business could have a material adverse effect.

Significant developments stemming from the negotiation of trade agreements or the Brexit vote could have a material adverse effect on us

The President of the United States has expressed apprehension towards trade agreements, such as the Trans-Pacific Partnership, and suggested that the U.S. would renegotiate or withdraw from certain trade agreements. He has advocated for and imposed tariffs on certain goods imported into the United States, particularly from China and Europe. On January 23, 2017, the President of the United States signed a presidential memorandum to withdraw the U.S. from the Trans-Pacific Partnership. On October 1, 2018, the U.S., Mexico and Canada agreed to the terms of the United States-Mexico-Canada Agreement (the "USMCA"), a successor to the North American Free Trade Agreement ("NAFTA"), which will impact imports and exports among those countries. The countries agreed to a revised version of the USMCA on December 10, 2019. The USMCA has only been ratified by Mexico and the U.S. Once ratified by the legislature of Canada, the USMCA would be enacted and replace NAFTA. As of the date of this report, there is some uncertainty about whether the USMCA will be ratified by Canada, as well as the timing thereof, and the potential for further re-negotiation, or even termination, of NAFTA. Also, the USMCA could undergo further changes that lead to additional modifications of certain USMCA provisions before being passed into law. These and other proposed actions, if implemented, could adversely affect our business because we sell imported products.

Additionally, the Brexit process and negotiations have created political and economic uncertainty, particularly in the U.K. and the E.U., and this uncertainty may last for years. On June 23, 2016, the U.K. held a referendum in which voters approved, on an advisory basis, an exit from the E.U. The U.K. formally left the E.U. on January 31, 2020. This has resulted in a transition period during which the E.U.-U.K. trade relationship will not change, and the UK will remain part of the E.U. Customs Union and Single Market, subject to all E.U. trade law. During the transition period, the E.U. and the U.K. will negotiate their new economic and security relationship, including a new agreement on trade. The transition will last until December 31, 2020, which can be extended for up to two years if the E.U. and the U.K. agree to do so. However, at present, the U.K. government's stated intention is not to seek or agree to an extension. A "no deal" outcome on trade remains a possibility if the E.U. and the U.K. fail to conclude a new trade agreement before December 31, 2020 and the transition period is not extended. In that case, with effect from January 1, 2021, the basis for E.U.-U.K. trade would automatically default to World Trade Organization terms.

The potential impacts, if any, of the considerable uncertainty relating to Brexit or the resulting terms of the new economic and security relationship between the U.K. and the E.U. on the free movement of goods, services, people and capital between the U.K. and the E.U., customer behavior, economic conditions, interest rates, currency exchange rates, availability of capital or other matters are unclear. Our business could be affected with respect to these matters during this period of uncertainty, and perhaps longer, depending on the resulting terms. In particular, our business could be negatively affected by new trade agreements between the U.K. and other countries, including the U.S., and by the possible imposition of trade or other regulatory barriers in the U.K. which could result in shipping delays and the shortage of products sold by our business. Additionally, the U.K. economy and consumer demand in the U.K., including for our products, could be negatively impacted. Further, various geopolitical forces related to Brexit may impact the global economy, the European economy and our business, including, for example, due to other E.U. member states where we have operations proposing referendums to, or electing to, exit the E.U. These possible negative impacts, and others resulting from the U.K.'s withdrawal from the E.U., may adversely affect our operating results.

We rely on distribution facilities to operate our business, and any damage to one of these facilities, or any disruptions caused by incorporating new facilities into our operations, could have a material adverse impact on our business

We operate a limited number of distribution facilities worldwide. Our ability to meet the needs of our customers depends on the proper operation of these distribution facilities. If any of these distribution facilities were to shut down or otherwise become inoperable or inaccessible for any reason, we could suffer a substantial loss of inventory and disruptions of deliveries to our customers. In addition, we could incur significantly higher costs and longer lead times associated with the distribution of our products during the time it takes to reopen or replace the damaged facility. Any of the foregoing factors could result in decreased sales and have a material adverse effect on our business, financial condition and operating results. In addition, we have been implementing new warehouse management systems to further support our efforts to operate with increased efficiency and flexibility. There are risks inherent in operating in new distribution environments and implementing new warehouse management systems, including operational difficulties that may arise with such transitions. We may experience shipping delays should there be any disruptions in our new warehouse management systems or warehouses themselves.

In October 2018, we announced that we would be opening a new distribution facility in Bethlehem, Pennsylvania in 2019 and that we anticipated closing distribution facilities in Lancaster, Pennsylvania, Roanoke, Virginia, and Greeneville, Tennessee in 2020. In late 2019 we began shipping customer orders from our Bethlehem distribution center, but it is not operating at full

capacity as of the date of this report. Difficulties experienced in increasing shipping volumes from the Bethlehem distribution center, including as a result of the package handling equipment or warehouse management systems not performing as anticipated, could cause delays in the Bethlehem distribution center operating at full capacity. Delays in the Bethlehem distribution center operating at full capacity could cause delays in closing other facilities, including our Lancaster, Pennsylvania facility. Delays in closing these facilities or disruptions caused by transitioning order fulfillment operations or returns processing from closing facilities to other facilities may increase our operating expenses, cause disruptions to our order fulfillment process and cause delays in delivering product to customers which would result in lost sales, strain our relationships with customers, and cause harm to our reputation, any of which could have a material adverse impact on our business, financial condition and operating results.

We rely on independent shipping companies to deliver the products we sell

We rely on third party carriers to deliver merchandise from vendors and manufacturers to us and to ship merchandise to our customers. As a result, we are subject to carrier disruptions and delays due to factors that are beyond our control, including employee strikes, inclement weather and regulation and enforcement actions by customs agencies. Any failure to deliver products to our customers in a timely and accurate manner may damage our reputation and brand and could cause us to lose customers. Enforcement actions by customs agencies can also cause the costs of imported goods to increase, negatively affecting our profits.

We are also impacted by increases in shipping rates charged by third party carriers, which over the past few years, have increased significantly in comparison to historical levels. We currently expect that shipping and postal rates will continue to increase. In the case of deliveries to customers, in each market where we operate, we have negotiated agreements with one or more independent, third party shipping companies, which in certain circumstances provide for favorable shipping rates. If any of these relationships were to terminate or if a shipping company was unable to fulfill its obligations under its contract for any reason, we would have to work with other shipping companies to deliver merchandise to customers, which would most likely be at less favorable rates. Other potential adverse consequences of changing carriers include:

- reduced visibility of order status and package tracking;
- delays in order processing and product delivery; and
- reduced shipment quality, which may result in damaged products and customer dissatisfaction.

Any increase in shipping rates and related fuel and other surcharges passed on to us by our current carriers or any other shipping company would adversely impact profits, given that we may not be able to pass these increased costs directly to customers or offset them by increasing prices without a detrimental effect on customer demand.

We depend on relationships with vendors, manufacturers and other third parties, and any adverse changes in these relationships could result in a failure to meet customer expectations which could result in lost revenue

We purchase merchandise from a wide variety of third party vendors, manufacturers and other sources pursuant to short- and long-term contracts and purchase orders. Our ability to identify and establish relationships with these parties, as well as to access quality merchandise in a timely and efficient manner on acceptable terms and cost, can be challenging. In particular, we purchase a significant amount of merchandise from vendors and manufacturers abroad, and cannot predict whether the costs for goods sourced in these markets will remain stable. We depend on the ability of vendors and manufacturers in the U.S. and abroad to produce and deliver goods that meet applicable quality standards, which is impacted by a number of factors, some of which are not within the control of these parties, such as political or financial instability, trade restrictions, tariffs, currency exchange rates and transport capacity and costs, among others.

Our failure to identify new vendors and manufacturers, maintain relationships with a significant number of existing vendors and manufacturers and/or access quality merchandise in a timely and efficient manner could cause us to miss customer delivery dates or delay scheduled promotions, which would result in lost sales or the failure to meet customer expectations and could cause customers to cancel orders or cause us to be unable to source merchandise in sufficient quantities, which could result in lost revenue.

Natural disasters, public health crises, political crises, and other catastrophic events or other events outside of our control may damage our facilities or the facilities of third parties on which we depend, and could impact consumer spending

In addition to our corporate headquarters and operations center located in West Chester, Pennsylvania, we also operate regional headquarters and administrative offices, distribution centers and call centers worldwide. If any of these facilities or the facilities of our vendors or third-party service providers, is affected by natural disasters, such as earthquakes, tsunamis, power shortages or outages, floods or monsoons, public health crises, such as pandemics and epidemics, political crises, such as terrorism, war, political instability or other conflict, or other events outside of our control, our business, financial condition and results of operations could be materially adversely affected. Disasters occurring at our or our vendors' facilities also could impact our reputation and our customers' perception of the products we sell. Moreover, these types of events could negatively impact consumer spending in the impacted regions or depending upon the severity, globally, which could adversely impact our business, financial condition and results of operations. For example, in December 2019, a strain of coronavirus was reported to have surfaced in Wuhan, China, however, it may result in reduced demand for products sold by our joint venture in China, adversely impact our supply chain and lead to shipping disruptions for products we import. In particular, certain of the products that QxH and QVC International sells are manufactured in China and other countries and imported to the countries where QxH and QVC International operate. As a result of the coronavirus, Chinese officials and business owners have temporarily closed certain factories and certain other factories are operating at a limited capacity due to, among other reasons, employee shortages resulting in part from government imposed travel restrictions and local statutory quarantines. In addition, the travel restrictions and local statutory quarantines imposed to contain the coronavirus have resulted in delays in shipping of products we import and may result in additional shipping delays. These events and any future factory closures, reductions in factory operations or government imposed travel restrictions or quarantines in China or elsewhere could negatively affect the ability of manufacturers and vendors to produce and deliver the products QxH and QVC International sells. Further, broader global effects of potentially reduced consumer confidence and other macro issues related to the coronavirus could also have a negative effect on our overall business. At this point, the extent to which the coronavirus may impact our business is uncertain.

The unanticipated loss of certain larger vendors or the consolidation of our vendors could negatively impact our sales and profitability on a short term basis

It is possible that one or more of our larger vendors could experience financial difficulties, including bankruptcy, or otherwise could elect to cease doing business with us. While we have periodically experienced the loss of a major vendor, if multiple major vendors ceased doing business with us, or did not perform consistently with past practice, this could have a material adverse impact on our business, financial condition and operating results. Further, there has been a trend among our vendors towards consolidation in recent years that may continue. This consolidation could exacerbate the foregoing risks and increase our vendors' bargaining power and their ability to demand terms that are less favorable to us.

We face significant inventory risk

We are exposed to significant inventory risks that may adversely affect our operating results as a result of seasonality, new product launches, rapid changes in product cycles and pricing, defective merchandise, changes in consumer demand, consumer spending patterns, changes in consumer tastes with respect to our products and other factors. We endeavor to accurately predict these trends and avoid overstocking or understocking products we sell. Demand for products, however, can change significantly between the time inventory or components are ordered and the date of sale. In addition, when we begin selling a new product, it may be difficult to establish vendor relationships, determine appropriate product or component selection, and accurately forecast demand. The acquisition of certain types of inventory or components may require significant lead-time and prepayment and they may not be returnable. We carry a broad selection and significant inventory levels of certain products, and we may be unable to sell products in sufficient quantities or during the relevant selling seasons. Any one of the inventory risk factors set forth above may adversely affect our operating results.

The seasonality of our business places increased strain on our operations

Our net revenue in recent years indicates that our business is seasonal due to a higher volume of sales in the fourth calendar quarter related to year-end holiday shopping. In recent years, we have earned, on average, between 22% and 23% of our global revenue in each of the first three quarters of the year and 32% of our global revenue in the fourth quarter of the year. If our vendors are not able to provide popular products in sufficient amounts such that we fail to meet customer demand, it could significantly affect our revenue and our future growth. If too many customers access our websites within a short period of time due to increased holiday demand, we may experience system interruptions that make our websites unavailable or prevent us from efficiently fulfilling orders, which may reduce the volume of goods we sell and the attractiveness of our products and

services. In addition, we may be unable to adequately staff our fulfillment and customer service centers during these peak periods and delivery and other third party shipping (or carrier) companies may be unable to meet the seasonal demand.

To the extent we pay for holiday merchandise in advance of the holidays (i.e., in August through November of each year), our available cash may decrease, resulting in less liquidity. We have limited availability under our revolving credit facility and may not be able to access financing to the extent our cash balance is impaired. We may be unable to maintain a level of cash sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

We offer our installment payment option on most of our merchandise and, in certain circumstances, offer it as the default payment option. Failure to effectively manage our installment sales plans and revolving credit card programs could negatively impact our results of operations

We offer an installment payment option in all of our markets other than Japan, which is available on certain merchandise we sell. This installment payment option is called "Easy-Pay" at QVC-U.S. and in the U.K., "Q-Pay" in Germany and Italy, and "Flex-Pay" at HSN. Our installment payment option is currently offered on most of our merchandise and, for QVC-U.S. website and mobile sales and QVC-U.K. mobile sales, is the default payment option on all products on which it is offered. Full payment for merchandise at the time of sale would require the customer to affirmatively change that option. Our installment payment option, when offered, allows customers to pay for certain merchandise in multiple interest-free monthly installments. When the installment payment option is offered by us and elected by the customer (or if the customer inadvertently purchases merchandise using the installment payment option because it was the default payment option), the first installment is typically billed to the customer's credit or debit card upon shipment. Generally, the customer's credit or debit card is subsequently billed in additional monthly installments until we have billed the total purchase price of the products. We cannot predict whether customers will pay their installments when due or at all, regardless of whether the customer would have preferred to pay in one lump-sum but did not opt out of the installment payment option. Accordingly, we maintain an allowance for customer bad debts arising from these late and unpaid installments. This provision for customer bad debts is provided as a percentage of accounts receivable based on our historical experience in the period of sale and is included within selling, general and administrative expense. To the extent that customers elect installment payment options at greater rates, or to the extent the number of customers failing to opt out of the default installment payment option increases, we would be required to maintain a greater allowance for customer bad debt and to the extent that installment payment option losses exceed historical levels, our results of operations may be negatively impacted.

Federal and state rules and regulations governing various consumer lending practices apply in the jurisdictions where we operate. Although we do not charge interest or impose finance charges as part of our installment payment option, changes in how these rules are interpreted and applied could result in changes to our installment program, and failure to comply with these rules and regulations could result in the imposition of fines and penalties, any of which could have an adverse effect on our results of operations.

In the U.S., QxH has agreements with a large consumer financial institution (the "Bank") pursuant to which the Bank provides revolving credit directly to our customers for the sole purpose of purchasing merchandise from us with a Private Label Credit Card ("PLCC"). We receive a portion of the net economics of the credit card program. We cannot predict the extent to which customers will use the PLCC, nor the extent that they will make payments on their outstanding balances.

Our success depends in large part on our ability to recruit and retain key employees capable of executing our unique business model

We have a business model that requires us to recruit and retain key employees, including management, with the skills necessary for a unique business that demands knowledge of the general retail industry, television production, direct to consumer marketing and fulfillment and the Internet. We cannot assure you that if we experience turnover of our key employees we will be able to recruit and retain acceptable replacements because the market for such employees is very competitive and limited.

We have not voluntarily implemented various corporate governance measures, in the absence of which you may have more limited protections against interested transactions, conflicts of interest and similar matters

Federal legislation, including the Sarbanes-Oxley Act of 2002, encourages the adoption of various corporate governance measures designed to promote the integrity of corporate management and the securities markets. Some of these measures have been adopted in response to legal requirements. Others have been adopted by companies in response to the requirements of national securities exchanges on which their securities are listed. Among the corporate governance measures that are required under the rules of national securities exchanges are those that address board of directors' independence and audit committee oversight.

As a "close corporation" under Delaware law, our stockholder, rather than a board of directors, manages our business. Our stockholder is an indirect wholly owned subsidiary of Qurate Retail, meaning that we do not have any independent governing body. In addition, we have not adopted corporate governance measures such as the implementation of an audit committee or other independent governing body. It is possible that if we were to appoint a board of directors and include one or more independent directors and adopt some or all of these corporate governance measures, there may be somewhat greater assurances that internal corporate decisions were being made by disinterested directors and that policies had been implemented to define responsible conduct. However, our stockholder has the ability to make decisions regarding transactions with related parties and corporate actions that could involve conflicts of interest.

In addition, our Chief Executive Officer and President, Michael A. George, became president and chief executive officer of Qurate Retail during 2018. Investors should bear in mind our current lack of independent directors, the positions with Qurate Retail that are held by Mr. George and corporate governance measures in formulating their investment decisions.

The interests of our stockholder may not coincide with your interests and our stockholder may make decisions with which you may disagree

Our stockholder is an indirect wholly owned subsidiary of Qurate Retail. As a "close corporation" under Delaware law, our stockholder, rather than a board of directors, manages our business. As a result, Qurate Retail controls certain aspects of our management, including the approval of significant corporate transactions such as a change of control. The interests of Qurate Retail may not coincide with our interests or your interests. For example, Qurate Retail's dependence on our cash flow for servicing Qurate Retail's debt and for other purposes, including payments of dividends on Qurate Retail's capital stock, stock repurchases or to fund acquisitions or other operational requirements of Qurate Retail and its subsidiaries is likely to result in our payment of large dividends to Qurate Retail when permitted by law or the terms of our senior secured credit facility and the indentures governing our outstanding senior secured notes, which may increase our accumulated deficit or require us to borrow under our senior secured credit facility, increasing our leverage and decreasing our liquidity. We have made significant distributions to Qurate Retail in the past. See Item 1. "Business - Qurate Retail relationship and related party transactions."

We have identified a material weakness in our internal control over financial reporting, that, if not properly remediated, could adversely affect our business and results of operations.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim consolidated financial statements will not be prevented or detected on a timely basis. As described in "Item 9A. Controls and Procedures," we have concluded that our internal control over financial reporting was ineffective as of December 31, 2019 due to a material weakness that was first disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018 and continues to be unremediated in full. The identified material weakness that remained unremediated at December 31, 2019 relates to information technology general controls ("ITGCs") in QVC's Germany business. Specifically, the ITGCs were not consistently designed and operating effectively to ensure that access to certain financially significant applications and data were adequately restricted to appropriate personnel. Our business process controls (automated and manual) that are dependent on the affected ITGCs were also deemed ineffective because they could have been adversely impacted.

While the control deficiencies did not result in any identified misstatements, a reasonable possibility exists that a material misstatement to the annual or interim consolidated financial statements and disclosures will not be prevented or detected on a timely basis.

As further described in "Item 9A. Controls and Procedures," we are taking the necessary steps to remediate the material weakness. However, as the reliability of the internal control process requires repeatable execution, the successful on-going remediation of this material weakness will require on-going review and evidence of effectiveness prior to concluding that the

controls are effective. Therefore, we cannot assure you that the remediation efforts will remain effective following their completion in the future or that additional or similar material weaknesses will not develop or be identified.

Implementing any further changes to our internal controls may distract our officers and employees and entail material costs to implement new processes and/or modify our existing processes. Moreover, these changes do not guarantee that we will be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or consequent inability to produce accurate financial statements on a timely basis, could harm our business. In addition, investors' perceptions that our internal controls are inadequate or that we are unable to produce accurate financial statements on a timely basis may harm the price of our securities.

We have a substantial amount of indebtedness, which could adversely affect our financial position and prevent us from fulfilling our debt obligations

We have a substantial amount of indebtedness. As of December 31, 2019, we had total debt, other than our finance lease obligations, of \$4,978 million, consisting of \$3,873 million of secured indebtedness under our existing notes and \$1,105 million outstanding under our senior secured credit facility (excluding \$130 million borrowed by Zulily under the \$400 million tranche of the senior secured credit facility for which QVC and Zulily are jointly and severally liable but that we do not expect to repay on behalf of Zulily), in each case, secured by a first priority perfected lien on all shares of our capital stock, and an additional \$2,392 million of unused capacity under our senior secured credit facility (which was subsequently reduced to \$1,692 million upon the \$700 million reduction of the revolving credit facility, effective February 4, 2020. See further details in note 8 in the notes to our consolidated financial statements). In addition, we had \$181 million of finance lease obligations and \$218 million of operating lease liabilities. We may incur significant additional indebtedness in the future. If new indebtedness is added to our current debt levels, the related risks that we now face could intensify.

Our level of indebtedness could limit our flexibility in responding to current market conditions, adversely affect our financial position, prevent us from meeting our obligations under our debt instruments or otherwise restrict our business activities

The existence of and limitations on the availability of our debt could have important consequences. The existence of debt could, among other things:

- require a substantial portion of our cash flow from operations to be dedicated to the payment of principal and interest on our indebtedness;
- limit our ability to use cash flow or obtain additional financing for future working capital, capital expenditures or other general corporate purposes, which reduces the funds available to us for operations and any future business opportunities;
- increase our vulnerability to general economic and industry conditions;
- or
- expose us to the risk of increased interest rates because certain of our borrowings, including borrowings under our credit facility, are at variable interest rates.

Limitations imposed as a part of the debt, such as the availability of credit and the existence of restrictive covenants may, among other things:

- make it difficult for us to satisfy our financial obligations, including making scheduled principal and interest payments on the notes and our other indebtedness;
- restrict us from making strategic acquisitions or cause us to make non-strategic divestitures;
- limit our ability to borrow additional funds for working capital, capital expenditures, acquisitions or other general business purposes on satisfactory terms or at all;
- limit our flexibility to plan for, or react to, changes in our business and industry;
- place us at a competitive disadvantage compared to our less leveraged competitors;
- and
- limit our ability to respond to business opportunities.

We may not be able to generate sufficient cash to service our debt obligations

Our ability to make payments on our indebtedness will depend on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. We may be unable to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

We may need to refinance our indebtedness.

Although we expect to refinance or otherwise repay our indebtedness, we may not be able to refinance our indebtedness on commercially reasonable terms or at all. The financial terms or covenants of any new credit facility, notes or other indebtedness may not be as favorable as those under our senior secured credit facility and our existing notes. Our ability to complete a refinancing of our senior secured credit facility and our existing notes prior to their respective maturities will depend on our financial and operating performance, our credit rating with rating agencies, as well as a number of conditions beyond our control. For example, if disruptions in the financial markets were to exist at the time that we intended to refinance this indebtedness, we might be restricted in our ability to access the financial markets. If we are unable to refinance our indebtedness, our alternatives would include negotiating an extension of the maturities of our senior secured credit facility and our existing notes with the lenders and seeking or raising new equity capital. If we were unsuccessful, the lenders under our senior secured credit facility and the holders of our existing notes could demand repayment of the indebtedness owed to them on the relevant maturity date, which could adversely affect our financial condition.

Despite our current level of indebtedness, we may still incur substantially more indebtedness. This could exacerbate the risks associated with our existing indebtedness

We and our subsidiaries may incur substantial additional indebtedness in the future. Our senior secured credit facility and the terms of the indentures for our notes limit, but do not prohibit, us or our subsidiaries from incurring additional indebtedness. Also, our subsidiaries could incur additional indebtedness that is structurally senior to the notes or we and our subsidiaries could incur indebtedness secured by a lien on assets that do not constitute collateral, including assets of ours and our subsidiaries, and the holders of such indebtedness will have the right to be paid first from the proceeds of such assets. If we incur any additional indebtedness that ranks equally with the notes and the guarantees, the holders of that indebtedness will be entitled to share ratably with the holders of the notes and the guarantees in any proceeds distributed in connection with our insolvency, liquidation, reorganization or dissolution. This may have the effect of reducing the amount of proceeds paid to the existing note holders. In addition, existing note holders' rights to the collateral would be diluted by any increase in the indebtedness secured by this collateral. If new indebtedness is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify.

Covenants in our debt agreements restrict our business in many ways

Our senior secured credit facility and the indentures governing the notes contain various covenants that limit our ability and/or our restricted subsidiaries' ability to, among other things:

- incur or assume liens or additional debt or provide guarantees in respect of obligations of other persons;
- pay dividends or make distributions or redeem or repurchase capital stock;
- prepay, redeem or repurchase debt;
- make loans, investments and capital expenditures;
- enter into agreements that restrict distributions from our subsidiaries;
- sell assets and capital stock of our subsidiaries;
- enter into sale and leaseback transactions;
- enter into certain transactions with affiliates;
- consolidate or merge with or into, or sell substantially all of our assets to, another person; and
- designate our subsidiaries as unrestricted subsidiaries.

In addition, our senior secured credit facility contains restrictive covenants and requires us to maintain a specified leverage ratio. The leverage ratio is defined in Part II. Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financial Position, Liquidity and Capital Resources - Senior Secured Credit Facility." Our ability to meet this leverage ratio can be affected by events beyond our control, and we may be unable to meet those tests. A breach of any of these covenants could result in a default under our senior secured credit facility, which in turn could result in a default under the indentures governing the notes. Upon the occurrence of an event of default under our senior secured credit facility, the lenders could elect to declare all amounts outstanding under our senior secured credit facility to be immediately due and payable and terminate all commitments to extend further credit. If we were unable to repay those amounts, the lenders could proceed against the collateral granted to them to secure that indebtedness. Our senior secured credit facility, our notes and certain future indebtedness are secured by a first priority perfected lien in all shares of our capital stock. If the lenders and counterparties under our senior secured credit facility, our notes and certain future indebtedness accelerate the repayment of obligations, we may not have sufficient assets to repay such obligations. Our borrowings under our senior secured credit facility are, and are expected to continue to be, at variable rates of interest and expose us to interest rate risk. If interest rates increase, our debt service obligations on the variable rate indebtedness will also increase even though the amount borrowed remains the same, and our net income would decrease.

Our ability to pay dividends or make other restricted payments to Qurate Retail is subject to limited restrictions

There are no restrictions under our bond indentures on our ability to pay dividends or make other restricted payments if we are not in default on the senior secured notes and our consolidated leverage ratio is no greater than 3.50 to 1.0. As a result, Qurate Retail will, in many instances, be permitted to rely on our cash flow for servicing Qurate Retail's debt and for other purposes, including payments of dividends on Qurate Retail's capital stock, if declared, or to fund acquisitions or other operational requirements of Qurate Retail and its subsidiaries. These events may deplete our equity or require us to borrow under our senior secured credit facility, increasing our leverage and decreasing our liquidity. QVC has made significant distributions to Qurate Retail in the past. These dividends were funded with draws from our revolving credit facility or from cash generated from operations. In the ordinary course of business, we may continue to make additional distributions to Qurate Retail in the future. See Item 1. "Business - Qurate Retail relationship and related party transactions."

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own our corporate headquarters and operations center in West Chester, Pennsylvania, which includes executive offices, video broadcast studios, showrooms, broadcast facilities and administrative offices for QVC. Our corporate headquarters and the remainder of our properties are summarized as follows:

Location	Properties Type	Own or Lease	Operating Segment
West Chester, Pennsylvania	Corporate Headquarters	Own	QxH
San Antonio, Texas	Call Center	Own	QxH
Chesapeake, Virginia	Call Center	Own	QxH
Bochum, Germany	Call Center	Own	QVC-International
Kassel, Germany	Call Center	Own	QVC-International
Chiba-Shi, Japan	Call Center	Own	QVC-International
Bethlehem, Pennsylvania	Distribution Center	Lease	QxH
Lancaster, Pennsylvania	Distribution Center	Own	QxH
Suffolk, Virginia	Distribution Center	Own	QxH
Rocky Mount, North Carolina	Distribution Center	Own	QxH
Florence, South Carolina	Distribution Center	Own	QxH
Ontario, California	Distribution Center	Own	QxH
Piney Flats, Tennessee	Distribution Center	Own	QxH
Chiba, Japan	Distribution Center	Own	QVC-International
Hückelhoven, Germany	Distribution Center	Own	QVC-International
St. Petersburg, Florida	Multi-functional	Own	QxH
Knowsley, United Kingdom	Multi-functional	Own	QVC-International
Chiba, Japan	Multi-functional	Own	QVC-International
Brugherio, Italy	Multi-functional	Own	QVC-International
Düsseldorf, Germany	Multi-functional	Own	QVC-International
London, U.K.	Multi-functional	Lease	QVC-International

We supplement the facilities listed above by leasing various facilities worldwide. We believe that the duration of each lease is adequate and we do not anticipate any future problems renewing or obtaining suitable leases for our principal properties. We believe that our principal properties, whether owned or leased, are currently adequate for the purposes for which they are used and are suitably maintained for these purposes. From time to time, we consider various alternatives related to our long-term facilities' needs.

Item 3. Legal Proceedings

We are not a party to or subject to any material pending legal proceedings. We are parties to various claims and pending litigation as part of the normal course of business. In the opinion of management, the nature and disposition of these matters are considered routine and arising in the ordinary course of business.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

There is no established trading market for our equity securities. There is one holder of record of our equity, Qurate Retail Group, Inc., an indirect wholly-owned subsidiary of Qurate Retail, Inc. ("Qurate Retail") (formerly Liberty Interactive Corporation).

See also "Item 1. Business - Qurate Retail relationship and related party transactions" for information related to our dividends to Qurate Retail and note 8 to our consolidated financial statements for our debt issuance descriptions.

Item 6. Selected Financial Data

Omitted under the reduced disclosure format permitted by General Instruction I(2)(a) of Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our consolidated financial statements and the notes thereto.

Overview

QVC, Inc. and its consolidated subsidiaries (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. QVC is comprised of the reportable segments of QxH, which is comprised of QVC-U.S. and HSN, Inc. ("HSN"), and QVC-International.

In the 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, QVC3, HSN, and HSN2. During the first quarter of 2019, the Company transitioned its Beauty iQ broadcast channel to QVC 3 and Beauty iQ content was moved to digital only platform. The Company's U.S. programming is also available on QVC.com and HSN.com, QVC's "U.S. websites"; applications via streaming video; Facebook Live, Roku, Apple TV, and Amazon Fire; mobile applications; social pages and over-the-air broadcasters.

QVC's digital platforms enable consumers to purchase goods offered on our broadcast programming, along with a wide assortment of products that are available only on our U.S. websites. QVC.com and our other digital platforms (including our mobile applications, social pages and others) are natural extensions of our business model, allowing customers to engage in our shopping experience wherever they are, with live or on-demand content customized to the device they are using. In addition to offering video content, our U.S. websites allow shoppers to browse, research, compare and perform targeted searches for products, read customer reviews, control the order-entry process and conveniently access their QVC account.

Internationally, QVC's 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, and Italy. In some of the countries where QVC operates, QVC's televised shopping programs are broadcast across multiple QVC channels: QVC Style and QVC2 in Germany and QVC Beauty, QVC Extra and QVC Style in the U.K. Similar to the U.S., our international businesses also engage customers via websites, mobile applications and social pages. 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"). 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. QVC-Japan paid dividends to Mitsui of \$40 million in each of the years ended December 31, 2019, 2018 and 2017.

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 broadcast network and an e-commerce website. This joint venture is accounted for as an equity method investment recorded as equity in losses of investee in the consolidated statements of operations.

The Company is an indirect wholly-owned subsidiary of Qurate Retail, Inc. ("Qurate Retail") (formerly Liberty Interactive Corporation)(Nasdaq: QRTEA and QRTEB), which owns interests in a broad range of digital commerce businesses, including Qurate Retail's other wholly-owned subsidiary Zulily, LLC ("Zulily"), as well as other minority investments. QVC is part of the Qurate Retail Group ("QRG"), formerly QVC Group, a portfolio of brands including QVC, Zulily and the Cornerstone brands ("CBI"). On March 9, 2018, Qurate Retail, GCI Liberty, Inc. ("GCI Liberty") (formerly General Communication, Inc.), an Alaska corporation, and Liberty Interactive LLC, a Delaware limited liability company and a direct wholly-owned subsidiary of Qurate Retail completed transactions whereby Qurate Retail acquired GCI Liberty through a reorganization in which certain assets and liabilities attributed to Qurate Retail's Ventures Group were contributed to GCI Liberty in exchange for a controlling interest in GCI Liberty. Qurate Retail then effected a tax-free separation of its controlling interest in the combined company. Qurate Retail's QVC Group common stock became the only outstanding common stock of Qurate Retail.

On October 1, 2015, Qurate Retail acquired all of the outstanding shares of Zulily, 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. 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 consolidated financial statements. During the years ended December 31, 2019, 2018 and 2017, QVC and Zulily engaged in multiple transactions relating to sales, sourcing of merchandise, marketing initiatives, and business advisory services. QVC allocated expenses of \$7 million, \$5 million, and \$4 million to Zulily for the years ended December 31, 2019, 2018, and 2017, respectively. Zulily allocated expenses of \$9 million, \$6 million, and \$5 million to QVC for the years ended December 31, 2019, 2018, and 2017, respectively.

On December 31, 2018, QVC amended and restated its senior secured credit facility (the "Fourth Amended and Restated Credit Agreement") increasing the revolving credit facility from \$2.65 billion to \$3.65 billion (which was reduced to \$2.95 billion, effective February 4, 2020 upon the closing of QVC's offering of the 4.75% Senior Secured Notes due 2027 (the "2027 Notes")) as explained further in note 8 to our consolidated financial statements. The Fourth Amended and Restated Credit Agreement includes a \$400 million tranche that may be borrowed by QVC or Zulily. Under the terms of the Fourth 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 December 31, 2019, there was \$130 million borrowed by Zulily on the \$400 million tranche of the senior secured credit facility, none of which the Company expects to repay on behalf of Zulily.

On December 29, 2017, Qurate Retail completed the acquisition of the remaining 62% ownership interest of HSN it did not previously own in an all-stock transaction. On December 31, 2018, Qurate Retail transferred its 100% ownership interest in HSN to QVC through a transaction among entities under common control. As a result of the transaction, the assets and liabilities of HSN (excluding its ownership interest in CBI) were transferred from Qurate Retail at Qurate Retail's historical cost to QVC through an equity contribution. CBI remained a subsidiary of Qurate Retail outside of the QVC legal structure. QVC has presented the operations and financial position of HSN in its consolidated financial statements as of December 29, 2017.

On October 17, 2018, QRG announced a series of initiatives designed to better position its QxH business ("QRG Initiatives"). As part of the QRG Initiatives, QVC will close its fulfillment centers in Lancaster, Pennsylvania and Roanoke, Virginia and has entered into an agreement to lease a new fulfillment center in Bethlehem, Pennsylvania, which commenced in 2019 (see note 9 to the accompanying consolidated financial statements). Expenditures related to the QRG Initiatives are recorded as part of transaction related costs (see note 16 to the accompanying consolidated financial statements).

QVC engages with CBI, which is a wholly owned subsidiary of Qurate Retail and prior to the common control transaction between QVC and Qurate Retail, included as part of HSN. CBI is not part of the results of operations or financial position of QVC presented in the accompanying consolidated financial statements. During the year ended December 31, 2019, QVC and CBI engaged in multiple transactions relating to personnel and business advisory services. QVC allocated expenses of \$28 million and \$50 million to CBI for the years ended December 31, 2019 and 2018, respectively. CBI allocated expenses of \$1 million and \$5 million to QVC for the years ended December 31, 2019 and 2018, respectively. CBI also repaid a \$29 million note receivable to QVC during the year ended December 31, 2019.

In the fourth quarter of 2018, QVC recorded a charge related to the potential closure of its operations in France. The formal announcement to execute the closure was made in March 2019 and broadcasting for QVC in France was subsequently terminated on March 13, 2019.

Strategies and challenges of business units

The goal of QVC is to extend its leadership in video commerce, e-commerce, mobile commerce and social commerce by continuing to create the world's most engaging shopping experiences, combining the best of retail, media, and social, highly differentiated from traditional brick-and-mortar stores or transactional e-commerce. QVC provides customers with curated collections of unique products, made personal and relevant by the power of storytelling. We curate experiences, conversations and communities for millions of highly discerning shoppers, and we also curate large audiences, across our many platforms, for our thousands of brand partners.

QVC intends to employ several strategies to achieve these objectives. Among these strategies are to (i) Curate special products at compelling values; (ii) Extend video reach and relevance; (iii) Reimagine daily digital discovery; (iv) Expand and engage our passionate community; and (v) Deliver joyful customer service. In addition, we are exploring opportunities to evolve the International operating model to pursue growth opportunities in a more leveraged way across markets.

QVC's future net revenue growth will primarily depend on sales growth from e-commerce, mobile platforms and applications via streaming video, additions of new customers from households already receiving QVC's broadcast 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; (iv) QVC's ability to source new and compelling products and (v) general economic conditions.

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 have recently experienced 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, become uncertain or deteriorate, 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 decline. Such weak economic conditions may also inhibit our expansion into new European and other markets. We currently are unable to predict the extent of any of these potential adverse effects.

The Brexit process and negotiations have created political and economic uncertainty, particularly in the U.K. and the E.U., and this uncertainty may last for years. On June 23, 2016, the U.K. held a referendum in which voters approved, on an advisory basis, an exit from the E.U. The U.K. formally left the E.U. on January 31, 2020. This has resulted in a transition period during which the E.U.-U.K. trade relationship will not change, and the UK will remain part of the E.U. Customs Union and Single Market, subject to all E.U. trade law. During the transition period, the E.U. and the U.K. will negotiate their new economic and security relationship, including a new agreement on trade. The transition will last until December 31, 2020, which can be extended for up to two years if the E.U. and the U.K. agree to do so. However, at present, the U.K. government's stated intention is not to seek or agree to an extension. A "no deal" outcome on trade remains a possibility if the E.U. and the U.K. fail to conclude a new trade agreement before December 31, 2020 and the transition period is not extended. In that case, with effect from January 1, 2021, the basis for E.U.-U.K. trade would automatically default to World Trade Organization terms. The potential impacts, if any, of the considerable uncertainty relating to Brexit or the resulting terms of the new economic and security relationship between the U.K. and the E.U. on the free movement of goods, services, people and capital between the U.K. and the E.U., customer behavior, economic conditions, interest rates, currency exchange rates, availability of capital or other matters are unclear. Our business could be affected with respect to these matters during this period of uncertainty, and perhaps longer, depending on the resulting terms. In particular, our business could be negatively affected by new trade agreements between the U.K. and other countries, including the U.S., and by the possible imposition of trade or other regulatory barriers in the U.K. which could result in shipping delays and the shortage of products sold by our business. Additionally, the U.K. economy and consumer demand in the U.K., including for our products, could be negatively impacted. Further, various geopolitical forces related to Brexit may impact the global economy, the European economy and our business, including, for example, due to other E.U. member states where we have operations proposing referendums to, or electing to, exit the E.U. These possible negative impacts, and others resulting from the U.K.'s withdrawal from the E.U., may adversely affect our operating results.

The President of the United States has expressed apprehension towards trade agreements, such as the Trans-Pacific Partnership, and suggested that the U.S. would renegotiate or withdraw from certain trade agreements. He has advocated for and imposed tariffs on certain goods imported into the U.S., particularly from China. In response to these new U.S. tariffs, some foreign governments, including China, have instituted or are considering instituting tariffs on certain U.S. goods. New tariffs and other changes in U.S. trade policy could trigger retaliatory actions by affected countries. Like many other multinational corporations, we do a significant amount of business that could be impacted by changes to U.S. and international trade policies (including governmental action related to tariffs and trade agreements). Such changes have the potential to adversely impact the U.S. economy or certain sectors thereof, our industry and the global demand for our products and, as a result, could have a material adverse effect on our business, financial condition and results of operations.

On January 23, 2017, the President of the United States signed a presidential memorandum to withdraw the U.S. from the Trans-Pacific Partnership. On October 1, 2018, the U.S., Mexico and Canada agreed to the terms of the United States-Mexico-Canada Agreement (the "USMCA"), a successor to the North American Free Trade Agreement ("NAFTA"), which will impact imports and exports among those countries. The countries agreed to a revised version of the USMCA on December 10, 2019. The USMCA has only been ratified by Mexico and the U.S. Once ratified by the legislature of Canada, the USMCA would be enacted and replace NAFTA. As of the date of this report, there is some uncertainty about whether the USMCA will be ratified by Canada, as well as the timing thereof, and the potential for further re-negotiation, or even termination, of NAFTA. Further, the USMCA could undergo changes that lead to further modifications of certain USMCA provisions before being passed into law. These and other proposed actions, if implemented, could adversely affect our business because we sell imported products.

Results of Operations- QVC Consolidated

QVC's operating results were as follows:

(in millions)	Years ended December 31,		
	2019	2018	2017
Net revenue	\$ 10,986	11,282	8,771
Operating costs and expenses:			
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	7,148	7,248	5,598
Operating	768	881	601
Selling, general and administrative, excluding transaction related costs and stock-based compensation	1,088	1,094	666
Adjusted OIBDA (defined below)	1,982	2,059	1,906
Impairment loss	147	30	—
Transaction related costs	1	60	39
Stock-based compensation	39	46	39
Depreciation	186	174	155
Amortization	282	237	364
Operating income	1,327	1,512	1,309
Other (expense) income:			
Equity in losses of investee	—	(3)	(3)
Losses on financial instruments	(5)	(2)	—
Interest expense, net	(240)	(243)	(214)
Foreign currency loss	(3)	—	(6)
Loss on extinguishment of debt	—	(2)	—
	(248)	(250)	(223)
Income before income taxes	1,079	1,262	1,086
Income tax expense	(262)	(334)	(139)
Net income	817	928	947
Less net income attributable to the noncontrolling interest	(50)	(46)	(46)
Net income attributable to QVC, Inc. stockholder	\$ 767	882	901

Net revenue

Net revenue for each of QVC's segments was as follows:

(in millions)	Years ended December 31,		
	2019	2018	2017
QxH	\$ 8,277	8,544	6,140
QVC-International	2,709	2,738	2,631
Consolidated QVC	\$ 10,986	11,282	8,771

QVC's consolidated net revenue decreased 2.6% and increased 28.6% for the years ended December 31, 2019 and 2018 respectively, as compared to the corresponding prior years. The \$296 million decrease in 2019 net revenue was primarily due to a 2.7% decrease in units sold, \$69 million in unfavorable foreign exchange rates and a \$41 million decrease in shipping and handling revenue across all markets, which was partially offset by a 1% increase in average selling price per unit ("ASP") driven by the international markets and a \$49 million decrease in estimated product returns, primarily driven by the decrease in sales volume at QxH.

For 2018, the \$2,511 million increase in revenue was primarily due to the inclusion of \$2,195 million of revenue from HSN in 2018 as a result of the common control transaction between QVC and Qurate Retail. HSN's results were not included in net revenue during 2017. The remaining increase of \$316 million in net revenue was primarily comprised of a 2.7% increase in units sold, \$102 million due to the inclusion of Private Label Credit Card ("PLCC") income in the U.S. as a result of the adoption of Accounting Standards Codification ("ASC") Topic 606, Revenue from Contracts with Customers ("ASC 606"), \$83 million in favorable foreign currency exchange rates and a \$10 million increase in shipping and handling revenue. This was primarily offset by a 1.1% decrease in ASP and an increase of \$35 million in estimated product returns. The changes in units sold, foreign exchange rates, ASP and estimated product returns are partially impacted by the change in the timing of revenue recognition as part of the adoption of ASC 606. The impact of this change was \$21 million for the year ended December 31, 2018 in comparison to the year ended December 31, 2018 without the adoption of ASC 606.

During the years ended December 31, 2019 and 2018, 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.

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 change in net revenue for QVC's segments in U.S. Dollars and in constant currency was as follows:

	Year ended December 31, 2019			Year ended December 31, 2018		
	U.S. Dollars	Foreign Currency Exchange Impact	Constant Currency	U.S. Dollars	Foreign Currency Exchange Impact	Constant Currency
QxH	(3.1)%	— %	(3.1)%	39.2%	—%	39.2%
QVC-International	(1.1)%	(2.6)%	1.5 %	4.1%	3.2%	0.9%

In 2019, the QxH net revenue decrease was primarily due to a 2.8% decrease in units shipped, a 0.5% decrease in ASP and an \$18 million decrease in shipping and handling revenue. This decrease was partially offset by a \$65 million decrease in estimated product returns, primarily driven by the decrease in sales volume. QxH experienced shipped sales decline in all categories except electronics. The decrease in net shipping and handling revenue was a result of a decrease in shipping and handling revenue per unit from promotional offers. QVC-International net revenue growth in constant currency was primarily due to a 5.1% increase in ASP, including increases in all markets. The increase was partially offset by a decrease of 2.5% in units shipped, primarily driven by Germany, the U.K., and Italy partially offset by increases in Japan, a \$22 million decrease in shipping and handling revenue, primarily in the U.K. and a \$16 million increase in estimated product returns across all markets. QVC-International experienced shipped sales growth in constant currency in all categories except electronics and accessories.

In 2018, the QxH net revenue increase was primarily due to the inclusion of HSN's revenue of \$2,195 in 2018 as a result of the common control transaction between QVC and Qurate Retail. The remaining QxH increase was driven by QVC-U.S., which was a separate reportable segment prior to 2019, primarily due to a 3.8% increase in units shipped, \$102 million due to the inclusion of PLCC income and a \$14 million increase in shipping and handling revenue. This increase was offset by a 1.7% decrease in ASP and a \$41 million increase in estimated product returns. QVC-U.S. experienced shipped sales growth in all categories except jewelry and home. QVC-International net revenue growth in constant currency was primarily due to a 0.9% increase in units shipped, driven by increases in the U.K. and Japan, and a \$6 million decrease in estimated product returns, driven by Japan. This was offset by a \$4 million decrease in shipping and handling revenue and a slight decrease in ASP. QVC-International experienced shipped sales growth in constant currency in all categories except electronics and accessories.

Cost of goods sold (excluding depreciation and amortization)

QVC's cost of goods sold as a percentage of net revenue was 65.1%, 64.2%, and 63.8% for years ended December 31, 2019, 2018 and 2017, respectively. The increase in cost of goods sold as a percentage of revenue in 2019 is due to an increase in product fulfillment costs primarily related to a new fulfillment center in Bethlehem, Pennsylvania and higher freight costs at QxH. For 2018, the increase in cost of goods sold as a percentage of revenue is primarily due to the inclusion of HSN's financial results in 2018 in addition to higher warehouse and freight costs partially offset by the inclusion of PLCC income within net revenue, which was previously recorded as an offset to selling, general and administrative expenses.

Operating expenses

QVC's operating expenses are principally comprised of commissions, order processing and customer service expenses, credit card processing fees and telecommunications expenses. Operating expenses decreased \$113 million or 13% and increased \$280 million or 47% for the years ended December 31, 2019 and 2018, respectively.

The decrease in 2019 was primarily due to a \$92 million decrease in commissions primarily at QxH, a \$13 million decrease in personnel costs, primarily at QxH and to a lesser extent, Italy, Germany and Japan, and a \$5 million decrease due to favorable exchange rates. The decrease in commissions is primarily due to new longer term television distribution rights agreements entered into at HSN, with similar terms to QVC's television distribution agreements, which led to increased capitalization of television distribution rights agreements and favorable terms on commissions.

The increase in 2018 was primarily due to the inclusion of HSN's operating expenses of \$269 million in 2018 in addition to a \$10 million increase in credit card fees primarily at QVC-U.S. and \$6 million due to unfavorable exchange rates, which was partially offset by a \$2 million decrease in commissions primarily at QVC-U.S., offset by increases in the U.K. and Japan and a \$2 million decrease of telephone expenses primarily at QVC-U.S.

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

QVC's selling, general and administrative expenses (excluding transaction related costs as defined below and stock-based compensation) include personnel, information technology, provision for doubtful accounts, production costs, marketing and advertising expenses and prior to the adoption of ASC 606 on December 1, 2018, credit card income. Such expenses decreased \$6 million, and increased to 9.9% of net revenue for the year ended December 31, 2019 as compared to the prior year and increased \$428 million and was 9.7% of net revenue for the year ended December 31, 2018 as compared to the prior year.

The decrease in 2019 was primarily due to a \$43 million decrease in personnel costs primarily in QxH, France and the U.K. partially offset by increases in Japan, Germany and Italy, and an \$11 million decrease due to favorable exchange rates. The decreases were partially offset by a \$22 million increase in outside services, primarily at QxH and Japan, partially offset by a decrease in Germany, a \$12 million increase in bad debt expense, and a \$16 million increase in online marketing expenses primarily in QxH. The decrease in personnel costs is due to a decrease in wages at QxH as a result of QRG Initiatives, a decrease in bonus compensation across all markets except Japan, the termination of a retirement health plan and the closure of QVC's operations in France, partially offset by higher severance costs across all markets. The increase in bad debt expense for the year ended December 31, 2019 is primarily due to increased Easy Pay usage and the number of installments taken at QxH.

The increase in 2018 was primarily related to the inclusion of \$254 million of HSN's selling, general and administrative expenses as well as the reclassification of PLCC income, attributing \$105 million as a result of the adoption of ASC 606, which was previously recorded as an offset to selling, general and administrative expenses for the year ended December 31, 2017. Additionally, there was a \$29 million increase in outside services across all markets, a \$21 million increase in bad debt expense primarily at QVC-U.S. and to a lesser extent, Japan, a \$14 million increase in marketing expenses primarily at QVC-U.S. and a \$12 million increase due to unfavorable exchange rates. The increase in bad debt expense is due to favorability in default rates from prior periods, mostly related to the Easy-Pay program at QVC-U.S. during the year ended December 31, 2017. These increases were partially offset by a \$8 million decrease in personnel costs primarily at QVC-U.S. and Germany.

Impairment loss

QVC recorded impairment losses of \$147 million and \$30 million for the years ended December 31, 2019 and 2018, respectively, related to the decrease in the fair value of the HSN indefinite-lived tradename within the QxH segment as a result of the quantitative assessment that was performed by the Company in each of those years (refer to note 6 to the accompanying consolidated financial statements). There was no impairment loss recorded by QVC for the year ended December 31, 2017.

Transaction related costs

Transaction related costs include restructuring, integration, and advisory fees that were incurred by QVC as it relates to Qurate Retail's acquisition of HSN on December 29, 2017, expenses related to the QRG initiatives and expenses related to the closure of operations in France (collectively, "transaction related costs"). QVC recorded \$1 million, \$60 million and \$39 million of transaction related costs for the years ended December 31, 2019, 2018 and 2017, respectively. There were no significant transaction related costs incurred during 2019 and the increase in transaction related costs in 2018 was primarily driven by severance payments related to the future closure of QVC's Lancaster, PA fulfillment center and other initiatives to better position its QxH operations as well as the closure of operations in France.

Stock-based compensation

Stock-based compensation includes compensation related to options and restricted stock granted to certain officers and employees. QVC recorded \$39 million, \$46 million and \$39 million of stock-based compensation expense for the years ended December 31, 2019, 2018 and 2017, respectively. The decrease in 2019 is primarily due to forfeitures of non-vested options from terminated individuals. The increase in 2018 is primarily due to transfers of certain Zulily employees into the Company.

Depreciation and amortization

Depreciation and amortization consisted of the following:

(in millions)	2019	Years ended December 31,	
		2018	2017
Affiliate agreements	\$ 2	2	97
Customer relationships	49	50	113
Other technology	15	15	—
Acquisition related amortization	66	67	210
Property and equipment	186	174	155
Software amortization	85	95	93
Channel placement amortization and related expenses	131	75	61
Total depreciation and amortization	\$ 468	411	519

For the year ended December 31, 2019, channel placement amortization expense increased primarily due to new television distribution contracts entered into at HSN and software amortization decreased due to the end of useful lives of certain software additions. For the year ended December 31, 2018, 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 Qurate Retail's acquisition of QVC in 2003. Property and equipment depreciation, software and channel placement amortization increased in 2018 due to the inclusion of HSN's depreciation and amortization.

Equity in losses of investee

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

Losses on financial instruments

The \$5 million in losses on financial instruments for the year ended December 31, 2019 were primarily related to the change in the fair value of the interest rate swaps (see "Interest Rate Swap Arrangements" below). There was \$2 million in losses on financial instruments for the year ended December 31, 2018 and there were no losses on financial instruments for the year ended December 31, 2017.

Interest expense, net

For the years ended December 31, 2019 and 2018 consolidated net interest expense decreased \$3 million and increased \$29 million, respectively, as compared to the corresponding prior years. The decrease in net interest expense in 2019 is due to the reduction of the variable interest rate on our senior secured credit facility compared to the prior year. The increase in net interest expense in 2018 is due to the inclusion of HSN's net interest expense in 2018, attributing \$17 million and higher average interest rates used to service the outstanding debt.

Foreign currency 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 consolidated statements of operations. The change in foreign currency 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.

Loss on extinguishment of debt

There was no loss on extinguishment of debt recorded for the years ended December 31, 2019 and 2017. QVC recorded a \$2 million loss on extinguishment of debt during the year ended December 31, 2018 due to the termination of HSN's credit agreement on December 31, 2018. See "Financial Position, Liquidity and Capital Resources" below for more information on the debt transaction.

Income taxes

Our effective tax rate was 24.3%, 26.5% and 12.8% for the years ended December 31, 2019, 2018 and 2017, respectively. The effective tax rate decreased in 2019 in comparison to 2018, mainly due to the write-off of an investment and notes in a foreign subsidiary, creating an income tax benefit. The effective tax rate increased in 2018 in comparison to 2017, mainly due to the one-time impact of the federal tax rate reduction under the Tax Cuts and Jobs Act (the "Act") which was reflected in our 2017 rate. The Act made broad and complex changes to the U.S. tax code which included a lowering of the U.S. federal corporate income tax rate from 35% to 21%. As a result, deferred tax liabilities related to non-current intangible assets were re-measured in 2017 at the lower rate.

Adjusted Operating Income before Depreciation and Amortization ("Adjusted OIBDA")

To provide investors with additional information regarding our financial statements, we disclose Adjusted OIBDA, which is a non-GAAP measure. QVC defines Adjusted OIBDA as operating income plus depreciation and amortization, stock-based compensation, transaction related costs and impairment loss. 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 segments by identifying those items that are not directly a reflection of each segment's performance or indicative of ongoing business trends. 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. 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. generally accepted accounting principles ("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. The following table provides a reconciliation of operating income to Adjusted OIBDA.

(in millions)	Years ended December 31,		
	2019	2018	2017
Operating income	\$ 1,327	1,512	1,309
Depreciation and amortization	468	411	519
Stock-based compensation	39	46	39
Transaction related costs	1	60	39
Impairment loss	147	30	—
Adjusted OIBDA	\$ 1,982	2,059	1,906

QVC Adjusted OIBDA decreased by \$77 million and increased by \$153 million for the years ended December 31, 2019 and 2018, respectively.

The decrease for the year ended December 31, 2019 is due to a \$94 million decrease in QxH offset by a \$17 million increase in QVC-International primarily due to the closure of operations in France. Adjusted OIBDA losses related to France were \$6 million and \$32 million for the years ended December 31, 2019 and 2018, respectively. The increase for the year ended December 31, 2018 was due to a \$175 million increase in QxH offset by a \$22 million decrease in QVC-International. The increase in QxH was primarily related to HSN which had Adjusted OIBDA of \$213 million for the year ended December 31, 2018 and no Adjusted OIBDA for the year ended December 31, 2017, due to the timing of the acquisition. See "Results of Operations-Consolidated" above for a more complete discussion of the results of operations of QxH and QVC-International.

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 23% of its revenue in each of the first three quarters of the year 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 Qurate Retail, make interest payments and minimize QVC's outstanding senior secured credit facility balance.

As of December 31, 2019, substantially all of QVC's cash and cash equivalents were invested in AAA rated money market funds and time deposits with banks rated equal to or above A.

Senior Secured Notes

All of QVC's senior secured notes are secured by the capital stock of QVC and certain of its subsidiaries and have equal priority to the senior secured credit facility. With the exception of the 6.375% Senior Secured Notes due 2067 (the "2067 Notes") and the 6.25% Senior Secured Notes due 2068 (the "2068 Notes"), for which interest is payable quarterly, the interest on QVC's senior secured notes is payable semi-annually. The 3.125% Senior Secured Notes due 2019 (the "2019 Notes") were repaid at maturity in April 2019.

6.375% Senior Secured Notes due 2067

On September 13, 2018, QVC completed a registered debt offering of \$225 million principal amount of the 2067 Notes. The proceeds were used to partially prepay existing indebtedness under QVC's senior secured credit facility and for general corporate purposes. QVC has the option to call the 2067 Notes after 5 years at par value plus accrued and unpaid interest.

6.25% Senior Secured Notes due 2068

On November 26, 2019, QVC completed a registered debt offering of \$435 million of the 2068 Notes at par. QVC granted an option for underwriters to purchase up to an additional \$65 million of 6.25% Senior Secured Notes which was exercised on December 6, 2019 with an aggregate principal of \$500 million. The net proceeds from the offerings of these notes were used to repay indebtedness under QVC's senior secured credit facility and for working capital and other general corporate purposes. QVC has the option to call the 2068 Notes after 5 years at par value plus accrued and unpaid interest.

4.75% Senior Secured Notes due 2027

On February 4, 2020, subsequent to the year ended December 31, 2019, QVC completed a registered debt offering for \$575 million of the 2027 Notes at par. The proceeds were used to partially prepay existing indebtedness under QVC's senior secured credit facility. Interest on the 2027 Notes will be paid semi-annually in February and August, with payments commencing on August 15, 2020.

Senior Secured Credit Facility

On December 31, 2018, QVC entered into the Fourth Amended and Restated Credit Agreement with Zulily as borrowers (collectively, the "Borrowers") which is a multi-currency facility that provides for a \$3.65 billion (which was reduced to \$2.95 billion, effective February 4, 2020 upon the closing of QVC's offering of the 2027 Notes) revolving credit facility with a \$450 million sub-limit for standby letters of credit and \$1.5 billion of uncommitted incremental revolving loan commitments or incremental term loans. The Fourth 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 note 14 to the accompanying consolidated financial statements). The remaining \$3.25 billion which was subsequently reduced to \$2.55 billion upon reduction of the revolving credit facility, effective February 4, 2020) 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 (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. 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 Qurate Retail, all of its loans must be repaid and its letters of credit cash collateralized. The facility matures on December 31, 2023. Payment of loans may be accelerated following certain customary events of default.

QVC had \$2,392 million available under the terms of the senior secured credit facility as of December 31, 2019 (which was subsequently reduced to \$1,692 million upon the reduction of the revolving credit facility, effective February 4, 2020), including the portion available under the \$400 million tranche on which Zulily may also borrow. The interest rate on the senior secured credit facility was 3.1% and 3.9% as of December 31, 2019 and 2018, respectively.

The purpose of the amendment was to, among other things, repay certain fees and expenses, finance working capital needs and general corporate purposes of the Company and its respective subsidiaries and make certain restricted payments and loans to the Company's respective parents and affiliates (see note 1 to our consolidated financial statements). The payment and performance of the Borrowers' obligations under the Fourth Amended and Restated Credit Agreement are guaranteed by each of QVC's Material Domestic Subsidiaries (as defined in the Fourth Amended and Restated Credit Agreement). Further, the borrowings under the Fourth Amended and Restated Credit Agreement are secured, *pari passu* with QVC's existing notes, by a pledge of all of QVC's equity interests. In addition, 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 Zulily and secured by a pledge of all of Zulily's equity interests.

The Fourth 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 as of December 31, 2019.

The weighted average interest rate applicable to all of the outstanding debt (excluding finance leases) prior to amortization of bond discounts and related debt issuance costs was 4.7% as of December 31, 2019.

As of December 31, 2019 and 2018, outstanding trade letters of credit totaled \$12 million and \$13 million, respectively.

There are no restrictions under the 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 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, Qurate Retail will, in many instances, be permitted to rely on QVC's cash flow for servicing Qurate Retail's debt and for other purposes, including repurchases of Qurate Retail's common stock, or to fund acquisitions or other operational requirements of Qurate Retail and its subsidiaries. These events may increase accumulated deficit or require QVC to borrow under the senior secured credit facility, increasing QVC's leverage and decreasing liquidity. QVC has made significant distributions to Qurate Retail in the past. See "Item 1. Business - Qurate Retail Relationship and Related Party Transactions."

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 did not qualify as a cash flow hedge under U.S. GAAP. The swap arrangement expired in June 2019. In July 2019, the Company entered into a three-year interest rate swap arrangement with a notional amount of \$125 million. The swap arrangement did not qualify as a cash flow hedge under U.S. GAAP and the fair value of the swap instrument was in a net liability position of less than \$1 million as of December 31, 2019, which was included in other long-term liabilities.

On December 31, 2018, QVC entered into a thirteen month interest rate swap arrangement that effectively converted \$250 million of its variable rate bank credit facility to a fixed rate of 1.05% with a maturity date in January 2020. The swap instrument does not qualify as a cash flow hedge and the fair value of the swap instrument was in a net asset position of less than \$1 million as of December 31, 2019, which was included in prepaid expenses and other current assets.

Changes in the fair value of the swaps are reflected in losses on financial instruments in the accompanying consolidated statements of operations.

Additional Cash Flow Information

During the year ended December 31, 2019, QVC's primary uses of cash were \$2,599 million of principal payments on debt and finance lease obligations, \$879 million of dividends to Qurate Retail, \$425 million of capital and television distribution rights expenditures, \$400 million of principal repayments of our senior secured notes, \$40 million in dividend payments from QVC-Japan to Mitsui and \$4 million of other financing activities. These uses of cash were funded primarily with \$2,496 million of principal borrowings from the senior secured credit facility, \$500 million from the issuance of the 2068 Notes, \$50 million in capital contributions from Qurate Retail and \$1,322 million of cash provided by operating activities. As of December 31, 2019, QVC's cash, cash equivalents and restricted cash balance was \$569 million.

The change in cash provided by operating activities for the year ended December 31, 2019 compared to the previous year was primarily due to a change in working capital items. Working capital at any specific point in time is subject to many variables, including seasonality, inventory management, the timing of cash receipts and payments, vendor payment terms, and fluctuations in foreign exchange rates.

As of December 31, 2019, \$280 million of the \$569 million in cash, cash equivalents and restricted cash 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 66% 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.

During the year ended December 31, 2018, QVC's primary uses of cash were \$3,541 million of principal payments on debt and capital lease obligations, \$368 million of capital and television distribution rights expenditures, \$367 million of dividends to Qurate Retail, \$40 million in dividend payments from QVC-Japan to Mitsui and \$18 million of other financing activities. These uses of cash were funded primarily with \$2,750 million of principal borrowings from the senior secured credit facility, \$520 million in capital contributions from Qurate Retail, \$225 million from the issuance of the 2067 Notes and \$1,156 million of cash provided by operating activities. As of December 31, 2018, QVC's cash, cash equivalents and restricted cash balance was \$550 million.

The change in cash provided by operating activities for the year ended December 31, 2018 compared to the previous year was primarily due to a change in working capital items due to the inclusion of HSN. Working capital at any specific point in time is subject to many variables, including seasonality, inventory management, the timing of cash receipts and payments, vendor payment terms, and fluctuations in foreign exchange rates.

As of December 31, 2018, \$216 million of the \$550 million in cash, cash equivalents and restricted cash 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 70% 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.

During the year ended December 31, 2017, QVC's primary uses of cash were \$2,278 million of principal payments on debt and capital lease obligations, \$866 million of dividends to Qurate Retail, \$202 million of capital and television distribution rights expenditures, \$40 million in dividend payments from QVC-Japan to Mitsui and \$16 million of other financing activities. These uses of cash were funded primarily with \$2,162 million of principal borrowings from the senior secured credit facility, \$22 million from cash received as a result of the common control transaction with Qurate Retail and \$1,202 million of cash provided by operating activities. As of December 31, 2017, QVC's cash, cash equivalents and restricted cash balance was \$290 million.

Other

Capital expenditures spending in 2020 is expected to be between \$260 and \$290 million.

On July 2, 2015, QVC entered into a lease (the "Lease") for a California distribution center. Pursuant to the Lease, the landlord built a 1 million square foot rental building in Ontario, California (the "Premises"), and thereafter leased the Premises to QVC as its California distribution center for an initial term of 15 years. Under the Lease, QVC was required to pay an initial base rent of \$6 million per year, increasing to \$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 had an option to extend the term of the Lease for up to two consecutive terms of 10 years each.

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. Upon opening the distribution center, the Company evaluated whether the Lease met the criteria for "sale-leaseback" treatment under U.S. GAAP and concluded that it did not and therefore treated the Lease as a financing obligation and lease payments were 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 August 2018, QVC exercised the right to purchase the Premises and related land from the landlord by entering into an amended and restated agreement ("New Lease"). QVC made an initial payment of \$10 million and will make annual payments of \$12 million over a term of 13 years. The Company classifies the New Lease within finance lease obligations and lease payments are attributed to: (1) a reduction of the principal obligation and (2) imputed interest expense. In connection with the New Lease, QVC capitalized the related land at fair market value while the building asset is currently being depreciated over its estimated useful life of 20 years.

On October 5, 2018, QVC entered into a lease ("ECDC Lease") for an East Coast distribution center. The 1.7 million square foot rental building is located in Bethlehem, Pennsylvania and will be leased to QVC for an initial term of 15 years. QVC obtained initial access to a portion of the ECDC Lease during March 2019 and obtained access to the remaining portion during September 2019. In total, QVC recorded a right of use asset of \$141 million and an operating lease liability of \$131 million relating to the ECDC Lease, with the difference attributable to prepaid rent. QVC is required to pay an initial base rent of \$10 million per year, with payments that began in the third quarter of 2019 and increasing to \$14 million per year, as well as all real estate taxes and other building operating costs. QVC also has the option to extend the term of the ECDC Lease for up to 2 consecutive terms of 5 years each and 1 final term of 4 years.

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 as of December 31, 2019.

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 Company's 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 December 31, 2019 is summarized below:

(in millions)	2020	2021	2022	2023	2024	Payments due by period	
						Thereafter	Total
Long-term debt (1)	\$ —	—	500	1,855	600	2,025	4,980
Interest payments (2)	240	241	239	199	127	2,548	3,594
Finance lease obligations (including imputed interest)	26	25	25	25	23	108	232
Operating lease obligations	38	26	23	21	20	186	314
Purchase obligations and other (3)	2,075	42	26	14	13	16	2,186

(1) Amounts exclude finance lease obligations and the issue discounts on the 4.375%, 4.85%, 4.45%, 5.45% and 5.95% Senior Secured Notes.

(2) Amounts (i) are based on the terms of QVC's senior secured credit facility and senior secured notes, (ii) assume the interest rates on the floating rate debt remain constant at the rates in effect as of December 31, 2019, (iii) assume that our existing debt is repaid at maturity and (iv) exclude finance lease obligations.

(3) Amounts include open purchase orders for inventory and non-inventory purchases along with other contractual obligations, regardless of our ability to cancel such obligations.

Adoption of new accounting pronouncements

In February 2016 and subsequently, the Financial Accounting Standards Board ("FASB") issued new guidance which revises the accounting related to lessee accounting as part of ASC Topic 842, Leases. Under the new guidance, lessees are required to recognize a lease liability and a right-of-use asset for most operating 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 Company adopted ASC 842 on January 1, 2019 utilizing the modified retrospective transition approach and did not restate comparative periods. The Company elected the package of practical expedients permitted under the transition guidance, which allows it to carry forward its historical lease classification, its determination regarding whether a contract contains a lease and any initial indirect costs that had existed prior to the adoption of this new standard. The Company also elected to combine both lease and non-lease components and elected for all short leases with a term of less than 12 months to not record a related operating lease right-of-use asset and operating lease liability on the consolidated balance sheet. The Company recognized \$92 million of operating lease right-of-use assets, \$18 million in short-term operating lease liabilities and \$87 million of long-term operating lease liabilities on the consolidated balance sheet upon adoption of the new standard. The operating lease liabilities were determined based on the present value of the remaining minimum rental payments and the operating lease right-of-use asset was determined based on the value of the lease liabilities, adjusted for deferred rent balances of \$13 million, which were previously included in accrued liabilities and other long-term liabilities.

Accounting pronouncements issued but not adopted

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220)*, which addresses the effect of the change in the U.S. federal corporate tax rate due to the enactment of the Act on items within accumulated other comprehensive loss. The Company has elected not to adopt this guidance as there would have been no significant effect of the standard on its consolidated financial statements.

Accounting pronouncements issued but not yet adopted

In August 2018, the FASB issued ASU 2018-15, *Intangibles- Goodwill and Other- Internal-Use Software (Subtopic 350-40)*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The Company will adopt this new standard as of January 1, 2020 and does not expect it to have a material impact on its consolidated financial statements.

Critical Accounting Estimates

The preparation of consolidated financial statements in conformity with GAAP requires QVC to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. 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, and income taxes. QVC bases its estimates on historical experience and on various other assumptions that QVC believes to be reasonable under the circumstances. These estimates form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates under different assumptions or conditions. In addition, as circumstances change, QVC may revise the basis of its estimates accordingly.

Goodwill and long-lived assets

QVC's long-lived asset valuations are primarily comprised of the annual assessment of the recoverability of goodwill and other nonamortizable intangibles, such as tradenames, and the evaluation of the recoverability of other long-lived assets upon certain triggering events. If the carrying value of long-lived assets exceeds their undiscounted cash flows, QVC is required to write the carrying value down to the fair value. Any such writedown is included as an impairment loss in the consolidated statements of operations. A high degree of judgment is required to estimate the fair value of the long-lived assets. QVC may use quoted market prices, prices for similar assets, present value techniques and other valuation techniques to prepare these estimates. QVC may need to make estimates of future cash flows and discount rates as well as other assumptions in order to implement these valuation techniques. Due to the high degree of judgment involved in estimation techniques, any value ultimately derived from the long-lived assets may differ from the estimate of fair value. As all of QVC's operating segments have long-lived assets, this critical accounting estimate affects the financial position and results of operations of each segment.

QVC utilizes a qualitative assessment for determining whether step one of the goodwill impairment analysis is necessary. The accounting guidance permits entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether an impairment exists. In evaluating goodwill on a qualitative basis, QVC reviews the business performance of each reporting unit and evaluates other relevant factors as identified in the relevant accounting guidance to determine whether it is more likely than not that an indicated impairment exists for any of our reporting units. A reporting unit is defined in accounting guidance in accordance with U.S. GAAP as an operating segment or one level below an operating segment (also known as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. The Company considers whether there were any negative macroeconomic conditions, industry specific conditions, market changes, increased competition, increased costs in doing business, management challenges and the legal environments, and how these factors might impact country specific performance in future periods.

For the year ended December 31, 2019, QVC only performed a qualitative assessment for its QxH and QVC-International reporting segments as it was more likely than not that the fair values exceeded the carrying values for each of the reporting units. There was no goodwill impairment recorded for the year ended December 31, 2019.

QVC utilizes a qualitative assessment to evaluate the risk of impairment of indefinite-lived intangible assets. If deemed necessary based on qualitative factors, a quantitative test is used to determine if the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess in accordance with ASC 350-30-35. QVC recorded a \$147 million and \$30 million impairment loss related to its HSN indefinite-lived tradename during the years ended December 31, 2019 and 2018, respectively. The carrying value of the HSN indefinite-lived tradename as of December 31, 2019 is \$450 million.

The changes in the carrying amount of goodwill for the years ended December 31, 2019 and 2018 were as follows:

(in millions)		QxH	QVC-International	Total
Balance as of December 31, 2017	\$	5,094	885	5,979
Purchase accounting adjustments (1)		18	—	18
Exchange rate fluctuations		—	(25)	(25)
Balance as of December 31, 2018		5,112	860	5,972
Exchange rate fluctuations		—	(1)	(1)
Balance as of December 31, 2019	\$	5,112	859	5,971

(1) Adjustment to QxH goodwill is due to an increase in the preliminary purchase price allocation by Qurate Retail during the year ended December 31, 2018.

Retail related adjustments and allowances

QVC records adjustments and allowances for sales returns, inventory obsolescence and uncollectible receivables. Each of these adjustments is estimated based on historical experience. Sales returns are calculated as a percent of sales and are netted against revenue in the consolidated statement of operations. For the years ended December 31, 2019, 2018 and 2017, sales returns represented 17.3%, 17.4% and 18.1% of gross product revenue, respectively. The inventory obsolescence reserve is calculated as a percent of inventory at the end of a reporting period based on, among other factors, the average inventory balance for the preceding twelve months and historical experience with liquidated inventory. The change in the reserve is included in cost of goods sold in the consolidated statements of operations. As of December 31, 2019, inventory was \$1,214 million, which was net of the obsolescence reserve of \$145 million. As of December 31, 2018, inventory was \$1,280 million, which was net of the obsolescence reserve of \$143 million. The allowance for doubtful accounts is calculated as a percent of accounts receivable at the end of a reporting period, and it is based on historical experience, with the change in such allowance being recorded as a provision for doubtful accounts in selling, general and administrative expenses in the consolidated statements of operations. As of December 31, 2019, trade accounts receivable were \$1,813 million, net of the allowance for doubtful accounts of \$123 million. As of December 31, 2018, trade accounts receivable were \$1,787 million, net of the allowance for doubtful accounts of \$112 million. Each of these adjustments requires management judgment. Actual results could differ from management's estimates.

Accounting for income taxes

QVC is required to estimate the amount of tax payable or refundable for the current year and the deferred income tax liabilities and assets for the future tax consequences of events that have been reflected in the financial statements or tax returns for each taxing jurisdiction in which QVC operates. This process requires management to make judgments regarding the timing and probability of the ultimate tax impact of the various agreements and transactions into which QVC enters. Based on these judgments, QVC may record tax reserves or adjustments to valuation allowances on deferred tax assets to reflect the expected realizability of future tax benefits. Tax benefits from uncertain tax positions may be recognized when it is more likely than not that the position will be sustained. A valuation allowance is provided when it is more likely than not that some portion of a deferred tax asset will not be realized. Actual income taxes could vary from these estimates due to future changes in income tax law, significant changes in the jurisdictions in which QVC operates, QVC's inability to generate sufficient future taxable income or unpredicted results from the final determination of each year's liability by taxing authorities. These changes could have a significant impact on QVC's financial position.

Item 7A. 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. QVC believes this best protects itself from interest rate risk.

The table below summarizes the Company's debt obligations, related interest rates and fair value of debt at December 31, 2019:

(in millions, except percentages)	2020	2021	2022	2023	2024	Thereafter	Total	Fair Value
Fixed rate debt (1)	\$ —	—	500	750	600	2,025	3,875	4,011
Weighted average interest rate on fixed rate debt	—%	—%	5.1%	4.4%	4.9%	5.5%	5.1%	N/A
Variable rate debt (1)	\$ —	—	—	1,105	—	—	1,105	1,105
Average interest rate on variable rate debt	—%	—%	—%	3.1%	—%	—%	3.1%	N/A

(1) Amounts exclude finance lease obligations and the issue discounts on the 4.375%, 4.45%, 4.85%, 5.45% and 5.95% Senior Secured Notes.

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 did not qualify as a cash flow hedge under U.S. GAAP. The swap arrangement expired in June 2019. In July 2019, the Company entered into a three-year interest rate swap arrangement with a notional amount of \$125 million. The swap arrangement did not qualify as a cash flow hedge under U.S. GAAP and the fair value of the swap instrument was in a net liability position of less than \$1 million as of December 31, 2019, which was included in other long-term liabilities. A 1% change in the one-month U.S. LIBOR rate (floating portion of the interest rate swap) will result in a change in the value of the swap instrument of less than \$1 million.

On December 31, 2018, QVC entered into a thirteen month interest rate swap arrangement that effectively converted \$250 million of its variable rate bank credit facility to a fixed rate of 1.05% with a maturity date in January 2020. The swap instrument does not qualify as a cash flow hedge and the fair value of the swap instrument was in a net asset position of less than \$1 million as of December 31, 2019, which was included in prepaid expenses and other current assets. A 1% change in the one-month U.S. LIBOR rate (floating portion of the interest rate swap) will result in a change in the value of the swap instrument of less than \$1 million.

Changes in the fair value of the swaps are reflected in losses on financial instruments in the consolidated statements of operations.

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 years ended December 31, 2019, 2018 and 2017 would have been impacted by approximately \$5 million, \$4 million, and \$5 million, respectively, for every 1% change in foreign currency exchange rates relative to the U.S. Dollar.

The senior secured credit facility provides QVC with the ability to borrow in multiple currencies. This allows QVC to somewhat mitigate foreign currency exchange rate risks. As of December 31, 2019, 2018 and 2017, no borrowings in foreign currencies were outstanding.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements of QVC are filed under this Item 8, beginning on page II-24. The financial statement schedules required by Regulation S-X are filed under Item 15 of this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. 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 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 not effective as of December 31, 2019 because of the material weakness in its internal control over financial reporting that is described below in "Management's Report on Internal Control Over Financial Reporting."

However, giving full consideration to the material weakness, the Company's management has concluded that the consolidated financial statements included in this Annual Report on Form 10-K present fairly, in all material respects, the Company's financial position, results of operations and cash flows for the periods disclosed in conformity with U.S. generally accepted accounting principles. KPMG LLP has issued its report dated February 26, 2020, which expressed an unqualified opinion on those consolidated financial statements.

Changes in Internal Control Over Financial Reporting

Except for the remediation activities described below which occurred throughout the year, including during the fourth quarter, there has been no change in the Company's internal control over financial reporting that occurred during the Company's quarter ended December 31, 2019, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

2019 Remediation Activities

In response to the material weaknesses identified in "Management's Report on Internal Control over Financial Reporting" as set forth in Part II, Item 9A in the 2018 Form 10-K, the Company developed a plan with oversight from the Audit Committee of the Board of Directors of Qurate Retail to remediate the material weaknesses. The remediation efforts implemented include the following:

- Improved the design and operation of control activities meant to validate the completeness and accuracy of revenue recorded in the U.K.;
- Removed inappropriate IT system access associated with information technology general controls ("ITGC"), with the exception of IT system access control deficiencies that continued to exist in the Company's German subsidiary as further discussed in Management's Report on Internal Control Over Financial Reporting below;
- Enhanced risk assessment procedures by performing investigative procedures around higher risk applications to identify other potential risk areas that could have an impact on financial reporting;
- Enhanced change management and computer operation control activities including monitoring of information system user access and program changes;
- Delivered training to control operators addressing control operating protocol including ITGCs and policies, and increased communication of expectations for control operators;
- Evaluated talent and addressed identified gaps;
and

- Evaluated the impact of IT application changes on downstream business process controls and enhanced related business process controls as necessary.

Material Weakness in Internal Control

As described in “Management’s Report on Internal Control Over Financial Reporting” in this Annual Report on Form 10-K, through the execution of the aforementioned remediation activities, the Company identified additional instances where system access was not appropriately restricted in Germany, indicating that the prior year ITGC material weakness has not been fully remediated. As a result, the Company will continue to assess the ITGC risk across the environment and evaluate if the control activities are designed and operating to address the risks identified.

The Company believes the foregoing efforts will effectively remediate the material weakness described in “Management’s Report on Internal Control Over Financial Reporting”, although additional changes and improvements may be identified and adopted as the Company continues to implement its remediation plan related to the German ITGC issue. The Company believes it has properly restricted access to the affected applications during the first two months of 2020. Because the reliability of the internal control process requires repeatable execution, the successful on-going remediation of the material weakness will require on-going review and evidence of effectiveness prior to concluding that the controls are effective. Our remediation efforts are underway, and we expect that the remediation of this material weakness will be completed in 2020.

Management’s Report on Internal Control Over Financial Reporting

See page II-20 for Management's Report on Internal Control Over Financial Reporting.

Item 9B. Other Information

None.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

QVC, Inc.'s (the "Company") management is responsible for establishing and maintaining adequate internal control over the Company's financial reporting, as such term is defined in Rule 13a-15(f) of the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

The Company's management assessed the effectiveness of internal control over financial reporting as of December 31, 2019, using the criteria in Internal Control-Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, the Company's management has concluded that, as of December 31, 2019, the Company's internal control over financial reporting is not effective due to the material weakness described below.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company's annual or interim financial statements will not be prevented or detected on a timely basis.

The Company has identified a material weakness in its internal control over financial reporting related to information technology general controls (ITGCs) in its German subsidiary. Specifically, ITGCs were not consistently designed and operated effectively to ensure access to certain financially significant applications and data was adequately restricted to appropriate personnel. Business process controls (automated and manual) that are dependent on the affected ITGCs were also deemed ineffective because they could have been adversely impacted.

While the Company believes its risk assessment process has improved in 2019, the aforementioned material weakness was due to previously unidentified risks in the IT environment in Germany and failure to select and apply appropriate ITGC's over those risks.

The control deficiencies did not result in any identified misstatements.

This Annual Report on Form 10-K does not include an audit report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's Report On Internal Control Over Financial Reporting was not subject to audit by the Company's independent registered public accounting firm pursuant to the rules of the Securities and Exchange Commission.

Report of Independent Registered Public Accounting Firm

To the Stockholder-Director
QVC, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of QVC, Inc. and subsidiaries (the Company), a wholly owned subsidiary of Qurate Retail Inc., as of December 31, 2019 and 2018, the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for revenue as of January 1, 2018 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. In addition, as discussed in Note 2 to the consolidated financial statements, the Company has changed its method of accounting for leases as of January 1, 2019 due to the adoption of FASB ASC Topic 842, *Leases*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2003.

Philadelphia, Pennsylvania
February 26, 2020

QVC, Inc.

Consolidated Balance Sheets

December 31, 2019 and 2018

(in millions, except share amount)	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 561	543
Restricted cash	8	7
Accounts receivable, less allowance for doubtful accounts of \$123 at December 31, 2019 and \$112 at December 31, 2018	1,813	1,787
Inventories	1,214	1,280
Prepaid expenses and other current assets	184	216
Total current assets	3,780	3,833
Property and equipment, net of accumulated depreciation of \$1,338 at December 31, 2019 and \$1,281 at December 31, 2018	1,215	1,165
Operating lease right-of-use assets	214	—
Television distribution rights, net	140	140
Goodwill	5,971	5,972
Other intangible assets, net	3,498	3,666
Other noncurrent assets	109	80
Total assets	\$ 14,927	14,856
Liabilities and equity		
Current liabilities:		
Current portion of debt and finance lease obligations	\$ 18	421
Accounts payable-trade	913	1,008
Accrued liabilities	1,045	1,026
Total current liabilities	1,976	2,455
Long-term portion of debt and finance lease obligations	5,101	4,699
Deferred income taxes	724	700
Other long-term liabilities	322	173
Total liabilities	8,123	8,027
Equity:		
QVC, Inc. stockholder's equity:		
Common stock, \$0.01 par value, 1 authorized share	—	—
Additional paid-in capital	9,208	9,123
Accumulated deficit	(2,390)	(2,269)
Accumulated other comprehensive loss	(144)	(144)
Total QVC, Inc. stockholder's equity	6,674	6,710
Noncontrolling interest	130	119
Total equity	6,804	6,829
Total liabilities and equity	\$ 14,927	14,856

See accompanying notes to the consolidated financial statements

QVC, Inc.

Consolidated Statements of Operations
Years ended December 31, 2019, 2018 and 2017

(in millions)	2019	2018	2017
Net revenue	\$ 10,986	11,282	8,771
Operating costs and expenses:			
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	7,148	7,248	5,598
Operating	768	881	601
Selling, general and administrative, including transaction related costs and stock-based compensation	1,128	1,200	744
Depreciation	186	174	155
Amortization	282	237	364
Impairment loss	147	30	—
	<u>9,659</u>	<u>9,770</u>	<u>7,462</u>
Operating income	1,327	1,512	1,309
Other (expense) income:			
Equity in losses of investee	—	(3)	(3)
Losses on financial instruments	(5)	(2)	—
Interest expense, net	(240)	(243)	(214)
Foreign currency loss	(3)	—	(6)
Loss on extinguishment of debt	—	(2)	—
	<u>(248)</u>	<u>(250)</u>	<u>(223)</u>
Income before income taxes	1,079	1,262	1,086
Income tax expense	<u>(262)</u>	<u>(334)</u>	<u>(139)</u>
Net income	817	928	947
Less net income attributable to the noncontrolling interest	<u>(50)</u>	<u>(46)</u>	<u>(46)</u>
Net income attributable to QVC, Inc. stockholder	\$ 767	882	901

See accompanying notes to the consolidated financial statements

QVC, Inc.**Consolidated Statements of Comprehensive Income****Years ended December 31, 2019, 2018 and 2017**

(in millions)		2019	2018	2017
Net income	\$	817	928	947
Foreign currency translation adjustments, net of tax		1	(48)	135
Total comprehensive income		818	880	1,082
Comprehensive income attributable to noncontrolling interest		(51)	(49)	(50)
Comprehensive income attributable to QVC, Inc. stockholder	\$	767	831	1,032

See accompanying notes to the consolidated financial statements

QVC, Inc.

Consolidated Statements of Cash Flows

Years ended December 31, 2019, 2018 and 2017

(in millions)	2019	2018	2017
Operating activities:			
Net income	\$ 817	928	947
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in losses of investee	—	3	3
Deferred income taxes	(8)	(30)	(329)
Foreign currency loss	3	—	6
Depreciation	186	174	155
Amortization	282	237	364
Change in fair value of financial instruments and non-cash interest	12	8	4
Impairment loss	147	30	—
Loss on extinguishment of debt	—	2	—
Stock-based compensation	39	46	39
Change in other long-term liabilities	(42)	42	(19)
Other non-cash charges, net	32	—	—
Changes in operating assets and liabilities			
Increase in accounts receivable	(10)	(110)	(127)
Decrease (increase) in inventories	68	(113)	(43)
Increase in prepaid expenses and other current assets	(16)	(97)	—
(Decrease) increase in accounts payable-trade	(74)	11	50
(Decrease) increase in accrued liabilities and other	(114)	25	152
Net cash provided by operating activities	1,322	1,156	1,202
Investing activities:			
Capital expenditures	(291)	(228)	(152)
Expenditures for television distribution rights	(134)	(140)	(50)
Other investing activities	29	(29)	—
Changes in other noncurrent assets	(11)	(16)	(1)
Common control transaction with Qurate Retail, Inc., net of cash received	—	—	22
Net cash used in investing activities	(407)	(413)	(181)
Financing activities:			
Principal payments of senior secured credit facility and finance lease obligations	(2,599)	(3,541)	(2,278)
Principal borrowings of debt from senior secured credit facility	2,496	2,750	2,162
Principal repayment of senior secured notes	(400)	—	—
Proceeds from issuance of senior secured notes	500	225	—
Payment of debt origination fees	(18)	(14)	—
Capital contributions received from Qurate Retail, Inc.	50	520	—
Dividends paid to Qurate Retail, Inc.	(879)	(367)	(866)
Dividends paid to noncontrolling interest	(40)	(40)	(40)
Other financing activities	(4)	(18)	(16)
Net cash used in financing activities	(894)	(485)	(1,038)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash			
	(2)	2	13
Net increase (decrease) in cash, cash equivalents and restricted cash	19	260	(4)
Cash, cash equivalents and restricted cash, beginning of year	550	290	294
Cash, cash equivalents and restricted cash, end of year	\$ 569	550	290
Supplemental cash flow information:			
Cash paid for taxes-to Qurate Retail Inc.	\$ 209	273	363
Cash paid for taxes-other	87	134	81
Cash paid for interest	238	241	211
Non-cash capital additions obtained in exchange for liabilities	36	—	—

See accompanying notes to the consolidated financial statements

QVC, Inc.

Consolidated Statements of Equity

Years ended December 31, 2019, 2018 and 2017

(in millions, except share data)	Common stock			Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interest	Total equity
	Shares	Amount	Additional paid-in capital				
Balance, December 31, 2016	1	\$ —	6,851	(2,832)	(224)	100	3,895
Net income	—	—	—	901	—	46	947
Foreign currency translation adjustments, net of tax	—	—	—	—	131	4	135
Dividends paid to Qurate Retail, Inc. and noncontrolling interest	—	—	—	(866)	—	(40)	(906)
Impact of tax liability allocation and indemnification agreement with Qurate Retail, Inc.	—	—	31	—	—	—	31
Withholding taxes on net share settlements of stock-based compensation	—	—	(16)	—	—	—	(16)
Impact of transfer of HSN, Inc. through common control transaction with Qurate Retail, Inc.	—	—	1,671	—	—	—	1,671
Stock-based compensation	—	—	39	—	—	—	39
Balance, December 31, 2017	1	—	8,576	(2,797)	(93)	110	5,796
Adjustments due to adoption of new accounting pronouncements	—	—	—	13	—	—	13
Net income	—	—	—	882	—	46	928
Foreign currency translation adjustments, net of tax	—	—	—	—	(51)	3	(48)
Capital contributions received from Qurate Retail, Inc.	—	—	520	—	—	—	520
Dividends paid to Qurate Retail, Inc. and noncontrolling interest	—	—	—	(367)	—	(40)	(407)
Withholding taxes on net share settlements of stock-based compensation	—	—	(19)	—	—	—	(19)
Stock-based compensation	—	—	46	—	—	—	46
Balance, December 31, 2018	1	—	9,123	(2,269)	(144)	119	6,829
Net income	—	—	—	767	—	50	817
Foreign currency translation adjustments, net of tax	—	—	—	—	—	1	1
Capital contributions received from Qurate Retail, Inc.	—	—	50	—	—	—	50
Dividends paid to Qurate Retail, Inc. and noncontrolling interest	—	—	—	(879)	—	(40)	(919)
Impact of tax liability allocation and indemnification agreement with Qurate Retail, Inc.	—	—	—	(9)	—	—	(9)
Withholding taxes on net share settlements of stock-based compensation	—	—	(4)	—	—	—	(4)
Stock-based compensation	—	—	39	—	—	—	39
Balance, December 31, 2019	1	\$ —	9,208	(2,390)	(144)	130	6,804

See accompanying notes to the consolidated financial statements

Notes to Consolidated Financial Statements

(1) Basis of Presentation

QVC, Inc. and its consolidated subsidiaries (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 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, QVC3, HSN, and HSN2. During the first quarter of 2019, the Company transitioned its Beauty iQ broadcast channel to QVC 3 and Beauty iQ content was moved to a digital only platform. The Company's U.S. programming is also available on QVC.com and HSN.com, QVC's "U.S. websites"; applications via streaming video; Facebook Live, Roku, Apple TV, and Amazon Fire; mobile applications; social pages and over-the-air broadcasters.

QVC's digital platforms enable consumers to purchase goods offered on our broadcast programming, along with a wide assortment of products that are available only on our U.S. websites. QVC.com and our other digital platforms (including our mobile applications, social pages and others) are natural extensions of our business model, allowing customers to engage in our shopping experience wherever they are, with live or on-demand content customized to the device they are using. In addition to offering video content, our U.S. websites allow shoppers to browse, research, compare and perform targeted searches for products, read customer reviews, control the order-entry process and conveniently access their QVC account.

Internationally, QVC's 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, and Italy. In some of the countries where QVC operates, QVC's televised shopping programs are broadcast across multiple QVC channels: QVC Style and QVC2 in Germany and QVC Beauty, QVC Extra and QVC Style in the U.K. Similar to the U.S., our international businesses also engage customers via websites, mobile applications and social pages. 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"). 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. QVC-Japan paid dividends to Mitsui of \$40 million in each of the years ended December 31, 2019, 2018 and 2017.

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 broadcast network and an e-commerce website. This joint venture is accounted for as an equity method investment recorded as equity in losses of investee in the consolidated statements of operations.

The Company is an indirect wholly-owned subsidiary of Qurate Retail, Inc. ("Qurate Retail") (formerly Liberty Interactive Corporation)(Nasdaq: QRTEA and QRTEB), which owns interests in a broad range of digital commerce businesses, including Qurate Retail's other wholly-owned subsidiary Zulily, LLC ("Zulily"), as well as other minority investments. QVC is part of the Qurate Retail Group ("QRG"), formerly QVC Group, a portfolio of brands including QVC, Zulily and the Cornerstone brands ("CBI"). On March 9, 2018, Qurate Retail, GCI Liberty, Inc. ("GCI Liberty") (formerly General Communication, Inc.), an Alaska corporation, and Liberty Interactive LLC, a Delaware limited liability company and a direct wholly-owned subsidiary of Qurate Retail completed transactions whereby Qurate Retail acquired GCI Liberty through a reorganization in which certain assets and liabilities attributed to Qurate Retail's Ventures Group were contributed to GCI Liberty in exchange for a controlling interest in GCI Liberty. Qurate Retail then effected a tax-free separation of its controlling interest in the combined company. Qurate Retail's QVC Group common stock became the only outstanding common stock of Qurate Retail.

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

On December 29, 2017, Qurate Retail completed the acquisition of the remaining 62% ownership interest of HSN, Inc. ("HSN") it did not previously own in an all-stock transaction. On December 31, 2018, Qurate Retail transferred its 100% ownership interest in HSN to QVC through a transaction among entities under common control. As a result of the transaction, the assets and liabilities of HSN (excluding its ownership interest in CBI) were transferred from Qurate Retail at Qurate Retail's historical cost to QVC through an equity contribution. CBI remained a subsidiary of Qurate Retail outside of the QVC legal structure. Beginning January 1, 2019, the Company's U.S. operations and HSN were combined to form the "QxH" operating segment (see note 16). As a result of the common control transaction with Qurate Retail, the Company retrospectively adjusted certain balances within the consolidated financial statements as of and for the year ended December 31, 2017, in order to combine the financial results of the Company and HSN since Qurate Retail's acquisition of HSN on December 29, 2017. All periods presented are prepared on a combined basis and are referred to as the consolidated financial statements herein. All significant intercompany accounts and transactions have been eliminated in the consolidated financial statements. QVC recorded transaction related costs of \$39 million during the year ended December 31, 2017, primarily related to restructuring, integrating and advisory fees that were incurred by QVC as it related to Qurate Retail's acquisition of HSN on December 31, 2017.

On October 17, 2018, QRG announced a series of initiatives designed to better position its QxH business ("QRG Initiatives"). As part of the QRG Initiatives, QVC will close its fulfillment centers in Lancaster, Pennsylvania and Roanoke, Virginia and has entered into an agreement to lease a new fulfillment center in Bethlehem, Pennsylvania, which commenced in 2019 (see note 9). QVC recorded transaction related costs of \$1 million and \$60 million during the years ended December 31, 2019 and 2018, respectively, which primarily related to severance, other QRG Initiatives and the closure of operations France as discussed below.

In the fourth quarter of 2018, QVC recorded a charge related to the potential closure of its operations in France. For the year ended December 31, 2018, QVC recorded \$9 million in severance expenses, which is included in transaction related costs (see note 16), and \$4 million in inventory obsolescence related to these exit activities. No material severance or inventory obsolescence expenses related to these exit activities were recorded during 2019. The formal announcement to execute the closure was made in March 2019 and broadcasting for QVC in France was subsequently terminated on March 13, 2019.

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

(2) Summary of Significant Accounting Policies***(a) Cash and cash equivalents***

All highly liquid investments purchased with an original maturity of three months or less are classified as cash equivalents. Cash equivalents were \$272 million and \$267 million at December 31, 2019 and 2018, respectively. The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate their fair values (Level 1). See note 15.

(b) Restricted cash

Restricted cash at December 31, 2019 and 2018 primarily includes a cash deposit with a third party trustee that provides financial assurance that the Company will fulfill its obligations in relation to claims under its workers' compensation policy.

(c) Accounts receivable

A provision for customer bad debts is provided as a percentage of accounts receivable based on historical experience in the period of sale and is included within selling, general and administrative expense. A provision for noncustomer bad debt expense, related to amounts due from vendors for unsold and returned products, is provided based on an estimate of the probable expected losses and is included in cost of goods sold.

Notes to Consolidated Financial Statements (continued)

(d) Inventories

Inventories, consisting primarily of products held for sale, are stated at the lower of cost or net realizable value. Cost is determined by the average cost method, which approximates the first-in, first-out method. Assessments about the realizability of inventory require the Company to make judgments based on currently available information about the likely method of disposition including sales to individual customers, returns to product vendors, liquidations and the estimated recoverable values of each disposition category.

(e) Property and equipment

The costs of property and equipment are capitalized and depreciated over their estimated useful lives using the straight-line method beginning in the month of acquisition or in-service date. Finance leases are stated at the present value of minimum lease payments. When assets are sold or retired, the cost and accumulated depreciation are removed from the accounts and any gain or loss is included in net income. The costs of maintenance and repairs are charged to expense as incurred.

(f) Capitalized interest

The Company capitalizes interest cost incurred on debt during the construction of major projects exceeding one year. Capitalized interest was not material to the consolidated financial statements for any periods presented.

(g) Internally developed software

Internal software development costs are capitalized in accordance with guidance on accounting for the costs of computer software developed or obtained for internal use, and are classified within other intangible assets in the consolidated balance sheets. The Company amortizes computer software and internal software development costs over an estimated useful life of approximately three years using the straight-line method.

(h) Goodwill and Intangible Assets

Intangible assets with estimable useful lives are amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment upon certain triggering events. Goodwill and other intangible assets with indefinite useful lives ("indefinite-lived intangible assets") are not amortized, but instead are tested for impairment at least annually. Our annual impairment assessment of our indefinite-lived intangible assets is performed during the fourth quarter of each year and more frequently if events and circumstances indicated that the asset might be impaired.

QVC utilizes a qualitative assessment for determining whether step one of the goodwill impairment analysis is necessary. The accounting guidance permits entities to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform step one of the goodwill impairment test. In evaluating goodwill on a qualitative basis, QVC reviews the business performance of each reporting unit and evaluates other relevant factors as identified in the relevant accounting guidance to determine whether it is more likely than not that an indicated impairment exists for any of its reporting units. A reporting unit is defined in accounting guidance in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP" or "GAAP") as an operating segment or one level below an operating segment (also known as a component). A component of an operating segment is a reporting unit if the component constitutes a business for which discrete financial information is available and segment management regularly reviews the operating results of that component. The Company considers QVC's reporting units to align with its operating segments. Refer to Note 16 for additional information. The Company considers whether there were any negative macroeconomic conditions, industry specific conditions, market changes, increased competition, increased costs in doing business, management challenges and the legal environments, and how these factors might impact country specific performance in future periods.

Notes to Consolidated Financial Statements (continued)

If a step one test is considered necessary based on the qualitative factors, the Company compares the estimated fair value of a reporting unit to its carrying value. Developing estimates of fair value requires significant judgments, including making assumptions about appropriate discount rates, perpetual growth rates, relevant comparable market multiples, public trading prices and the amount and timing of expected future cash flows. The cash flows employed in the Company's valuation analysis are based on management's best estimates considering current marketplace factors and risks as well as assumptions of growth rates in future years. There is no assurance that actual results in the future will approximate these forecasts. Any excess of the carrying value of the reporting unit over the fair value is recorded as an impairment charge.

QVC also utilizes a qualitative assessment to evaluate the risk of impairment of indefinite-lived intangible assets. The accounting guidance permits entities to first perform a qualitative assessment to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired. If deemed necessary based on qualitative factors, a quantitative test is used to determine if the carrying value of an indefinite-lived intangible asset exceeds its fair value. An impairment loss would be recognized to the extent that the carrying amount exceeded the asset's fair value in accordance with Accounting Standards Codification ("ASC") 350. Refer to note 6 for additional information.

(i) Translation of foreign currencies

Assets and liabilities of foreign subsidiaries are translated at the spot rate in effect at the applicable reporting date and the consolidated statements of operations are translated at the average exchange rates in effect during the applicable period. The resulting unrealized cumulative translation adjustments, net of applicable income taxes, are recorded as a component of accumulated other comprehensive loss in 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 the consolidated statements of operations as unrealized (based on the applicable period-end exchange rate) or realized upon settlement of the transactions.

(j) Revenue recognition

For the years ended December 31, 2019 and 2018, the Company recognizes revenue at the time of shipment to customers. As a result of the adoption of ASC Topic 606, Revenue from Contracts with Customers ("ASC 606"), as of January 1, 2018, the revenue for shipments in transit is no longer recorded as deferred revenue. For the year ended December 31, 2017, the revenue for shipments in-transit was recorded as deferred revenue. The Company's general policy is to allow customers the right to return merchandise. An allowance for returned merchandise is provided at the time revenue is recorded as a percentage of sales based on historical experience. Refer to note 10 for further explanation.

(k) Cost of goods sold

Cost of goods sold primarily includes actual product cost, provision for obsolete inventory, buying allowances received from suppliers, shipping and handling costs and warehouse costs.

(l) Advertising costs

Advertising costs are expensed as incurred. Advertising costs amounted to \$153 million, \$138 million and \$86 million for the years ended December 31, 2019, 2018 and 2017, respectively. These costs were included in selling, general and administrative expenses in the consolidated statements of operations.

(m) Stock-based compensation

As described in note 11, the Company and Qurate Retail have granted certain stock-based awards to employees of the Company. The Company measures the cost of employee services received in exchange for an award of equity instruments (such as stock options and restricted stock) based on the grant-date fair value of the award, and recognizes that cost over the period during which the employee is required to provide service (usually the vesting period of the award). Stock-based compensation expense is included in selling, general and administrative expenses in the consolidated statements of operations.

Notes to Consolidated Financial Statements (continued)***(n) Impairment of long-lived assets***

The Company reviews long-lived assets, such as property and equipment, internally developed software and purchased intangibles subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Impairment charges are recognized as an acceleration of depreciation expense or amortization expense in the consolidated statements of operations.

(o) Derivatives

The Company accounts for derivatives and hedging activities in accordance with standards issued by the Financial Accounting Standards Board ("FASB"), which requires that all derivative instruments be recorded on the balance sheet at their respective fair values. Fair value is based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. For derivatives designated as hedges, changes in the fair value are either offset against the changes in fair value of the designated hedged item through earnings or recognized in accumulated other comprehensive loss until the hedged item is recognized in earnings.

The Company generally enters into derivative contracts that it intends to designate as a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash flow hedge). For all hedging relationships, the Company formally documents the hedging relationship and its risk management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed prospectively and retrospectively, and a description of the method of measuring ineffectiveness. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge are recorded in accumulated other comprehensive loss to the extent that the derivative is effective as a hedge, until earnings are affected by the variability in cash flows of the designated hedged item. The ineffective portion of the change in fair value of a derivative instrument that qualifies as a cash flow hedge is reported in earnings.

(p) Income taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is provided when it is more likely than not that some portion of the deferred tax asset will not be realized. The effect on deferred tax assets and liabilities of an enacted change in tax rates is recognized in income in the period that includes the enactment date.

When the tax law requires interest to be paid on an underpayment of income taxes, the Company recognizes interest expense from the first period the interest would begin accruing according to the relevant tax law. The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in other (expense) income in the consolidated statements of operations.

(q) Noncontrolling interest

The Company reports the noncontrolling interest of QVC-Japan within equity in the consolidated balance sheets and the amount of consolidated net income attributable to the noncontrolling interest is presented in the consolidated statements of operations.

QVC, Inc.**Notes to Consolidated Financial Statements (continued)*****(s) Common control transaction***

As a result of the common control transaction with Qurate Retail (see note 1), QVC received the following assets and liabilities as of December 29, 2017 through a capital contribution, which reflected the initial purchase price allocation for HSN by Qurate Retail (in millions):

Cash and cash equivalents	\$	22
Accounts receivable		292
Inventory		185
Property and equipment		165
Goodwill		904
Other intangible assets		1,165
Other assets		37
Accounts payable-trade and accrued liabilities		(366)
Long-term portion of debt		(460)
Deferred income taxes		(263)
Other long-term liabilities		(10)
Capital contribution from Qurate Retail, Inc.	\$	1,671

Goodwill is calculated by Qurate Retail as the excess of the consideration transferred for the acquisition over the identifiable net assets acquired and represents the future economic benefits expected to arise from other intangible assets acquired that do not qualify for separate recognition, including assembled workforce, value associated with future customers, continued innovation and noncontractual relationships. Intangible assets acquired during 2017 were comprised of indefinite-lived tradenames of \$627 million, customer relationships of \$425 million with a weighted average life of approximately 9 years, capitalized software of \$7 million with a weighted average life of approximately 3 years, and technology of \$105 million with a weighted average life of approximately 7 years. None of the acquired goodwill is expected to be deductible for tax purposes.

Included in operating income for the year ended December 31, 2017 is \$38 million related to HSN's operations since the date of acquisition, which is primarily related to severance cost and stock-based compensation post acquisition and included within selling, general and administrative costs, including transaction related costs and stock-based compensation, within the consolidated statement of operations. HSN's other results of operations are not included in our consolidated statement of operations for the year ended December 31, 2017 as the results of the final two days of 2017 were considered immaterial to the consolidated financial statements.

The unaudited pro forma net revenue and income before income taxes of QVC, prepared utilizing the historical financial statements of HSN, giving effect to purchase accounting related adjustments made at the time of acquisition, as if the transaction discussed above occurred on January 1, 2016, are \$11,114 million and \$1,163 million respectively for 2017.

The unaudited pro forma information is not representative of QVC's future financial position, future results of operations or future cash flows nor does it reflect what QVC's financial position, results of operations or cash flows would have been if Qurate Retail had previously purchased HSN and QVC controlled HSN during the periods presented. The unaudited pro forma information includes transaction related costs incurred as a result of the acquisition of \$39 million in 2017.

(t) Investment in affiliate

The Company holds an investment in China that is accounted for using the equity method. The equity method of accounting is used when the Company exercises significant influence, but does not have operating control, generally assumed to be 20%-50% ownership. Under the equity method, original investments are recorded at cost and adjusted by their share of undistributed earnings or losses of these companies. The excess of the Company's cost on its underlying interest in the net assets of the affiliate is allocated to identifiable intangible assets and goodwill. Equity investments are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the investment may not be recoverable.

Notes to Consolidated Financial Statements (continued)

On July 4, 2012, the Company entered into a joint venture with CNR for a 49% interest in CNRS. The CNRS joint venture is accounted for as an equity method investment as a component of other noncurrent assets on the consolidated balance sheets and equity in losses of investee in the consolidated statements of operations. CNRS operates a retailing business in China through a televised shopping channel with an associated website. CNRS is headquartered in Beijing, China.

As of December 31, 2019 and 2018, the investment in CNRS is \$40 million and \$38 million and is classified within other noncurrent assets on the consolidated balance sheets.

(u) Use of estimates in the preparation of consolidated financial statements

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated 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, medical and other benefit related costs, depreciable lives of fixed assets, internally developed software, valuation of acquired intangible assets and goodwill, income taxes and stock-based compensation.

(u) Recent accounting pronouncements**Adoption of new accounting pronouncements**

In February 2016 and subsequently, the FASB issued new guidance which revises the accounting related to lessee accounting as part of ASC Topic 842, Leases ("ASC 842"). Under the new guidance, lessees are required to recognize a lease liability and a right-of-use asset for most operating 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 Company adopted ASC 842 on January 1, 2019 utilizing the modified retrospective transition approach and did not restate comparative periods. The Company elected the package of practical expedients permitted under the transition guidance, which allows it to carry forward its historical lease classification, its determination regarding whether a contract contains a lease and any initial indirect costs that had existed prior to the adoption of this new standard. The Company also elected to combine both lease and non-lease components and elected for all short leases with a term of less than 12 months to not record a related operating lease right-of-use asset and operating lease liability on the consolidated balance sheet. The Company recognized \$92 million of operating lease right-of-use assets, \$18 million in short-term operating lease liabilities and \$87 million of long-term operating lease liabilities on the consolidated balance sheet upon adoption of the new standard. The operating lease liabilities were determined based on the present value of the remaining minimum rental payments and the operating lease right-of-use asset was determined based on the value of the lease liabilities, adjusted for deferred rent balances of \$13 million, which were previously included in accrued liabilities and other long-term liabilities.

Accounting pronouncements issued but not adopted

In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220)*, which addresses the effect of the change in the U.S. federal corporate tax rate due to the enactment of the December 22, 2017 Tax Cuts and Jobs Act on items within accumulated other comprehensive loss. The Company has elected not to adopt this guidance as there would have been no significant effect of the standard on its consolidated financial statements.

Accounting pronouncements issued but not yet adopted

In August 2018, the FASB issued ASU 2018-15, *Intangibles- Goodwill and Other- Internal-Use Software (Subtopic 350-40)*, which aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The Company will adopt this new standard as of January 1, 2020 and does not expect it to have a material impact on its consolidated financial statements.

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

(3) Accounts Receivable

The Company offers an installment payment option in all of our markets other than Japan (known as Easy-Pay for the QVC brand in the U.S. and the U.K.; Q-Pay in Germany and Italy and FlexPay for the HSN brand). The installment payment option permits customers to pay for items in two or more installments. When the installment payment option is offered by QVC and elected by the customer, the first installment is typically billed to the customer's credit card upon shipment. Generally, the customer's account is subsequently billed in additional monthly installments until the total purchase price of the products has been billed by the Company.

In 2014, the Company amended and restated its agreement with a large consumer financial services company (the "Bank") pursuant to which the Bank provides revolving credit directly to QVC's customers for the sole purpose of purchasing merchandise or services with a private label credit card ("PLCC") company in the U.S. The agreement with the Bank was amended and restated in March 2017 and December 2018 and related to its QVC brand. In December 2018, the Company entered into a separate agreement with the Bank for its HSN brand. The Company receives a portion of the net economics of the credit card program. The Company cannot predict the extent to which customers will use the PLCC, nor the extent that they will make payments on their outstanding balances. PLCC income of \$124 million and \$118 million was recorded in net revenue during the years ended December 31, 2019 and 2018, respectively. Prior to the adoption of ASC 606, PLCC income was included as a reduction of selling, general and administrative expenses, which amounted to \$105 million in 2017.

The Company also accepts major credit cards for its sales. Accounts receivable from major credit cards represents amounts owed to QVC from the credit card clearing houses for amounts billed but not yet collected.

Accounts receivable consisted of the following:

(in millions)	2019	December 31, 2018
Installment payment option	\$ 1,586	1,533
Major credit cards and customers	247	269
Other receivables	103	97
	1,936	1,899
Less allowance for doubtful accounts	(123)	(112)
Accounts receivable, net	\$ 1,813	1,787

A summary of activity in the allowance for doubtful accounts was as follows:

(in millions)	Balance beginning of year	Additions- charged to expense	Deductions- write-offs	Balance end of year
2019	\$ 112	124	(113)	123
2018	91	112	(91)	112
2017	97	72	(78)	91

The carrying value of accounts receivable, adjusted for the reserves described above, approximates fair value as of December 31, 2019, 2018 and 2017.

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

(4) Property and Equipment, Net

Property and equipment consisted of the following:

(in millions)	2019	December 31, 2018	Estimated useful life
Land	\$ 128	128	N/A
Buildings and improvements	1,169	1,174	3 - 39 years
Furniture and other equipment	586	543	2 - 10 years
Broadcast equipment	140	179	2 - 6 years
Computer equipment	187	186	2 - 5 years
Transponders and terrestrial transmitter (note 9)	177	178	3 - 15 years
Projects in progress	166	58	N/A
Property and equipment	2,553	2,446	
Less: accumulated depreciation	(1,338)	(1,281)	
Property and equipment, net	\$ 1,215	1,165	

N/A - Not applicable.

Disposal of assets reduced property and equipment by \$117 million and \$56 million for the years ended December 31, 2019 and 2018 respectively.

(5) Television Distribution Rights, Net

Television distribution rights consisted of the following:

(in millions)	2019	December 31, 2018
Television distribution rights	\$ 764	723
Less accumulated amortization	(624)	(583)
Television distribution rights, net	\$ 140	140

The Company enters into affiliation agreements with television providers for carriage of the Company's shopping service, as well as for certain channel placement. If these television providers were to change the number of subscribers to the agreement through acquisition, it may change the amount paid by the Company.

The Company's ability to continue to sell products to its customers is dependent on its ability to maintain and renew these affiliation agreements. In some cases, renewals are not agreed upon prior to the expiration of a given agreement while the programming continues to be carried by the relevant distributor without an effective agreement in place. The Company does not have distribution agreements with some of the cable operators that carry its programming.

Television distribution rights are amortized using the straight-line method over the lives of the individual agreements. The remaining weighted average lives of the television distribution rights was approximately 1.3 years as of December 31, 2019. Amortization expense for television distribution rights was \$133 million, \$77 million and \$157 million for the years ended December 31, 2019, 2018 and 2017, respectively.

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

As of December 31, 2019, related amortization expense for each of the next five years ending December 31 was as follows (in millions):

2020	\$	120
2021		17
2022		3
2023		—
2024		—

In return for carrying QVC's signals, each programming distributor in the U.S. receives an allocated portion, based upon market share, of up to 5% of the net sales of merchandise sold via the television programs and from certain internet sales to customers located in the programming distributors' service areas. In Germany, Japan, the U.K., and Italy, programming distributors predominately receive an agreed-upon annual fee, a monthly fee per subscriber regardless of the net sales, a variable percentage of net sales or some combination of the above arrangements. The Company recorded expense related to these commissions of \$350 million, \$363 million and \$298 million for the years ended December 31, 2019, 2018 and 2017, respectively, which is included as part of operating expenses in the consolidated statements of operations.

(6) Goodwill and Other Intangible Assets, Net

The changes in the carrying amount of goodwill for the years ended December 31, 2019 and 2018 were as follows:

(in millions)		QxH	QVC-International	Total
Balance as of December 31, 2017	\$	5,094	885	5,979
Purchase accounting adjustments (1)		18	—	18
Exchange rate fluctuations		—	(25)	(25)
Balance as of December 31, 2018		5,112	860	5,972
Exchange rate fluctuations		—	(1)	(1)
Balance as of December 31, 2019	\$	5,112	859	5,971

(1) Adjustment to QxH goodwill is due to an increase in the preliminary purchase price allocation of HSN by Qurate Retail during the year ended December 31, 2018.

QVC utilizes a qualitative assessment for determining whether step one of the goodwill impairment analysis is necessary. If a step one test is considered necessary based on the qualitative factors, the Company compares the estimated fair value of a reporting unit to its carrying value. Any excess of the carrying value of the reporting unit over the fair value is recorded as an impairment charge. The Company considers QVC's reporting units to align with its operating segments. Refer to Note 16 for additional information. For the year ended December 31, 2019, QVC performed a qualitative assessment for its QxH and QVC-International reporting units as it was more likely than not that the fair values exceeded the carrying values for each of the reporting units. There was no goodwill impairment recorded during the years ended December 31, 2019, 2018 or 2017.

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

Other intangible assets consisted of the following:

(in millions)	2019			December 31, 2018			Weighted average remaining life (years)
	Gross cost	Accumulated amortization	Other intangible assets, net	Gross cost	Accumulated amortization	Other intangible assets, net	
Purchased and internally developed software	\$ 885	(603)	282	890	(640)	250	3
Affiliate and customer relationships	2,829	(2,499)	330	2,831	(2,450)	381	7
Debt origination fees	10	(2)	8	10	—	10	4
Tradenames (indefinite life)	2,878	—	2,878	3,025	—	3,025	N/A
	\$ 6,602	(3,104)	3,498	6,756	(3,090)	3,666	

N/A - Not applicable.

Disposal of assets reduced gross other intangible assets by \$130 million and \$11 million for the years ended December 31, 2019 and 2018, respectively.

Amortization expense for other intangible assets was \$149 million, \$160 million and \$207 million for the years ended December 31, 2019, 2018 and 2017, respectively.

QVC utilizes a qualitative assessment to evaluate the risk of impairment of indefinite-lived intangible assets. If deemed necessary based on qualitative factors, a quantitative test is used to determine if the carrying value of an indefinite-lived intangible asset exceeds its fair value, an impairment loss is recognized in an amount equal to that excess in accordance with ASC 350-30-35. For 2019 and 2018, the company utilized a qualitative impairment assessment for the QVC tradename and a quantitative assessment for the HSN tradename. The company utilizes a relief from royalty method to determine the fair value. As of December 31, 2019, the HSN tradename within the QxH segment, with a carrying amount of \$597 million, was written down to its fair value of \$450 million resulting in an impairment charge of \$147 million, which is reflected in impairment loss in the consolidated statement of operations. As of December 31, 2018, the HSN indefinite-lived tradename with a carrying amount of \$627 million was written down to its fair value of \$597 million resulting in an impairment charge of \$30 million, which is reflected in impairment loss in the consolidated statement of operations. These fair value measurements are Level 3 fair value measurements based on unobservable inputs. There were no impairment losses recorded during the year ended December 31, 2017. Accumulated impairment loss as of December 31, 2019 is \$177 million.

As of December 31, 2019, the related amortization and interest expense for each of the next five years ending December 31 was as follows (in millions):

2020	\$	123
2021		142
2022		124
2023		75
2024		62

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

(7) Accrued Liabilities

Accrued liabilities consisted of the following:

(in millions)	2019	December 31, 2018
Accounts payable non-trade	\$ 369	314
Allowance for sales returns	238	242
Accrued compensation and benefits	112	146
Sales and other taxes	104	101
Accrued interest	57	58
Operating lease liabilities	28	—
Income taxes	23	37
Deferred revenue	19	24
Accrued cable distribution fees	9	39
Other	86	65
	\$ 1,045	1,026

(8) Long-Term Debt and Finance Lease Obligations

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

(in millions)	2019	December 31, 2018
3.125% Senior Secured Notes due 2019, net of original issue discount	\$ —	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
6.375% Senior Secured Notes due 2067	225	225
6.25% Senior Secured Notes due 2068	500	—
Senior secured credit facility	1,105	1,185
Finance lease obligations	181	188
Less debt issuance costs, net	(40)	(25)
Total debt and finance lease obligations	5,119	5,120
Less current portion	(18)	(421)
Long-term portion of debt and finance lease obligations	\$ 5,101	4,699

Senior Secured Notes

All of QVC's senior secured notes are secured by the capital stock of QVC and certain of its subsidiaries and have equal priority to the senior secured credit facility. The interest on QVC's senior secured notes is payable semi-annually with the exception of the 6.375% Senior Secured Notes due 2067 (the "2067 Notes") and the 6.25% Senior Secured Notes due 2068 (the "2068 Notes"), which is payable quarterly. The 3.125% Senior Secured Notes due 2019 were repaid at maturity in April 2019.

6.375% Senior Secured Notes due 2067

On September 13, 2018, QVC completed a registered debt offering for \$225 million of the 2067 Notes at par. QVC has the option to call the 2067 Notes after 5 years at par value, plus accrued and unpaid interest.

6.25% Senior Secured Notes due 2068

On November 26, 2019, QVC completed a registered debt offering for \$435 million of the 2068 Notes at par. QVC granted an option for underwriters to purchase up to an additional \$65 million of the 2068 Notes, which was exercised on December 6, 2019, bringing the aggregate principal borrowed to \$500 million. QVC has the option to call the 2068 Notes after 5 years at par value, plus accrued and unpaid interest.

4.75% Senior Secured Notes due 2027

On February 4, 2020, subsequent to the year ended December 31, 2019, QVC completed a registered debt offering for \$575 million of the 4.75% Senior Secured Notes due 2027 (the "2027 Notes") at par. Interest on the 2027 Notes will be paid semi-annually in February and August, with payments commencing on August 15, 2020.

Senior Secured Credit Facility

On December 31, 2018, QVC entered into the Fourth Amended and Restated Credit Agreement with Zulily as borrowers (collectively, the "Borrowers") which is a multi-currency facility that provides for a \$3.65 billion (which was reduced to \$2.95 billion, effective February 4, 2020 upon the closing of QVC's offering of the 2027 Notes) revolving credit facility with a \$450 million sub-limit for standby letters of credit and \$1.5 billion of uncommitted incremental revolving loan commitments or incremental term loans. The Fourth 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 note 14). The remaining \$3.25 billion (which was subsequently reduced to \$2.55 billion upon reduction of the revolving credit facility, effective February 4, 2020) 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 (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. 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 Qurate Retail, all of its loans must be repaid and its letters of credit cash collateralized. The facility matures on December 31, 2023. Payment of loans may be accelerated following certain customary events of default.

QVC had \$2,392 million available under the terms of the senior secured credit facility at December 31, 2019 (which was subsequently reduced to \$1,692 million upon the reduction of the revolving credit facility, effective February 4, 2020), including the portion available under the \$400 million tranche on which Zulily may also borrow. The interest rate on the senior secured credit facility was 3.1% and 3.9% as of December 31, 2019 and 2018, respectively.

The purpose of the amendment was to, among other things, repay certain fees and expenses, finance working capital needs and general corporate purposes of the Company and its respective subsidiaries and make certain restricted payments and loans to the Company's respective parents and affiliates. The payment and performance of the Borrowers' obligations under the Fourth Amended and Restated Credit Agreement are guaranteed by each of QVC's Material Domestic Subsidiaries (as defined in the Fourth Amended and Restated Credit Agreement). Further, the borrowings under the Fourth Amended and Restated Credit Agreement are secured, *pari passu* with QVC's existing notes, by a pledge of all of QVC's equity interests. In addition, 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 Zulily and secured by a pledge of all of Zulily's equity interests.

Notes to Consolidated Financial Statements (continued)

The Fourth 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 did not qualify as a cash flow hedge under U.S. GAAP. The swap arrangement expired in June 2019. As of December 31, 2018, the fair value of the swap instrument was in a net asset position of \$1 million which was included in prepaid expenses and other current assets. In July 2019, the Company entered into a three-year interest rate swap arrangement with a notional amount of \$125 million. The swap arrangement did not qualify as a cash flow hedge under U.S. GAAP and the fair value of the swap instrument was in a net liability position of less than \$1 million as of December 31, 2019, which was included in other long-term liabilities.

On December 31, 2018, QVC entered into a thirteen month interest rate swap arrangement that effectively converted \$250 million of its variable rate bank credit facility to a fixed rate of 1.05% with a maturity date in January 2020. The swap instrument does not qualify as a cash flow hedge and the fair value of the swap instrument was in a net asset position of less than \$1 million as of December 31, 2019, which was included in prepaid expenses and other current assets. As of December 31, 2018, the fair value of the swap instrument was in a net asset position of \$4 million which was included in prepaid expenses and other current assets.

Changes in the fair value of the swaps are reflected in losses on financial instruments in the consolidated statements of operations.

Other Debt Related Information

QVC was in compliance with all of its debt covenants as of December 31, 2019.

The weighted average interest rate applicable to all of the outstanding debt (excluding finance leases) prior to amortization of bond discounts and related debt issuance costs was 4.7% as of December 31, 2019.

As of December 31, 2019 and 2018, outstanding trade letters of credit totaled \$12 million and \$13 million, respectively.

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

(9) Leases

The Company has finance lease agreements with transponder and transmitter network suppliers for the right to transmit its signals in the U.S. and Germany. The Company is also party to a finance lease agreement for data processing hardware and a warehouse.

QVC also leases data processing equipment, facilities, office space and land. These leases are classified as operating leases. Effective with the adoption of ASC 842 on January 1, 2019, operating lease right-of-use assets and operating lease liabilities are recognized based on the present value of the future lease payments using our incremental borrowing rate. Leases with an initial term of 12 months or less are not recorded on the balance sheet. Our leases have remaining lease terms of less than 1 year to 14 years, some of which may include the option to extend or terminate the leases.

The components of lease cost for the year ended December 31, 2019, were as follows:

(in millions)	December 31, 2019
Finance lease cost	
Depreciation of leased assets	\$ 20
Interest on lease liabilities	9
Total finance lease cost	29
Operating lease cost	32
Total lease cost	\$ 61

For the years ended December 31, 2018 and 2017, the Company recorded depreciation expense on finance leases (previously referred to as capital leases) of \$14 million and \$13 million, respectively, and recorded operating lease expenses of \$34 million and \$23 million, respectively.

The remaining weighted-average lease term and the weighted-average discount rate were as follows:

	December 31, 2019
Weighted-average remaining lease term (years):	
Finance leases	9.2
Operating leases	12.4
Weighted-average discount rate:	
Finance leases	5.0%
Operating leases	6.1%

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

Supplemental balance sheet information related to leases was as follows:

(in millions)	December 31, 2019	
	Operating Leases:	
Operating lease right-of-use assets	\$	214
Accrued liabilities	\$	28
Other long-term liabilities		190
Total operating lease liabilities	\$	218
Finance Leases:		
Property and equipment	\$	282
Accumulated depreciation		(129)
Property and equipment, net	\$	153
Current portion of debt and finance lease obligations	\$	18
Long-term portion of debt and finance lease obligations		163
Total finance lease liabilities	\$	181

Supplemental cash flow information related to leases for the year ended December 31, 2019 was as follows:

(in millions)	December 31, 2019	
	Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating lease	\$	35
Operating cash flows from finance leases		9
Financing cash flows from finance leases		22
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases		151
Finance leases	\$	16

Future payments under noncancelable operating leases and finance leases with initial terms of one year or more as of December 31, 2019 consisted of the following:

(in millions)	Finance leases	Operating leases	Total leases
2020	\$ 26	38	64
2021	25	26	51
2022	25	23	48
2023	25	21	46
2024	23	20	43
Thereafter	108	186	294
Total lease payments	232	314	546
Less: imputed interest	(51)	(96)	(147)
Total lease liabilities	\$ 181	218	399

QVC, Inc.

Notes to Consolidated Financial Statements (continued)

On July 2, 2015, QVC entered into a lease (the "Lease") for a California distribution center. Pursuant to the Lease, the landlord built a million square foot rental building in Ontario, California (the "Premises"), and thereafter leased the Premises to QVC as its California distribution center for an initial term of 15 years. Under the Lease, QVC was required to pay an initial base rent of \$6 million per year, increasing to \$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 had an option to extend the term of the Lease for up to two consecutive terms of 10 years each.

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. Upon opening the distribution center, the Company evaluated whether the Lease met the criteria for "sale-leaseback" treatment under U.S. GAAP and concluded that it did not and therefore treated the Lease as a financing obligation and lease payments were 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 August 2018, QVC exercised the right to purchase the Premises and related land from the landlord by entering into an amended and restated agreement ("New Lease"). QVC made an initial payment of \$10 million and will make annual payments of \$12 million over a term of 13 years. The Company classifies the New Lease within finance lease obligations and lease payments are attributed to: (1) a reduction of the principal obligation and (2) imputed interest expense. In connection with the New Lease, QVC capitalized the related land at fair market value while the building asset is currently being depreciated over its estimated useful life of 20 years.

On October 5, 2018, QVC entered into a lease ("ECDC Lease") for an East Coast distribution center. The 1.7 million square foot rental building is located in Bethlehem, Pennsylvania and will be leased to QVC for an initial term of 15 years. QVC obtained initial access to a portion of the ECDC Lease during March 2019 and obtained access to the remaining portion during September 2019. In total, QVC recorded a right of use asset of \$141 million and an operating lease liability of \$131 million relating to the ECDC Lease, with the difference attributable to prepaid rent. QVC is required to pay an initial base rent of \$10 million per year, with payments that began in the third quarter of 2019 and increasing to \$14 million per year, as well as all real estate taxes and other building operating costs. QVC also has the option to extend the term of the ECDC Lease for up to two consecutive terms of 5 years each and one final term of 4 years.

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

(10) Revenue

Disaggregated revenue by segment and product category consisted of the following:

(in millions)	Year ended December 31, 2019			Year ended December 31, 2018		
	QxH	QVC-International	Total	QxH	QVC-International	Total
Home	\$ 3,047	905	3,952	3,175	1,023	4,198
Beauty	1,299	659	1,958	1,326	640	1,966
Apparel	1,289	422	1,711	1,323	453	1,776
Accessories	918	376	1,294	933	273	1,206
Electronics	1,141	107	1,248	1,129	119	1,248
Jewelry	402	226	628	473	213	686
Other revenue	181	14	195	185	17	202
Total net revenue	\$ 8,277	2,709	10,986	8,544	2,738	11,282

Consumer Product Revenue and Other Revenue

QVC's revenue includes sales of consumer products in the following categories; home, beauty, apparel, accessories, electronics and jewelry, which are primarily sold through live merchandise-focused televised shopping programs and via our websites and other interactive media.

Other revenue consists primarily of income generated from our U.S. PLCC in which a large consumer financial services company provides revolving credit directly to QVC's customers for the sole purpose of purchasing merchandise or services with a PLCC. In return, the Company receives a portion of the net economics of the credit card program.

Revenue Recognition

For the years ended December 31, 2019 and 2018, revenue is recognized when obligations with the Company's customers are satisfied; generally this occurs at the time of shipment to its customers consistent with when control of the shipped product passes. The recognized revenue reflects the consideration the Company expects to receive in exchange for transferring goods, net of allowances for returns.

The Company generally recognizes revenue related to the PLCC over time as the PLCC is used by QVC's customers.

Sales, value add, use and other taxes the Company collects concurrent with revenue-producing activities are excluded from revenue.

The Company has elected to treat shipping and handling activities that occur after the customer obtains control of the goods as a fulfillment cost and not as a promised good or service. Accordingly, the Company accrues the related shipping costs and recognizes revenue upon delivery of the goods to the shipping carrier. In electing this accounting policy, all shipping and handling activities are treated as fulfillment costs.

The Company generally has payment terms with its customers of one year or less and elected the practical expedient applicable to such contracts under ASC 606 not to consider the time value of money.

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

In accordance with the new revenue standard requirements adopted as of January 1, 2018, the impact of adoption on our condensed consolidated statements of operations was as follows:

Statements of Operations (in millions)	Year ended December 31, 2018		
	As Reported	Balances Without Adoption of ASC 606	Effect of Change Increase/(Decrease)
Net revenue	\$ 11,282	11,143	139
Costs and expenses:			
Cost of goods sold (exclusive of depreciation and amortization)	7,248	7,238	10
Operating	881	879	2
Selling, general and administrative, including transaction related costs and stock-based compensation	1,200	1,082	118
Income tax expense	334	332	2
Net income	\$ 928	921	7

The effect of changes of adoption is primarily due to the timing of revenue recognition at QVC and the classification of income for the Company's PLCC income. For the years ended December 31, 2019 and 2018, revenue is recognized at the time of shipment to the Company's customers consistent with when control passes and PLCC income is recognized in net revenue. For the year ended December 31, 2017, revenue at QVC was recognized at the time of delivery to the customers and deferred revenue was recorded to account for the shipments in-transit. In addition, PLCC income was recognized as an offset to selling, general and administrative expenses.

Significant Judgments

Our products are generally sold with a right of return and we may provide other credits or incentives, which are accounted for as variable consideration when estimating the amount of revenue to recognize. Returns and credits are estimated at contract inception and updated at the end of each reporting period as additional information becomes available. The Company has determined that it is generally the principal in vendor arrangements as the Company can establish control over the goods prior to shipment. Accordingly, the Company records revenue for these arrangements on a gross basis.

The total reduction in net revenue due to returns for the years ended December 31, 2019, 2018 and 2017 aggregated to \$2,138 million, \$2,213 million and \$1,811 million, respectively.

As a result of the adoption of ASC 606 the Company recognized a separate \$116 million asset (included in prepaid expenses and other current assets) related to the expected return of inventory and a \$242 million liability (included in accrued liabilities) relating to its sales return reserve as of December 31, 2018, instead of the net presentation of the liability that was reported at December 31, 2017.

A summary of activity in the allowance for sales returns, recorded on a gross basis for the years ended December 31, 2019 and 2018 and recorded on a net margin basis for the year ended December 31, 2017, was as follows:

(in millions)	Balance beginning of year	Additions- charged to earnings	Deductions	Transfer of HSN reserve	Balance end of year
2019	\$ 242	2,138	(2,142)	—	238
2018	243	2,213	(2,214)	—	242
2017	93	982	(979)	23	119

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

(11) Stock Options and Other Share-Based Payments

Certain QVC employees and officers have received stock options (the "Options") and restricted shares in Series A Qurate Retail common stock ("QRTEA") and Qurate Retail's former Series A Liberty Ventures common stock ("LVNTA") in accordance with the Qurate Retail, Inc. 2000 Incentive Plan, as amended from time to time; the Qurate Retail, Inc. 2007 Incentive Plan, as amended from time to time; the Qurate Retail, Inc. 2010 Incentive Plan, as amended from time to time; the Qurate Retail, Inc. 2012 Incentive Plan, as amended from time to time; and the Qurate Retail, Inc. 2016 Omnibus Incentive Plan, as amended from time to time (collectively, the "Liberty Incentive Plan").

(a) Stock options

A summary of the activity of the Liberty Incentive Plan with respect to the QRTEA Options granted to QVC employees and officers as of and during the year ended December 31, 2019 is presented below:

	Options	Weighted average exercise price	Aggregate intrinsic value (000s)	Weighted average remaining life (years)
Outstanding as of January 1, 2019	14,653,589	\$ 24.46	\$ 8,353	4.4
Granted	2,217,707	12.59		
Exercised	(335,581)	16.34		
Forfeited	(3,491,762)	21.35		
Outstanding as of December 31, 2019	13,043,953	23.49	N/A	4.0
Exercisable as of December 31, 2019	7,636,365	25.05	N/A	3.2

N/A - Not applicable as the QRTEA share price as of December 31, 2019 is less than that of the lowest exercise price.

Upon employee exercise of the Options, the exercise price is remitted to Qurate Retail in exchange for the shares. The aggregate intrinsic value of all Options exercised during the years ended December 31, 2019, 2018 and 2017 was \$2 million, \$20 million and \$32 million, respectively.

The weighted average fair value at date of grant of a QRTEA Option granted during the years ended December 31, 2019, 2018 and 2017 was \$4.08, \$8.52 and \$7.86, respectively.

During the years ended December 31, 2019, 2018 and 2017, the fair value of each QRTEA Option was determined as of the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	2019	2018	2017
Expected volatility	30.1 %	29.7 %	30.3 %
Expected term (years)	5.7	5.2	5.9
Risk free interest rate	2.2 %	2.7 %	2.1 %
Expected dividend yield	—	—	—

Expected volatility is based on historical and implied volatilities of QRTEA common stock over a period commensurate with the expected term of the options. The Company estimates the expected term of the Options based on historical exercise and forfeiture data. The volatility used in the calculation for the Options is based on the historical volatility of Qurate Retail's stocks and the implied volatility of publicly traded Qurate Retail Options. The Company uses a zero dividend rate and the risk-free rate for Treasury Bonds with a term similar to that of the subject Options.

The fair value of the Options is recognized as expense over the requisite service period.

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

During the years ended December 31, 2019, 2018 and 2017, the Company recorded \$22 million, \$28 million and \$29 million, respectively, of stock-based compensation expense related to the Options. As of December 31, 2019, the total unrecognized compensation cost related to unvested Options was approximately \$28 million. Such amount will be recognized in the Company's consolidated statement of operations over a weighted average period of approximately 2.0 years.

(b) Restricted stock plan

A summary of the activity of the Liberty Incentive Plan with respect to the QRTEA restricted shares granted to QVC employees and officers as of and during the year ended December 31, 2019 is presented below:

	Restricted shares	Weighted average grant date fair value
Outstanding as of January 1, 2019	1,599,293	\$ 25.42
Granted	1,844,889	16.83
Vested	(598,233)	25.95
Forfeited	(344,814)	21.81
Outstanding as of December 31, 2019	2,501,135	19.45

During the years ended December 31, 2019, 2018 and 2017, the Company recorded \$17 million, \$18 million and \$10 million, respectively, of stock-based compensation expense related to these shares. As of December 31, 2019, the total unrecognized compensation cost related to unvested restricted shares of common stock was approximately \$31 million. Such amount will be recognized in the Company's consolidated statement of operations over a weighted average period of approximately 2.6 years.

Fair value of restricted shares is calculated based on the market price on the day of the granted shares. The weighted average grant date fair value of the QRTEA restricted shares granted to QVC employees and officers during the years ended December 31, 2019, 2018 and 2017 was \$16.83, \$26.23, and \$22.49, respectively. There have been no LVNTA restricted shares granted to QVC employees and officers during the years ended December 31, 2019, 2018 and 2017.

The aggregate fair value of all restricted shares of common stock that vested during the years ended December 31, 2019, 2018 and 2017 was \$16 million, \$37 million and \$10 million, respectively.

(12) Income Taxes

Income tax expense (benefit) consisted of the following:

(in millions)	2019	Years ended December 31,	
		2018	2017
Current:			
U.S. federal	\$ 141	239	352
State and local	37	37	27
Foreign jurisdictions	93	84	87
Total	271	360	466
Deferred:			
U.S. federal	(11)	(27)	(320)
State and local	3	(2)	(7)
Foreign jurisdictions	(1)	3	—
Total	(9)	(26)	(327)
Total income tax expense	\$ 262	334	139

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

Pre-tax income (loss) was as follows:

(in millions)		Years ended December 31,		
		2019	2018	2017
QxH	\$	843	1,062	877
QVC-International		236	200	209
Consolidated QVC	\$	1,079	1,262	1,086

Total income tax expense differs from the amounts computed by applying the U.S. federal income tax rate of 21% in 2019 and 2018 and 35% in 2017, as a result of the following:

	2019	Years ended December 31,	
		2018	2017
Provision at statutory rate	21.0 %	21.0 %	35.0 %
State income taxes, net of federal benefit	2.9	2.2	1.0
Foreign taxes	1.0	0.8	—
Write-off of investment and notes of foreign subsidiary	(3.1)	—	—
Valuation allowance	3.2	2.6	1.0
Permanent differences	(0.2)	(0.2)	(2.2)
Impact of Tax Cuts and Jobs Act	—	—	(26)
Investment in subsidiary	0.9	0.6	4.0
Impact of foreign currency tax regulation	(0.7)	(0.6)	0.4
Other, net	(0.7)	0.1	(0.4)
Total income tax expense	24.3 %	26.5 %	12.8 %

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

The tax effects of temporary differences that gave rise to significant portions of the deferred income tax assets and deferred income tax liabilities are presented below:

(in millions)	2019	December 31, 2018
Deferred tax assets:		
Accounts receivable, principally due to the allowance for doubtful accounts and related reserves for the uncollectible accounts \$	31	29
Inventories, principally due to obsolescence reserves and additional costs of inventories for tax purposes pursuant to the Tax Reform Act of 1986	38	33
Allowance for sales returns	30	31
Deferred revenue	6	15
Deferred compensation	38	39
Unrecognized federal and state tax benefits	13	10
Net operating loss carryforwards	57	49
Foreign tax credits carryforward	43	17
Lease obligations	68	—
Accrued liabilities	15	33
Other	8	5
Subtotal	347	261
Valuation allowance	(99)	(64)
Total deferred tax assets	248	197
Deferred tax liabilities:		
Depreciation and amortization	(823)	(840)
Lease assets	(66)	—
Cumulative translation of foreign currencies	(22)	(16)
Investment in subsidiary	(26)	(41)
Total deferred tax liabilities	(937)	(897)
Net deferred tax liability	\$ (689)	(700)

In the above table, valuation allowances exist due to the uncertainty of whether or not the benefit of certain U.S. federal and foreign tax credits and losses will ultimately be utilized for income tax purposes. The 2019 net deferred tax liability above includes deferred tax assets of \$35 million relating to foreign jurisdictions which are included within other noncurrent assets in the consolidated balance sheet and deferred tax liabilities of \$724 million in domestic jurisdictions which are included within deferred income taxes in the consolidated balance sheet.

On December 22, 2017, new U.S. federal tax legislation, the Tax Cuts and Jobs Act (the “Act”) was enacted. The new legislation was a significant modification of existing U.S. federal tax law and contained several provisions which impacted the tax position of the Company in 2017, 2018, and 2019, and will impact the Company’s tax position in future years. Changes which became effective in 2017 include the reduction of the federal corporate tax rate from 35% to 21%, the rules related to a one-time tax on unremitted foreign earnings in 2017, and an increase in the bonus depreciation allowance on certain qualified property. In connection with unremitted foreign earnings, the Company performed an evaluation of its earnings and profits of its foreign subsidiaries and determined that deficits in some of the subsidiaries offset the surpluses in others so that no amount was subject to the mandatory repatriation provision of the Act in 2017. Entities are required under ASC 740, *Accounting for Income Taxes*, to record the effect of the change in the period of enactment and to recognize the change as a discrete item in income tax expense from continuing operations. The Company recorded an income tax benefit of \$282 million through operations to reflect the impact of the law changes included in the Act. This non-cash tax benefit was primarily attributed to the remeasurement at the new lower federal tax rate of deferred tax liabilities related to non-current intangible assets.

QVC, Inc.

Notes to Consolidated Financial Statements (continued)

Other provisions of the Act which impact the Company's tax position and which became effective in 2018 include changes in how foreign earnings are taxed in the U.S., specifically, the participation exemption for certain foreign earnings, the inclusion and related deduction for global intangible low-taxed income ("GILTI"), the limitation on the deduction of net interest expense, the deduction for foreign derived intangible income ("FDII"), and new rules regarding the usage of foreign tax credits in the U.S. Specifically, due to the rules relating to the categorization of income for foreign tax credit purposes, the Company recognized a foreign tax credit carryover in the branch income basket, for which a deferred tax asset and full valuation allowance have been established.

The Company is party to a Tax Liability Allocation and Indemnification Agreement (the "Tax Agreement") with Qurate Retail. The Tax Agreement establishes the methodology for the calculation and payment of income taxes in connection with the consolidation of the Company with Qurate Retail for income tax purposes. Generally, the Tax Agreement provides that the Company will pay Qurate Retail 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 Qurate Retail, 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. These differences are related primarily to foreign tax credits recognized by QVC that are creditable under the Tax Agreement when and if utilized in Qurate Retail's consolidated tax return. The difference recorded during the year ended December 31, 2019 was an \$11 million dividend which was primarily related to foreign tax credits recognized by QVC and not utilized in Qurate Retail's tax return during the tax year. The differences recorded during the years ended December 31, 2018, and 2017 were \$2 million, and \$31 million, respectively, in capital contributions and were primarily related to foreign tax credit carryovers being utilized in Qurate's consolidated tax return in excess of those recognized by QVC during the respective tax years. The amounts of the tax-related (receivable) balance due (from) to Qurate Retail as of December 31, 2019 and 2018 were \$(7) million and \$26 million, respectively, and are included in accrued liabilities in the consolidated balance sheets.

A reconciliation of the 2018 and 2019 beginning and ending amount of the liability for unrecognized tax benefits is as follows:

(in millions)	
Balance at January 1, 2018	\$ 53
Increases related to prior year tax positions	1
Decreases related to prior year tax positions	(9)
Decreases related to settlements with taxing authorities	—
Increases related to current year tax positions	9
Balance at December 31, 2018	54
Increases related to prior year tax positions	9
Decreases related to prior year tax positions	(7)
Decreases related to settlements with taxing authorities	(4)
Increases related to current year tax positions	8
Balance at December 31, 2019	\$ 60

Included in the balance of unrecognized tax benefits as of December 31, 2019 are potential benefits of \$48 million (net of an \$12 million federal tax effect) that, if recognized, would affect the effective rate on income from continuing operations.

The Company recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in other (expense) income in the consolidated statements of operations. The Company did not have a material amount of interest accrued related to unrecognized tax benefits or tax penalties for the years ended December 31, 2019, 2018 or 2017.

The Company has tax positions for which the amount of related unrecognized tax benefits could change during 2020. These consist of nonfederal transfer pricing and other tax issues. The amount of unrecognized tax benefits related to these issues could have an impact of \$2 million in 2020 as a result of potential settlements, lapsing of statute of limitations and revisions of settlement estimates.

Notes to Consolidated Financial Statements (continued)

The Company participates in a consolidated federal return filing with Qurate Retail. As of December 31, 2019, the Company's tax years through 2015 are closed for federal income tax purposes, and the IRS has completed its examination of the Company's 2016 and 2017 tax years. The Company's 2018 and 2019 tax years are being examined currently as part of the Qurate Retail consolidated return under the IRS's Compliance Assurance Process program. The Company, or one of its subsidiaries, files income tax returns in various states and foreign jurisdictions. As of December 31, 2019, certain of the Company's subsidiaries were under examination in Germany for 2015 through 2017. As of December 31, 2019, the Company, or one of its subsidiaries was under examination in the state of Pennsylvania.

(13) 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 consolidated financial statements.

Network and information systems, including the Internet and telecommunication systems, third party delivery services and other technologies are critical to QVC's business activities. Substantially all of QVC's 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, the Company could face a significant disruption in fulfilling QVC's customer orders and shipment of QVC's products. The Company has active disaster recovery programs in place to help mitigate risks associated with these critical business activities.

(14) Related Party Transactions

During the years ended December 31, 2019, 2018 and 2017, QVC and Zulily engaged in multiple transactions relating to sales, sourcing of merchandise, marketing initiatives, and business advisory services. QVC allocated expenses of \$7 million, \$5 million, and \$4 million to Zulily for the years ended December 31, 2019, 2018, and 2017, respectively. Zulily allocated expenses of \$9 million, \$6 million, and \$5 million to QVC for the years ended December 31, 2019, 2018, and 2017, respectively.

Additionally, on June 23, 2016, QVC amended and restated its senior secured credit facility by entering into the Third Amended and Restated Credit Agreement adding a tranche that allows joint borrowing capacity for either QVC or Zulily and increasing the revolving credit facility from \$2.25 billion to \$2.65 billion. QVC subsequently amended and restated its senior secured credit facility by entering into the Fourth Amended and Restated Credit Agreement, increasing the revolving credit facility to \$3.65 billion (which was reduced to \$2.95 billion, effective February 4, 2020 upon the closing of QVC's offering of the 2027 Notes). See note 8 for more information regarding the revolving credit facility. 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 December 31, 2019, there was \$130 million borrowed by Zulily on the \$400 million tranche of the senior secured credit facility, none of which the Company expects to repay on behalf of Zulily. In addition, Zulily had \$9 million outstanding in standby letters of credit as of December 31, 2019.

During the years ended December 31, 2019 and 2018, QVC and CBI engaged in multiple transactions relating to personnel and business advisory services. QVC allocated expenses of \$28 million and \$50 million to CBI for the years ended December 31, 2019 and 2018, respectively. CBI allocated expenses of \$1 million and \$5 million to QVC for the years ended December 31, 2019 and 2018, respectively. CBI also repaid a \$29 million note receivable to QVC during the year ended December 31, 2019.

(15) 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.

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

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

(in millions)	Fair value measurements at December 31, 2019 using			
	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	\$ 272	272	—	—
Interest rate swap arrangements (note 8)	—	—	—	—
Long-term liabilities:				
Debt (note 8)	5,116	760	4,356	—
Interest rate swap arrangements (note 8)	—	—	—	—

(in millions)	Fair value measurements at December 31, 2018 using			
	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	\$ 267	267	—	—
Interest rate swap arrangements (note 8)	5	—	5	—
Long-term liabilities:				
Debt (note 8)	4,758	189	4,569	—

The 2067 Notes (ticker: QVCD) and the 2068 Notes (ticker: QVCC) are considered Level 1 fair value instruments as reported in the foregoing tables as they are traded on the New York Stock Exchange, which the Company considers to be an "active market," as defined by U.S. GAAP. The remainder 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." Accordingly, these financial instruments are reported in the foregoing tables as Level 2 fair value instruments.

(16) Information about QVC's Operating Segments and Geographical Data

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. For segment reporting purposes, the Company defines Adjusted OIBDA, as net revenue less cost of goods sold, operating expenses, and selling, general and administrative expenses (excluding restructuring, integration and advisory fees incurred by QVC as a result of the acquisition of HSN by Qurate Retail on December 29, 2017, expenses related to the QRG Initiatives (see note 1) and expenses related to the closure of operations in France (collectively, "transaction related costs") and stock-based compensation). The Company believes this measure is an important indicator of the operational strength and performance of its segments by identifying those items that are not directly a reflection of each segment's performance or indicative of ongoing business trends. 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, stock-based compensation and transaction related costs that are included in the measurement of operating income pursuant to U.S. GAAP. Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with U.S. GAAP.

QVC, Inc.

Notes to Consolidated Financial Statements (continued)

The Company's chief operating decision maker ("CODM") is the Company's Chief Executive Officer who has ultimate responsibility for enterprise decisions. QVC's CODM determines, in particular, resource allocation for, and monitors performance of, the consolidated enterprise, QxH, 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).

During the first quarter of 2019, the Company changed its reportable operating segments to combine QVC-U.S. and HSN into one reportable segment called QxH and presented prior period information to conform with this change. As a result of the QRG Initiatives and additional synergies between QVC-U.S. and HSN, the CODM began reviewing the QVC-U.S. and HSN information as one business unit during the first quarter.

For the year ended December 31, 2019, QVC has identified QxH and QVC-International as its two reportable segments. 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 allocates certain corporate costs for management reporting purposes from its QxH segment to the QVC-International segment. These management cost allocations are related to certain functions such as merchandising, commerce platforms, information technology, human resources, legal, finance, brand and communications, corporate development and administration that support all of QVC's operations. For the years ended December 31, 2019, 2018 and 2017, the costs allocated to QVC-International totaled approximately \$27 million, \$39 million and \$36 million respectively.

Performance measures

(in millions)	Years ended December 31,					
	2019		2018		2017	
	Net revenue	Adjusted OIBDA	Net revenue	Adjusted OIBDA	Net revenue	Adjusted OIBDA
QxH	\$ 8,277	1,536	8,544	1,630	6,140	1,455
QVC-International	2,709	446	2,738	429	2,631	451
Consolidated QVC	\$ 10,986	1,982	11,282	2,059	8,771	1,906

Other information

(in millions)	Years ended December 31,					
	2019		2018		2017	
	Depreciation	Amortization	Depreciation	Amortization	Depreciation	Amortization
QxH	\$ 113	269	118	227	93	330
QVC-International	73	13	56	10	62	34
Consolidated QVC	\$ 186	282	174	237	155	364

(in millions)	Years ended December 31,				
	2019		2018		2017
	Total assets	Capital expenditures	Total assets	Capital expenditures	Capital expenditures
QxH	\$ 12,659	257	12,702	161	161
QVC-International	2,268	34	2,154	67	67
Consolidated QVC	\$ 14,927	291	14,856	228	228

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

Property and equipment, net of accumulated depreciation, by segment were as follows:

(in millions)		2019	December 31, 2018
QxH	\$	800	712
QVC-International		415	453
Consolidated QVC	\$	1,215	1,165

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

(in millions)		2019	Years ended December 31,	
			2018	2017
Adjusted OIBDA	\$	1,982	2,059	1,906
Impairment loss		(147)	(30)	—
Transaction related costs		(1)	(60)	(39)
Stock-based compensation		(39)	(46)	(39)
Depreciation and amortization		(468)	(411)	(519)
Operating Income		1,327	1,512	1,309
Equity in losses of investee		—	(3)	(3)
Losses on financial instruments		(5)	(2)	—
Interest expense, net		(240)	(243)	(214)
Foreign currency loss		(3)	—	(6)
Loss on extinguishment of debt		—	(2)	—
Income before income taxes	\$	1,079	1,262	1,086

The following table summarizes net revenues based on revenues generated by subsidiaries located within the identified geographic area:

(in millions)		2019	Years ended December 31,	
			2018	2017
United States	\$	8,277	8,544	6,140
Japan		1,028	947	934
Germany		890	943	899
United Kingdom		640	679	640
Other countries		151	169	158
Consolidated QVC	\$	10,986	11,282	8,771

The following table summarizes property and equipment, net of accumulated depreciation, based on physical location:

(in millions)		2019	December 31,	
			2018	2018
United States	\$	800	712	
Germany		154	161	
Japan		153	165	
United Kingdom		75	77	
Other countries		33	50	
Consolidated QVC	\$	1,215	1,165	

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

(17) 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 as of January 1, 2017	\$ (224)	(224)
Other comprehensive income attributable to QVC, Inc. stockholder	131	131
Balance as of December 31, 2017	(93)	(93)
Other comprehensive loss attributable to QVC, Inc. stockholder	(51)	(51)
Balance as of December 31, 2018	(144)	(144)
Other comprehensive income attributable to QVC, Inc. stockholder	—	—
Balance as of December 31, 2019	\$ (144)	(144)

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

(in millions)	Before-tax amount	Tax benefit (expense)	Net-of-tax amount
<i>Year ended December 31, 2019:</i>			
Foreign currency translation adjustments	\$ —	1	1
Other comprehensive income	—	1	1
<i>Year ended December 31, 2018:</i>			
Foreign currency translation adjustments	\$ (49)	1	(48)
Other comprehensive loss	(49)	1	(48)
<i>Year ended December 31, 2017:</i>			
Foreign currency translation adjustments	\$ 156	(21)	135
Other comprehensive income	156	(21)	135

(18) Employee Benefit Plans

In certain countries, QVC sponsors defined contribution plans, which provide employees an opportunity to make contributions to a trust for investment in a variety of securities. Generally, the Company makes matching contributions to the plans based on a percentage of the amount contributed by employees. The Company's cash contributions to the plans were \$21 million, \$22 million and \$18 million for the years ended December 31, 2019, 2018 and 2017, respectively.

(19) Subsequent Events

In addition to the events described in note 8, QVC declared and paid dividends to Qurate Retail in the amount of \$122 million from January 1, 2020 to February 26, 2020.

As of February 26, 2020, Zulily had \$175 million outstanding on the shared tranche within the Fourth Amended and Restated Credit Agreement.

QVC, Inc.

Notes to Consolidated Financial Statements (continued)

(20) Guarantor/Non-guarantor Subsidiary Financial Information

The following information contains the 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 Fourth Amended and Restated Credit Agreement (refer to Note 8) on December 31, 2018, the following subsidiaries became part of the combined subsidiary guarantors: QVC Deutschland GP, Inc.; HSN, Inc.; HSNi, LLC; HSN Holding LLC; AST Sub, Inc.; Home Shopping Network En Espanol, L.P.; Home Shopping Network En Espanol, L.L.C.; H.O.T. Networks Holdings (Delaware) LLC; HSN of Nevada LLC; Ingenious Designs LLC; NLG Merger Corp.; Ventana Television, Inc.; and Ventana Television Holdings, Inc. The Company has shown all of the subsidiaries of our HSN segment as combined subsidiary guarantors as of December 29, 2017, the date on which HSN became a subsidiary of QVC through a common control transaction with Qurate Retail.

These consolidating financial statements have been prepared from the Company's financial information on the same basis of accounting as the Company's 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 consolidated financial statements.

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

Condensed Consolidating Balance Sheets

(in millions)	December 31, 2019				
	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated-QVC, Inc. and subsidiaries
Assets					
Current assets:					
Cash and cash equivalents	\$ 37	192	332	—	561
Restricted cash	5	—	3	—	8
Accounts receivable, net	1,169	300	344	—	1,813
Inventories	711	258	245	—	1,214
Prepaid expenses and other current assets	105	32	47	—	184
Total current assets	2,027	782	971	—	3,780
Property and equipment, net	264	245	706	—	1,215
Operating lease right-of-use assets	2	15	197	—	214
Television distribution rights, net	—	139	1	—	140
Goodwill	4,190	922	859	—	5,971
Other intangible assets, net	560	2,909	29	—	3,498
Other noncurrent assets	18	12	79	—	109
Investments in subsidiaries	5,747	932	—	(6,679)	—
Total assets	\$ 12,808	5,956	2,842	(6,679)	14,927
Liabilities and equity					
Current liabilities:					
Current portion of debt and finance lease obligations	\$ 2	1	15	—	18
Accounts payable-trade	477	181	255	—	913
Accrued liabilities	311	402	332	—	1,045
Intercompany accounts payable (receivable)	181	(1,356)	1,175	—	—
Total current liabilities	971	(772)	1,777	—	1,976
Long-term portion of debt and finance lease obligations	4,945	5	151	—	5,101
Deferred income taxes	98	653	(27)	—	724
Other long-term liabilities	120	16	186	—	322
Total liabilities	6,134	(98)	2,087	—	8,123
Equity:					
QVC, Inc. stockholder's equity	6,674	6,054	625	(6,679)	6,674
Noncontrolling interest	—	—	130	—	130
Total equity	6,674	6,054	755	(6,679)	6,804
Total liabilities and equity	\$ 12,808	5,956	2,842	(6,679)	14,927

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

Condensed Consolidating Balance Sheets

(in millions)	December 31, 2018				
	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
Assets					
Current assets:					
Cash and cash equivalents	\$ 73	192	278	—	543
Restricted cash	5	—	2	—	7
Accounts receivable, net	1,166	307	314	—	1,787
Inventories	725	310	245	—	1,280
Prepaid expenses and other current assets	95	73	48	—	216
Total current assets	2,064	882	887	—	3,833
Property and equipment, net	281	213	671	—	1,165
Television distribution rights, net	—	139	1	—	140
Goodwill	4,190	922	860	—	5,972
Other intangible assets, net	529	3,116	21	—	3,666
Other noncurrent assets	8	20	52	—	80
Investments in subsidiaries	5,523	885	—	(6,408)	—
Total assets	\$ 12,595	6,177	2,492	(6,408)	14,856
Liabilities and equity					
Current liabilities:					
Current portion of debt and capital lease obligations	\$ 403	1	17	—	421
Accounts payable-trade	494	201	313	—	1,008
Accrued liabilities	358	394	274	—	1,026
Intercompany accounts (receivable) payable	(95)	(1,015)	1,110	—	—
Total current liabilities	1,160	(419)	1,714	—	2,455
Long-term portion of debt and capital lease obligations	4,540	6	153	—	4,699
Deferred income taxes	63	695	(58)	—	700
Other long-term liabilities	122	34	17	—	173
Total liabilities	5,885	316	1,826	—	8,027
Equity:					
QVC, Inc. stockholder's equity	6,710	5,861	547	(6,408)	6,710
Noncontrolling interest	—	—	119	—	119
Total equity	6,710	5,861	666	(6,408)	6,829
Total liabilities and equity	\$ 12,595	6,177	2,492	(6,408)	14,856

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

Consolidating Statements of Operations

(in millions)	Year ended December 31, 2019				
	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated- QVC, Inc. and subsidiaries
Net revenue	\$ 6,236	3,094	2,938	(1,282)	10,986
Operating costs and expenses:					
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	3,879	1,593	1,826	(150)	7,148
Operating	441	416	279	(368)	768
Selling, general and administrative, including transaction related costs and stock-based compensation	1,225	215	452	(764)	1,128
Depreciation	63	35	88	—	186
Amortization	71	199	12	—	282
Impairment loss	—	147	—	—	147
	5,679	2,605	2,657	(1,282)	9,659
Operating income	557	489	281	—	1,327
Other (expense) income:					
Losses on financial instruments	(5)	—	—	—	(5)
Interest (expense) income, net	(236)	4	(8)	—	(240)
Foreign currency loss	(1)	—	(2)	—	(3)
Intercompany interest income (expense)	28	40	(68)	—	—
	(214)	44	(78)	—	(248)
Income before income taxes	343	533	203	—	1,079
Income tax expense	(102)	(68)	(92)	—	(262)
Equity in earnings of subsidiaries, net of tax	576	37	—	(613)	—
Net income	817	502	111	(613)	817
Less net income attributable to the noncontrolling interest	(50)	—	(50)	50	(50)
Net income attributable to QVC, Inc. stockholder	\$ 767	502	61	(563)	767

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

Consolidating Statements of Operations

(in millions)	Year ended December 31, 2018				
	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated-QVC, Inc. and subsidiaries
Net revenue	\$ 6,502	3,185	2,964	(1,369)	11,282
Operating costs and expenses:					
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	3,979	1,617	1,832	(180)	7,248
Operating	442	533	288	(382)	881
Selling, general and administrative, including transaction related costs and stock-based compensation	1,252	282	473	(807)	1,200
Depreciation	65	37	72	—	174
Amortization	79	147	11	—	237
Impairment loss	—	30	—	—	30
	5,817	2,646	2,676	(1,369)	9,770
Operating income	685	539	288	—	1,512
Other (expense) income:					
Equity in losses of investee	—	—	(3)	—	(3)
Losses on financial instruments	(1)	(1)	—	—	(2)
Interest expense, net	(223)	(15)	(5)	—	(243)
Foreign currency gain (loss)	2	—	(2)	—	—
Loss on extinguishment of debt	—	(2)	—	—	(2)
Intercompany interest (expense) income	(34)	151	(117)	—	—
	(256)	133	(127)	—	(250)
Income before income taxes	429	672	161	—	1,262
Income tax expense	(127)	(121)	(86)	—	(334)
Equity in earnings of subsidiaries, net of tax	626	50	—	(676)	—
Net income	928	601	75	(676)	928
Less net income attributable to the noncontrolling interest	(46)	—	(46)	46	(46)
Net income attributable to QVC, Inc. stockholder	\$ 882	601	29	(630)	882

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

Consolidating Statements of Operations

(in millions)	Year ended December 31, 2017				
	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated-QVC, Inc. and subsidiaries
Net revenue	\$ 6,298	1,000	2,848	(1,375)	8,771
Operating costs and expenses:					
Cost of goods sold (exclusive of depreciation and amortization shown separately below)	3,877	157	1,744	(180)	5,598
Operating	433	265	277	(374)	601
Selling, general and administrative, including transaction related costs and stock-based compensation	1,097	40	428	(821)	744
Depreciation	67	7	81	—	155
Amortization	187	142	35	—	364
	5,661	611	2,565	(1,375)	7,462
Operating income	637	389	283	—	1,309
Other (expense) income:					
Equity in losses of investee	—	—	(3)	—	(3)
Interest (expense) income, net	(215)	1	—	—	(214)
Foreign currency (loss) gain	(5)	1	(2)	—	(6)
Intercompany interest (expense) income	(12)	96	(84)	—	—
	(232)	98	(89)	—	(223)
Income before income taxes	405	487	194	—	1,086
Income tax (expense) benefit	(129)	93	(103)	—	(139)
Equity in earnings of subsidiaries, net of tax	671	47	—	(718)	—
Net income	947	627	91	(718)	947
Less net income attributable to the noncontrolling interest	(46)	—	(46)	46	(46)
Net income attributable to QVC, Inc. stockholder	\$ 901	627	45	(672)	901

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

Consolidating Statements of Comprehensive Income

(in millions)	Year ended December 31, 2019				
	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated-QVC, Inc. and subsidiaries
Net income	\$ 817	502	111	(613)	817
Foreign currency translation adjustments, net of tax	1	—	2	(2)	1
Total comprehensive income	818	502	113	(615)	818
Comprehensive income attributable to noncontrolling interest	(51)	—	(51)	51	(51)
Comprehensive income attributable to QVC, Inc. stockholder	\$ 767	502	62	(564)	767

Consolidating Statements of Comprehensive Income

(in millions)	Year ended December 31, 2018				
	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated-QVC, Inc. and subsidiaries
Net income	\$ 928	601	75	(676)	928
Foreign currency translation adjustments, net of tax	(48)	—	(48)	48	(48)
Total comprehensive income	880	601	27	(628)	880
Comprehensive income attributable to noncontrolling interest	(49)	—	(49)	49	(49)
Comprehensive income attributable to QVC, Inc. stockholder	\$ 831	601	(22)	(579)	831

Consolidating Statements of Comprehensive Income

(in millions)	Year ended December 31, 2017				
	Parent issuer- QVC, Inc.	Combined subsidiary guarantors	Combined non-guarantor subsidiaries	Eliminations	Consolidated-QVC, Inc. and subsidiaries
Net income	\$ 947	627	91	(718)	947
Foreign currency translation adjustments, net of tax	135	—	135	(135)	135
Total comprehensive income	1,082	627	226	(853)	1,082
Comprehensive income attributable to noncontrolling interest	(50)	—	(50)	50	(50)
Comprehensive income attributable to QVC, Inc. stockholder	\$ 1,032	627	176	(803)	1,032

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

Condensed Consolidating Statements of Cash Flows

(in millions)	Year ended December 31, 2019				
	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	\$ 368	836	118	—	1,322
Investing activities:					
Capital expenditures	(127)	(65)	(99)	—	(291)
Expenditures for television distribution rights	—	(134)	—	—	(134)
Changes in other noncurrent assets	(11)	(2)	2	—	(11)
Other investing activities	—	29	—	—	29
Intercompany investing activities	319	(999)	—	680	—
Net cash provided by (used in) investing activities	181	(1,171)	(97)	680	(407)
Financing activities:					
Principal payments of debt and finance lease obligations	(2,586)	—	(13)	—	(2,599)
Principal borrowings of debt from senior secured credit facility	2,496	—	—	—	2,496
Principal repayment of senior secured notes	(400)	—	—	—	(400)
Proceeds from issuance of senior secured notes	500	—	—	—	500
Payment of debt origination fees	(18)	—	—	—	(18)
Capital contributions received from Qurate Retail, Inc.	50	—	—	—	50
Dividends paid to Qurate Retail Inc.	(877)	(2)	—	—	(879)
Dividends paid to noncontrolling interest	—	—	(40)	—	(40)
Other financing activities	(4)	—	—	—	(4)
Net short-term intercompany debt borrowings (repayments)	276	(341)	65	—	—
Other intercompany financing activities	(22)	678	24	(680)	—
Net cash (used in) provided by financing activities	(585)	335	36	(680)	(894)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash					
Net (decrease) increase in cash, cash equivalents and restricted cash	(36)	—	55	—	19
Cash, cash equivalents and restricted cash, beginning of period	78	192	280	—	550
Cash, cash equivalents and restricted cash, end of period	\$ 42	192	335	—	569

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

Condensed Consolidating Statements of Cash Flows

(in millions)	Year ended December 31, 2018				
	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	\$ 461	592	103	—	1,156
Investing activities:					
Capital expenditures	(121)	(19)	(88)	—	(228)
Expenditures for television distribution rights	—	(139)	(1)	—	(140)
Changes in other noncurrent assets	1	(4)	(13)	—	(16)
Other investing activities	—	(29)	—	—	(29)
Intercompany investing activities	433	(688)	—	255	—
Net cash provided by (used in) investing activities	313	(879)	(102)	255	(413)
Financing activities:					
Principal payments of debt and capital lease obligations	(2,680)	(851)	(10)	—	(3,541)
Principal borrowings of debt from senior secured credit facility	2,362	388	—	—	2,750
Proceeds from issuance of senior secured notes	225	—	—	—	225
Payment of debt origination fees	(14)	—	—	—	(14)
Capital contributions received from Qurate Retail, Inc.	340	180	—	—	520
Dividends paid to Qurate Retail, Inc.	(367)	—	—	—	(367)
Dividends paid to noncontrolling interest	—	—	(40)	—	(40)
Other financing activities	(10)	(8)	—	—	(18)
Net short-term intercompany debt (repayments) borrowings	(548)	498	50	—	—
Other intercompany financing activities	(11)	217	49	(255)	—
Net cash (used in) provided by financing activities	(703)	424	49	(255)	(485)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash	—	—	2	—	2
Net increase in cash, cash equivalents and restricted cash	71	137	52	—	260
Cash, cash equivalents and restricted cash, beginning of period	7	55	228	—	290
Cash, cash equivalents and restricted cash, end of period	\$ 78	192	280	—	550

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

Condensed Consolidating Statements of Cash Flows

(in millions)	Year ended December 31, 2017				
	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	\$ 641	507	54	—	1,202
Investing activities:					
Capital expenditures	(103)	(4)	(45)	—	(152)
Expenditures for television distribution rights	—	(50)	—	—	(50)
Changes in other noncurrent assets	(1)	—	—	—	(1)
Intercompany investing activities	545	(1,507)	—	962	—
Common control transaction with Qurate Retail, Inc., net of cash received	—	22	—	—	22
Net cash provided by (used in) investing activities	441	(1,539)	(45)	962	(181)
Financing activities:					
Principal payments of debt and capital lease obligations	(2,268)	—	(10)	—	(2,278)
Principal borrowings of debt from senior secured credit facility	2,162	—	—	—	2,162
Dividends paid to Qurate Retail, Inc.	(866)	—	—	—	(866)
Dividends paid to noncontrolling interest	—	—	(40)	—	(40)
Other financing activities	(16)	—	—	—	(16)
Net short-term intercompany debt (repayments) borrowings	(170)	(1,267)	1,437	—	—
Other intercompany financing activities	73	2,257	(1,368)	(962)	—
Net cash (used in) provided by financing activities	(1,085)	990	19	(962)	(1,038)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash					
Net (decrease) increase in cash, cash equivalents and restricted cash	(3)	(42)	41	—	(4)
Cash, cash equivalents and restricted cash, beginning of period	10	97	187	—	294
Cash, cash equivalents and restricted cash, end of period	\$ 7	55	228	—	290

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

(21) Quarterly Financial Information (Unaudited)

(in millions)	Year ended December 31, 2019			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net revenue	\$ 2,501	2,514	2,504	3,467
Operating income	\$ 326	365	330	306
Net income	\$ 186	218	188	225
Net income attributable to QVC, Inc. stockholder	\$ 176	206	174	211

(in millions)	Year ended December 31, 2018			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Net revenue	\$ 2,602	2,556	2,569	3,555
Operating income	\$ 356	390	305	461
Net income	\$ 212	244	181	291
Net income attributable to QVC, Inc. stockholder	\$ 201	233	170	278

PART III**Item 10. Directors, Executive Officers and Corporate Governance**

Intentionally omitted in accordance with General Instruction I(2)(c) of Form 10-K.

Item 11. Executive Compensation

Intentionally omitted in accordance with General Instruction I(2)(c) of Form 10-K.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Intentionally omitted in accordance with General Instruction I(2)(c) of Form 10-K.

Item 13. Certain Relationships and Related Transactions, and Director Independence

Intentionally omitted in accordance with General Instruction I(2)(c) of Form 10-K.

Item 14. Principal Accounting Fees and Services***Audit Fees and All Other Fees***

The following table presents fees for professional audit services rendered by KPMG LLP and its international affiliates for the audit of QVC's consolidated financial statements for 2019 and 2018 and fees billed for other services rendered by KPMG LLP:

	Year ended December 31,	
	2019	2018
Audit fees (1)	\$ 6,620,031	\$ 6,628,079
Audit related fees (2)	—	—
Audit and audit related fees	6,620,031	6,628,079
Tax fees (3)	12,476	41,998
Total fees	\$ 6,632,507	\$ 6,670,077

(1) Audit fees include fees for the audit and quarterly reviews of QVC's 2019 and 2018 consolidated financial statements, statutory audits, and reviews of registration statements and issuance of consents.

(2) Audit related fees consist of fees billed for professional services rendered for audit-related services including consultations on proposed financial accounting and reporting-related matters.

(3) Tax fees consist of tax compliance and consultations regarding the tax implications of certain transactions.

Policy on Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditor

The audit committee of Qurate Retail has adopted a policy regarding the pre-approval of all audit and permissible non-audit services provided by QVC's independent auditor. Pursuant to this policy, Qurate Retail's audit committee has approved the engagement of QVC's independent auditor to provide the following services (all of which are collectively referred to as "pre-approved services"):

- Audit services as specified in the policy, including (i) financial audits of QVC and its subsidiaries, (ii) services associated with QVC's registration statements, periodic reports and other documents filed or issued in connection with securities offerings (including comfort letters and consents), (iii) attestations of management reports on QVC's internal controls and (iv) consultations with management as to accounting or disclosure treatment of transactions;

- Audit related services as specified in the policy, including (i) due diligence services, (ii) financial statement audits of employee benefit plans, (iii) consultations with management as to the accounting or disclosure treatment of transactions, (iv) attest services not required by statute or regulation, (v) certain audits incremental to the audit of QVC's consolidated financial statements, (vi) closing balance sheet audits related to dispositions, and (vii) general assistance with implementation of the requirements of certain SEC rules or listing standards; and
- Tax services as specified in the policy, including federal, state, local and international tax planning, compliance and review services, and tax due diligence and advice regarding mergers and acquisitions.

Notwithstanding the foregoing general pre-approval, if an individual project involving the provision of pre-approved services is expected to result in fees in excess of \$100,000, or if individual projects under \$100,000 are expected to total \$500,000 during the period between the regularly scheduled meetings of Qurate Retail's audit committee, then such projects will require the specific pre-approval of Qurate Retail's audit committee. Qurate Retail's audit committee has delegated the authority for the foregoing approvals to the chairman of the audit committee, subject to his subsequent disclosure to the entire audit committee of the granting of any such approval. M. Ian G. Gilchrist currently serves as the chairman of Qurate Retail's audit committee. In addition, the independent auditor is required to provide a report at each regularly scheduled audit committee meeting on all pre-approved services incurred during the preceding quarter. Any engagement of QVC's independent auditor for services other than the pre-approved services requires the specific approval of Qurate Retail's audit committee.

Qurate Retail's pre-approval policy prohibits the engagement of QVC's independent auditor to provide any services that are subject to the prohibition imposed by Section 201 of the Sarbanes-Oxley Act.

All services provided by QVC's independent auditor during 2019 and 2018 were approved in accordance with the terms of the policy.

PART IV

Item 15. Exhibits and financial statement schedules

(a) (1) *Financial Statements*

Included in Part II of this report:

	<u>Page</u>
QVC, Inc.:	
Report of Independent Registered Public Accounting Firm	II-21
Consolidated Balance Sheets, December 31, 2019 and 2018	II-22
Consolidated Statements of Operations, Years ended December 31, 2019, 2018 and 2017	II-23
Consolidated Statements of Comprehensive Income, Years ended December 31, 2019, 2018 and 2017	II-24
Consolidated Statements of Cash Flows, Years ended December 31, 2019, 2018 and 2017	II-25
Consolidated Statement of Equity, Years ended December 31, 2019, 2018 and 2017	II-26
Notes to Consolidated Financial Statements, December 31, 2019, 2018 and 2017	II-27

(a) (2) *Financial Statement Schedules*

- (i) All schedules have been omitted because they are not applicable, not material or the required information is set forth in the financial statements or notes thereto.

(a) (3) *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):

3 - Articles of Incorporation and Bylaws:

- 3.1 [Restated Certificate of Incorporation of QVC, Inc. dated October 26, 2009 \(incorporated by reference to Exhibit 3.1 to the Registrant's Registration Statement on Form S-4 \(File No. 333-184501\) as filed on October 19, 2012 \(the "2012 S-4"\)\)](#).
- 3.2 [Amended and Restated By-Laws of QVC, Inc. \(effective September 30, 2015\) \(incorporated by reference to Exhibit 3.1 to QVC, Inc.'s Current Report on Form 8-K \(file No. 000-55409\) as filed on October 6, 2015\)](#)

4 - Instruments Defining the Rights to Securities Holders, Including Indentures:

- 4.1 [Indenture dated as of July 2, 2012 among QVC, Inc., the guarantors party thereto and U.S. Bank National Association \(incorporated by reference to Exhibit 4.1 to the 2012 S-4\).](#)
- 4.2 [Indenture dated as of March 18, 2013 among QVC, Inc., the guarantors party thereto and U.S. Bank National Association \(incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2013 \(File No. 333-184501\) as filed on May 9, 2013\).](#)
- 4.3 [Form of Indenture dated as of March 18, 2014 among QVC, Inc., the guarantors party thereto and U.S. Bank National Association \(incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-4 \(File No. 333-195586\) as filed on April 30, 2014\).](#)
- 4.4 [Indenture dated as of August 21, 2014 among QVC, Inc., the guarantors party thereto and U.S. Bank National Association \(incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-4 \(File No. 333-199254\) as filed on October 10, 2014\).](#)
- 4.5 [Fourth Amended and Restated Credit Agreement, dated as of December 31, 2018, among QVC, Inc. and zulily, llc, as Borrowers, JPMorgan Chase Bank, N.A., as Lead Arranger, Lead Bookrunner and Administrative Agent and the parties named therein as Lenders, Co-Bookrunners, Co-Syndication Agents and Co-Documentation Agents \(incorporated by reference to Exhibit 4.1 to the Registrant's Current Report on Form 8-K \(File No. 001-38654\) as filed on January 4, 2019\).](#)
- 4.6 [Indenture, dated September 13, 2018, by and among QVC, Inc., Affiliate Investment, Inc., Affiliate Relations Holdings, Inc., AMI 2, Inc., ER Marks, Inc., QVC Global Holdings I, Inc., QVC Global Holdings II, Inc., QVC Rocky Mount, Inc., QVC San Antonio, LLC and U.S. Bank National Association, as trustee \(incorporated by reference to Exhibit 4.1 to the Registrant's Form 8-A \(File No. 001-38654\), as filed on September 13, 2018 \(the "Form 8-A"\)\)\).](#)
- 4.7 [First Supplemental Indenture, dated September 13, 2018, by and among QVC, Inc., Affiliate Investment, Inc., Affiliate Relations Holdings, Inc., AMI 2, Inc., ER Marks, Inc., QVC Global Holdings I, Inc., QVC Global Holdings II, Inc., QVC Rocky Mount, Inc., QVC San Antonio, LLC and U.S. Bank National Association, as trustee \(incorporated by reference to Exhibit 4.2 to the Form 8-A\).](#)
- 4.8 [Form of 6.375% Senior Secured Notes due 2067 \(incorporated by reference to Exhibit 4.3 to the Form 8-A\).](#)
- 4.9 [Second Supplemental Indenture, dated November 26, 2019, by and among QVC, Inc., Affiliate Investment, Inc., Affiliate Relations Holdings, Inc., AMI 2, Inc., ER Marks, Inc., QVC Global Holdings I, Inc., QVC Global Holdings II, Inc., QVC Rocky Mount, Inc., QVC San Antonio, LLC, QVC Deutschland GP, Inc., HSN, Inc., HSNi, LLC, HSN Holding LLC, AST Sub, Inc., Home Shopping Network En Espanol, L.L.C., Home Shopping Network En Espanol, L.P., H.O.T. Networks Holdings \(Delaware\) LLC, HSN of Nevada LLC, Ingenious Designs LLC, NLG Merger Corp., Ventana Television, Inc., and Ventana Television Holdings, Inc., as guarantors, and U.S. Bank National Association, as trustee \(incorporated by reference to Exhibit 4.2 to the Registrant's Form 8-A \(File No. 001-38654\), as filed on November 26, 2019 \(the "2019 Form 8-A"\)\)\).](#)
- 4.10 [Form of 6.250% Senior Secured Notes due 2068 \(incorporated by reference to Exhibit 4.3 to the 2019 Form 8-A\).](#)
- 4.11 [Third Supplemental Indenture, dated February 4, 2020, by and among QVC, Inc., Affiliate Investment, Inc., Affiliate Relations Holdings, Inc., AMI 2, Inc., ER Marks, Inc., QVC Global Holdings I, Inc., QVC Global Holdings II, Inc., QVC Rocky Mount, Inc., QVC San Antonio, LLC, QVC Deutschland GP, Inc., HSN, Inc., HSNi, LLC, HSN Holding LLC, AST Sub, Inc., Home Shopping Network En Espanol, L.L.C., Home Shopping Network En Espanol, L.P., H.O.T. Networks Holdings \(Delaware\) LLC, HSN of Nevada LLC, Ingenious Designs LLC, NLG Merger Corp., Ventana Television, Inc., and Ventana Television Holdings, Inc., as guarantors, and U.S. Bank National Association, as trustee \(incorporated by reference to Exhibit 4.2 to the Registrant's Current Report on Form 8-K \(File No. 001-38654\) as filed on February 4, 2020 \(the "February 2020 Form 8-K"\)\)\).](#)
- 4.12 [Form of 4.75% Senior Secured Notes due 2027 \(incorporated by reference to Exhibit 4.3 to the February 2020 Form 8-K\).](#)
- 4.13 [Description of the Registrant's Securities Registered Pursuant to Section 12 of the Securities Exchange Act of 1934.*](#)

10 - Material Contracts:

- 10.1 [Forms of Indemnification Agreements between QVC, Inc. and executive officers \(incorporated by reference to Exhibit 10.16 to the 2012 S-4\).](#)

21 - Subsidiaries:*

21.1 [Subsidiaries of the Registrant*](#)

23 - Consents:*

23.1 [Consent of KPMG LLP*](#)

31 - Certification Letters:*

31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification*](#)

31.2 [Rule 13a-14\(a\)/15d-14\(a\) Certification*](#)

32 - Section 1350 Certification Letter:**

32.1 [Section 1350 Certification**](#)

101 - XBRL:*

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.

Item 16. Form 10-K Summary

Not applicable.

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: February 26, 2020

By: /s/ MICHAEL A. GEORGE

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

Date: February 26, 2020

By: /s/ JEFFREY A. DAVIS

Jeffrey A. Davis
Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the date indicated.

Date: February 26, 2020

By: /s/ JEFFREY A. DAVIS

Jeffrey A. Davis
Chief Financial Officer of Qurate Retail Group, Inc., as Stockholder-Director of QVC, Inc.

Date: February 26, 2020

By: /s/ MICHAEL A. GEORGE

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

Date: February 26, 2020

By: /s/ JEFFREY A. DAVIS

Jeffrey A. Davis
Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

**DESCRIPTION OF THE REGISTRANT'S SECURITIES
REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES
EXCHANGE ACT OF 1934**

As of the end of the period covered by the most recent Annual Report on Form 10-K of QVC, Inc. (the "Registrant"), the Registrant has three classes of securities registered under Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"): (1) Common Stock, par value \$0.01 per share (the "common stock"), (2) 6.375% Senior Secured Notes due 2067, and (3) 6.250% Senior Secured Notes due 2068.

Description of Registrant's Common Stock

The following description of the Registrant's common stock is a summary and does not purport to be complete. It is subject to and qualified in its entirety by reference to the Registrant's [Restated Certificate of Incorporation](#) (the "charter") and [Amended and Restated By-Laws](#) (the "by-laws"), which are exhibits to this Annual Report on Form 10-K and are incorporated by reference herein. We encourage you to read the charter and by-laws and the applicable provisions of the Delaware General Corporation Law for additional information.

Authorized Capital Stock

The authorized capital stock of the Registrant is one share, consisting of one share of common stock, par value \$0.01. As of the end of the period covered by the most recent Annual Report on Form 10-K of the Registrant, one share of common stock was issued and outstanding, which was duly and validly issued and fully paid and nonassessable.

The Registrant's Common Stock

All of the issued and outstanding capital stock of the Registrant is owned by Qurate Retail Group, Inc., an indirect wholly-owned subsidiary of Qurate Retail, Inc. The Registrant's charter provides that no transfer of any of the Registrant's issued shares of capital stock shall be effective without the consent of the Registrant. The Registrant is prohibited from making a public offering of any of its stock of any class which would constitute a "public offering" within the meaning of the Securities Act.

Dividends; Liquidation

Holders of the Registrant's common stock are entitled to such dividends as may be declared from time to time by the shareholder director of the Registrant from funds available therefor, and upon liquidation are entitled to receive pro rata all assets of the Registrant available for distribution to such holders.

Meetings

The common stockholder is notified of any stockholder's meeting in accordance with the Registrant's bylaws and applicable law.

Voting Rights

The holder of common stock possesses all the voting power on all matters voted on by stockholders. The charter does not provide for cumulative voting in the election of directors.

Other Rights

The holder of common stock has no preemptive, redemption or conversion rights and is not liable for further calls or assessments.

Description of the Registrant's 6.375% Senior Secured Notes due 2067

As used in this section “Description of the Registrant’s 6.375% Senior Secured Notes due 2067”, the “Issuer” means QVC, Inc., a Delaware corporation, and its successors, but not any of its subsidiaries. The following is a description of the Registrant’s 6.375% Senior Secured Notes due September 13, 2067 (the “Notes”) issued under the Indenture, dated as of September 13, 2018 (the “Base Indenture”), among the Issuer, the Guarantors (as defined below), and U.S. Bank National Association, as trustee (the “Trustee”) and a Supplemental Indenture, dated as of September 13, 2018 (the “Supplemental Indenture”, and the Base Indenture, as supplemented by the Supplemental Indenture, the “Indenture”), among the Issuer, the Guarantors and the Trustee.

The terms of the Notes include those set forth in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act (as defined below).

The following is a summary of the material terms and provisions of the Indenture, the Notes, the Note Guarantees (as defined below), as well as the Parent Pledge Agreement (as defined below). The following summary does not purport to be a complete description of these documents and is subject to the detailed provisions of, and qualified in its entirety by reference to, the Indenture and the Parent Pledge Agreement. The [Base Indenture](#) and [Supplemental Indenture](#) are exhibits to this Annual Report on Form 10-K and are incorporated by reference herein. Additionally, you may obtain a copy of the Indenture and the Parent Pledge Agreement from the Issuer at its address set forth elsewhere in its most recent Annual Report on Form 10-K. You can find definitions of certain terms used in this section under “-Certain Definitions Related to the 6.375% Senior Secured Notes due 2067.” Terms defined in this “Description of the Registrant’s 6.375% Senior Secured Notes due 2067” section are defined only for the purpose of this section. References in this section to any subsections are references only to subsections of this section.

Principal, Maturity and Interest

The Notes will mature on September 13, 2067. The Notes bear interest at the rate of 6.375%, payable on March 15, June 15, September 15, and December 15 of each year, commencing on December 15, 2018 to Holders of record at the close of business on March 1, June 1, September 1, or December 1, as the case may be, immediately preceding the relevant interest payment date. Interest on the Notes is computed on the basis of a 360-day year of twelve 30-day months.

The Notes were issued in registered form, without coupons, and in denominations and integral multiples of \$25.00.

The Notes were initially issued in an aggregate principal amount equal to \$225,000,000, which amount is outstanding as of the end of the period covered by the most recent Annual Report on Form 10-K of the Issuer. The Issuer may issue additional Notes having identical terms and conditions to the Notes issued on the Issue Date, except for issue date, issue price and first interest payment date, in an unlimited aggregate principal amount (the “Additional Notes”), subject to compliance with the covenant described under “-Certain Covenants-Limitations on Incurrence of Indebtedness.” Any Additional Notes will be part of the same issue as the Notes issued on the Issue Date and will be treated as one class with the Notes issued on the Issue Date, including for purposes of voting, redemptions and offers to purchase. Any Additional Notes will be secured equally and ratably with the Notes, the 2019 Notes, the Existing Notes, the obligations under the Credit Agreement, the obligations under any Specified Swap Agreements and the obligations under certain other parity indebtedness permitted to be incurred under the Indenture. See “-Security.” For purposes of this “Description of the Registrant’s 6.375% Senior Secured Notes due 2067” section, except for the covenant described under “-Certain Covenants-Limitations on Incurrence of Indebtedness,” references to the Notes include Additional Notes, if any.

Ranking

The Notes issued on the Issue Date are general senior obligations of the Issuer. The Notes rank senior in right of payment to all existing and future obligations of the Issuer that are, by their terms, expressly subordinated in right of payment to the Notes and *pari passu* in right of payment with all existing and future senior obligations of the Issuer that are not so subordinated. Each Note Guarantee (as defined below) is a general senior obligation of the applicable Guarantor and ranks senior in right of payment to all existing and future obligations of such Guarantor that are, by their terms, expressly subordinated in right of payment to such Note Guarantee and *pari passu* in right of payment with all existing and future senior obligations of such Guarantor that are not so subordinated. See “-Note Guarantees.”

The Notes are secured, equally and ratably with all existing obligations of the Issuer and the Guarantors under the Credit Agreement, the Existing Notes and the 2019 Notes. The sole collateral is a first-priority security interest on all shares of the capital stock of the Issuer. The security interest is subject to a number of important limitations and qualifications. See “-Security.”

The Collateral (as defined below) as of the Issue Date was limited to a pledge by the Issuer's direct parent, [Liberty QVC Holding, LLC] [Qurate Retail Group, Inc.] NTD: Consider that "Qurate Retail Group, Inc." is used for Notes due 2068. If this is the entity's new name, please use the new name Qurate Retail Group, Inc. (the "Parent Pledgor"), of all of the shares of our capital stock (the "Issuer Stock Collateral"), and did not include a lien on any of the Issuer's assets or assets of any of its subsidiaries. The Parent Pledgor is not subject to the Indenture or to any of the restrictive covenants in the Indenture. After the Issue Date, if any of the Credit Agreement, the Existing Notes, the 2019 Notes or any Permitted Parity Indebtedness were to benefit from a lien on any assets of the Issuer or any of its Restricted Subsidiaries then, subject to the provisions in "-Certain Covenants-Limitations on Liens," the Notes would also be secured, subject, as to priority and otherwise, to certain exceptions and subject to Permitted Liens, by a lien on any such assets (together with the Issuer Stock Collateral, the "Collateral"). The Credit Agreement does not provide for any circumstances in which a security interest in any assets of the Issuer or any of its subsidiaries must be pledged for the benefit of the lenders under the Credit Agreement. The Existing Notes and the 2019 Notes also do not require any present or future security interest in any assets of the Issuer or any of its subsidiaries. It is unlikely that the holders of the Notes will ever have the benefit of a lien on any Collateral consisting of assets of the Issuer or any of its subsidiaries.

Although the Indenture contains limitations on the amount of additional Indebtedness and secured Indebtedness that the Issuer and the Restricted Subsidiaries may incur, under certain circumstances, the amount of such Indebtedness could be substantial. See "-Certain Covenants-Limitations on Incurrence of Indebtedness" and "-Limitations on Liens." As long as the Collateral includes no asset of the Issuer, the Notes, the 2019 Notes, the Existing Notes, the Credit Agreement and any Specified Swap Agreements rank equally with all unsubordinated unsecured indebtedness and other obligations of the Issuer. See "-Security."

The Notes and each Note Guarantee are effectively subordinated to any obligations secured by Permitted Liens (other than any Permitted Parity Indebtedness), to the extent of the value of the assets of the Issuer and the relevant Guarantor that are subject to such Permitted Liens.

Not all of our Subsidiaries guarantee the Notes. Our Non-Material Domestic Subsidiaries, Unrestricted Subsidiaries and Foreign Subsidiaries are not Guarantors. As a result, the Notes and each Note Guarantee are structurally subordinated to all existing and future obligations, including Indebtedness, of these Subsidiaries. Claims of creditors of these Subsidiaries, including trade creditors, will generally have priority as to the assets of these Subsidiaries over the claims of the Issuer and the Guarantors and the holders of Indebtedness of the Issuer and the Guarantors, including the Notes and the Note Guarantees. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor Subsidiaries, these non-guarantor Subsidiaries will pay the holders of their debts and their trade creditors before they will be able to distribute any of their assets to us.

Note Guarantees

The Issuer's obligations under the Notes and the Indenture are jointly and severally guaranteed (the "Note Guarantees") by each Material Domestic Subsidiary, any Subsidiary that guarantees the obligations under the Credit Agreement or any Permitted Parity Indebtedness and any other Restricted Subsidiary that the Issuer shall otherwise cause to become a Guarantor pursuant to the terms of the Indenture. Our Non-Material Domestic Subsidiaries, Unrestricted Subsidiaries and Foreign Subsidiaries are not Guarantors, and therefore the Notes and the related Note Guarantees are structurally subordinated to all existing and future obligations of these Subsidiaries. The guarantees of the Existing Notes by the Guarantors are referred to herein as the "Existing Note Guarantees." See "-Ranking."

As of the Issue Date, all of our Subsidiaries except QVC Italia S.r.l. (Italy), QVC France SAS and QVC Ontario, LLC were Restricted Subsidiaries. However, under the circumstances described below under "-Certain Covenants-Limitations on Designation of Unrestricted Subsidiaries," the Issuer will be permitted to designate any of its Subsidiaries, other than any Subsidiary that continues to guarantee the obligations under the Credit Agreement or Permitted Parity Indebtedness permitted to be incurred under the Indenture, as "Unrestricted Subsidiaries." The effect of designating a Subsidiary as an "Unrestricted Subsidiary" will be that:

- an Unrestricted Subsidiary will not be subject to many of the restrictive covenants in the Indenture;
 - a Subsidiary that is a Guarantor and that is designated an Unrestricted Subsidiary will be released from its Note Guarantee and its obligations under the Indenture; and
 - the assets, income, cash flow and other financial results of an Unrestricted Subsidiary will not be consolidated with those of the Issuer for purposes of calculating compliance with the restrictive covenants contained in the Indenture.
-

The obligations of each Guarantor under its Note Guarantee is limited to the maximum amount as will, after giving effect to all other contingent and fixed liabilities of such Guarantor (including, without limitation, any guarantees under the Credit Agreement, the Existing Note Guarantees and guarantees of the 2019 Notes) and after giving effect to any collections from or payments made by or on behalf of any other Guarantor in respect of the obligations of such other Guarantor under its Note Guarantee or pursuant to its contribution obligations under the Indenture, result in the obligations of such Guarantor under its Note Guarantee not constituting a fraudulent conveyance or fraudulent transfer under federal or state law. Each Guarantor that makes a payment for distribution under its Note Guarantee is entitled to a contribution from each other Guarantor in a *pro rata* amount based on adjusted net assets of each Guarantor.

A Guarantor will be released from its obligations under its Note Guarantee and its obligations under the Indenture:

- (1) in the event of dissolution of such Guarantor;
- (2) if such Guarantor is designated as an Unrestricted Subsidiary or otherwise ceases to be a Restricted Subsidiary, in each case in accordance with the provisions of the Indenture, upon effectiveness of such designation or when it first ceases to be a Restricted Subsidiary, respectively; or
- (3) upon the release or discharge of the guarantee by such Guarantor of the Credit Agreement or such other indebtedness that resulted in the creation of such Note Guarantee, except a discharge or release by or as a result of payment under such other guarantee.

See “-Certain Covenants-Limitations on Designation of Unrestricted Subsidiaries.”

Security

General

On the Issue Date, the Collateral securing the Notes was limited to the Issuer Stock Collateral. The security interest in the Collateral is shared equally and ratably among the Notes (including Additional Notes, if any), the Existing Notes, the 2019 Notes, the Credit Agreement, any Specified Swap Agreements and any other Indebtedness permitted by the Indenture that in the future is secured by the Collateral. See “-Certain Covenants-Limitations on Incurrence of Indebtedness” and “-Limitations on Liens.” Any Collateral in addition to the Issuer Stock Collateral will be subject to the provisions of the applicable Security Documents. It is unlikely that the holders of the Notes will ever have the benefit of a lien on any Collateral consisting of assets of the Issuer or any of its Restricted Subsidiaries.

Issuer Stock Collateral

The Issuer Stock Collateral is pledged pursuant to a pledge agreement between the Parent Pledgor and the Collateral Agent for the benefit of the Secured Parties under the Credit Agreement and the holders of the Existing Notes and the 2019 Notes. The Collateral Agent entered into an amended and restated pledge agreement (the “Parent Pledge Agreement”) concurrently with the issuance of the Notes on the Issue Date to add the holders of the Notes as Secured Parties. This security interest secures the payment and performance when due of all of the obligations of the Issuer under the Notes, the Indenture and the Parent Pledge Agreement. This security interest also secures the obligations under the Existing Notes, the 2019 Notes and the Credit Agreement on an equal and ratable basis, and may in the future secure other Indebtedness permitted to be incurred under the Indenture on an equal and ratable basis. See “-Ranking.”

The Collateral Agent will determine the time and method by which the security interest in the Issuer Stock Collateral will be enforced and will have the sole and exclusive right to manage, perform and enforce the terms of the Parent Pledge Agreement and to exercise and enforce all privileges, rights and remedies thereunder, including to take or retake control or possession of the Issuer Stock Collateral and hold, prepare for sale, marshal, process, sell, lease, dispose of or liquidate the Issuer Stock Collateral, including, without limitation, following the occurrence of an Event of Default under the Indenture. Prior to the repayment in full in cash of all obligations under the Credit Agreement, neither the Trustee nor the Holders of the Notes will be entitled to exercise or be entitled to participate in providing instructions in respect of remedies and enforcement to the Collateral Agent, including the right to enforce the actions pursuant to the Parent Pledge Agreement, request any action, institute proceedings, give any instructions or notices, make any election, make collections, sell or otherwise foreclose on any portion of the Issuer Stock Collateral or receive any payment (except for the right to receive payments as expressly set forth under the Parent Pledge Agreement).

Under the Parent Pledge Agreement, the Collateral Agent's obligations to the Trustee and the Holders of Notes (collectively, the "Indenture Secured Parties") are limited to holding the Issuer Stock Collateral for the ratable benefit of the Indenture Secured Parties, enforcing the rights of the Indenture Secured Parties (in their capacity as such) with respect to the Issuer Stock Collateral, and distributing to the Secured Parties any proceeds received from the sale, collection or realization of the Issuer Stock Collateral.

In addition, none of the Collateral Agent, any lender or agent under the Credit Agreement or any provider of hedges under Specified Swap Agreements will be liable to the Trustee or the Holders of Notes for any actions with respect to the creation, perfection or continuation of the security interests on the Issuer Stock Collateral, actions with respect to the occurrence of a default or an event of default, actions with respect to the foreclosure upon, sale, release, or depreciation of, or failure to realize upon, of the Issuer Stock Collateral, actions with respect to the collection of any claim for all or any part of the obligations under the Notes from any debtor, guarantor or any other party or the valuation, use or protection of the Issuer Stock Collateral.

Subject to the terms of the Parent Pledge Agreement, the Parent Pledgor has the right to remain in possession and retain exclusive control of the Issuer Stock Collateral and to collect, invest and dispose of any income therefrom. Unless an event of default has occurred with respect to any obligations secured by the Parent Pledge Agreement and the Collateral Agent has given notice of its intent to exercise rights against the Issuer Stock Collateral, the Parent Pledgor will have the right to receive dividends paid in respect of the shares constituting the Issuer Stock Collateral and to exercise all voting rights with respect to the shares constituting Issuer Stock Collateral.

Sufficiency of Collateral

The fair market value of the Collateral is subject to fluctuations based on factors that include, among others, the condition of the retail industry, the ability to sell the Collateral in an orderly sale, general economic conditions, the availability of buyers and similar factors. The amount to be received upon a sale of the Collateral will also be dependent on numerous factors, including, but not limited to, the actual fair market value of the Collateral at such time and the timing and the manner of the sale. By its nature, the Collateral may be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral can be sold in a short period of time or in an orderly manner. In addition, in the event of a bankruptcy, the ability of the Holders to realize upon any of the Collateral may be subject to certain bankruptcy law limitations as described below.

Certain Bankruptcy Limitations

The right of the Collateral Agent to repossess and dispose of the Collateral upon the occurrence of an Event of Default may be significantly impaired by any Bankruptcy Law in the event that a bankruptcy case were to be commenced by or against the Parent Pledgor, the Issuer or any Guarantor prior to the Collateral Agent's having repossessed and disposed of the Collateral. Upon the commencement of a case for relief under the U.S. bankruptcy code, a secured creditor such as the Collateral Agent is prohibited from repossessing its security from a debtor in a bankruptcy case, or from disposing of security without bankruptcy court approval.

If any Secured Party is required in any insolvency or liquidation proceeding or otherwise to turn over or otherwise pay any amount to the estate of the Issuer or any Guarantor (or any trustee, receiver or similar person therefor) because the payment of such amount was declared to be fraudulent or preferential in any respect or for any other reason, any such amount (a "Recovery"), whether received as proceeds of security, enforcement of any right of setoff or otherwise, then as among the parties to the applicable Security Document, the obligations owing to such party shall be deemed to be reinstated to the extent of such Recovery and to be outstanding as if such payment had not occurred, and such Secured Party shall be entitled to a reinstatement of obligations with respect to all such recovered amounts and shall have all rights as a Secured Party under the Security Documents with respect thereto.

In view of the broad equitable powers of a U.S. bankruptcy court, it is impossible to predict how long payments under the Notes could be delayed following commencement of a bankruptcy case, whether or when the Collateral Agent could repossess or dispose of the Collateral, the value of the Collateral at any time during a bankruptcy case or whether or to what extent Holders of the Notes would be compensated for any delay in payment or loss of value of the Collateral. The U.S. bankruptcy code permits only the payment and/or accrual of post-petition interest, costs and attorneys' fees to a secured creditor during a debtor's bankruptcy case to the extent the value of such creditor's interest in the Collateral owned by such debtor is determined by the bankruptcy court to exceed the aggregate outstanding principal amount of the obligations secured by the Collateral.

Furthermore, in the event a domestic or foreign bankruptcy court determines that the value of the Collateral is not sufficient to repay all amounts due on the Notes, the Holders of the Notes would hold secured claims only to the extent of the value of the Collateral to which the Holders of the Notes are entitled, and unsecured claims with respect to such shortfall.

Release of Issuer Stock Collateral

The Parent Pledgor will be entitled to the release of the Issuer Stock Collateral from the Liens securing the Notes and the Note Guarantees under any one or more of the following circumstances:

- (1) concurrently with any release of the Issuer Stock Collateral under the Credit Agreement, the Existing Notes and the 2019 Notes;
or
- (2) as described under “-Amendment, Supplement and Waiver.”

The Liens on the Issuer Stock Collateral will also be released upon (i) payment in full of the principal of, together with accrued and unpaid interest, on the Notes and all other Obligations under the Indenture, the Note Guarantees and the Parent Pledge Agreement that are due and payable at or prior to the time such principal, together with accrued and unpaid interest, are paid or (ii) a legal defeasance or covenant defeasance under the Indenture as described below under “-Legal Defeasance and Covenant Defeasance” or a discharge of the Indenture as described below under “-Satisfaction and Discharge.”

Any certificate or opinion required by Section 314(d) of the Trust Indenture Act in connection with obtaining the release of the Issuer Stock Collateral may be made by an Officer of the Issuer, except in cases where Section 314(d) requires that such certificate or opinion be made by an independent engineer, appraiser or other expert.

Notwithstanding anything to the contrary in this “Description of the Registrant’s 6.375% Senior Secured Notes due 2067” section, the Issuer and its Subsidiaries will not be required to comply with all or any portion of Section 314(d) of the Trust Indenture Act if they determine in good faith, based on the advice of counsel, that under the terms of that section and/or any interpretation or guidance as to the meaning thereof of the SEC and its staff, including “no action” letters or exemptive orders, all or the relevant portion of Section 314(d) of the Trust Indenture Act is inapplicable to the released Issuer Stock Collateral.

Mandatory Redemption

The Issuer will not be required to redeem the Notes prior to maturity. However, we may at any time and from time to time purchase Notes in the open market or otherwise as described under “-Change of Control” and “-Optional Redemption.”

Optional Redemption

On and after September 13, 2023, the Notes will be redeemable at the Issuer’s election, in whole or in part, at a price equal to 100% of the principal amount of the notes, plus accrued and unpaid interest, if any, to, but not including, the applicable redemption date.

Prior to September 13, 2023, the Notes will be redeemable at the Issuer’s election, in whole or in part at any time upon not less than 30 nor more than 60 days’ notice, at a redemption price equal to the greater of:

- 100% of the aggregate principal amount of the Notes to be redeemed,
or
- as determined by an Independent Investment Banker, the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be redeemed (not including any portion of such payments of interest accrued to the date of redemption) discounted to the redemption date on a quarterly basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate, plus 50 basis points,

plus, in either of the above cases, accrued and unpaid interest to the date of redemption on the Notes to be redeemed.

“Adjusted Treasury Rate” means, with respect to any redemption date:

- the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities,” for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Remaining Life (as defined below), yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month); or
 - if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.
-

The Adjusted Treasury Rate shall be calculated on the third Business Day preceding the redemption date. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward.

“Comparable Treasury Issue” means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such securities (“Remaining Life”).

“Comparable Treasury Price” means (1) the average of four Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by us.

“Reference Treasury Dealer” means any primary U.S. Government securities dealer in New York City selected by us.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

Unless the Issuer defaults in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the Notes or portion thereof called for redemption.

Selection and Notice of Redemption

In the event that less than all of the Notes are to be redeemed at any time pursuant to an optional redemption, selection of the Notes for redemption will be made by the Trustee in compliance with the requirements of the principal national securities exchange, if any, on which the Notes are listed or, if such Notes are not then listed on a national securities exchange, on a *pro rata* basis, by lot or by such method as the Trustee shall deem fair and appropriate; provided, however, that no Notes of a principal amount of \$25 or less shall be redeemed in part.

Notice of redemption will be mailed by first-class mail at least 30 but not more than 60 days before the date of redemption to each Holder of Notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a satisfaction and discharge of the Indenture. If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount of the Note to be redeemed. A new Note in a principal amount equal to the unredeemed portion of the Note will be issued in the name of the Holder of the Note upon cancellation of the original Note. On and after the date of redemption, interest will cease to accrue on Notes or portions thereof called for redemption so long as the Issuer has deposited with the Paying Agent for the Notes funds in satisfaction of the redemption price (including accrued and unpaid interest on the Notes to be redeemed) pursuant to the Indenture.

Change of Control

If a Change of Control Triggering Event (as defined below) occurs with respect to the Notes, unless the Issuer has exercised its right to redeem the Notes as described above, the Issuer will be required to make an offer to repurchase all or, at the Holder’s option, any part (equal to \$25 or any integral multiple of \$25 in excess thereof) of each Holder’s Notes pursuant to a Change of Control Offer (as defined below).

In the Change of Control Offer, the Issuer will be required to offer payment in cash equal to 101% of the aggregate principal amount of Notes to be purchased plus accrued and unpaid interest, if any, on the Notes repurchased, to, but not including, the date of purchase (the “Change of Control Payment”).

Within 30 days following any Change of Control Triggering Event with respect to the Notes, the Issuer will be required to mail a notice to Holders of Notes, with a copy to the Trustee, describing the transaction or transactions that constitute the Change of Control Triggering Event and offering to repurchase the Notes (a “Change of Control Offer”) on the date specified in the notice, which date will be no earlier than 30 and no later than 60 days from the date such notice is mailed (the “Change of Control Payment Date”), pursuant to the procedures required by the Indenture and described in such notice.

On the Change of Control Payment Date, the Issuer will be required, to the extent lawful, to:

- accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;
 - deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and
-

- deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officer's Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased.

The Paying Agent will be required to promptly pay, to each Holder who properly tendered Notes, the purchase price for such Notes, and the Trustee will be required to promptly authenticate and mail (or cause to be transferred by book entry) to each such Holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; provided that each new Note will be in a principal amount of \$25.00 or an integral multiple thereof.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control Triggering Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by us and such third party purchases all Notes properly tendered and not withdrawn under its offer. In the event that such third party terminates or defaults its offer, the Issuer will be required to make a Change of Control Offer treating the date of such termination or default as though it were the date of the Change of Control Triggering Event.

The Issuer shall comply with the requirements of applicable securities laws and regulations in connection with the purchase of Notes pursuant to a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions contained in the Indenture, the Issuer shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations regarding the Change of Control Offer by virtue of this compliance.

For purposes of the repurchase provisions of the Notes, the following terms will be applicable:

(i) "Below Investment Grade Rating Event" means the Notes are rated below an Investment Grade Rating by each of the Rating Agencies on any date during the period commencing 60 days prior to the date of the first public notice of an arrangement that could result in a Change of Control and ending at the end of the 60-day period following public notice of the occurrence of the Change of Control (which 60-day period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies); provided that a Below Investment Grade Rating Event otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Change of Control (and thus shall not be deemed a Below Investment Grade Rating Event for purposes of the definition of "Change of Control Triggering Event" hereunder) if the Rating Agencies making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform the Holders of Notes in writing at their request that the reduction was the result, in whole or in part, of any event or circumstance comprising or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control shall have occurred at the time of the Below Investment Grade Rating Event);

(ii) "Change of Control Triggering Event" means the occurrence of both a Change of Control and a Below Investment Grade Rating Event occurring in respect of that Change of Control;

(iii) "Investment Grade Rating" means a rating equal to or higher than Baa3 (or the equivalent) if by Moody's and BBB- (or the equivalent) if by Standard & Poor's;

(iv) "Moody's" means Moody's Investors Service, Inc. and any successor to its rating agency business;

(v) "Rating Agencies" means (1) each of Moody's and Standard & Poor's; and (2) if any of Moody's or Standard & Poor's ceases to rate the Notes or fails to make a rating of the Notes publicly available for reasons outside of our control, a "nationally recognized statistical rating organization" as such term is defined for purposes of Section 3(a)(62) of the Exchange Act, that the Issuer selects (as certified by an Officer of ours) as a replacement agency for Moody's or Standard & Poor's, or both of them, as the case may be; and

(vi) "Standard & Poor's" means Standard & Poor's Financial Services, LLC and any successor to its rating agency business.

Certain Covenants

The Indenture contains, among others, the following covenants:

Limitations on Incurrence of Indebtedness

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur any Indebtedness; provided that the Issuer or any Restricted Subsidiary may incur additional Indebtedness, in each case, if, after giving effect to such incurrence and the application of the proceeds therefrom, the Consolidated Interest Coverage Ratio would be at least 2.00 to 1.00 (the "Coverage Ratio Exception").

Notwithstanding the above, each of the following shall be permitted (the "Permitted Indebtedness"):

- (1) Indebtedness of the Issuer and any Guarantor under the Credit Facilities (including the Notes and the Existing Notes) in an aggregate amount at any time outstanding not to exceed \$5,000,000,000;
 - (2) the Note Guarantees and the Existing Note Guarantees;
 - (3) Indebtedness of the Issuer and the Restricted Subsidiaries to the extent outstanding on the Issue Date (other than Indebtedness referred to in clause (1), (2) or (4));
 - (4) (x) Indebtedness of the Issuer or any Restricted Subsidiary owed to any other Restricted Subsidiary or the Issuer and (y) guarantees by any Restricted Subsidiary or the Issuer of any Indebtedness of the Issuer or any other Restricted Subsidiary; provided, however, that upon any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or such Indebtedness being owed to any Person other than the Issuer or a Restricted Subsidiary, as applicable, the Issuer or such Restricted Subsidiary, as applicable, shall be deemed to have incurred Indebtedness not permitted by this clause (4);
 - (5) Indebtedness in respect of bid, performance or surety bonds issued for the account of the Issuer or any Restricted Subsidiary in the ordinary course of business, including guarantees or obligations of the Issuer or any Restricted Subsidiary with respect to letters of credit supporting such bid, performance or surety obligations (in each case other than for an obligation for money borrowed);
 - (6) Purchase Money Indebtedness incurred by the Issuer or any Restricted Subsidiary, and Refinancing Indebtedness thereof, in an aggregate amount not to exceed at any time outstanding \$100.0 million;
 - (7) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within five Business Days of incurrence;
 - (8) Indebtedness arising in connection with endorsement of instruments for deposit in the ordinary course of business;
 - (9) Refinancing Indebtedness with respect to Indebtedness incurred pursuant to the Coverage Ratio Exception or clause (2) or (3) above or this clause (9);
 - (10) indemnification, adjustment of purchase price, earnout or similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business or assets of the Issuer or any Restricted Subsidiary or Equity Interests of a Restricted Subsidiary, other than guarantees of Indebtedness incurred by any Person acquiring all or any portion of such business, assets or Equity Interests for the purpose of financing or in contemplation of any such acquisition; provided that (a) any amount of such obligations included on the face of the balance sheet of the Issuer or any Restricted Subsidiary shall not be permitted under this clause (10) and (b) in the case of a disposition, the maximum aggregate liability in respect of all such obligations outstanding under this clause (10) shall at no time exceed the gross proceeds actually received by the Issuer and the Restricted Subsidiaries in connection with such disposition;
 - (11) Indebtedness of Subsidiaries that are not Guarantors if, after giving effect to such incurrence and the application of the proceeds thereof, the aggregate principal amount of such indebtedness does not exceed \$425.0 million (less the amount of any Indebtedness secured by a Lien permitted under clause (23) of the definition of "Permitted Liens" which Indebtedness is not incurred pursuant to this clause (11)); and
-

(12) Indebtedness of the Issuer or any Restricted Subsidiary in an aggregate amount not to exceed \$250.0 million at any time outstanding.

For purposes of determining compliance with this covenant, in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (1) through (12) above or is entitled to be incurred pursuant to the Coverage Ratio Exception, the Issuer shall, in its sole discretion, classify such item of Indebtedness and may divide and classify such Indebtedness in more than one of the types of Indebtedness described and may later reclassify any item of Indebtedness described in clauses (1) through (12) above (provided that at the time of reclassification it meets the criteria in such category or categories), except that Indebtedness outstanding under the Credit Agreement and the Notes issued on the Issue Date shall be deemed to have been incurred under clause (1) above. In addition, for purposes of determining any particular amount of Indebtedness under this covenant, guarantees, Liens or letter of credit obligations supporting Indebtedness otherwise included in the determination of such particular amount shall not be included so long as incurred by a Person that could have incurred such Indebtedness.

For purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred, in the case of term debt, or first committed or first incurred (whichever yields the lower U.S. dollar equivalent), in the case of revolving credit debt; provided that if such Indebtedness is incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced.

Limitations on Restricted Payments

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, make any Restricted Payment unless at the time of such Restricted Payment:

- (1) no Default shall have occurred and be continuing or shall occur as a consequence thereof;
and
- (2) after giving effect to such incurrence and the application of proceeds therefrom, the Consolidated Leverage Test would be satisfied.

The foregoing provisions will not prohibit:

- (1) the payment by the Issuer or any Restricted Subsidiary of any dividend within 60 days after the date of declaration thereof, if on the date of declaration the payment would have complied with the provisions of the Indenture;
 - (2) the redemption of any Equity Interests of the Issuer or any Restricted Subsidiary in exchange for, or out of the proceeds of the substantially concurrent issuance and sale of, Qualified Equity Interests (provided that any transfers of the Equity Interests of the Issuer will be subject to the provisions of the Parent Pledge Agreement);
 - (3) the redemption of Subordinated Indebtedness of the Issuer or any Restricted Subsidiary (a) in exchange for, or out of the proceeds of the substantially concurrent issuance and sale of, Qualified Equity Interests (provided that any transfers of the Equity Interests of the Issuer will be subject to the provisions of the Parent Pledge Agreement), (b) in exchange for, or out of the proceeds of the substantially concurrent incurrence of, Refinancing Indebtedness permitted to be incurred under “-Limitations on Incurrence of Indebtedness” and the other terms of the Indenture or (c) upon a Change of Control or in connection with a sale of assets to the extent required by the agreement governing such Subordinated Indebtedness but only if the Issuer shall have complied with the covenants described under “-Change of Control” and purchased all Notes validly tendered pursuant to the relevant offer prior to redeeming such Subordinated Indebtedness;
-

- (4) (x) prior to the consummation of an initial public offering, payments to permit Parent, and which are used by Parent or (y) after the consummation of an initial public offering, payments used by the Issuer, to redeem Equity Interests of Parent or the Issuer, as the case may be, held by officers, directors or employees or former officers, directors or employees (or their transferees, estates or beneficiaries under their estates), upon their death, disability, retirement, severance or termination of employment or service; provided that the aggregate cash consideration paid for all such redemptions shall not exceed \$25.0 million during any twelve consecutive months;
- (5) payments permitted pursuant to clause (3) of the covenant described under “-Limitations on Transactions with Affiliates”;
- (6) repurchases of Equity Interests deemed to occur upon the exercise of stock options if the Equity Interests represent a portion of the exercise price thereof;
- (7) [Reserved];
- (8) payments by the Issuer to Parent or its subsidiaries to the extent necessary to pay principal and interest when due in respect of Indebtedness of Parent and its subsidiaries;
- (9) Restricted Payments pursuant to and in accordance with stock option plans or other benefit plans for directors, management, employees or consultants of the Issuer and its Subsidiaries; or
- (10) other Restricted Payments in an aggregate amount from and after the Issue Date not to exceed \$50.0 million;

provided that in the case of any Restricted Payment pursuant to clause (3), (8) or (10) above, no Default shall have occurred and be continuing or occur as a consequence thereof.

For purposes of this covenant, if a particular Restricted Payment involves a non-cash payment, including a distribution of assets, then such Restricted Payment shall be deemed to be an amount equal to the cash portion of such Restricted Payment, if any, *plus* an amount equal to the Fair Market Value of the non-cash portion of such Restricted Payment.

Limitations on Dividend and Other Restrictions Affecting Restricted Subsidiaries

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Restricted Subsidiary to:

- (a) pay dividends or make any other distributions on or in respect of its Equity Interests held by the Issuer or any Restricted Subsidiary;
- (b) make loans or advances or pay any Indebtedness or other obligation owed to the Issuer or any other Restricted Subsidiary;
or
- (c) transfer any of its assets to the Issuer or any other Restricted Subsidiary;

except for:

- (1) encumbrances or restrictions existing under or by reason of applicable law, regulation or order;
 - (2) encumbrances or restrictions existing under the Indenture, the Notes, the Note Guarantees and the Security Documents;
-

- (3) non-assignment provisions of any contract or any lease entered into in the ordinary course of business;
- (4) encumbrances or restrictions existing under agreements existing on the Issue Date (including, without limitation, the Credit Agreement, the Existing Notes Indentures, the Existing Notes and the Existing Note Guarantees) as in effect on that date;
- (5) restrictions relating to any Lien permitted under the Indenture imposed by the holder of such Lien that limit the right of the relevant obligor to transfer assets that are subject to such Lien;
- (6) restrictions imposed under any agreement to sell assets permitted under the Indenture to any Person pending the closing of such sale;
- (7) encumbrances or restrictions imposed under any instrument governing Acquired Indebtedness, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person or the properties or assets of the Person so acquired and encumbrances or restrictions imposed under any agreement of any Person that becomes a Restricted Subsidiary; provided that such encumbrances or restrictions are not created in contemplation of or in connection with such Person becoming a Restricted Subsidiary;
- (8) any other agreement governing Indebtedness entered into after the Issue Date that contains encumbrances and restrictions that are not materially more restrictive with respect to any Restricted Subsidiary than those in effect on the Issue Date with respect to that Restricted Subsidiary pursuant to agreements in effect on the Issue Date;
- (9) customary provisions in partnership agreements, limited liability company organizational governance documents, joint venture agreements, shareholder agreements and other similar agreements that restrict the transfer of ownership interests in such partnership, limited liability company, joint venture, corporation or similar Person or assets of such entities;
- (10) Purchase Money Indebtedness incurred in compliance with the covenant described under “-Limitations on Incurrence of Indebtedness” that impose restrictions of the nature described in clause (c) above on the assets acquired;
- (11) restrictions on cash or other deposits or net worth imposed by suppliers or landlords under contracts entered into in the ordinary course of business; and
- (12) any encumbrances or restrictions imposed by any amendments, replacements or refinancings of the contracts, instruments or obligations referred to in clauses (1) through (11) above; provided that such amendments, replacements or refinancings are not materially more restrictive with respect to such encumbrances and restrictions than those prior to such amendment, replacement or refinancing.

Limitations on Transactions with Affiliates

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, in one transaction or a series of related transactions, sell, lease, transfer or otherwise dispose of any of its assets to, or purchase any assets from, or enter into any contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (an “Affiliate Transaction”), unless such Affiliate Transaction is on terms that are no less favorable to the Issuer or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction at such time on an arm’s-length basis by the Issuer or that Restricted Subsidiary from a Person that is not an Affiliate of the Issuer or that Restricted Subsidiary.

The foregoing restrictions shall not apply to:

- (1) transactions between or among the Issuer and its Restricted Subsidiaries not involving any other Affiliate;
-

- (2) reasonable director, officer and employee compensation (including bonuses) and other benefits (including retirement, health, and Stock Compensation Plans) and indemnification arrangements and reasonable payments to Affiliates in consideration for securities issued in connection therewith;
- (3) transactions pursuant to the Tax Liability Allocation and Indemnification Agreement;
- (4) loans and advances permitted by clause (3) of the definition of “Permitted Investments”;
- (5) Restricted Payments of the type described in clause (1), (2) or (4) of the definition of “Restricted Payment” and which are made in accordance with the covenant described under “-Limitations on Restricted Payments”;
- (6) (x) any agreement in effect on the Issue Date and disclosed in the prospectus supplement related to the original issuance of the Notes, as in effect on the Issue Date or as thereafter amended or replaced in any manner, that, taken as a whole, is not more disadvantageous to the Holders or the Issuer in any material respect than such agreement as it was in effect on the Issue Date or (y) any transaction pursuant to any agreement referred to in the immediately preceding clause (x);
- (7) any transaction with a joint venture or similar entity which would constitute an Affiliate Transaction solely because the Issuer or a Restricted Subsidiary owns an equity interest in or otherwise controls such joint venture or similar entity; provided that no Affiliate of the Issuer or any of its Subsidiaries other than the Issuer or a Restricted Subsidiary shall have a beneficial interest in such joint venture or similar entity;
- (8) ordinary overhead arrangements in which any Subsidiary participates;
and
- (9) (a) any transaction with an Affiliate where the only consideration paid by the Issuer or any Restricted Subsidiary is Qualified Equity Interests or (b) the issuance or sale of any Qualified Equity Interests.

Limitations on Liens

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, incur, assume or permit or suffer to exist any Lien (other than Permitted Liens) of any nature whatsoever against any assets (including Equity Interests of a Restricted Subsidiary) of the Issuer or any Restricted Subsidiary, whether owned at the Issue Date or thereafter acquired, which Lien secures Indebtedness, Hedging Obligations or trade payables.

The foregoing shall not apply to Liens on Collateral to secure Indebtedness (“Permitted Parity Indebtedness”) in an aggregate principal amount not exceeding \$5.0 billion that is secured by a Lien that is equal and ratable with or junior to the Lien in favor of the Collateral Agent for the benefit of the Trustee and the Holders with respect to the Notes and the Note Guarantees; provided that, the Notes may be restricted from participating in providing instructions in respect of remedies and enforcement to the Collateral Agent with respect to the Collateral; provided, further, that, when there is no Credit Agreement outstanding, Liens incurred pursuant to this paragraph in favor of holders of Permitted Parity Indebtedness that ranks *pari passu* with the Notes may be entitled to participate in providing instructions in respect of remedies and enforcement to the Collateral Agent with respect to the Collateral ratably with the holders of any other such Indebtedness and the Holders of the Notes in proportion to the amount of obligations under such Indebtedness.

Limitations on Designation of Unrestricted Subsidiaries

The Issuer may designate any Subsidiary (including any newly formed or newly acquired Subsidiary) of the Issuer as an “Unrestricted Subsidiary” under the Indenture (a “Designation”) only if:

- (1) no Default shall have occurred and be continuing at the time of or immediately after giving effect to such Designation;
and
 - (2) at the time of and immediately after giving effect to such Designation, the Consolidated Leverage Test would be satisfied.
-

No Subsidiary shall be Designated as an "Unrestricted Subsidiary" unless such Subsidiary:

- (1) has no Indebtedness other than Non-Recourse Debt and other obligations arising by operation of law, including joint and several liability for taxes, ERISA obligations and similar items, except, in each case, pursuant to Investments which are made in accordance with the covenant described under "-Limitations on Restricted Payments";
- (2) is not party to any agreement, contract, arrangement or understanding with the Issuer or any Restricted Subsidiary unless the terms of the agreement, contract, arrangement or understanding comply with the covenant described above under "-Limitations on Transactions with Affiliates";
- (3) is a Person with respect to which neither the Issuer nor any Restricted Subsidiary has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve the Person's financial condition or to cause the Person to achieve any specified levels of operating results, except, in each case, pursuant to Investments which are made in accordance with the covenant described under "-Limitations on Restricted Payments"; and
- (4) will not become a Subsidiary of the Issuer or its other Subsidiaries (other than another Unrestricted Subsidiary) where the Issuer or such other Subsidiary will become a general partner of any such Subsidiary.

If, at any time, any Unrestricted Subsidiary fails to meet the preceding requirements as an Unrestricted Subsidiary, it shall thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture on the date that is 30 days after the Issuer or any Restricted Subsidiary has obtained knowledge of such failure (unless such failure has been cured by such date), and any Indebtedness of the Subsidiary and any Liens on assets of such Subsidiary shall be deemed to be incurred by a Restricted Subsidiary at such time and, if the Indebtedness is not permitted to be incurred under the covenant described under "-Limitations on Incurrence of Indebtedness" or the Lien is not permitted under the covenant described under "-Limitations on Liens," the Issuer shall be in default of the applicable covenant.

The Issuer may redesignate an Unrestricted Subsidiary as a Restricted Subsidiary (a "Redesignation") only if:

- (1) no Default shall have occurred and be continuing at the time of and after giving effect to such Redesignation; and
- (2) all Liens, Indebtedness and Investments of such Unrestricted Subsidiary outstanding immediately following such Redesignation would, if incurred or made at such time, have been permitted to be incurred or made for all purposes of the Indenture.

All Designations and Redesignations must be evidenced by resolutions of the Board of Directors of the Issuer and an Officer's Certificate certifying compliance with the foregoing provisions delivered to the Trustee.

Limitations on Sale and Leaseback Transactions

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into any Sale and Leaseback Transaction; provided that the Issuer or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (1) such Sale and Leaseback Transaction involves a lease for a term of not more than three years;
 - (2) such Sale and Leaseback Transaction is between the Issuer and one of its Restricted Subsidiaries or between any of the Issuer's Restricted Subsidiaries;
 - (3) the Issuer or such Restricted Subsidiary could have (a) incurred the Indebtedness attributable to such Sale and Leaseback Transaction pursuant to the covenant described under "-Limitations on Incurrence of Indebtedness" and (b) incurred a Lien to secure such Indebtedness without equally and ratably securing the Notes pursuant to the covenant described under "-Limitations on Liens" or the lease in the Sale and Leaseback Transaction is not a capital lease and, upon its incurrence, such arrangements outstanding shall not be in excess of 15% of Consolidated Net Tangible Assets at any one time outstanding; or
-

- (4) the Issuer or such Restricted Subsidiary applies an amount equal to the net proceeds of such Sale and Leaseback Transaction within 365 days after such Sale and Leaseback Transaction to the retirement or other discharge of Indebtedness of the Issuer or a Restricted Subsidiary.

Limitations on Mergers, Consolidations, etc.

The Issuer will not, directly or indirectly, in a single transaction or a series of related transactions, (a) consolidate or merge with or into another Person, or sell, lease, transfer, convey or otherwise dispose of or assign all or substantially all of the assets of the Issuer or the Issuer and the Restricted Subsidiaries (taken as a whole) or (b) adopt a Plan of Liquidation unless, in either case:

- (1) either: (a) the Issuer will be the surviving or continuing Person; or (b) the Person formed by or surviving such consolidation or merger or to which such sale, lease, conveyance or other disposition shall be made (or, in the case of a Plan of Liquidation, any Person to which assets are transferred) (collectively, the "Successor") is a corporation, limited liability company or limited partnership organized and existing under the laws of any State of the United States of America or the District of Columbia, and the Successor expressly assumes, by agreements in form and substance reasonably satisfactory to the Trustee, all of the obligations of the Issuer under the Notes and the Indenture;
- (2) immediately prior to and immediately after giving effect to such transaction and the assumption of the obligations as set forth in clause (1)(b) above and the incurrence of any Indebtedness to be incurred in connection therewith, and the use of any net proceeds therefrom on a pro forma basis, no Default shall have occurred and be continuing; and
- (3) immediately after and giving effect to such transaction and the assumption of the obligations set forth in clause (1)(b) above and the incurrence of any Indebtedness to be incurred in connection therewith, and the use of any net proceeds therefrom on a pro forma basis, the Consolidated Leverage Test would be satisfied.

For purposes of this covenant, any Indebtedness of the Successor which was not Indebtedness of the Issuer immediately prior to the transaction shall be deemed to have been incurred in connection with such transaction.

Except as provided in the fourth paragraph under "-Note Guarantees," no Guarantor may consolidate with or merge with or into (whether or not such Guarantor is the surviving Person) another Person, unless:

- (1) either: (a) such Guarantor will be the surviving or continuing Person; or (b) the Person formed by or surviving any such consolidation or merger is another Guarantor or assumes, by agreements in form and substance reasonably satisfactory to the Trustee, all of the obligations of such Guarantor under the Note Guarantee of such Guarantor, the Indenture and the Security Documents; and
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing.

For purposes of the foregoing, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Restricted Subsidiaries, the Equity Interests of which constitute all or substantially all of the properties and assets of the Issuer, will be deemed to be the transfer of all or substantially all of the properties and assets of the Issuer.

Upon any consolidation, combination or merger of the Issuer or a Guarantor, or any transfer of all or substantially all of the assets of the Issuer or Guarantor in accordance with the foregoing, in which the Issuer or such Guarantor is not the continuing obligor under the Notes or its Note Guarantee, the surviving entity formed by such consolidation or into which the Issuer or such Guarantor is merged or the Person to which the conveyance, lease or transfer is made will succeed to, and be substituted for, and may exercise every right and power of, the Issuer or such Guarantor under the Indenture, the Notes and the Note Guarantees with the same effect as if such surviving entity had been named therein as the Issuer or such Guarantor and, except in the case of a lease, the Issuer or such Guarantor, as the case may be, will be released from the obligation to pay the principal of and interest on the Notes or in respect of its Note Guarantee, as the case may be, and all of the Issuer's or such Guarantor's other obligations and covenants under the Notes, the Indenture and its Note Guarantee, if applicable.

Notwithstanding the foregoing, any Restricted Subsidiary may consolidate with, merge with or into or convey, transfer or lease, in one transaction or a series of transactions, all or substantially all of its assets to the Issuer or another Restricted Subsidiary; provided if such Restricted Subsidiary is a Guarantor, that the surviving entity remains or becomes a Guarantor.

Additional Note Guarantees

If, after the Issue Date, (a) any Restricted Subsidiary (including any newly formed, newly acquired or newly Redesignated Restricted Subsidiary) becomes a Material Domestic Subsidiary, (b) any Restricted Subsidiary (including any newly formed, newly acquired or newly Redesignated Restricted Subsidiary) guarantees any Indebtedness under the Credit Agreement or any Permitted Parity Indebtedness or (c) the Issuer otherwise elects to have any Restricted Subsidiary become a Guarantor, then, in each such case, the Issuer shall cause such Restricted Subsidiary to:

- (1) execute and deliver to the Trustee (a) a supplemental indenture in form and substance satisfactory to the Trustee pursuant to which such Restricted Subsidiary shall unconditionally guarantee all of the Issuer's obligations under the Notes and the Indenture and (b) a notation of guarantee in respect of its Note Guarantee; and
- (2) deliver to the Trustee one or more opinions of counsel that such supplemental indenture (a) has been duly authorized, executed and delivered by such Restricted Subsidiary and (b) constitutes a valid and legally binding obligation of such Restricted Subsidiary in accordance with its terms (subject to customary qualifications).

Conduct of Business

The Issuer will not, and will not permit any Restricted Subsidiary to, change its line of business conducted by the Issuer and its Restricted Subsidiaries on the Issue Date (other than businesses incidental or related thereto).

Reports

The Indenture provides that notwithstanding that the Issuer may not be subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act or otherwise report on an annual and quarterly basis on forms provided for such annual and quarterly reporting pursuant to rules and regulations promulgated by the SEC, the Issuer will file with the SEC:

- (1) within the time period specified in the SEC's rules and regulations for a non-accelerated filer, annual reports on Form 10-K (or any successor or comparable form) containing the information required to be contained therein (or required in such successor or comparable form),
- (2) within the time period specified in the SEC's rules and regulations for a non-accelerated filer, reports on Form 10-Q (or any successor or comparable form) containing the information required to be contained therein (or required in such successor or comparable form),
- (3) promptly from time to time after the occurrence of an event required to be therein reported (and in any event within the time period specified in the SEC's rules and regulations), such other reports on Form 8-K (or any successor or comparable form), and
- (4) any other information, documents and other reports which the Issuer would be required to file with the SEC if it were subject to Section 13 or 15(d) of the Exchange Act;

provided, however, that the Issuer shall not be so obligated to file such reports with the SEC if the SEC does not permit such filing, in which event the Issuer will make available such information to prospective purchasers of Notes, including by posting such reports on the primary website of the Issuer or its Subsidiaries, in addition to providing such information to the Trustee and the Holders, in the case of Form 10-K within 30 days, and in each other case within 15 days, after the time the Issuer would be required to file such information with the SEC if it were subject to Section 13 or 15(d) of the Exchange Act as a non-accelerated filer.

In the event that: (a) the rules and regulations of the SEC permit the Issuer and any direct or indirect parent of the Issuer to report at such parent entity's level on a consolidated basis and (b) such parent entity of the Issuer is not engaged in any business in any material respect other than incidental to its ownership, directly or indirectly, of the capital stock of the Issuer, such consolidated reporting at such parent entity's level in a manner consistent with that described in this covenant for the Issuer will satisfy this covenant.

In addition, the Issuer will make such information available to prospective investors upon request. In addition, the Issuer has agreed that, for so long as any Notes remain outstanding during any period when it is not subject to Section 13 or 15(d) of the Exchange Act, or otherwise permitted to furnish the SEC with certain information pursuant to Rule 12g3-2(b) of the Exchange Act, it will furnish to the holders of the Notes and to prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Notwithstanding the foregoing, the Issuer will be deemed to have furnished such reports referred to above to the Trustee and the Holders if the Issuer has filed such reports with the SEC via the EDGAR filing system and such reports are publicly available; provided, however, that the Trustee shall have no obligation to determine whether or not the Issuer shall have made such filings.

In the event that any direct or indirect parent of the Issuer is or becomes a Guarantor, the Indenture permits the Issuer to satisfy its obligations in this covenant with respect to financial information relating to the Issuer by furnishing financial information relating to such direct or indirect parent; provided that the same is accompanied by consolidating information that explains in reasonable detail the differences between the information relating to such direct or indirect parent and any of its Subsidiaries other than the Issuer and its Subsidiaries, on the one hand, and the information relating to the Issuer and the Subsidiaries of the Issuer on a stand-alone basis, on the other hand.

Limitations on Asset Sales

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, consummate any Asset Sale unless:

- (1) at the time of such transaction (or, if earlier, the date of the commitment to enter into such transaction) and after giving effect thereto and to the use of proceeds thereof, (a) no Default shall have occurred and be continuing, and (b) the Consolidated Leverage Test would be satisfied; and
- (2) if such Asset Sale involves the disposition of Collateral, the Issuer or such Subsidiary has complied with the provisions of the Indenture and the Security Documents.

Payment for Consent

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or agreed to be paid to all Holders that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Fall-Away Event

If on any date following the Issue Date (i) the Notes have Investment Grade Ratings from both Moody's and Standard & Poor's, and the Issuer has delivered written notice of such Investment Grade Ratings to the Trustee, and (ii) no Default has occurred and is continuing under the Indenture, then, beginning on that day and continuing at all times thereafter regardless of any subsequent changes in the ratings of the Notes or the occurrence of any Default, the covenants specifically listed under the following captions in this "Description of the Registrant's 6.375% Senior Secured Notes due 2067" section will no longer be applicable to the Notes (collectively, the "Terminated Covenants"):

- (1) "-Limitations on Incurrence of Indebtedness";
 - (2) "-Limitations on Restricted Payments";
 - (3) "-Limitations on Dividend and Other Restrictions Affecting Restricted Subsidiaries";
 - (4) "-Limitations on Asset Sales";
 - (5) clause (3) under "-Limitations on Mergers, Consolidations, etc."; and
 - (6) "-Limitations on Transactions with Affiliates."
-

No Default, Event of Default or breach of any kind shall be deemed to exist under the Indenture or the Notes with respect to the Terminated Covenants based on, and none of the Issuer or any of its Subsidiaries shall bear any liability for, any actions taken or events occurring after the Notes attain Investment Grade Ratings, regardless of whether such actions or event would have been permitted if the applicable Terminated Covenants remained in effect.

There can be no assurance that the Notes will ever achieve Investment Grade Ratings.

Events of Default

Each of the following constitutes an "Event of Default" under the Indenture:

- (1) failure by the Issuer to pay interest on any of the Notes when it becomes due and payable and the continuance of any such failure for 30 days;
 - (2) failure by the Issuer to pay the principal on any of the Notes when it becomes due and payable, whether at stated maturity, upon redemption, upon purchase, upon acceleration or otherwise;
 - (3) failure by the Issuer to comply with any of its agreements or covenants described above under "--Certain Covenants-Limitations on Mergers, Consolidations, etc." or in respect of its obligations to make a Change of Control Offer as described under "--Change of Control";
 - (4) failure by the Issuer to comply with any other agreement or covenant in the Indenture and continuance of this failure for 30 days after written notice of the failure has been given to the Issuer by the Trustee or by the Holders of at least 25% of the aggregate principal amount of the Notes;
 - (5) default under any mortgage, indenture or other instrument or agreement under which there may be issued or by which there may be secured or evidenced Indebtedness of the Issuer or any Restricted Subsidiary, whether such Indebtedness existed on the Issue Date or is incurred after the Issue Date, which default: (a) is caused by a failure to pay at final maturity principal on such Indebtedness within the applicable express grace period and any extensions thereof, (b) results in the acceleration of such Indebtedness prior to its express final maturity, or (c) results in the commencement of judicial proceedings to foreclose upon, or to exercise remedies under applicable law or the applicable security documents to take ownership of, the assets securing such Indebtedness, and in each case, the principal amount of such Indebtedness, together with any other Indebtedness with respect to which an event described in clause (a), (b) or (c) has occurred and is continuing, aggregates \$100.0 million or more (and provided that, for purposes of this clause (5) only, "Indebtedness" shall include any Hedging Obligations with the "principal amount" of any Hedging Obligations at any time being the maximum aggregate amount (giving effect to any netting agreements) that the Issuer or such Restricted Subsidiary would be required to pay if the agreement with respect to such Hedging Obligations terminated at such time);
 - (6) one or more judgments or orders that exceed \$100.0 million in the aggregate (net of amounts covered by insurance or bonded) for the payment of money have been entered by a court or courts of competent jurisdiction against the Issuer or any Restricted Subsidiary and such judgment or judgments have not been satisfied, stayed, annulled or rescinded within 60 days of being entered;
 - (7) the Issuer or any Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law: (a) commences a voluntary case, (b) consents to the entry of an order for relief against it in an involuntary case, (c) consents to the appointment of a Custodian of it or for all or substantially all of its assets, or (d) makes a general assignment for the benefit of its creditors;
-

- (8) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that: (a) is for relief against the Issuer or any Significant Subsidiary as debtor in an involuntary case, (b) appoints a Custodian of the Issuer or any Significant Subsidiary or a Custodian for all or substantially all of the assets of the Issuer or any Significant Subsidiary, or (c) orders the liquidation of the Issuer or any Significant Subsidiary, and the order or decree remains unstayed and in effect for 60 days;
- (9) any Note Guarantee ceases to be in full force and effect (other than in accordance with the terms of such Note Guarantee and the Indenture) or is declared null and void and unenforceable or found to be invalid or any Guarantor denies its liability under its Note Guarantee (other than by reason of release of a Guarantor from its Note Guarantee in accordance with the terms of the Indenture and the Note Guarantee);
- (10) (a) the security interest under the Security Documents, at any time, ceases to be in full force and effect for any reason other than in accordance with the terms of the Indenture and the Security Documents, (b) any security interest created thereunder or under the Indenture is declared invalid or unenforceable by a court of competent jurisdiction (other than by reason of release in accordance with the terms of the Indenture and the Security Documents) or (c) the Issuer, any Guarantor, the Parent Pledgor or any of their respective Affiliates asserts, in any pleading in any court of competent jurisdiction, that any such security interest is invalid or unenforceable; or
- (11) the Parent Pledgor shall fail to observe or perform any covenant, condition or agreement contained in the Parent Pledge Agreement and such failure shall continue unremedied for a period of 30 days after notice thereof from the Collateral Agent to the Parent Pledgor.

If an Event of Default specified in clause (7) or (8) with respect to the Issuer or any Guarantor occurs, all outstanding Notes shall become due and payable without any further action or notice. If any other Event of Default (other than an Event of Default specified in clause (7) or (8) above with respect to the Issuer or any Guarantor), shall have occurred and be continuing under the Indenture, the Trustee, by written notice to the Issuer, or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding by written notice to the Issuer and the Trustee, may declare all amounts owing under the Notes to be due and payable immediately. Upon any such declaration of acceleration, the aggregate principal of and accrued and unpaid interest on the outstanding Notes shall immediately become due and payable; provided, however, that after such acceleration, but before a judgment or decree based on acceleration, the Holders of a majority in aggregate principal amount of the outstanding Notes may, under certain circumstances, rescind and annul such acceleration if all Events of Default, other than the nonpayment of accelerated principal and interest have been cured or waived as provided in the Indenture.

The Trustee shall, within 30 days after the occurrence of any Default with respect to the Notes, give the Holders of such Notes written notice of all uncured Defaults thereunder known to it; provided, however, that, except in the case of an Event of Default in payment with respect to the Notes or a Default in complying with “-Certain Covenants-Limitations on Mergers, Consolidations, etc.,” the Trustee shall be protected in withholding such notice if and so long as it in good faith determines that the withholding of such notice is in the interest of the Holders.

No Holder will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless the Trustee: (1) has failed to act for a period of 60 days after receiving written notice of a continuing Event of Default by such Holder and a request to act by Holders of at least 25% in aggregate principal amount of Notes; (2) has been offered indemnity satisfactory to it in its reasonable judgment; and (3) has not received from the Holders of a majority in aggregate principal amount of the Notes a direction inconsistent with such request.

However, such limitations do not apply to a suit instituted by a Holder of any Note for enforcement of payment of the principal of or interest on such Note on or after the due date therefor (after giving effect to the grace period specified in clause (1) of the first paragraph of this “-Events of default” section).

The Issuer is required to deliver to the Trustee annually a statement regarding compliance with the Indenture and, upon any Officer of the Issuer becoming aware of any Default, a statement specifying such Default and what action the Issuer is taking or proposes to take with respect thereto.

Legal Defeasance and Covenant Defeasance

The Issuer may, at its option and at any time, elect to have its obligations and the obligations of the Guarantors discharged with respect to the outstanding Notes (“Legal Defeasance”). Legal Defeasance means that the Issuer and the Guarantors shall be deemed to have paid and discharged the entire indebtedness represented by the Notes and the Note Guarantees, and the Indenture shall cease to be of further effect as to all outstanding Notes and Note Guarantees, except as to: (1) rights of Holders of outstanding Notes to receive payments in respect of the principal of and interest on the Notes when such payments are due from the trust funds referred to below, (2) the Issuer’s obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes, and the maintenance of an office or agency for payment and money for security payments held in trust, (3) the rights, powers, trust, duties, and immunities of the Trustee, and the Issuer’s obligation in connection therewith, and (4) the Legal Defeasance provisions of the Indenture.

In addition, the Issuer may, at its option and at any time, elect to have its obligations and the obligations of the Guarantors released with respect to most of the covenants under the Indenture, except as described otherwise in the Indenture (“Covenant Defeasance”), and thereafter any omission to comply with such obligations shall not constitute a Default. In the event Covenant Defeasance occurs, certain Events of Default (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) will no longer apply. The Issuer may exercise its Legal Defeasance option regardless of whether it previously exercised Covenant Defeasance.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the Issuer must irrevocably deposit with the Trustee, as trust funds, in trust solely for the benefit of the Holders, U.S. legal tender, U.S. Government Obligations or a combination thereof, in such amounts as will be sufficient (without consideration of any reinvestment of interest) in the opinion of a nationally recognized firm of independent public accountants selected by the Issuer, to pay the principal of and interest on the Notes on the stated date for payment or on the redemption date of the principal or installment of principal of or interest on the Notes,
- (2) in the case of Legal Defeasance, the Issuer shall have delivered to the Trustee an opinion of counsel in the United States confirming that:
 - (a) the Issuer has received from, or there has been published by the Internal Revenue Service, a ruling,
or
 - (b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law,

in either case to the effect that, and based thereon the opinion of counsel shall confirm that, the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred,

- (1) in the case of Covenant Defeasance, the Issuer shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee confirming that the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the Covenant Defeasance had not occurred,
 - (2) no Default shall have occurred and be continuing on the date of such deposit (other than a Default resulting from the borrowing of funds to be applied to such deposit),
 - (3) the Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a Default under the Indenture or a default under any other material agreement or instrument to which the Issuer or any of its Subsidiaries is a party or by which the Issuer or any of its Subsidiaries is bound (other than any such Default or default resulting solely from the borrowing of funds to be applied to such deposit),
 - (4) the Issuer shall have delivered to the Trustee an Officer’s Certificate stating that the deposit was not made by it with the intent of preferring the Holders over any other of its creditors or with the intent of defeating, hindering, delaying or defrauding any other of its creditors or others, and
-

- (5) the Issuer shall have delivered to the Trustee an Officer's Certificate and an opinion of counsel, each stating that the conditions provided for in, in the case of the Officer's Certificate, clauses (1) through (6) and, in the case of the opinion of counsel, clauses (2) and/or (3) and (5) of this paragraph have been complied with.

If the funds deposited with the Trustee to effect Covenant Defeasance are insufficient to pay the principal of and interest on the Notes when due, then the obligations of the Issuer and the obligations of Guarantors under the Indenture will be revived and no such defeasance will be deemed to have occurred.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to rights of registration of transfer or exchange of Notes which shall survive until all Notes have been canceled) as to all outstanding Notes when either:

- (1) all the Notes that have been authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from this trust) have been delivered to the Trustee for cancellation, or
- (2) (a) all Notes not delivered to the Trustee for cancellation otherwise (i) have become due and payable, (ii) will become due and payable, or may be called for redemption, within one year or (iii) have been called for redemption pursuant to the provisions described under "-Optional redemption," and, in any case, the Issuer has irrevocably deposited or caused to be deposited with the Trustee as trust funds, in trust solely for the benefit of the Holders of such Notes, U.S. legal tender, U.S. Government Obligations or a combination thereof, in such amounts as will be sufficient (without consideration of any reinvestment of interest) to pay and discharge the entire Indebtedness (including all principal and accrued interest) on the Notes not theretofore delivered to the Trustee for cancellation, (b) the Issuer has paid all sums payable by it under the Indenture with respect to the Notes, and (c) the Issuer has delivered irrevocable instructions to the Trustee to apply the deposited money toward the payment of the Notes at maturity or on the date of redemption, as the case may be.

In addition, the Issuer must deliver an Officer's Certificate and an opinion of counsel stating that all conditions precedent to satisfaction and discharge have been complied with.

Amendment, Supplement and Waiver

Subject to certain exceptions, the Indenture or the Notes may be amended with the consent (which may include consents obtained in connection with a tender offer or exchange offer for Notes) of the Holders of at least a majority in aggregate principal amount of the Notes then outstanding, and any existing Default under, or compliance with any provision of, the Indenture may be waived (other than any continuing Default in the payment of the principal or interest on the Notes) with the consent (which may include consents obtained in connection with a tender offer or exchange offer for Notes) of the Holders of a majority in aggregate principal amount of the Notes then outstanding. Furthermore, without the consent of each Holder affected, no amendment or waiver may:

- (1) reduce, or change the maturity of, the principal of any Note;
 - (2) reduce the rate of or extend the time for payment of interest on any Note;
 - (3) reduce any premium payable upon redemption of the Notes or change the date on, or the circumstances under, which any Notes are subject to redemption (other than provisions relating to the purchase of Notes described above under "-Change of Control," except that if a Change of Control has occurred, no amendment or other modification of the obligation of the Issuer to make a Change of Control Offer relating to such Change of Control shall be made without the consent of each Holder of the Notes affected);
 - (4) make any Note payable in money or currency other than that stated in the Notes;
 - (5) modify or change any provision of the Indenture or the related definitions to affect the ranking of the Notes or any Note Guarantee in a manner that adversely affects the Holders;
-

- (6) reduce the percentage of Holders necessary to consent to an amendment or waiver to the Indenture or the Notes;
- (7) waive a default in the payment of principal of or premium or interest on any Notes (except a rescission of acceleration of the Notes by the Holders thereof as provided in the Indenture and a waiver of the payment default that resulted from such acceleration);
- (8) impair the rights of Holders to receive payments of principal of or interest on the Notes on or after the due date therefor or to institute suit for the enforcement of any payment on the Notes;
- (9) release any Guarantor that is a Material Domestic Subsidiary from any of its obligations under its Note Guarantee or the Indenture, except as permitted by the Indenture, or amend the definition of Material Domestic Subsidiary in a manner adverse to Holders; or
- (10) make any change in these amendment and waiver provisions.

In addition, without the consent of at least 75% in aggregate principal amount of Notes then outstanding, no amendment, supplement or waiver may modify any Security Document or the provisions of the Indenture dealing with the Security Documents or application of trust moneys, or otherwise release any Collateral, in each case in any manner that materially and adversely affects the rights of the Holders to equally and ratably share in the Liens provided for in the Security Documents in a manner that is materially disproportionate to the effect of such amendment, supplement or waiver on the holders of the other obligations secured by the Security Documents.

Notwithstanding the foregoing, the Issuer and the Trustee (or, in the case of Security Documents, the Collateral Agent) may amend the Indenture, the Security Documents, the Note Guarantees or the Notes without the consent of any Holder, to cure any ambiguity, defect or inconsistency; to provide for uncertificated Notes in addition to or in place of certificated Notes; to provide for the assumption of the Issuer's or a Guarantor's obligations to the Holders in the case of a merger, consolidation or sale of all or substantially all of the assets in accordance with "-Certain Covenants-Limitations on Mergers, Consolidations, etc."; to release any Guarantor from any of its obligations under its Note Guarantee or the Indenture (to the extent permitted by the Indenture); to make any change that does not materially adversely affect the rights of any Holder; in the case of the Indenture, to maintain the qualification of the Indenture under the Trust Indenture Act; to mortgage, pledge, hypothecate or grant any other Lien in favor of the Trustee or the Collateral Agent for the benefit of the Holders of the Notes as additional security for the payment and performance of all or any portion of the obligations under the Notes and the Indenture in any property or assets, including any which are required to be mortgaged, pledged or hypothecated, or in which a Lien is required to be granted to or for the benefit of the Trustee or the Collateral Agent pursuant to the Indenture, any of the Security Documents or otherwise; to add or remove Secured Parties (or any agent acting on their behalf) to any Security Documents or to release Collateral from the Lien of the Indenture and the Security Documents when permitted or required by the Security Documents or the Indenture. The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Issuer or any Guarantor will have any liability for any obligations of the Issuer under the Notes or the Indenture or of any Guarantor under its Note Guarantee or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes and the Note Guarantees. The waiver may not be effective to waive liabilities under the federal securities laws. It is the view of the SEC that this type of waiver is against public policy.

Concerning the Trustee

U.S. Bank National Association is the Trustee under the Indenture and has been appointed by the Issuer as Registrar and Paying Agent with regard to the Notes. The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Issuer, to obtain payment of claims in certain cases, or to realize on certain assets received in respect of any such claim as security or otherwise. The Trustee is permitted to engage in other transactions; however, if it acquires any conflicting interest (as defined in the Indenture), it must eliminate such conflict within 90 days, apply to the SEC for permission to continue (if the Indenture has been qualified under the Trust Indenture Act) or resign.

The Holders of a majority in principal amount of the then outstanding Notes have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that, in case an Event of Default occurs and is not cured, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent person in similar circumstances in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to the Trustee.

Governing Law

The Indenture, the Notes and the Note Guarantees are governed by, and construed in accordance with, the laws of the State of New York.

Certain Definitions Related to the 6.375% Senior Secured Notes due 2067

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms.

“**2012 Notes**” means the 5.125% Senior Secured Notes due 2022 issued by the Issuer on July 2, 2012.

“**2012 Notes Indenture**” means the indenture governing the 2012 Notes dated as of July 2, 2012, among the Issuer and certain of its subsidiaries party thereto and the trustee named therein from time to time, as amended, restated, supplemented or otherwise modified from time to time in accordance with the requirements thereof.

“**2013 Notes**” means the 4.375% Senior Secured Notes due 2023 and the 5.950% Senior Secured Notes due 2043 issued by the Issuer on March 18, 2013.

“**2013 Notes Indenture**” means the indenture governing the 2013 Notes dated as of March 18, 2013, among the Issuer and certain of its subsidiaries party thereto and the trustee named therein from time to time, as amended, restated, supplemented or otherwise modified from time to time in accordance with the requirements thereof.

“**2014 Notes**” means (i) the 3.125% Senior Secured Notes due 2019 and the 4.850% Senior Secured Notes due 2024 issued by the Issuer on March 18, 2014 and (ii) the 4.45% Senior Secured Notes due 2025 and the 5.45% Senior Secured Notes due 2034 issued by the Issuer on August 21, 2014.

“**2014 Notes Indentures**” means (i) the indenture governing the 3.125% Senior Secured Notes due 2019 and the 4.850% Senior Secured Notes due 2024, dated as of March 18, 2014, among the Issuer and certain of its subsidiaries party thereto and the trustee named therein from time to time, as amended, restated, supplemented or otherwise modified from time to time in accordance with the requirements thereof and (ii) the indenture governing the 4.45% Senior Secured Notes due 2025 and the 5.45% Senior Secured Notes due 2034, dated as of August 21, 2014, among the Issuer and certain of its subsidiaries party thereto and the trustee named therein from time to time, as amended, restated, supplemented or otherwise modified from time to time in accordance with the requirements thereof.

“**2019 Notes**” means the 6.250% Senior Secured Notes due November 26, 2068 issued by the Issuer on November 26, 2019.

“**Acquired Indebtedness**” means (1) with respect to any Person that becomes a Restricted Subsidiary after the Issue Date, Indebtedness of such Person and its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary that was not incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary and (2) with respect to the Issuer or any Restricted Subsidiary, any Indebtedness of a Person (other than the Issuer or a Restricted Subsidiary) existing at the time such Person is merged with or into the Issuer or a Restricted Subsidiary, or Indebtedness expressly assumed by the Issuer or any Restricted Subsidiary in connection with the acquisition of an asset or assets from another Person, which Indebtedness was not, in any case, incurred by such other Person in connection with, or in contemplation of, such merger or acquisition.

“**Affiliate**” of any Person means any other Person which directly or indirectly Controls or is Controlled by, or is under direct or indirect common Control with, the referent Person.

“**Affiliated Persons**” means, with respect to any specified Person, (a) such specified Person’s parents, spouse, siblings, descendants, stepchildren, step grandchildren, nieces and nephews and their respective spouses, (b) the estate, legatees and devisees of such specified Person and each of the Persons referred to in clause (a), and (c) any company, partnership, trust or other entity or investment vehicle Controlled by any of the Persons referred to in clause (a) or (b) or the holdings of which are for the primary benefit of any of such Persons.

“**amend**” means to amend, supplement, restate, amend and restate or otherwise modify, including successively, and “**amendment**” shall have a correlative meaning.

“**asset**” means any asset or property.

“**Asset Acquisition**” means

(1) an Investment by the Issuer or any Restricted Subsidiary in any other Person if, as a result of such Investment, such Person shall become a Restricted Subsidiary, or shall be merged with or into the Issuer or any Restricted Subsidiary, or

(2) the acquisition by the Issuer or any Restricted Subsidiary of all or substantially all of the assets of any other Person or any division or line of business of any other Person.

“**Asset Sale**” means any sale, issuance, conveyance, transfer, lease, assignment or other disposition by the Issuer or any Restricted Subsidiary to any Person other than the Issuer or any Restricted Subsidiary (including by means of a Sale and Leaseback Transaction or a merger or consolidation) (collectively, for purposes of this definition, a “**transfer**”), in one transaction or a series of related transactions, of any assets of the Issuer or any of its Restricted Subsidiaries other than in the ordinary course of business. For purposes of this definition, the term “Asset Sale” shall not include:

(1) transfers of cash or Cash Equivalents;

(2) transfers of assets (including Equity Interests) that are governed by, and made in accordance with, the covenant described under “-Certain Covenants-Limitations on Mergers, Consolidations, etc.”;

(3) Permitted Investments and Restricted Payments permitted under the covenant described under “-Certain Covenants-Limitations on Restricted Payments”;

(4) the creation of or realization on any Lien permitted under the Indenture;

(5) transfers of inventory and damaged, worn out or obsolete equipment or assets that are no longer used or useful in the business of the Issuer or its Restricted Subsidiaries;

(6) sales or grants of licenses or sublicenses to use the patents, trade secrets, know-how and other intellectual property, and licenses, leases or subleases of other assets, of the Issuer or any Restricted Subsidiary to the extent not materially interfering with the business of Issuer and the Restricted Subsidiaries;

(7) any transfer or series of related transfers that, but for this clause, would be Asset Sales, if the aggregate Fair Market Value of the assets transferred in such transaction or any such series of related transactions does not exceed \$50.0 million;

(8) (x) Asset Sales by the Issuer or any Guarantor to any other Guarantor or the Issuer and (y) Asset Sales of any Subsidiary that is not a Guarantor to any other Subsidiary that is not a Guarantor; and

(9) any transfer or series of transfers that, but for this clause, would be Asset Sales if consummated at a time when, after giving pro forma effect thereto, (x) the Consolidated Leverage Test is satisfied, and (y) no Default shall have occurred and be continuing or occur as a consequence thereof.

“**Bankruptcy Law**” means Title 11 of the United States Code, as amended, or any similar federal or state law for the relief of debtors.

“**Board of Directors**” means, with respect to any Person, (i) in the case of any corporation, the board of directors of such Person, or the functional equivalent of the foregoing, (ii) in the case of any limited liability company, the board of managers of such Person, (iii) in the case of any partnership, the Board of Directors of the general partner of such Person and (iv) in any other case, the functional equivalent of the foregoing or, in each case, other than for purposes of the definition of “Change of Control,” any duly authorized committee of such body.

“**Business Day**” means a day other than a Saturday, Sunday or other day on which banking institutions in New York are authorized or required by law to close.

“**Capitalized Lease Obligations**” of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP; provided, however, that any obligations relating to a lease that would have been accounted for by such Person as an operating lease in accordance with GAAP as of the Issue Date shall be deemed an operating lease and not a Capitalized Lease Obligation for all purposes under the Indenture.

“**Cash Equivalents**” means:

- (1) marketable direct obligations issued by, or unconditionally guaranteed by, the United States Government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition;
- (2) certificates of deposit, time deposits, eurodollar time deposits or overnight bank deposits having maturities of six months or less from the date of acquisition issued by any commercial bank organized under the laws of the United States or any state thereof;
- (3) commercial paper of an issuer rated at least A-1 by Standard & Poor’s or P-1 by Moody’s, or carrying an equivalent rating by a nationally recognized rating agency, if both of the two named rating agencies cease publishing ratings of commercial paper issuers generally, and maturing within six months from the date of acquisition;
- (4) repurchase obligations of any commercial bank satisfying the requirements of clause (2) of this definition, having a term of not more than 30 days, with respect to securities issued or fully guaranteed or insured by the United States government;
- (5) securities with maturities of one year or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States, by any political subdivision or taxing authority of any such state, commonwealth or territory or by any foreign government, the securities of which state, commonwealth, territory, political subdivision, taxing authority or foreign government (as the case may be) are rated at least A by Standard & Poor’s or A by Moody’s;
- (6) securities with maturities of six months or less from the date of acquisition backed by standby letters of credit issued by any commercial bank satisfying the requirements of clause (2) of this definition;
- (7) money market mutual or similar funds that invest exclusively in assets satisfying the requirements of clauses (1) through (6) of this definition;
- (8) money market funds that (i) comply with the criteria set forth in SEC Rule 2a-7 under the Investment Company Act of 1940, as amended, (ii) are rated AAA by Standard & Poor’s or Aaa by Moody’s and (iii) have portfolio assets of at least \$5,000,000,000; and
- (9) in the case of any Foreign Subsidiary, investments substantially comparable to any of the foregoing investments with respect to the country in which such Foreign Subsidiary is organized.

“**Change of Control**” means the occurrence of any of the following events:

(1) the acquisition of beneficial ownership by any person or group (excluding any Permitted Holder or group Controlled by any Permitted Holder) of more than 30% of the aggregate voting power of all outstanding classes or series of the Issuer's voting stock and such aggregate voting power exceeds the aggregate voting power of all outstanding classes or series of the Issuer's voting stock beneficially owned by the Permitted Holders collectively, and either (a) such person or group does not have on the date of such acquisition or within 45 days thereafter (i) an investment grade corporate family rating by Moody's or Standard & Poor's or (ii) a corporate family rating equal to or better than Qurate Retail's rating with Moody's or Standard and Poor's or (b) on any day until the date that is six months after the date of such acquisition, the Issuer is rated by one of Moody's or Standard & Poor's and the rating assigned by either of them is not an Investment Grade Rating;

(2) after the consummation of an initial public offering of the Issuer's Equity Interests, during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Issuer (together with any new directors whose election by the Board of Directors or whose nomination for election by the equity holders of the Issuer was approved by a vote of the majority of the directors of the Issuer then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Issuer's Board of Directors then in office; or

(3) the Issuer shall adopt a plan of liquidation or dissolution or any such plan shall be approved by the stockholders of the Issuer.

For purposes of this definition, a Person shall not be deemed to have beneficial ownership of securities subject to a stock purchase agreement, merger agreement or similar agreement until the consummation of the transactions contemplated by such agreement.

“**Collateral**” has the meaning set forth under “-Ranking.”

“**Collateral Agent**” means JPMorgan Chase Bank, N.A. in its capacity as collateral agent under the Security Documents and any successors or new collateral agents in such capacity.

“**Consolidated Amortization Expense**” for any period means the amortization expense of the Issuer and its Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

“**Consolidated Cash Flow**” for any period means, without duplication, the sum of the amounts for such period of

(1) Consolidated Net Income, *plus*

(2) in each case only to the extent (and in the same proportion) deducted in determining Consolidated Net Income,

(a) Consolidated Income Tax Expense,

(b) Consolidated Amortization Expense (but only to the extent not included in Consolidated Interest Expense),

(c) Consolidated Depreciation Expense,

(d) Consolidated Interest Expense net of consolidated interest income of the Issuer and its Restricted Subsidiaries, and

(e) stock compensation, as reported in the Issuer's financial statements, in each case determined on a consolidated basis in accordance with GAAP; provided that

(i) the aggregate amount of all other non-cash charges, expenses or losses reducing such Consolidated Net Income (excluding any non-cash charge, expense or loss that results in an accrual of a reserve for cash charges in any future period and any non-cash charge, expense or loss relating to writeoffs, writedowns or reserves with respect to accounts or inventory) for such period, and

(ii) the aggregate amount of all non-cash items, determined on a consolidated basis, to the extent such items increased Consolidated Net Income for such period will, in each case, be excluded from Consolidated Net Income for purposes of this definition only.

“**Consolidated Depreciation Expense**” for any period means the depreciation expense of the Issuer and its Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

“**Consolidated Income Tax Expense**” for any period means the provision for taxes of the Issuer and its Restricted Subsidiaries, determined on a consolidated basis in accordance with GAAP.

“**Consolidated Interest Coverage Ratio**” means the ratio of (i) Consolidated Cash Flow during the most recent four consecutive full fiscal quarters for which financial statements are available (the “**Four-Quarter Period**”) ending on or prior to the date of the transaction giving rise to the need to calculate the Consolidated Interest Coverage Ratio (the “**Transaction Date**”) to (ii) Consolidated Interest Expense for such Four-Quarter Period. For purposes of this definition, Consolidated Cash Flow and Consolidated Interest Expense shall be calculated after giving effect on a pro forma basis for the period of such calculation to:

(1) the incurrence of any Indebtedness or the issuance of any Preferred Stock of the Issuer or any Restricted Subsidiary (and the application of the proceeds thereof) and any repayment of other Indebtedness or redemption of other Preferred Stock (and the application of the proceeds therefrom) (other than the incurrence or repayment of Indebtedness in the ordinary course of business for working capital purposes pursuant to any revolving credit arrangement) occurring during the Four-Quarter Period or at any time subsequent to the last day of the Four-Quarter Period and on or prior to the Transaction Date, as if such incurrence, repayment, issuance or redemption, as the case may be (and the application of the proceeds thereof), occurred on the first day of the Four-Quarter Period; and

(2) any Asset Sale, asset sale which is solely excluded from the definition of Asset Sale pursuant to clause (9) of such definition or Asset Acquisition (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of the Issuer or any Restricted Subsidiary (including any Person who becomes a Restricted Subsidiary as a result of such Asset Acquisition or as a result of a Redesignation) incurring Acquired Indebtedness and also including any Consolidated Cash Flow (including any pro forma expense and cost reductions calculated on a basis consistent with Regulation S-X under the Exchange Act) associated with any such Asset Acquisition) occurring during the Four-Quarter Period or at any time subsequent to the last day of the Four-Quarter Period and on or prior to the Transaction Date, as if such Asset Sale, asset sale which is solely excluded from the definition of “Asset Sale” pursuant to clause (9) of such definition, or Asset Acquisition (including the incurrence of, or assumption or liability for, any such Indebtedness or Acquired Indebtedness) occurred on the first day of the Four-Quarter Period.

In calculating Consolidated Interest Expense for purposes of determining the denominator (but not the numerator) of this Consolidated Interest Coverage Ratio:

(1) interest on outstanding Indebtedness determined on a fluctuating basis as of the Transaction Date and which will continue to be so determined thereafter shall be deemed to have accrued at a fixed rate per annum equal to the rate of interest on such Indebtedness in effect on the Transaction Date;

(2) if interest on any Indebtedness actually incurred on the Transaction Date may optionally be determined at an interest rate based upon a factor of a prime or similar rate, a eurocurrency interbank offered rate, or other rates, then the interest rate in effect on the Transaction Date will be deemed to have been in effect during the Four-Quarter Period; and

(3) notwithstanding clause (1) or (2) above, interest on Indebtedness determined on a fluctuating basis, to the extent such interest is covered by agreements relating to Hedging Obligations, shall be deemed to accrue at the rate per annum resulting after giving effect to the operation of the agreements governing such Hedging Obligations.

“**Consolidated Interest Expense**” for any period means the sum, without duplication, of the total interest expense of the Issuer and its Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP and including, without duplication,

(1) imputed interest on Capitalized Lease Obligations,

(2) commissions, discounts and other fees and charges owed with respect to letters of credit securing financial obligations, bankers’ acceptance financing and receivables financings,

(3) the net costs associated with Hedging Obligations related to interest rates,

(4) amortization of debt issuance costs, debt discount or premium and other financing fees and expenses,

(5) the interest portion of any deferred payment obligations,

(6) all other non-cash interest expense,

(7) capitalized interest,

(8) the product of (a) all dividend payments on any series of Disqualified Equity Interests of the Issuer or any Preferred Stock of any Restricted Subsidiary (other than any such Disqualified Equity Interests or any Preferred Stock held by the Issuer or a Wholly-Owned Restricted Subsidiary or to the extent paid in Qualified Equity Interests), multiplied by (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of the Issuer and the Restricted Subsidiaries, expressed as a decimal,

(9) all interest payable with respect to discontinued operations, and

(10) all interest on any Indebtedness described in clause (6) or (7) of the definition of "Indebtedness."

"**Consolidated Leverage Ratio**" means, at any date, the ratio of

(i) Indebtedness of the Issuer and its Restricted Subsidiaries as of such date of calculation (determined on a consolidated basis in accordance with GAAP) to

(ii) Consolidated Cash Flow during the most recent four consecutive full fiscal quarters for which financial statements are available ending on or prior to the date of the transaction giving rise to the need to calculate the Consolidated Leverage Ratio.

In the event that the Issuer or any of its Restricted Subsidiaries incurs, repays, repurchases or redeems any Indebtedness subsequent to the commencement of the period for which the Consolidated Leverage Ratio is being calculated but prior to the event for which the calculation of the Consolidated Leverage Ratio is made, then the Consolidated Leverage Ratio shall be calculated giving pro forma effect to such incurrence, repayment, repurchase or redemption of Indebtedness as if the same had occurred at the beginning of the applicable four-quarter period; provided that the Issuer may elect, pursuant to an Officer's Certificate delivered to the Trustee to treat all or any portion of the commitment under any Indebtedness as being incurred at such time, in which case any subsequent incurrence of Indebtedness under such commitment shall not be deemed, for purposes of this calculation, to be an incurrence at such subsequent time.

"**Consolidated Leverage Test**" means, at any date, that the Consolidated Leverage Ratio is no greater than 3.50 to 1.00.

"**Consolidated Net Income**" for any period means the net income (or loss) of the Issuer and the Restricted Subsidiaries for such period determined on a consolidated basis in accordance with GAAP; provided that there shall be excluded from such net income (to the extent otherwise included therein), without duplication:

(1) the net income (or loss) of any Person that is not a Restricted Subsidiary, except to the extent that cash in an amount equal to any such income has actually been received by the Issuer or any Restricted Subsidiary during such period;

(2) except to the extent includible in the consolidated net income of the Issuer pursuant to the foregoing clause (1), the net income (or loss) of any Person that accrued prior to the date that (a) such Person becomes a Restricted Subsidiary or is merged into or consolidated with the Issuer or any Restricted Subsidiary or (b) the assets of such Person are acquired by the Issuer or any Restricted Subsidiary;

(3) any gain (or loss), together with any related provisions for taxes on any such gain (or the tax effect of any such loss), realized during such period by the Issuer or any Restricted Subsidiary upon (a) the acquisition of any securities, or the extinguishment of any Indebtedness, of the Issuer or any Restricted Subsidiary or (b) the sale of any financial or equity investment by the Issuer or any Restricted Subsidiary;

- (4) gains and losses due solely to fluctuations in currency values and the related tax effects according to GAAP;
- (5) gains and losses with respect to Hedging Obligations;
- (6) the cumulative effect of any change in accounting principles;
- (7) the net income (or loss) associated with minority interests in Restricted Subsidiaries that are not Wholly-Owned Restricted Subsidiaries; and
- (8) any extraordinary or nonrecurring gain (or extraordinary or nonrecurring loss), together with any related provision for taxes on any such extraordinary or nonrecurring gain (or the tax effect of any such extraordinary or nonrecurring loss), realized by the Issuer or any Restricted Subsidiary during such period.

For the purpose of this definition of "Consolidated Net Income," **"nonrecurring"** means any gain or loss as of any date that is not reasonably likely to recur within the two years following such date; provided that if there was a gain or loss similar to such gain or loss within the two years preceding such date, such gain or loss shall not be deemed nonrecurring.

"Consolidated Net Tangible Assets" means the total amount of assets (including investments in joint ventures) of the Issuer and its Restricted Subsidiaries after deducting therefrom (a) all current liabilities of the Issuer and its Restricted Subsidiaries and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and any other like intangibles of the Issuer and its Restricted Subsidiaries, all as set forth on the consolidated balance sheet of the Issuer for the most recently completed fiscal quarter for which financial statements are available and computed in accordance with generally accepted accounting principles.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. **"Controlling"** and **"Controlled"** have meanings correlative thereto.

"Coverage Ratio Exception" has the meaning set forth in the proviso in the first paragraph of the covenant described under "-Certain Covenants-Limitations on Incurrence of Indebtedness."

"Credit Agreement" means the Third Amended and Restated Credit Agreement dated June 23, 2016 by and among the Issuer and zulily, llc, as borrowers, the lenders party thereto from time to time, JPMorgan Chase Bank, N.A., as administrative agent and an issuing bank, BNP Paribas, Wells Fargo Bank, N.A., Bank of America, N.A, Barclays Bank plc, Citibank, N.A., Credit Agricole Corporate and Investment Bank, Mizuho Corporate Bank, Ltd., Royal Bank of Canada, SunTrust Bank, The Bank of Nova Scotia, Morgan Stanley MUFG Loan Partners, LLC and Sumitomo Mitsui Banking Corporation, as syndication agents, and Wells Fargo Bank, N.A., BNP Paribas, Royal Bank of Canada, The Bank of Nova Scotia and Mizuho Bank, Ltd., as issuing banks, including any notes, guarantees, collateral and security documents, instruments and agreements executed in connection therewith, and in each case as amended or refinanced from time to time.

"Credit Facilities" means one or more (A) debt facilities (which may be outstanding at the same time and including, without limitation, the Credit Agreement) or commercial paper facilities, providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to lenders or to special purpose entities formed to borrow from lenders against such receivables) or letters of credit, (B) debt securities (including, without limitation, the Notes), indentures or other forms of debt financing (including convertible or exchangeable debt instruments or bank guarantees or bankers' acceptances), or (C) instruments or agreements evidencing any other Indebtedness, in each case, with the same or different borrowers or issuers and, in each case, as amended, supplemented, modified, extended, restructured, renewed, refinanced, restated, replaced or refunded in whole or in part from time to time (including increasing the amount of available borrowings thereunder or adding Subsidiaries of the Issuer as additional borrowers or guarantors thereunder).

"Custodian" means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

"Default" means (1) any Event of Default or (2) any event, act or condition that, after notice or the passage of time or both, would be an Event of Default.

"Designation" has the meaning given to this term in the covenant described under "-Certain Covenants-Limitations on Designation of Unrestricted Subsidiaries."

“**Disqualified Equity Interests**” of any Person means any class of Equity Interests of such Person that, by its terms, or by the terms of any related agreement or of any security into which it is convertible, puttable or exchangeable, is, or upon the happening of any event or the passage of time would be, required to be redeemed by such Person, whether or not at the option of the holder thereof, or matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, in whole or in part, in each case on or prior to the date that is 91 days after the final maturity date of the Notes; provided, however, that any class of Equity Interests of such Person that, by its terms, authorizes such Person to satisfy in full its obligations with respect to the payment of dividends or upon maturity, redemption (pursuant to a sinking fund or otherwise) or repurchase thereof or otherwise by the delivery of Equity Interests that are not Disqualified Equity Interests, and that is not convertible, puttable or exchangeable for Disqualified Equity Interests or Indebtedness, will not be deemed to be Disqualified Equity Interests so long as such Person satisfies its obligations with respect thereto solely by the delivery of Equity Interests that are not Disqualified Equity Interests; provided, further, however, that any Equity Interests that would not constitute Disqualified Equity Interests but for provisions thereof giving holders thereof (or the holders of any security into or for which such Equity Interests are convertible, exchangeable or exercisable) the right to require the Issuer to redeem such Equity Interests upon the occurrence of a change in control occurring prior to the 91st day after the final maturity date of the Notes shall not constitute Disqualified Equity Interests if (1) the change of control provisions applicable to such Equity Interests are no more favorable to such holders than the provisions described under “-Change of Control,” and (2) such Equity Interests specifically provide that the Issuer will not redeem any such Equity Interests pursuant to such provisions prior to the Issuer’s purchase of the Notes as required pursuant to the provisions described under “-Change of Control.”

“**Domestic Subsidiary**” means any Subsidiary of the Issuer organized under the laws of any jurisdiction within the United States.

“**Equity Interests**” of any Person means (1) any and all shares or other equity interests (including common stock, preferred stock, limited liability company interests and partnership interests) in such Person and (2) all rights to purchase, warrants or options (whether or not currently exercisable), participations or other equivalents of or interests in (however designated) such shares or other interests in such Person.

“**Exchange Act**” means the U.S. Securities Exchange Act of 1934, as amended.

“**Existing Notes**” means the 2012 Notes, each series of the 2013 Notes, and each series of the 2014 Notes.

“**Existing Note Guarantees**” means the guarantees of the Existing Notes by the Guarantors.

“**Existing Notes Indentures**” means the 2012 Notes Indenture, the 2013 Notes Indenture, and the 2014 Notes Indentures.

“**Fair Market Value**” means, with respect to any asset, the price (after taking into account any liabilities relating to such assets) that would be negotiated in an arm’s-length transaction for cash between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction.

“**Foreign Subsidiary**” means any Subsidiary of the Issuer that is not a Domestic Subsidiary.

“**GAAP**” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, consistently applied.

“**guarantee**” means a direct or indirect guarantee by any Person of any Indebtedness of any other Person and includes any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep well, to purchase assets, goods, securities or services (unless such purchase arrangements are on arm’s-length terms and are entered into in the ordinary course of business), to take-or-pay, or to maintain financial statement conditions or otherwise); or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); “**guarantee**,” when used as a verb, and “**guaranteed**” have correlative meanings.

“**Guarantors**” means each Material Domestic Subsidiary of the Issuer on the Issue Date, and each other Person that is required to, or at the election of the Issuer does, become a Guarantor by the terms of the Indenture, in each case, until such Person is released from its Note Guarantee in accordance with the terms of the Indenture.

“**Hedging Obligations**” of any Person means the obligations of such Person under swap, cap, collar, forward purchase or similar agreements or arrangements dealing with interest rates, currency exchange rates or commodity prices, either generally or under specific contingencies.

“**Holder**” means any registered holder, from time to time, of the Notes.

“**incur**” means, with respect to any Indebtedness or Obligation, incur, create, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to such Indebtedness or Obligation; provided that (1) the Indebtedness of a Person existing at the time such Person became a Restricted Subsidiary shall be deemed to have been incurred by such Restricted Subsidiary and (2) neither the accrual of interest nor the accretion of original issue discount or the accretion or accumulation of dividends on any Equity Interests shall be deemed to be an incurrence of Indebtedness.

“**Indebtedness**” of any Person at any date means, without duplication:

- (1) all liabilities, contingent or otherwise, of such Person for borrowed money (whether or not the recourse of the lender is to the whole of the assets of such Person or only to a portion thereof) or with respect to deposits or advances of any kind;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all reimbursement obligations of such Person in respect of letters of credit, letters of guaranty, bankers’ acceptances and similar credit transactions;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except trade payables and accrued expenses incurred by such Person in the ordinary course of business in connection with obtaining goods, materials or services;
- (5) all Capitalized Lease Obligations of such Person;
- (6) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person;
- (7) all Indebtedness of others guaranteed by such Person to the extent of such guarantee; provided that Indebtedness of the Issuer or its Subsidiaries that is guaranteed by the Issuer or the Issuer’s Subsidiaries shall only be counted once in the calculation of the amount of Indebtedness of the Issuer and its Subsidiaries on a consolidated basis; and
- (8) all obligations of such Person under conditional sale or other title retention agreements relating to assets purchased by such Person (excluding obligations arising from inventory transactions in the ordinary course of business).

The amount of any Indebtedness which is incurred at a discount to the principal amount at maturity thereof as of any date shall be deemed to have been incurred at the accreted value thereof as of such date. The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above, the maximum liability of such Person for any such contingent obligations at such date and, in the case of clause (6), the lesser of (a) the Fair Market Value of any asset subject to a Lien securing the Indebtedness of others on the date that the Lien attaches and (b) the amount of the Indebtedness secured.

“**interest**” means, with respect to the Notes, interest on the Notes.

“**Investment Grade Rating**” has the meaning set forth under “-Change of Control.”

“**Investments**” of any Person means:

- (1) all direct or indirect investments by such Person in any other Person in the form of loans, advances or capital contributions or other credit extensions constituting Indebtedness of such other Person, and any guarantee of Indebtedness of any other Person;
-

(2) all purchases (or other acquisitions for consideration) by such Person of Indebtedness, Equity Interests or other securities of any other Person (other than any such purchase that constitutes a Restricted Payment of the type described in clause (2) of the definition thereof);

(3) all other items that would be classified as investments on a balance sheet of such Person prepared in accordance with GAAP (including, if required by GAAP, purchases of assets outside the ordinary course of business); and

(4) the Designation of any Subsidiary as an Unrestricted Subsidiary.

Except as otherwise expressly specified in this definition, the amount of any Investment (other than an Investment made in cash) shall be the Fair Market Value thereof on the date such Investment is made. The amount of Investment pursuant to clause (4) shall be the Fair Market Value of the Issuer's proportionate interest in such Unrestricted Subsidiary as of the date of such Unrestricted Subsidiary's designation as an Unrestricted Subsidiary. If the Issuer or any Restricted Subsidiary sells or otherwise disposes of any Equity Interests of any Restricted Subsidiary, or any Restricted Subsidiary issues any Equity Interests, in either case, such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary, the Issuer shall be deemed to have made an Investment on the date of any such sale or other disposition equal to the Fair Market Value of the Equity Interests of and all other Investments in such Restricted Subsidiary retained. Notwithstanding the foregoing, purchases or redemptions of Equity Interests of the Issuer or Parent shall be deemed not to be Investments.

"Issue Date" means September 13, 2018.

"Issuer Stock Collateral" has the meaning set forth under "-Ranking."

"Lien" means, with respect to any asset, any mortgage, deed of trust, lien (statutory or other), pledge, easement, charge, security interest or other encumbrance of any kind or nature in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset.

"Material Domestic Subsidiary" means any Domestic Subsidiary of the Issuer, as of the last day of the fiscal quarter of the Issuer most recently ended for which financial statements are available, that has assets (including Equity Interests in Subsidiaries) or revenues (including both third party and intercompany revenues) with a value in excess of 7.50% of the consolidated assets of the Issuer and its Domestic Subsidiaries or 7.50% of the consolidated revenues of the Issuer and its Domestic Subsidiaries; provided, that in the event Domestic Subsidiaries that would otherwise not be Material Domestic Subsidiaries shall in the aggregate account for a percentage in excess of 7.50% of the consolidated assets of the Issuer and its Domestic Subsidiaries or 7.50% of the consolidated revenues of the Issuer and its Domestic Subsidiaries as of the end of such fiscal quarter, then one or more of such Domestic Subsidiaries designated by the Issuer (or, if the Issuer shall make no designation, one or more of such Domestic Subsidiaries in descending order based on their respective contributions to the consolidated assets of the Issuer), shall be included as Material Domestic Subsidiaries to the extent necessary to eliminate such excess.

"Moody's" has the meaning set forth under "-Change of Control."

"Non-Material Domestic Subsidiary" means any Domestic Subsidiary of the Issuer other than a Material Domestic Subsidiary.

"Non-Recourse Debt" means Indebtedness of an Unrestricted Subsidiary:

(1) as to which neither the Issuer nor any Restricted Subsidiary (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness) or (b) is directly or indirectly liable as a guarantor or otherwise, and

(2) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness (other than the Credit Agreement, Existing Notes or Notes) of the Issuer or any Restricted Subsidiary to declare a default on the other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity.

“**Obligation**” means any principal, interest, penalties, fees, indemnification, reimbursements, costs, expenses, damages and other liabilities payable under the documentation governing any Indebtedness.

“**Officer**” means any of the following of the Issuer: the Chairman of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, the President, any Vice President, the Treasurer or the Secretary.

“**Officer’s Certificate**” means a certificate signed by an Officer.

“**Parent**” means Qurate Retail.

“**Parent Pledge Agreement**” has the meaning set forth under “-Security-Issuer Stock Collateral.”

“**Parent Pledgor**” has the meaning set forth under “-Ranking.”

“**Permitted Holders**” means any one or more of (a) Qurate Retail, (b) John C. Malone, (c) Greg Maffei, (d) each of the respective Affiliated Persons of the Persons referred to in clause (b) and (c), and (e) any Person a majority of the aggregate voting power of all the outstanding classes or series of the equity securities of which are beneficially owned by any one or more of the Persons referred to in clauses (a), (b), (c) or (d).

“**Permitted Investment**” means:

- (1) Investments by the Issuer or any Restricted Subsidiary in any Restricted Subsidiary;
- (2) Investments in the Issuer by any Restricted Subsidiary;
- (3) loans and advances to directors, employees and officers of Parent (prior to the consummation of an initial public offering of the Issuer’s Equity Interests) or the Issuer or any of the Restricted Subsidiaries for bona fide business purposes and to purchase Equity Interests of the Parent (prior to the consummation of an initial public offering of the Issuer’s Equity Interests) or the Issuer (after the consummation of an initial public offering of the Issuer’s Equity Interests) not in excess of \$10.0 million at any one time outstanding;
- (4) cash and Cash Equivalents;
- (5) receivables owing to the Issuer or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as the Issuer or any such Restricted Subsidiary deems reasonable under the circumstances;
- (6) Investments in securities of trade creditors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditors or customers;
- (7) Investments made by the Issuer or any Restricted Subsidiary as a result of consideration received in connection with a sale of assets made in compliance with the covenant described under “-Certain Covenants-Limitations on Asset Sales”;
- (8) lease, utility and other similar deposits in the ordinary course of business;
- (9) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Issuer or any Restricted Subsidiary or in satisfaction of judgments;
- (10) any Investment existing on, or made pursuant to binding commitments existing on, the Issue Date; and
- (11) Investments, including in joint ventures of the Issuer or any of its Restricted Subsidiaries, not to exceed \$100.0 million in the aggregate outstanding at any time.

“**Permitted Liens**” means the following types of Liens:

- (1) Liens for taxes, assessments or governmental charges or claims either (a) not delinquent or (b) contested in good faith by appropriate proceedings and as to which the Issuer or a Restricted Subsidiary shall have set aside on its books such reserves as may be required pursuant to GAAP;
 - (2) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law incurred in the ordinary course of business for sums not yet delinquent by more than 30 days or being contested in good faith, if such reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made in respect thereof;
 - (3) pledges and deposits made in the ordinary course of business in compliance with workers' compensation (or pursuant to letters of credit issued in connection with such workers' compensation compliance), unemployment insurance and other social security laws or regulations;
 - (4) Liens incurred or deposits made in the ordinary course of business to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, performance and return-of- money bonds, letters of credit and other similar obligations (exclusive of obligations for the payment of borrowed money);
 - (5) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;
 - (6) judgment Liens not giving rise to an Event of Default;
 - (7) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of the Issuer or any Restricted Subsidiary;
 - (8) Liens securing obligations in respect of trade-related letters of credit and covering the goods (or the documents of title in respect of such goods) financed or the purchase of which is supported by such letters of credit and the proceeds and products thereof;
 - (9) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual or warranty requirements of the Issuer or any Restricted Subsidiary, including rights of offset and setoff;
 - (10) bankers' Liens, rights of setoff and other similar Liens existing solely with respect to cash and Cash Equivalents on deposit in one or more accounts maintained by the Issuer or any Restricted Subsidiary, in each case granted in the ordinary course of business in favor of the bank or banks with which such accounts are maintained, securing amounts owing to such bank with respect to cash management and operating account arrangements, including those involving pooled accounts and netting arrangements; provided that in no case shall any such Liens secure (either directly or indirectly) the repayment of any Indebtedness;
 - (11) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Issuer or any Restricted Subsidiary;
 - (12) Liens arising from filing Uniform Commercial Code financing statements regarding leases;
 - (13) [Reserved];
 - (14) Liens securing Hedging Obligations entered into for bona fide hedging purposes of the Issuer or any Restricted Subsidiary in the ordinary course of business not for the purpose of speculation;
 - (15) Liens existing on the Issue Date securing obligations outstanding on the Issue Date;
 - (16) Liens in favor of the Issuer or a Guarantor;
 - (17) Liens securing Purchase Money Indebtedness; provided that such Liens shall secure Capitalized Lease Obligations or be created within 90 days of the acquisition of such fixed or capital assets and shall not extend to any asset other than the specified asset being financed and additions and improvements thereon;
-

(18) Liens securing Acquired Indebtedness permitted to be incurred under the Indenture; provided that the Liens do not extend to assets not subject to such Lien at the time of acquisition (other than improvements thereon) and are no more favorable to the lienholders than those securing such Acquired Indebtedness prior to the incurrence of such Acquired Indebtedness by the Issuer or a Restricted Subsidiary;

(19) deposits and other Liens securing credit card operations of the Issuer and its Subsidiaries, provided the amount secured does not exceed amounts owed by the Issuer and its Subsidiaries in connection with such credit card operations;

(20) Liens to secure Refinancing Indebtedness of Indebtedness secured by Liens referred to in the foregoing clauses (15), (17) and (18); provided that in the case of Liens securing Refinancing Indebtedness of Indebtedness secured by Liens referred to in the foregoing clauses (15), (17) and (18) such Liens do not extend to any additional assets (other than improvements thereon and replacements thereof);

(21) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(22) Interests of vendors in inventory arising out of such inventory being subject to a "sale or return" arrangement with such vendor or any consignment by any third party of any inventory; and

(23) Liens incurred in the ordinary course of business of the Issuer or any Restricted Subsidiary with respect to obligations that do not in the aggregate exceed \$150.0 million at any one time outstanding, so long as such Liens do not encumber Collateral consisting of assets of the Issuer or any Restricted Subsidiary.

"Permitted Parity Indebtedness" has the meaning given to such term in the covenant described under "-Certain Covenants-Limitations on Liens."

"Person" means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint-stock company, trust, unincorporated organization or government or other agency or political subdivision thereof or other entity of any kind.

"Plan of Liquidation" with respect to any Person, means a plan that provides for, contemplates or the effectuation of which is preceded or accompanied by (whether or not substantially contemporaneously, in phases or otherwise): (1) the sale, lease, conveyance or other disposition of all or substantially all of the assets of such Person other than as an entirety or substantially as an entirety; and (2) the distribution of all or substantially all of the proceeds of such sale, lease, conveyance or other disposition of all or substantially all of the remaining assets of such Person to holders of Equity Interests of such Person.

"Preferred Stock" means, with respect to any Person, any and all preferred or preference stock or other equity interests (however designated) of such Person whether issued before or after the Issue Date.

"principal" means, with respect to the Notes, the principal of, and premium, if any, on the Notes.

"Purchase Money Indebtedness" means Indebtedness, including Capitalized Lease Obligations, of the Issuer or any Restricted Subsidiary incurred for the purpose of financing all or any part of the purchase price of property, plant or equipment used in the business of the Issuer or any Restricted Subsidiary or the cost of installation, construction or improvement thereof; provided, however, that such Indebtedness is comprised of Capitalized Lease Obligations or (1) the amount of such Indebtedness shall not exceed such purchase price or cost and (2) such Indebtedness shall be incurred within 90 days after such acquisition of such asset by the Issuer or such Restricted Subsidiary or such installation, construction or improvement.

"Qualified Equity Interests" of any Person means Equity Interests of such Person other than Disqualified Equity Interests; provided that such Equity Interests shall not be deemed Qualified Equity Interests to the extent sold or owed to a Subsidiary of such Person or financed, directly or indirectly, using funds (1) borrowed from such Person or any Subsidiary of such Person until and to the extent such borrowing is repaid or (2) contributed, extended, guaranteed or advanced by such Person or any Subsidiary of such Person (including, without limitation, in respect of any employee stock ownership or benefit plan). Unless otherwise specified, Qualified Equity Interests refer to Qualified Equity Interests of the Issuer.

“Qurate Retail” means Qurate Retail, Inc. (f/k/a Liberty Interactive Corporation), a Delaware corporation, and any successor (by merger, consolidation, transfer or otherwise) to all or substantially all of its assets; and any subsequent successor (by merger, consolidation, transfer or otherwise) to all or substantially all of a successor’s assets, provided, that if a Transferee Parent becomes the beneficial owner of all or substantially all of the equity securities of the Issuer then beneficially owned by Qurate Retail as to which Qurate Retail has dispositive power, the term “Qurate Retail” shall also mean such Transferee Parent and any successor (by merger, consolidation, transfer or otherwise) to all or substantially all of its assets. **“Transferee Parent”** for this purpose means, in the event of any transaction or series of related transactions involving the direct or indirect transfer (or relinquishment of control) by Qurate Retail of a Person or Persons (a **“Transferred Person”**) that hold equity securities of the Issuer beneficially owned by Qurate Retail, such Transferred Person or its successor in such transaction or any ultimate parent entity (within the meaning of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended) of such Transferred Person or its successor if immediately after giving effect to such transaction or the last transaction in such series, voting securities representing at least a majority of the voting power of the outstanding voting securities of such Transferred Person, successor or ultimate parent entity are beneficially owned by any combination of Qurate Retail, Persons who prior to such transaction were beneficial owners of a majority of, or a majority of the voting power of, the outstanding voting securities of Qurate Retail (or of any publicly traded class or series of voting securities of Qurate Retail designed to track the economic performance of a specified group of assets or businesses) or Persons who are Control Persons as of the date of such transaction or the last transaction in such series. **“Control Person”** for this purpose means each of (a) the Chairman of the Board of Qurate Retail, (b) the President of Qurate Retail, (c) any Executive Vice President or Senior Vice President of Qurate Retail, (d) each of the directors of Qurate Retail and (e) the respective Affiliated Persons of the Persons referred to in clauses (a) through (d).

“Recovery” has the meaning set forth under “-Security-Certain Bankruptcy Provisions.”

“redeem” means to redeem, repurchase, purchase, defease, retire, discharge or otherwise acquire or retire for value; and “redemption” shall have a correlative meaning; provided that this definition shall not apply for purposes of “-Optional Redemption.”

“Redesignation” has the meaning given to such term in the covenant described under “-Certain Covenants-Limitations on Designation of Unrestricted Subsidiaries.”

“refinance” means to refinance, repay, prepay, replace, renew or refund.

“Refinancing Indebtedness” means Indebtedness of the Issuer or a Restricted Subsidiary incurred in exchange for, or the proceeds of which are used to redeem or refinance in whole or in part, any Indebtedness of the Issuer or any Restricted Subsidiary (the **“Refinanced Indebtedness”**); provided that:

- (1) the principal amount (and accreted value, in the case of Indebtedness issued at a discount) of the Refinancing Indebtedness does not exceed the principal amount (and accreted value, as the case may be) of the Refinanced Indebtedness plus the amount of accrued and unpaid interest on the Refinanced Indebtedness, any reasonable premium paid to the holders of the Refinanced Indebtedness and reasonable expenses incurred in connection with the incurrence of the Refinancing Indebtedness;
 - (2) the obligor of Refinancing Indebtedness does not include any Person (other than the Issuer or any Restricted Subsidiary) that is not an obligor of the Refinanced Indebtedness;
 - (3) if the Refinanced Indebtedness was subordinated in right of payment to the Notes or the Note Guarantees, as the case may be, then such Refinancing Indebtedness, by its terms, is subordinate in right of payment to the Notes or the Note Guarantees, as the case may be, at least to the same extent as the Refinanced Indebtedness;
 - (4) the Refinancing Indebtedness has a final stated maturity either (a) no earlier than the Refinanced Indebtedness being repaid or amended or (b) after the final maturity date of the Notes; and
 - (5) the portion, if any, of the Refinancing Indebtedness that is scheduled to mature on or prior to the final maturity date of the Notes has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is incurred that is equal to or greater than the Weighted Average Life to Maturity of the portion of the Refinanced Indebtedness being repaid that is scheduled to mature on or prior to the final maturity date of the Notes; provided that Refinancing Indebtedness in respect of Refinanced Indebtedness that has no amortization may provide for amortization installments, sinking fund payments, senior maturity dates or other required payments of principal of up to 1% of the aggregate principal amount per annum.
-

“Restricted Payment” means any of the following:

(1) the declaration or payment of any dividend or any other distribution on Equity Interests of the Issuer or any Restricted Subsidiary or any payment made to the direct or indirect holders (in their capacities as such) of Equity Interests of the Issuer or any Restricted Subsidiary, including, without limitation, any such payment in connection with any merger or consolidation involving the Issuer but excluding (a) dividends or distributions payable solely in Qualified Equity Interests or through accretion or accumulation of such dividends on such Equity Interests and (b) in the case of Restricted Subsidiaries, dividends or distributions payable to the Issuer or to a Restricted Subsidiary and *pro rata* dividends or distributions payable to minority stockholders of any Restricted Subsidiary;

(2) the redemption of any Equity Interests of the Issuer or any Restricted Subsidiary, or any equity holder of the Issuer, including, without limitation, any payment in exchange for such Equity Interests in connection with any merger or consolidation involving the Issuer but excluding any such Equity Interests held by the Issuer or any Restricted Subsidiary;

(3) any Investment other than a Permitted Investment; or

(4) any payment or redemption prior to the scheduled maturity or prior to any scheduled repayment of principal or sinking fund payment, as the case may be, in respect of Subordinated Indebtedness (other than any Subordinated Indebtedness owed to and held by the Issuer or any Restricted Subsidiary).

“Restricted Subsidiary” means any Subsidiary of the Issuer other than an Unrestricted Subsidiary.

“Sale and Leaseback Transactions” means with respect to any Person an arrangement with any bank, insurance company or other lender or investor or to which such lender or investor is a party, providing for the leasing by such Person of any asset of such Person which has been or is being sold or transferred by such Person to such lender or investor or to any Person to whom funds have been or are to be advanced by such lender or investor on the security of such asset.

“SEC” means the U.S. Securities and Exchange Commission.

“Secured Party” shall mean the lenders and the agents under the Credit Agreement, holders of Existing Notes, the trustee under the Existing Notes and providers of the Specified Swap Agreements, the Trustee, the Holders, the Collateral Agent and any other party designated as an additional secured party under the Security Documents in accordance with the terms of the Security Documents, Indenture, the Credit Agreement or the Existing Notes Indentures.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Security Documents” means, collectively, the Parent Pledge Agreement and any other security agreement relating to the Collateral, each as in effect on the Issue Date (in the case of the Parent Pledge Agreement) and as any such Security Document may be amended, amended and restated, modified, renewed or replaced from time to time.

“Significant Subsidiary” means (1) any Restricted Subsidiary that would be a “significant subsidiary” as defined in Regulation S-X promulgated pursuant to the Securities Act as such Regulation is in effect on the Issue Date and (2) any Restricted Subsidiary that, when aggregated with all other Restricted Subsidiaries that are not otherwise Significant Subsidiaries and as to which any event described in clause (7) or (8) under “-Events of Default” has occurred and is continuing, would constitute a Significant Subsidiary under clause (1) of this definition.

“Specified Swap Agreement” means any Swap Agreement in respect of interest rate or currency exchange rates existing on the Issue Date or entered into by the Issuer or any Guarantor and any Person that is a lender or an affiliate of a lender under the Credit Agreement at the time such Swap Agreement is entered into and is secured equally and ratably with such Credit Agreement pursuant to the terms of the Credit Agreement and Security Documents or any such agreement secured equally and ratably with any Credit Facility pursuant to the terms of such Credit Facility and Security Documents.

“Standard & Poor’s” has the meaning set forth under “-Change of Control.”

“Stock Compensation Plans” means compensation plans in connection with which the Issuer and its Subsidiaries make payments to Parent and its Affiliates in consideration for securities of Parent issued to employees of the Issuer and its Subsidiaries.

“**Subordinated Indebtedness**” means Indebtedness of the Issuer or any Restricted Subsidiary that is expressly subordinated in right of payment to the Notes of each series or the Note Guarantees.

“**Subsidiary**” means, with respect to any Person:

- (1) any corporation, limited liability company, association or other business entity of which more than 50% of the total voting power of the Equity Interests entitled (without regard to the occurrence of any contingency) to vote in the election of the Board of Directors thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person (or a combination thereof); and
- (2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are such Person or of one or more Subsidiaries of such Person (or any combination thereof).

Unless otherwise specified, “Subsidiary” refers to a Subsidiary of the Issuer.

“**Swap Agreement**” means any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; provided that no phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of the Issuer or the Subsidiaries shall be a Swap Agreement.

“**Tax Liability Allocation and Indemnification Agreement**” means that certain Tax Liability Allocation and Indemnification Agreement entered into as of April 26, 2004 by and between Liberty Interactive LLC (f/k/a Liberty Media Corporation) and the Issuer, as amended, modified or replaced from time to time in a manner no less favorable to the Issuer than as in effect on the Issue Date; provided that such agreement may be amended from time to time in the future to permit Issuer to pay the portion of any additional consolidated, combined or similar income taxes payable by any direct or indirect parent of Issuer that are attributable to the income of Issuer and/or any of its Subsidiaries.

“**Trust Indenture Act**” means the Trust Indenture Act of 1939, as amended.

“**Unrestricted Subsidiary**” means (1) QVC Italia S.r.l., (2) QVC France SAS, (3) QVC Ontario, LLC, (4) any Subsidiary that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors of the Issuer in accordance with the covenant described under “-Certain Covenants-Limitations on Designation of Unrestricted Subsidiaries” and (5) any Subsidiary of an Unrestricted Subsidiary.

“**U.S. Government Obligations**” means direct non-callable obligations of, or guaranteed by, the United States of America for the payment of which guarantee or obligations the full faith and credit of the United States is pledged.

“**Weighted Average Life to Maturity**” when applied to any Indebtedness at any date, means the number of years obtained by dividing (1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal, including payment at final maturity, in respect thereof by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment by (2) the then outstanding principal amount of such Indebtedness.

“**Wholly-Owned Restricted Subsidiary**” means a Restricted Subsidiary of which 100% of the Equity Interests (except for directors’ qualifying shares or certain minority interests owned by other Persons solely due to local law requirements that there be more than one stockholder, but which interest is not in excess of what is required for such purpose) are owned directly by the Issuer or through one or more Wholly-Owned Restricted Subsidiaries.

Description of the Registrant’s 6.250% Senior Secured Notes due 2068

As used in this section “Description of the Registrant’s 6.250% Senior Secured Notes due 2068”, the “Issuer” means QVC, Inc., a Delaware corporation, and its successors, but not any of its subsidiaries. The following is a description of the Registrant’s 6.250% Senior Secured Notes due November 26, 2068 (the “Notes”) issued under the Indenture, dated as of September 13, 2018 (the “Base Indenture”), among the Issuer, the Guarantors (as defined below), and U.S. Bank National Association, as Trustee (the “Trustee”) and a Supplemental Indenture, dated as of November 26, 2019 (the “Supplemental Indenture”, and the Base Indenture, as supplemented by the Supplemental Indenture, the “Indenture”).

The terms of the Notes include those set forth in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act (as defined below).

The following is a summary of the material terms and provisions of the Indenture, the Notes and the Note Guarantees (as defined below), as well as the Parent Pledge Agreement (as defined below). The following summary does not purport to be a complete description of these documents and is subject to the detailed provisions of, and qualified in its entirety by reference to, the Indenture and the Parent Pledge Agreement. The [Base Indenture](#) and [Supplemental Indenture](#) are exhibits to this Annual Report on Form 10-K and are incorporated by reference herein. Additionally, you may obtain a copy of the Indenture and the Parent Pledge Agreement from the Issuer at its address set forth elsewhere in its most recent Annual Report on Form 10-K. You can find definitions of certain terms used in this section under “-Certain Definitions Related to the 6.250% Senior Secured Notes due 2068.” Terms defined in this “Description of the Registrant’s 6.250% Senior Secured Notes due 2068” section are defined only for the purpose of this section. References in this section to any subsections are references only to subsections of this section.

Principal, Maturity and Interest

The Notes will mature on November 26, 2068. The Notes bear interest at the rate of 6.250%, payable on March 15, June 15, September 15 and December 15 of each year, commencing on December 15, 2019 to Holders of record at the close of business on March 1, June 1, September 1 or December 1, as the case may be, immediately preceding the relevant interest payment date. Interest on the Notes is computed on the basis of a 360-day year of twelve 30-day months.

The Notes were issued in registered form, without coupons, and denominations of \$25 and in integral multiples thereof.

The Notes were initially issued in an aggregate principal amount equal to \$500,250,000 (including the underwriters’ over-allotment option that was exercised in full), which amount is outstanding as of the end of the period covered by the most recent Annual Report on Form 10-K of the Issuer. The Issuer may issue additional Notes having identical terms and conditions to the Notes issued on the Issue Date, except for issue date, issue price and first interest payment date, in an unlimited aggregate principal amount (the “Additional Notes”), subject to compliance with the covenant described under “-Certain Covenants-Limitations on Incurrence of Indebtedness.” Any Additional Notes will be part of the same issue as the Notes issued on the Issue Date and will be treated as one class with the Notes issued on the Issue Date, including for purposes of voting, redemptions and offers to purchase. Any Additional Notes will be secured equally and ratably by the Collateral with the Notes, the Existing Notes, the obligations under the Credit Agreement, the obligations under any Specified Swap Agreements, the obligations under any Specified Cash Management Services Agreements and the obligations under certain other parity indebtedness permitted to be incurred under the Indenture. See “-Security.” For purposes of this “Description of the Registrant’s 6.250% Senior Secured Notes due 2068” section, except for the covenant described under “-Certain Covenants-Limitations on Incurrence of Indebtedness,” references to the Notes include Additional Notes, if any.

Ranking

The Notes issued on the Issue Date are general senior obligations of the Issuer. The Notes rank senior in right of payment to all existing and future obligations of the Issuer that are, by their terms, expressly subordinated in right of payment to the Notes and *pari passu* in right of payment with all existing and future senior obligations of the Issuer that are not so subordinated. Each Note Guarantee (as defined below) is a general senior obligation of the applicable Guarantor and ranks senior in right of payment to all existing and future obligations of such Guarantor that are, by their terms, expressly subordinated in right of payment to such Note Guarantee and *pari passu* in right of payment with all existing and future senior obligations of such Guarantor that are not so subordinated. See “-Note Guarantees.”

The Notes are secured, equally and ratably with all existing obligations of the Issuer and the Guarantors under the Credit Agreement and the Existing Notes. The sole collateral is a first-priority security interest on all shares of the capital stock of the Issuer. The security interest is subject to a number of important limitations and qualifications. See “-Security.”

The Collateral (as defined below) as of the Issue Date was limited to a pledge by the Issuer's direct parent, Qurate Retail Group, Inc. (the "Parent Pledgor"), of all of the shares of our capital stock (the "Issuer Stock Collateral"), and did not include a lien on any of the Issuer's assets or assets of any of its subsidiaries. The Parent Pledgor is not subject to the Indenture or to any of the restrictive covenants in the Indenture. After the Issue Date, if any of the Credit Agreement, the Existing Notes or any Permitted Parity Indebtedness were to benefit from a lien on any assets of the Issuer or any of its Restricted Subsidiaries then, subject to the provisions in "-Certain Covenants-Limitations on Liens," the Notes would also be secured, subject, as to priority and otherwise, to certain exceptions and subject to Permitted Liens, by a lien on any such assets (together with the Issuer Stock Collateral, the "Collateral"). The Credit Agreement does not provide for any circumstances in which a security interest in any assets of the Issuer or any of its subsidiaries must be pledged for the benefit of the lenders under the Credit Agreement. The Existing Notes also do not require any present or future security interest in any assets of the Issuer or any of its subsidiaries. It is unlikely that the holders of the Notes will ever have the benefit of a lien on any Collateral consisting of assets of the Issuer or any of its subsidiaries.

Although the Indenture contains limitations on the amount of additional Indebtedness and secured Indebtedness that the Issuer and the Restricted Subsidiaries may incur, under certain circumstances, the amount of such Indebtedness could be substantial. See "-Certain Covenants-Limitations on Incurrence of Indebtedness" and "-Limitations on Liens." As long as the Collateral includes no asset of the Issuer, the Notes, the Existing Notes, the Credit Agreement, any Specified Swap Agreements and any Specified Cash Management Services Agreements rank equally with all unsubordinated unsecured indebtedness and other obligations of the Issuer. See "-Security."

The Notes and each Note Guarantee are effectively subordinated to any obligations secured by Permitted Liens (other than any Permitted Parity Indebtedness), to the extent of the value of the assets of the Issuer and the relevant Guarantor that are subject to such Permitted Liens.

Not all of our Subsidiaries guarantee the Notes. Our Non-Material Domestic Subsidiaries, Unrestricted Subsidiaries and Foreign Subsidiaries are not Guarantors. As a result, the Notes and each Note Guarantee are structurally subordinated to all existing and future obligations, including Indebtedness, of these Subsidiaries. Claims of creditors of these Subsidiaries, including trade creditors, will generally have priority as to the assets of these Subsidiaries over the claims of the Issuer and the Guarantors and the holders of Indebtedness of the Issuer and the Guarantors, including the Notes and the Note Guarantees. In the event of a bankruptcy, liquidation or reorganization of any of these non-guarantor Subsidiaries, these non-guarantor Subsidiaries will pay the holders of their debts and their trade creditors before they will be able to distribute any of their assets to us.

Note Guarantees

The Issuer's obligations under the Notes and the Indenture are jointly and severally guaranteed (the "Note Guarantees") by each Material Domestic Subsidiary, any Subsidiary that guarantees the obligations under the Credit Agreement or any Permitted Parity Indebtedness and any other Restricted Subsidiary that the Issuer shall otherwise cause to become a Guarantor pursuant to the terms of the Indenture. Our Non-Material Domestic Subsidiaries, Unrestricted Subsidiaries and Foreign Subsidiaries are not Guarantors, and therefore the Notes and the related Note Guarantees are structurally subordinated to all existing and future obligations of these Subsidiaries. The guarantees of the Existing Notes by the Guarantors are referred to herein as the "Existing Note Guarantees." See "-Ranking."

As of the Issue Date, all of our Subsidiaries except QVC France SAS were Restricted Subsidiaries. However, under the circumstances described below under "-Certain Covenants-Limitations on Designation of Unrestricted Subsidiaries," the Issuer will be permitted to designate any of its Subsidiaries, other than any Subsidiary that continues to guarantee the obligations under the Credit Agreement or Permitted Parity Indebtedness permitted to be incurred under the Indenture, as "Unrestricted Subsidiaries." The effect of designating a Subsidiary as an "Unrestricted Subsidiary" will be that:

- an Unrestricted Subsidiary will not be subject to many of the restrictive covenants in the Indenture;
 - a Subsidiary that is a Guarantor and that is designated an Unrestricted Subsidiary will be released from its Note Guarantee and its obligations under the Indenture; and
 - the assets, income, cash flow and other financial results of an Unrestricted Subsidiary will not be consolidated with those of the Issuer for purposes of calculating compliance with the restrictive covenants contained in the Indenture.
-

The obligations of each Guarantor under its Note Guarantee is limited to the maximum amount as will, after giving effect to all other contingent and fixed liabilities of such Guarantor (including, without limitation, any guarantees under the Credit Agreement and the Existing Note Guarantees) and after giving effect to any collections from or payments made by or on behalf of any other Guarantor in respect of the obligations of such other Guarantor under its Note Guarantee or pursuant to its contribution obligations under the Indenture, result in the obligations of such Guarantor under its Note Guarantee not constituting a fraudulent conveyance or fraudulent transfer under federal or state law. Each Guarantor that makes a payment for distribution under its Note Guarantee is entitled to a contribution from each other Guarantor in a *pro rata* amount based on adjusted net assets of each Guarantor.

A Guarantor will be released from its obligations under its Note Guarantee and its obligations under the Indenture:

- (1) in the event of dissolution of such Guarantor;
- (2) if such Guarantor is designated as an Unrestricted Subsidiary or otherwise ceases to be a Restricted Subsidiary, in each case in accordance with the provisions of the Indenture, upon effectiveness of such designation or when it first ceases to be a Restricted Subsidiary, respectively; or
- (3) upon the release or discharge of the guarantee by such Guarantor of the Credit Agreement or such other indebtedness that resulted in the creation of such Note Guarantee, except a discharge or release by or as a result of payment under such other guarantee.

See “-Certain Covenants-Limitations on Designation of Unrestricted Subsidiaries.”

Security

General

On the Issue Date, the Collateral securing the Notes was limited to the Issuer Stock Collateral. The security interest in the Collateral is shared equally and ratably among the Notes (including Additional Notes, if any), the Existing Notes, the Credit Agreement, any Specified Swap Agreements, any Specified Cash Management Services Agreements and any other Indebtedness permitted by the Indenture that in the future is secured by the Collateral. See “-Certain Covenants-Limitations on Incurrence of Indebtedness” and “-Limitations on Liens.” Any Collateral in addition to the Issuer Stock Collateral will be subject to the provisions of the applicable Security Documents. It is unlikely that the holders of the Notes will ever have the benefit of a lien on any Collateral consisting of assets of the Issuer or any of its Restricted Subsidiaries.

Issuer Stock Collateral

The Issuer Stock Collateral is pledged pursuant to a pledge agreement between the Parent Pledgor and the Collateral Agent for the benefit of the Secured Parties under the Credit Agreement and the holders of the Existing Notes. The Collateral Agent entered into an amended and restated pledge agreement (the “Parent Pledge Agreement”) concurrently with the issuance of the Notes on the Issue Date to add the holders of the Notes as Secured Parties. This security interest secures the payment and performance when due of all of the obligations of the Issuer under the Notes, the Indenture and the Parent Pledge Agreement. This security interest also continues to secure the obligations under the Existing Notes and the Credit Agreement on an equal and ratable basis, and may in the future secure other Indebtedness permitted to be incurred under the Indenture on an equal and ratable basis. See “-Ranking.”

The Collateral Agent will determine the time and method by which the security interest in the Issuer Stock Collateral will be enforced and will have the sole and exclusive right to manage, perform and enforce the terms of the Parent Pledge Agreement and to exercise and enforce all privileges, rights and remedies thereunder, including to take or retake control or possession of the Issuer Stock Collateral and hold, prepare for sale, marshal, process, sell, lease, dispose of or liquidate the Issuer Stock Collateral, including, without limitation, following the occurrence of an Event of Default under the Indenture. Prior to the repayment in full in cash of all obligations under the Credit Agreement, neither the Trustee nor the Holders of the Notes will be entitled to exercise or be entitled to participate in providing instructions in respect of remedies and enforcement to the Collateral Agent, including the right to enforce the actions pursuant to the Parent Pledge Agreement, request any action, institute proceedings, give any instructions or notices, make any election, make collections, sell or otherwise foreclose on any portion of the Issuer Stock Collateral or receive any payment (except for the right to receive payments as expressly set forth under the Parent Pledge Agreement).

Under the Parent Pledge Agreement, the Collateral Agent's obligations to the Trustee and the Holders of Notes (collectively, the "Indenture Secured Parties") are limited to holding the Issuer Stock Collateral for the ratable benefit of the Indenture Secured Parties, enforcing the rights of the Indenture Secured Parties (in their capacity as such) with respect to the Issuer Stock Collateral, and distributing to the Secured Parties any proceeds received from the sale, collection or realization of the Issuer Stock Collateral.

In addition, none of the Collateral Agent, any lender or agent under the Credit Agreement, any provider of hedges under Specified Swap Agreements or any provider of services under Specified Cash Management Services Agreements will be liable to the Trustee or the Holders of Notes for any actions with respect to the creation, perfection or continuation of the security interests on the Issuer Stock Collateral, actions with respect to the occurrence of a default or an event of default, actions with respect to the foreclosure upon, sale, release, or depreciation of, or failure to realize upon, of the Issuer Stock Collateral, actions with respect to the collection of any claim for all or any part of the obligations under the Notes from any debtor, guarantor or any other party or the valuation, use or protection of the Issuer Stock Collateral.

Subject to the terms of the Parent Pledge Agreement, the Parent Pledgor has the right to remain in possession and retain exclusive control of the Issuer Stock Collateral and to collect, invest and dispose of any income therefrom. Unless an event of default has occurred with respect to any obligations secured by the Parent Pledge Agreement and the Collateral Agent has given notice of its intent to exercise rights against the Issuer Stock Collateral, the Parent Pledgor will have the right to receive dividends paid in respect of the shares constituting the Issuer Stock Collateral and to exercise all voting rights with respect to the shares constituting Issuer Stock Collateral.

Sufficiency of Collateral

The fair market value of the Collateral is subject to fluctuations based on factors that include, among others, the condition of the retail industry, the ability to sell the Collateral in an orderly sale, general economic conditions, the availability of buyers and similar factors. The amount to be received upon a sale of the Collateral will also be dependent on numerous factors, including, but not limited to, the actual fair market value of the Collateral at such time and the timing and the manner of the sale. By its nature, the Collateral may be illiquid and may have no readily ascertainable market value. Accordingly, there can be no assurance that the Collateral can be sold in a short period of time or in an orderly manner. In addition, in the event of a bankruptcy, the ability of the Holders to realize upon any of the Collateral may be subject to certain bankruptcy law limitations as described below.

Certain Bankruptcy Limitations

The right of the Collateral Agent to repossess and dispose of the Collateral upon the occurrence of an Event of Default may be significantly impaired by any Bankruptcy Law in the event that a bankruptcy case were to be commenced by or against the Parent Pledgor, the Issuer or any Guarantor prior to the Collateral Agent's having repossessed and disposed of the Collateral. Upon the commencement of a case for relief under the U.S. bankruptcy code, a secured creditor such as the Collateral Agent is prohibited from repossessing its security from a debtor in a bankruptcy case, or from disposing of security without bankruptcy court approval.

If any Secured Party is required in any insolvency or liquidation proceeding or otherwise to turn over or otherwise pay any amount to the estate of the Issuer or any Guarantor (or any trustee, receiver or similar person therefor) because the payment of such amount was declared to be fraudulent or preferential in any respect or for any other reason, any such amount (a "Recovery"), whether received as proceeds of security, enforcement of any right of setoff or otherwise, then as among the parties to the applicable Security Document, the obligations owing to such party shall be deemed to be reinstated to the extent of such Recovery and to be outstanding as if such payment had not occurred, and such Secured Party shall be entitled to a reinstatement of obligations with respect to all such recovered amounts and shall have all rights as a Secured Party under the Security Documents with respect thereto.

In view of the broad equitable powers of a U.S. bankruptcy court, it is impossible to predict how long payments under the Notes could be delayed following commencement of a bankruptcy case, whether or when the Collateral Agent could repossess or dispose of the Collateral, the value of the Collateral at any time during a bankruptcy case or whether or to what extent Holders of the Notes would be compensated for any delay in payment or loss of value of the Collateral. The U.S. bankruptcy code permits only the payment and/or accrual of post-petition interest, costs and attorneys' fees to a secured creditor during a debtor's bankruptcy case to the extent the value of such creditor's interest in the Collateral owned by such debtor is determined by the bankruptcy court to exceed the aggregate outstanding principal amount of the obligations secured by the Collateral.

Furthermore, in the event a domestic or foreign bankruptcy court determines that the value of the Collateral is not sufficient to repay all amounts due on the Notes, the Holders of the Notes would hold secured claims only to the extent of the value of the Collateral to which the Holders of the Notes are entitled, and unsecured claims with respect to such shortfall.

Release of Issuer Stock Collateral

The Parent Pledgor will be entitled to the release of the Issuer Stock Collateral from the Liens securing the Notes and the Note Guarantees under any one or more of the following circumstances:

- (1) concurrently with any release of the Issuer Stock Collateral under the Credit Agreement and the Existing Notes;
or
- (2) as described under “-Amendment, Supplement and Waiver.”

The Liens on the Issuer Stock Collateral will also be released upon (i) payment in full of the principal of, together with accrued and unpaid interest, on the Notes and all other Obligations under the Indenture, the Note Guarantees and the Parent Pledge Agreement that are due and payable at or prior to the time such principal, together with accrued and unpaid interest, are paid or (ii) a legal defeasance or covenant defeasance under the Indenture as described below under “-Legal Defeasance and Covenant Defeasance” or a discharge of the Indenture as described below under “-Satisfaction and Discharge.”

Any certificate or opinion required by Section 314(d) of the Trust Indenture Act in connection with obtaining the release of the Issuer Stock Collateral may be made by an Officer of the Issuer, except in cases where Section 314(d) requires that such certificate or opinion be made by an independent engineer, appraiser or other expert.

Notwithstanding anything to the contrary in this “Description of the Registrant’s 6.250% Senior Secured Notes due 2068” section, the Issuer and its Subsidiaries will not be required to comply with all or any portion of Section 314(d) of the Trust Indenture Act if they determine in good faith, based on the advice of counsel, that under the terms of that section and/or any interpretation or guidance as to the meaning thereof of the SEC and its staff, including “no action” letters or exemptive orders, all or the relevant portion of Section 314(d) of the Trust Indenture Act is inapplicable to the released Issuer Stock Collateral.

Mandatory Redemption

The Issuer will not be required to redeem the Notes prior to maturity. However, we may at any time and from time to time purchase Notes in the open market or otherwise as described under “-Change of Control” and “-Optional Redemption.”

Optional Redemption

The Issuer may redeem some or all of the Notes at any time on or after November 26, 2024, at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest to, but not including, the redemption date as described herein.

Prior to November 26, 2024, the Notes are redeemable at the Issuer’s election, in whole or in part at any time upon not less than 30 nor more than 60 days’ notice at a redemption price equal to the greater of:

- 100% of the aggregate principal amount of the Notes to be redeemed,
or
- as determined by an Independent Investment Banker, the sum of the present values of (i) the remaining scheduled payments of principal and (ii) interest on the Notes to be redeemed (not including any portion of such payments of interest accrued to the date of redemption) discounted to the redemption date on a quarterly basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate, plus 50 basis points,

plus, in either of the above cases, accrued and unpaid interest to the date of redemption of the Notes to be redeemed.

“Adjusted Treasury Rate” means, with respect to any redemption date:

- the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities,” for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the Remaining Life (as defined below), yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month); or
 - if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per annum equal to the semiannual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.
-

The Adjusted Treasury Rate shall be calculated on the third Business Day preceding the redemption date. Any weekly average yields calculated by interpolation will be rounded to the nearest 1/100th of 1%, with any figure of 1/200th of 1% or above being rounded upward.

“Comparable Treasury Issue” means the United States Treasury security selected by an Independent Investment Banker as having a maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such securities (“Remaining Life”).

“Comparable Treasury Price” means (1) the average of four Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest Reference Treasury Dealer Quotations, or (2) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“Independent Investment Banker” means one of the Reference Treasury Dealers appointed by us.

“Reference Treasury Dealer” means any primary U.S. Government securities dealer in New York City selected by us.

“Reference Treasury Dealer Quotations” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

Unless the Issuer defaults in payment of the redemption price, on and after the redemption date, interest will cease to accrue on the Notes or portion thereof called for redemption.

Selection and Notice of Redemption

In the event that less than all of the Notes are to be redeemed at any time pursuant to an optional redemption, selection of the Notes for redemption will be made by the Trustee in compliance with the requirements of the principal national securities exchange, if any, on which the Notes are listed or, if such Notes are not then listed on a national securities exchange, on a *pro rata* basis, by lot or by such method as the Trustee shall deem fair and appropriate; provided, however, that no Notes of a principal amount of \$25 or less shall be redeemed in part.

Notice of redemption will be mailed by first-class mail at least 30 but not more than 60 days before the date of redemption to each Holder of Notes to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a satisfaction and discharge of the Indenture. If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount of the Note to be redeemed. A new Note in a principal amount equal to the unredeemed portion of the Note will be issued in the name of the Holder of the Note upon cancellation of the original Note. On and after the date of redemption, interest will cease to accrue on Notes or portions thereof called for redemption so long as the Issuer has deposited with the Paying Agent for the Notes funds in satisfaction of the redemption price (including accrued and unpaid interest on the Notes to be redeemed) pursuant to the Indenture.

Notice of any redemption of Notes may, at the Issuer’s discretion, be subject to one or more conditions precedent. If such redemption is subject to satisfaction of one or more conditions precedent, such notice of redemption shall describe each such condition and, if applicable, shall state that, in the Issuer’s discretion, the redemption date may be delayed until such time as any or all of such conditions shall be satisfied (or waived by the Issuer in its sole discretion), or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied (or waived by the Issuer in its sole discretion) by the redemption date as stated in such notice, or by the redemption date as so delayed.

Change of Control

If a Change of Control Triggering Event (as defined below) occurs with respect to the Notes, unless the Issuer has exercised its right to redeem the Notes as described above, the Issuer will be required to make an offer to repurchase all or, at the Holder’s option, any part (equal to \$25 or any integral multiple of \$25 in excess thereof) of each Holder’s Notes pursuant to a Change of Control Offer (as defined below).

In the Change of Control Offer, the Issuer will be required to offer payment in cash equal to 101% of the aggregate principal amount of Notes to be purchased *plus* accrued and unpaid interest, if any, on the Notes repurchased, to, but not including, the date of purchase (the “Change of Control Payment”).

Within 30 days following any Change of Control Triggering Event with respect to the Notes, the Issuer will be required to mail a notice to Holders of Notes, with a copy to the Trustee, describing the transaction or transactions that constitute the Change of Control Triggering Event and offering to repurchase the Notes (a “Change of Control Offer”) on the date specified in the notice, which date will be no earlier than 30 and no later than 60 days from the date such notice is mailed (the “Change of Control Payment Date”), pursuant to the procedures required by the Indenture and described in such notice.

On the Change of Control Payment Date, the Issuer will be required, to the extent lawful, to:

- accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer;
- deposit with the Paying Agent an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and
- deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officer's Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased.

The Paying Agent will be required to promptly pay, to each Holder who properly tendered Notes, the purchase price for such Notes, and the Trustee will be required to promptly authenticate and mail (or cause to be transferred by book entry) to each such Holder a new Note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; provided that each new Note will be in a principal amount of \$25 or an integral multiple of \$25 in excess thereof.

The Issuer will not be required to make a Change of Control Offer upon a Change of Control Triggering Event if a third party makes such an offer in the manner, at the times and otherwise in compliance with the requirements for an offer made by us and such third party purchases all Notes properly tendered and not withdrawn under its offer. In the event that such third party terminates or defaults its offer, the Issuer will be required to make a Change of Control Offer treating the date of such termination or default as though it were the date of the Change of Control Triggering Event.

The Issuer shall comply with the requirements of applicable securities laws and regulations in connection with the purchase of Notes pursuant to a Change of Control Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions contained in the Indenture, the Issuer shall comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations regarding the Change of Control Offer by virtue of this compliance.

For purposes of the repurchase provisions of the Notes, the following terms will be applicable:

(i) "Below Investment Grade Rating Event" means the Notes are rated below an Investment Grade Rating by each of the Rating Agencies on any date during the period commencing 60 days prior to the date of the first public notice of an arrangement that could result in a Change of Control and ending at the end of the 60-day period following public notice of the occurrence of the Change of Control (which 60-day period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies); provided that a Below Investment Grade Rating Event otherwise arising by virtue of a particular reduction in rating shall not be deemed to have occurred in respect of a particular Change of Control (and thus shall not be deemed a Below Investment Grade Rating Event for purposes of the definition of "Change of Control Triggering Event" hereunder) if the Rating Agencies making the reduction in rating to which this definition would otherwise apply do not announce or publicly confirm or inform the Holders of Notes in writing at their request that the reduction was the result, in whole or in part, of any event or circumstance comprising or arising as a result of, or in respect of, the applicable Change of Control (whether or not the applicable Change of Control shall have occurred at the time of the Below Investment Grade Rating Event);

(ii) "Change of Control Triggering Event" means the occurrence of both a Change of Control and a Below Investment Grade Rating Event occurring in respect of that Change of Control;

(iii) "Investment Grade Rating" means a rating equal to or higher than Baa3 (or the equivalent) if by Moody's and BBB- (or the equivalent) if by Standard & Poor's;

(iv) "Moody's" means Moody's Investors Service, Inc. and any successor to its rating agency business;

(v) "Rating Agencies" means (1) each of Moody's and Standard & Poor's; and (2) if any of Moody's or Standard & Poor's ceases to rate the Notes or fails to make a rating of the Notes publicly available for reasons outside of our control, a "nationally recognized statistical rating organization" as such term is defined for purposes of Section 3(a)(62) of the Exchange Act, that the Issuer selects (as certified by an Officer of ours) as a replacement agency for Moody's or Standard & Poor's, or both of them, as the case may be; and

(vi) "Standard & Poor's" means Standard & Poor's Financial Services, LLC and any successor to its rating agency business.

Certain Covenants

The Indenture contains, among others, the following covenants:

Limitations on Incurrence of Indebtedness

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, incur any Indebtedness; provided that the Issuer or any Restricted Subsidiary may incur additional Indebtedness, in each case, if, after giving effect to such incurrence and the application of the proceeds therefrom, the Consolidated Interest Coverage Ratio would be at least 2.00 to 1.00 (the "Coverage Ratio Exception").

Notwithstanding the above, each of the following shall be permitted (the "Permitted Indebtedness"):

- (1) Indebtedness of the Issuer and any Guarantor under the Credit Facilities (including the Notes issued on the Issue Date and the Existing Notes) in an aggregate amount at any time outstanding not to exceed \$5,000,000,000;
 - (2) the Note Guarantees and the Existing Note Guarantees;
 - (3) Indebtedness of the Issuer and the Restricted Subsidiaries to the extent outstanding on the Issue Date (other than Indebtedness referred to in clause (1), (2) or (4));
 - (4) (x) Indebtedness of the Issuer or any Restricted Subsidiary owed to any other Restricted Subsidiary or the Issuer and (y) guarantees by any Restricted Subsidiary or the Issuer of any Indebtedness of the Issuer or any other Restricted Subsidiary; provided, however, that upon any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or such Indebtedness being owed to any Person other than the Issuer or a Restricted Subsidiary, as applicable, the Issuer or such Restricted Subsidiary, as applicable, shall be deemed to have incurred Indebtedness not permitted by this clause (4);
 - (5) Indebtedness in respect of bid, performance or surety bonds issued for the account of the Issuer or any Restricted Subsidiary in the ordinary course of business, including guarantees or obligations of the Issuer or any Restricted Subsidiary with respect to letters of credit supporting such bid, performance or surety obligations (in each case other than for an obligation for money borrowed);
 - (6) Purchase Money Indebtedness incurred by the Issuer or any Restricted Subsidiary, and Refinancing Indebtedness thereof, in an aggregate amount not to exceed at any time outstanding \$100.0 million;
 - (7) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within five Business Days of incurrence;
 - (8) Indebtedness arising in connection with endorsement of instruments for deposit in the ordinary course of business;
 - (9) Refinancing Indebtedness with respect to Indebtedness incurred pursuant to the Coverage Ratio Exception or clause (2) or (3) above or this clause (9);
-

- (10) indemnification, adjustment of purchase price, earnout or similar obligations, in each case, incurred or assumed in connection with the acquisition or disposition of any business or assets of the Issuer or any Restricted Subsidiary or Equity Interests of a Restricted Subsidiary, other than guarantees of Indebtedness incurred by any Person acquiring all or any portion of such business, assets or Equity Interests for the purpose of financing or in contemplation of any such acquisition; provided that (a) any amount of such obligations included on the face of the balance sheet of the Issuer or any Restricted Subsidiary shall not be permitted under this clause (10) and (b) in the case of a disposition, the maximum aggregate liability in respect of all such obligations outstanding under this clause (10) shall at no time exceed the gross proceeds actually received by the Issuer and the Restricted Subsidiaries in connection with such disposition;
- (11) Indebtedness of Subsidiaries that are not Guarantors if, after giving effect to such incurrence and the application of the proceeds thereof, the aggregate principal amount of such indebtedness does not exceed \$425.0 million (less the amount of any Indebtedness secured by a Lien permitted under clause (23) of the definition of "Permitted Liens" which Indebtedness is not incurred pursuant to this clause (11)); and
- (12) Indebtedness of the Issuer or any Restricted Subsidiary in an aggregate amount not to exceed \$250.0 million at any time outstanding.

For purposes of determining compliance with this covenant, Indebtedness under Existing Notes to the extent outstanding on the Issue Date may be deemed incurred pursuant to the Coverage Ratio Exception, and in the event that an item of Indebtedness meets the criteria of more than one of the categories of Permitted Indebtedness described in clauses (1) through (12) above or is entitled to be incurred pursuant to the Coverage Ratio Exception, the Issuer shall, in its sole discretion, classify such item of Indebtedness and may divide and classify such Indebtedness in more than one of the types of Indebtedness described and may later reclassify any item of Indebtedness described in clauses (1) through (12) above (provided that at the time of reclassification it meets the criteria in such category or categories), except that Indebtedness outstanding under the Credit Agreement and the Notes issued on the Issue Date shall be deemed to have been incurred under clause (1) above. In addition, for purposes of determining any particular amount of Indebtedness under this covenant, guarantees, Liens or letter of credit obligations supporting Indebtedness otherwise included in the determination of such particular amount shall not be included so long as incurred by a Person that could have incurred such Indebtedness.

For purposes of determining compliance with any U.S. dollar-denominated restriction on the incurrence of Indebtedness, the U.S. dollar-equivalent principal amount of Indebtedness denominated in a foreign currency shall be calculated based on the relevant currency exchange rate in effect on the date such Indebtedness was incurred, in the case of term debt, or first committed or first incurred (whichever yields the lower U.S. dollar equivalent), in the case of revolving credit debt; provided that if such Indebtedness is incurred to refinance other Indebtedness denominated in a foreign currency, and such refinancing would cause the applicable U.S. dollar-denominated restriction to be exceeded if calculated at the relevant currency exchange rate in effect on the date of such refinancing, such U.S. dollar-denominated restriction shall be deemed not to have been exceeded so long as the principal amount of such refinancing Indebtedness does not exceed the principal amount of such Indebtedness being refinanced.

Limitations on Restricted Payments

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, make any Restricted Payment unless at the time of such Restricted Payment:

- (1) no Default shall have occurred and be continuing or shall occur as a consequence thereof;
and
- (2) after giving effect to such incurrence and the application of proceeds therefrom, the Consolidated Leverage Test would be satisfied.

The foregoing provisions will not prohibit:

- (1) the payment by the Issuer or any Restricted Subsidiary of any dividend within 60 days after the date of declaration thereof, if on the date of declaration the payment would have complied with the provisions of the Indenture;
-

- (2) the redemption of any Equity Interests of the Issuer or any Restricted Subsidiary in exchange for, or out of the proceeds of the substantially concurrent issuance and sale of, Qualified Equity Interests (provided that any transfers of the Equity Interests of the Issuer will be subject to the provisions of the Parent Pledge Agreement);
- (3) the redemption of Subordinated Indebtedness of the Issuer or any Restricted Subsidiary (a) in exchange for, or out of the proceeds of the substantially concurrent issuance and sale of, Qualified Equity Interests (provided that any transfers of the Equity Interests of the Issuer will be subject to the provisions of the Parent Pledge Agreement), (b) in exchange for, or out of the proceeds of the substantially concurrent incurrence of, Refinancing Indebtedness permitted to be incurred under “-Limitations on Incurrence of Indebtedness” and the other terms of the Indenture or (c) upon a Change of Control or in connection with a sale of assets to the extent required by the agreement governing such Subordinated Indebtedness but only if the Issuer shall have complied with the covenants described under “-Change of Control” and purchased all Notes validly tendered pursuant to the relevant offer prior to redeeming such Subordinated Indebtedness;
- (4) (x) prior to the consummation of an initial public offering, payments to permit Parent, and which are used by Parent or (y) after the consummation of an initial public offering, payments used by the Issuer, to redeem Equity Interests of Parent or the Issuer, as the case may be, held by officers, directors or employees or former officers, directors or employees (or their transferees, estates or beneficiaries under their estates), upon their death, disability, retirement, severance or termination of employment or service; provided that the aggregate cash consideration paid for all such redemptions shall not exceed \$25.0 million during any twelve consecutive months;
- (5) payments permitted pursuant to clause (3) of the covenant described under “-Limitations on Transactions with Affiliates”;
- (6) repurchases of Equity Interests deemed to occur upon the exercise of stock options if the Equity Interests represent a portion of the exercise price thereof;
- (7) [Reserved];
- (8) payments by the Issuer to Parent or its subsidiaries to the extent necessary to pay principal and interest when due in respect of Indebtedness of Parent and its subsidiaries;
- (9) Restricted Payments pursuant to and in accordance with stock option plans or other benefit plans for directors, management, employees or consultants of the Issuer and its Subsidiaries; or
- (10) other Restricted Payments in an aggregate amount from and after the Issue Date not to exceed \$50.0 million;

provided that in the case of any Restricted Payment pursuant to clause (3), (8) or (10) above, no Default shall have occurred and be continuing or occur as a consequence thereof.

For purposes of this covenant, if a particular Restricted Payment involves a non-cash payment, including a distribution of assets, then such Restricted Payment shall be deemed to be an amount equal to the cash portion of such Restricted Payment, if any, *plus* an amount equal to the Fair Market Value of the non-cash portion of such Restricted Payment.

Limitations on Dividend and Other Restrictions Affecting Restricted Subsidiaries

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create or otherwise cause or permit to exist or become effective any consensual encumbrance or consensual restriction on the ability of any Restricted Subsidiary to:

- (a) pay dividends or make any other distributions on or in respect of its Equity Interests held by the Issuer or any Restricted Subsidiary;
- (b) make loans or advances or pay any Indebtedness or other obligation owed to the Issuer or any other Restricted Subsidiary;
or
- (c) transfer any of its assets to the Issuer or any other Restricted Subsidiary;

except for:

- (1) encumbrances or restrictions existing under or by reason of applicable law, regulation or order;
 - (2) encumbrances or restrictions existing under the Indenture, the Notes, the Note Guarantees and the Security Documents;
 - (3) non-assignment provisions of any contract or any lease entered into in the ordinary course of business;
 - (4) encumbrances or restrictions existing under agreements existing on the Issue Date (including, without limitation, the Credit Agreement, the Existing Notes Indentures, the Existing Notes and the Existing Note Guarantees) as in effect on that date;
 - (5) restrictions relating to any Lien permitted under the Indenture imposed by the holder of such Lien that limit the right of the relevant obligor to transfer assets that are subject to such Lien;
 - (6) restrictions imposed under any agreement to sell assets permitted under the Indenture to any Person pending the closing of such sale;
 - (7) encumbrances or restrictions imposed under any instrument governing Acquired Indebtedness, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person or the properties or assets of the Person so acquired and encumbrances or restrictions imposed under any agreement of any Person that becomes a Restricted Subsidiary; provided that such encumbrances or restrictions are not created in contemplation of or in connection with such Person becoming a Restricted Subsidiary;
 - (8) any other agreement governing Indebtedness entered into after the Issue Date that contains encumbrances and restrictions that are not materially more restrictive with respect to any Restricted Subsidiary than those in effect on the Issue Date with respect to that Restricted Subsidiary pursuant to agreements in effect on the Issue Date;
 - (9) customary provisions in partnership agreements, limited liability company organizational governance documents, joint venture agreements, shareholder agreements and other similar agreements that restrict the transfer of ownership interests in such partnership, limited liability company, joint venture, corporation or similar Person or assets of such entities;
 - (10) Purchase Money Indebtedness incurred in compliance with the covenant described under “-Limitations on Incurrence of Indebtedness” that impose restrictions of the nature described in clause (c) above on the assets acquired;
 - (11) restrictions on cash or other deposits or net worth imposed by suppliers or landlords under contracts entered into in the ordinary course of business;
 - (12) any encumbrances or restrictions imposed by any amendments, replacements or refinancings of the contracts, instruments or obligations referred to in clauses (1) through (11) above; provided that such amendments, replacements or refinancings are not materially more restrictive with respect to such encumbrances and restrictions than those prior to such amendment, replacement or refinancing; and
-

(13) any encumbrances or restrictions solely in favor of the Issuer and/or Restricted Subsidiaries.

Limitations on Transactions with Affiliates

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, in one transaction or a series of related transactions, sell, lease, transfer or otherwise dispose of any of its assets to, or purchase any assets from, or enter into any contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (an "Affiliate Transaction"), unless such Affiliate Transaction is on terms that are no less favorable to the Issuer or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction at such time on an arm's-length basis by the Issuer or that Restricted Subsidiary from a Person that is not an Affiliate of the Issuer or that Restricted Subsidiary.

The foregoing restrictions shall not apply to:

- (1) transactions between or among the Issuer and its Restricted Subsidiaries not involving any other Affiliate;
- (2) reasonable director, officer and employee compensation (including bonuses) and other benefits (including retirement, health, and Stock Compensation Plans) and indemnification arrangements and reasonable payments to Affiliates in consideration for securities issued in connection therewith;
- (3) transactions pursuant to the Tax Liability Allocation and Indemnification Agreement;
- (4) loans and advances permitted by clause (3) of the definition of "Permitted Investments";
- (5) Restricted Payments of the type described in clause (1), (2) or (4) of the definition of "Restricted Payment" and which are made in accordance with the covenant described under "-Limitations on Restricted Payments";
- (6) (x) any agreement in effect on the Issue Date and disclosed in the prospectus supplement related to the original issuance of the Notes, as in effect on the Issue Date or as thereafter amended or replaced in any manner, that, taken as a whole, is not more disadvantageous to the Holders or the Issuer in any material respect than such agreement as it was in effect on the Issue Date or (y) any transaction pursuant to any agreement referred to in the immediately preceding clause (x);
- (7) any transaction with a joint venture or similar entity which would constitute an Affiliate Transaction solely because the Issuer or a Restricted Subsidiary owns an equity interest in or otherwise controls such joint venture or similar entity; provided that no Affiliate of the Issuer or any of its Subsidiaries other than the Issuer or a Restricted Subsidiary shall have a beneficial interest in such joint venture or similar entity;
- (8) ordinary overhead arrangements in which any Subsidiary participates;
- (9) (a) any transaction with an Affiliate where the only consideration paid by the Issuer or any Restricted Subsidiary is Qualified Equity Interests or (b) the issuance or sale of any Qualified Equity Interests; and
- (10) transactions between the Issuer and/or any of the Restricted Subsidiaries, on the one hand, and Zulily, LLC and/or any of its Subsidiaries, on the other hand, if after giving pro forma effect to any such transaction, no Default shall have occurred and be continuing and the Consolidated Leverage Test would be satisfied.

Limitations on Liens

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, create, incur, assume or permit or suffer to exist any Lien (other than Permitted Liens) of any nature whatsoever against any assets (including Equity Interests of a Restricted Subsidiary) of the Issuer or any Restricted Subsidiary, whether owned at the Issue Date or thereafter acquired, which Lien secures Indebtedness, Hedging Obligations or trade payables.

The foregoing shall not apply to Liens on Collateral to secure Indebtedness ("Permitted Parity Indebtedness") in an aggregate principal amount not exceeding \$5,000,000,000 that is secured by a Lien that is equal and ratable with or junior to the Lien in favor of the Collateral Agent for the benefit of the Trustee and the Holders with respect to the Notes and the Note Guarantees; provided that, the Notes may be restricted from participating in providing instructions in respect of remedies and enforcement to the Collateral Agent with respect to the Collateral; provided, further, that, when there is no Credit Agreement outstanding, Liens incurred pursuant to this paragraph in favor of holders of Permitted Parity Indebtedness that ranks *pari passu* with the Notes may be entitled to participate in providing instructions in respect of remedies and enforcement to the Collateral Agent with respect to the Collateral ratably with the holders of any other such Indebtedness and the Holders of the Notes in proportion to the amount of obligations under such Indebtedness.

Limitations on Designation of Unrestricted Subsidiaries

The Issuer may designate any Subsidiary (including any newly formed or newly acquired Subsidiary) of the Issuer as an "Unrestricted Subsidiary" under the Indenture (a "Designation") only if:

- (1) no Default shall have occurred and be continuing at the time of or immediately after giving effect to such Designation;
and
- (2) at the time of and immediately after giving effect to such Designation, the Consolidated Leverage Test would be satisfied.

No Subsidiary shall be Designated as an "Unrestricted Subsidiary" unless such Subsidiary:

- (1) has no Indebtedness other than Non-Recourse Debt and other obligations arising by operation of law, including joint and several liability for taxes, ERISA obligations and similar items, except, in each case, pursuant to Investments which are made in accordance with the covenant described under "-Limitations on Restricted Payments";
- (2) is not party to any agreement, contract, arrangement or understanding with the Issuer or any Restricted Subsidiary unless the terms of the agreement, contract, arrangement or understanding comply with the covenant described above under "-Limitations on Transactions with Affiliates";
- (3) is a Person with respect to which neither the Issuer nor any Restricted Subsidiary has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve the Person's financial condition or to cause the Person to achieve any specified levels of operating results, except, in each case, pursuant to Investments which are made in accordance with the covenant described under "-Limitations on Restricted Payments";
and
- (4) will not become a Subsidiary of the Issuer or its other Subsidiaries (other than another Unrestricted Subsidiary) where the Issuer or such other Subsidiary will become a general partner of any such Subsidiary.

If, at any time, any Unrestricted Subsidiary fails to meet the preceding requirements as an Unrestricted Subsidiary, it shall thereafter cease to be an Unrestricted Subsidiary for purposes of the Indenture on the date that is 30 days after the Issuer or any Restricted Subsidiary has obtained knowledge of such failure (unless such failure has been cured by such date), and any Indebtedness of the Subsidiary and any Liens on assets of such Subsidiary shall be deemed to be incurred by a Restricted Subsidiary at such time and, if the Indebtedness is not permitted to be incurred under the covenant described under "-Limitations on Incurrence of Indebtedness" or the Lien is not permitted under the covenant described under "-Limitations on Liens," the Issuer shall be in default of the applicable covenant.

The Issuer may redesignate an Unrestricted Subsidiary as a Restricted Subsidiary (a "Redesignation") only if:

- (1) no Default shall have occurred and be continuing at the time of and after giving effect to such Redesignation;
and
 - (2) all Liens, Indebtedness and Investments of such Unrestricted Subsidiary outstanding immediately following such Redesignation would, if incurred or made at such time, have been permitted to be incurred or made for all purposes of the Indenture.
-

All Designations and Redesignations must be evidenced by resolutions of the Board of Directors of the Issuer and an Officer's Certificate certifying compliance with the foregoing provisions delivered to the Trustee.

Limitations on Sale and Leaseback Transactions

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, enter into any Sale and Leaseback Transaction; provided that the Issuer or any Restricted Subsidiary may enter into a Sale and Leaseback Transaction if:

- (1) such Sale and Leaseback Transaction involves a lease for a term of not more than three years;
- (2) such Sale and Leaseback Transaction is between the Issuer and one of its Restricted Subsidiaries or between any of the Issuer's Restricted Subsidiaries;
- (3) the Issuer or such Restricted Subsidiary could have (a) incurred the Indebtedness attributable to such Sale and Leaseback Transaction pursuant to the covenant described under "-Limitations on Incurrence of Indebtedness" and (b) incurred a Lien to secure such Indebtedness without equally and ratably securing the Notes pursuant to the covenant described under "-Limitations on Liens" or the lease in the Sale and Leaseback Transaction is not a capital lease and, upon its incurrence, such arrangements outstanding shall not be in excess of 15% of Consolidated Net Tangible Assets at any one time outstanding; or
- (4) the Issuer or such Restricted Subsidiary applies an amount equal to the net proceeds of such Sale and Leaseback Transaction within 365 days after such Sale and Leaseback Transaction to the retirement or other discharge of Indebtedness of the Issuer or a Restricted Subsidiary.

Limitations on Mergers, Consolidations, etc.

The Issuer will not, directly or indirectly, in a single transaction or a series of related transactions, (a) consolidate or merge with or into another Person, or sell, lease, transfer, convey or otherwise dispose of or assign all or substantially all of the assets of the Issuer or the Issuer and the Restricted Subsidiaries (taken as a whole) or (b) adopt a Plan of Liquidation unless, in either case:

- (1) either: (a) the Issuer will be the surviving or continuing Person; or (b) the Person formed by or surviving such consolidation or merger or to which such sale, lease, conveyance or other disposition shall be made (or, in the case of a Plan of Liquidation, any Person to which assets are transferred) (collectively, the "Successor") is a corporation, limited liability company or limited partnership organized and existing under the laws of any State of the United States of America or the District of Columbia, and the Successor expressly assumes, by agreements in form and substance reasonably satisfactory to the Trustee, all of the obligations of the Issuer under the Notes and the Indenture;
- (2) immediately prior to and immediately after giving effect to such transaction and the assumption of the obligations as set forth in clause (1)(b) above and the incurrence of any Indebtedness to be incurred in connection therewith, and the use of any net proceeds therefrom on a pro forma basis, no Default shall have occurred and be continuing; and
- (3) immediately after and giving effect to such transaction and the assumption of the obligations set forth in clause (1)(b) above and the incurrence of any Indebtedness to be incurred in connection therewith, and the use of any net proceeds therefrom on a pro forma basis, the Consolidated Leverage Test would be satisfied.

For purposes of this covenant, any Indebtedness of the Successor which was not Indebtedness of the Issuer immediately prior to the transaction shall be deemed to have been incurred in connection with such transaction.

Except as provided in the fourth paragraph under "-Note Guarantees," no Guarantor may consolidate with or merge with or into (whether or not such Guarantor is the surviving Person) another Person, unless:

- (1) either: (a) such Guarantor will be the surviving or continuing Person; or (b) the Person formed by or surviving any such consolidation or merger is another Guarantor or assumes, by agreements in form and substance reasonably satisfactory to the Trustee, all of the obligations of such Guarantor under the Note Guarantee of such Guarantor, the Indenture and the Security Documents; and
- (2) immediately after giving effect to such transaction, no Default shall have occurred and be continuing.

For purposes of the foregoing, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Restricted Subsidiaries, the Equity Interests of which constitute all or substantially all of the properties and assets of the Issuer, will be deemed to be the transfer of all or substantially all of the properties and assets of the Issuer.

Upon any consolidation, combination or merger of the Issuer or a Guarantor, or any transfer of all or substantially all of the assets of the Issuer or Guarantor in accordance with the foregoing, in which the Issuer or such Guarantor is not the continuing obligor under the Notes or its Note Guarantee, the surviving entity formed by such consolidation or into which the Issuer or such Guarantor is merged or the Person to which the conveyance, lease or transfer is made will succeed to, and be substituted for, and may exercise every right and power of, the Issuer or such Guarantor under the Indenture, the Notes and the Note Guarantees with the same effect as if such surviving entity had been named therein as the Issuer or such Guarantor and, except in the case of a lease, the Issuer or such Guarantor, as the case may be, will be released from the obligation to pay the principal of and interest on the Notes or in respect of its Note Guarantee, as the case may be, and all of the Issuer's or such Guarantor's other obligations and covenants under the Notes, the Indenture and its Note Guarantee, if applicable.

Notwithstanding the foregoing, any Restricted Subsidiary may consolidate with, merge with or into or convey, transfer or lease, in one transaction or a series of transactions, all or substantially all of its assets to the Issuer or another Restricted Subsidiary; provided if such Restricted Subsidiary is a Guarantor, that the surviving entity remains or becomes a Guarantor.

Additional Note Guarantees

If, after the Issue Date, (a) any Restricted Subsidiary (including any newly formed, newly acquired or newly Redesignated Restricted Subsidiary) becomes a Material Domestic Subsidiary, (b) any Restricted Subsidiary (including any newly formed, newly acquired or newly Redesignated Restricted Subsidiary) guarantees any Indebtedness under the Credit Agreement or any Permitted Parity Indebtedness or (c) the Issuer otherwise elects to have any Restricted Subsidiary become a Guarantor, then, in each such case, the Issuer shall cause such Restricted Subsidiary to:

- (1) execute and deliver to the Trustee (a) a supplemental indenture in form and substance satisfactory to the Trustee pursuant to which such Restricted Subsidiary shall unconditionally guarantee all of the Issuer's obligations under the Notes and the Indenture and (b) a notation of guarantee in respect of its Note Guarantee; and
- (2) deliver to the Trustee one or more opinions of counsel that such supplemental indenture (a) has been duly authorized, executed and delivered by such Restricted Subsidiary and (b) constitutes a valid and legally binding obligation of such Restricted Subsidiary in accordance with its terms (subject to customary qualifications).

Conduct of Business

The Issuer will not, and will not permit any Restricted Subsidiary to, change its line of business conducted by the Issuer and its Restricted Subsidiaries on the Issue Date (other than businesses incidental or related thereto).

Reports

The Indenture provides that notwithstanding that the Issuer may not be subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act or otherwise report on an annual and quarterly basis on forms provided for such annual and quarterly reporting pursuant to rules and regulations promulgated by the SEC, the Issuer will file with the SEC:

- (1) within the time period specified in the SEC's rules and regulations for a non-accelerated filer, annual reports on Form 10-K (or any successor or comparable form) containing the information required to be contained therein (or required in such successor or comparable form),
-

- (2) within the time period specified in the SEC's rules and regulations for a non-accelerated filer, reports on Form 10-Q (or any successor or comparable form) containing the information required to be contained therein (or required in such successor or comparable form),
- (3) promptly from time to time after the occurrence of an event required to be therein reported (and in any event within the time period specified in the SEC's rules and regulations), such other reports on Form 8-K (or any successor or comparable form), and
- (4) any other information, documents and other reports which the Issuer would be required to file with the SEC if it were subject to Section 13 or 15(d) of the Exchange Act;

provided, however, that the Issuer shall not be so obligated to file such reports with the SEC if the SEC does not permit such filing, in which event the Issuer will make available such information to prospective purchasers of Notes, including by posting such reports on the primary website of the Issuer or its Subsidiaries, in addition to providing such information to the Trustee and the Holders, in the case of Form 10-K within 30 days, and in each other case within 15 days, after the time the Issuer would be required to file such information with the SEC if it were subject to Section 13 or 15(d) of the Exchange Act as a non-accelerated filer.

In the event that: (a) the rules and regulations of the SEC permit the Issuer and any direct or indirect parent of the Issuer to report at such parent entity's level on a consolidated basis and (b) such parent entity of the Issuer is not engaged in any business in any material respect other than incidental to its ownership, directly or indirectly, of the capital stock of the Issuer, such consolidated reporting at such parent entity's level in a manner consistent with that described in this covenant for the Issuer will satisfy this covenant.

In addition, the Issuer will make such information available to prospective investors upon request. In addition, the Issuer has agreed that, for so long as any Notes remain outstanding during any period when it is not subject to Section 13 or 15(d) of the Exchange Act, or otherwise permitted to furnish the SEC with certain information pursuant to Rule 12g3-2(b) of the Exchange Act, it will furnish to the holders of the Notes and to prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Notwithstanding the foregoing, the Issuer will be deemed to have furnished such reports referred to above to the Trustee and the Holders if the Issuer has filed such reports with the SEC via the EDGAR filing system and such reports are publicly available; provided, however, that the Trustee shall have no obligation to determine whether or not the Issuer shall have made such filings.

In the event that any direct or indirect parent of the Issuer is or becomes a Guarantor, the Indenture will permit the Issuer to satisfy its obligations in this covenant with respect to financial information relating to the Issuer by furnishing financial information relating to such direct or indirect parent; provided that the same is accompanied by consolidating information that explains in reasonable detail the differences between the information relating to such direct or indirect parent and any of its Subsidiaries other than the Issuer and its Subsidiaries, on the one hand, and the information relating to the Issuer and the Subsidiaries of the Issuer on a stand-alone basis, on the other hand.

Limitations on Asset Sales

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, consummate any Asset Sale unless:

- (1) at the time of such transaction (or, if earlier, the date of the commitment to enter into such transaction) and after giving effect thereto and to the use of proceeds thereof, (a) no Default shall have occurred and be continuing, and (b) the Consolidated Leverage Test would be satisfied; and
- (2) if such Asset Sale involves the disposition of Collateral, the Issuer or such Subsidiary has complied with the provisions of the Indenture and the Security Documents.

Payment for Consent

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, pay or cause to be paid any consideration, whether by way of interest, fee or otherwise, to any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid or agreed to be paid to all Holders that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Fall-Away Event

If on any date following the Issue Date (i) the Notes have Investment Grade Ratings from both Moody's and Standard & Poor's, and the Issuer has delivered written notice of such Investment Grade Ratings to the Trustee, and (ii) no Default has occurred and is continuing under the Indenture, then, beginning on that day and continuing at all times thereafter regardless of any subsequent changes in the ratings of the Notes or the occurrence of any Default, the covenants specifically listed under the following captions in this "Description of the Registrant's 6.250% Senior Secured Notes due 2068" section will no longer be applicable to the Notes (collectively, the "Terminated Covenants"):

- (1) "-Limitations on Incurrence of Indebtedness";
- (2) "-Limitations on Restricted Payments";
- (3) "-Limitations on Dividend and Other Restrictions Affecting Restricted Subsidiaries";
- (4) "-Limitations on Asset Sales";
- (5) clause (3) under "-Limitations on Mergers, Consolidations, etc."; and
- (6) "-Limitations on Transactions with Affiliates."

No Default, Event of Default or breach of any kind shall be deemed to exist under the Indenture or the Notes with respect to the Terminated Covenants based on, and none of the Issuer or any of its Subsidiaries shall bear any liability for, any actions taken or events occurring after the Notes attain Investment Grade Ratings, regardless of whether such actions or event would have been permitted if the applicable Terminated Covenants remained in effect.

There can be no assurance that the Notes will ever achieve Investment Grade Ratings.

Events of Default

Each of the following constitutes an "Event of Default" under the Indenture:

- (1) failure by the Issuer to pay interest on any of the Notes when it becomes due and payable and the continuance of any such failure for 30 days;
 - (2) failure by the Issuer to pay the principal on any of the Notes when it becomes due and payable, whether at stated maturity, upon redemption, upon purchase, upon acceleration or otherwise;
 - (3) failure by the Issuer to comply with any of its agreements or covenants described above under "-Certain Covenants-Limitations on Mergers, Consolidations, etc." or in respect of its obligations to make a Change of Control Offer as described under "-Change of Control";
 - (4) failure by the Issuer to comply with any other agreement or covenant in the Indenture and continuance of this failure for 30 days after written notice of the failure has been given to the Issuer by the Trustee or by the Holders of at least 25% of the aggregate principal amount of the Notes;
-

- (5) default under any mortgage, indenture or other instrument or agreement under which there may be issued or by which there may be secured or evidenced Indebtedness of the Issuer or any Restricted Subsidiary, whether such Indebtedness existed on the Issue Date or is incurred after the Issue Date, which default: (a) is caused by a failure to pay at final maturity principal on such Indebtedness within the applicable express grace period and any extensions thereof, (b) results in the acceleration of such Indebtedness prior to its express final maturity, or (c) results in the commencement of judicial proceedings to foreclose upon, or to exercise remedies under applicable law or the applicable security documents to take ownership of, the assets securing such Indebtedness, and in each case, the principal amount of such Indebtedness, together with any other Indebtedness with respect to which an event described in clause (a), (b) or (c) has occurred and is continuing, aggregates \$100.0 million or more (and provided that, for purposes of this clause (5) only, "Indebtedness" shall include any Hedging Obligations with the "principal amount" of any Hedging Obligations at any time being the maximum aggregate amount (giving effect to any netting agreements) that the Issuer or such Restricted Subsidiary would be required to pay if the agreement with respect to such Hedging Obligations terminated at such time);
 - (6) one or more judgments or orders that exceed \$100.0 million in the aggregate (net of amounts covered by insurance or bonded) for the payment of money have been entered by a court or courts of competent jurisdiction against the Issuer or any Restricted Subsidiary and such judgment or judgments have not been satisfied, stayed, annulled or rescinded within 60 days of being entered;
 - (7) the Issuer or any Significant Subsidiary pursuant to or within the meaning of any Bankruptcy Law: (a) commences a voluntary case, (b) consents to the entry of an order for relief against it in an involuntary case, (c) consents to the appointment of a Custodian of it or for all or substantially all of its assets, or (d) makes a general assignment for the benefit of its creditors;
 - (8) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that: (a) is for relief against the Issuer or any Significant Subsidiary as debtor in an involuntary case, (b) appoints a Custodian of the Issuer or any Significant Subsidiary or a Custodian for all or substantially all of the assets of the Issuer or any Significant Subsidiary, or (c) orders the liquidation of the Issuer or any Significant Subsidiary, and the order or decree remains unstayed and in effect for 60 days;
 - (9) any Note Guarantee ceases to be in full force and effect (other than in accordance with the terms of such Note Guarantee and the Indenture) or is declared null and void and unenforceable or found to be invalid or any Guarantor denies its liability under its Note Guarantee (other than by reason of release of a Guarantor from its Note Guarantee in accordance with the terms of the Indenture and the Note Guarantee);
 - (10) (a) the security interest under the Security Documents, at any time, ceases to be in full force and effect for any reason other than in accordance with the terms of the Indenture and the Security Documents, (b) any security interest created thereunder or under the Indenture is declared invalid or unenforceable by a court of competent jurisdiction (other than by reason of release in accordance with the terms of the Indenture and the Security Documents) or (c) the Issuer, any Guarantor, the Parent Pledgor or any of their respective Affiliates asserts, in any pleading in any court of competent jurisdiction, that any such security interest is invalid or unenforceable; or
 - (11) the Parent Pledgor shall fail to observe or perform any covenant, condition or agreement contained in the Parent Pledge Agreement and such failure shall continue unremedied for a period of 30 days after notice thereof from the Collateral Agent to the Parent Pledgor.
-

If an Event of Default specified in clause (7) or (8) with respect to the Issuer or any Guarantor occurs, all outstanding Notes shall become due and payable without any further action or notice. If any other Event of Default (other than an Event of Default specified in clause (7) or (8) above with respect to the Issuer or any Guarantor), shall have occurred and be continuing under the Indenture, the Trustee, by written notice to the Issuer, or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding by written notice to the Issuer and the Trustee, may declare all amounts owing under the Notes to be due and payable immediately. Upon any such declaration of acceleration, the aggregate principal of and accrued and unpaid interest on the outstanding Notes shall immediately become due and payable; provided, however, that after such acceleration, but before a judgment or decree based on acceleration, the Holders of a majority in aggregate principal amount of the outstanding Notes may, under certain circumstances, rescind and annul such acceleration if all Events of Default, other than the nonpayment of accelerated principal and interest have been cured or waived as provided in the Indenture.

The Trustee shall, within 30 days after the occurrence of any Default with respect to the Notes, give the Holders of such Notes written notice of all uncured Defaults thereunder known to it; provided, however, that, except in the case of an Event of Default in payment with respect to the Notes or a Default in complying with “-Certain Covenants-Limitations on Mergers, Consolidations, etc.,” the Trustee shall be protected in withholding such notice if and so long as it in good faith determines that the withholding of such notice is in the interest of the Holders.

No Holder will have any right to institute any proceeding with respect to the Indenture or for any remedy thereunder, unless the Trustee: (1) has failed to act for a period of 60 days after receiving written notice of a continuing Event of Default by such Holder and a request to act by Holders of at least 25% in aggregate principal amount of Notes; (2) has been offered indemnity satisfactory to it in its reasonable judgment; and (3) has not received from the Holders of a majority in aggregate principal amount of the Notes a direction inconsistent with such request.

However, such limitations do not apply to a suit instituted by a Holder of any Note for enforcement of payment of the principal of or interest on such Note on or after the due date therefor (after giving effect to the grace period specified in clause (1) of the first paragraph of this “-Events of Default” section).

The Issuer is required to deliver to the Trustee annually a statement regarding compliance with the Indenture and, upon any Officer of the Issuer becoming aware of any Default, a statement specifying such Default and what action the Issuer is taking or proposes to take with respect thereto.

Legal Defeasance and Covenant Defeasance

The Issuer may, at its option and at any time, elect to have its obligations and the obligations of the Guarantors discharged with respect to the outstanding Notes (“Legal Defeasance”). Legal Defeasance means that the Issuer and the Guarantors shall be deemed to have paid and discharged the entire indebtedness represented by the Notes and the Note Guarantees, and the Indenture shall cease to be of further effect as to all outstanding Notes and Note Guarantees, except as to: (1) rights of Holders of outstanding Notes to receive payments in respect of the principal of and interest on the Notes when such payments are due from the trust funds referred to below, (2) the Issuer’s obligations with respect to the Notes concerning issuing temporary Notes, mutilated, destroyed, lost or stolen Notes, and the maintenance of an office or agency for payment and money for security payments held in trust, (3) the rights, powers, trust, duties, and immunities of the Trustee, and the Issuer’s obligation in connection therewith, and (4) the Legal Defeasance provisions of the Indenture.

In addition, the Issuer may, at its option and at any time, elect to have its obligations and the obligations of the Guarantors released with respect to most of the covenants under the Indenture, except as described otherwise in the Indenture (“Covenant Defeasance”), and thereafter any omission to comply with such obligations shall not constitute a Default. In the event Covenant Defeasance occurs, certain Events of Default (not including non-payment, bankruptcy, receivership, rehabilitation and insolvency events) will no longer apply. The Issuer may exercise its Legal Defeasance option regardless of whether it previously exercised Covenant Defeasance.

In order to exercise either Legal Defeasance or Covenant Defeasance:

- (1) the Issuer must irrevocably deposit with the Trustee, as trust funds, in trust solely for the benefit of the Holders, U.S. legal tender, U.S. Government Obligations or a combination thereof, in such amounts as will be sufficient (without consideration of any reinvestment of interest) in the opinion of a nationally recognized firm of independent public accountants selected by the Issuer, to pay the principal of and interest on the Notes on the stated date for payment or on the redemption date of the principal or installment of principal of or interest on the Notes,
 - (2) in the case of Legal Defeasance, the Issuer shall have delivered to the Trustee an opinion of counsel in the United States confirming that:
-

(a) the Issuer has received from, or there has been published by the Internal Revenue Service, a ruling,
or

(b) since the Issue Date, there has been a change in the applicable U.S. federal income tax law,

in either case to the effect that, and based thereon the opinion of counsel shall confirm that, the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of the Legal Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred,

- (1) in the case of Covenant Defeasance, the Issuer shall have delivered to the Trustee an opinion of counsel in the United States reasonably acceptable to the Trustee confirming that the Holders will not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and will be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if the Covenant Defeasance had not occurred,
- (2) no Default shall have occurred and be continuing on the date of such deposit (other than a Default resulting from the borrowing of funds to be applied to such deposit),
- (3) the Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a Default under the Indenture or a default under any other material agreement or instrument to which the Issuer or any of its Subsidiaries is a party or by which the Issuer or any of its Subsidiaries is bound (other than any such Default or default resulting solely from the borrowing of funds to be applied to such deposit),
- (4) the Issuer shall have delivered to the Trustee an Officer's Certificate stating that the deposit was not made by it with the intent of preferring the Holders over any other of its creditors or with the intent of defeating, hindering, delaying or defrauding any other of its creditors or others, and
- (5) the Issuer shall have delivered to the Trustee an Officer's Certificate and an opinion of counsel, each stating that the conditions provided for in, in the case of the Officer's Certificate, clauses (1) through (6) and, in the case of the opinion of counsel, clauses (2) and/or (3) and (5) of this paragraph have been complied with.

If the funds deposited with the Trustee to effect Covenant Defeasance are insufficient to pay the principal of and interest on the Notes when due, then the obligations of the Issuer and the obligations of Guarantors under the Indenture will be revived and no such defeasance will be deemed to have occurred.

Satisfaction and Discharge

The Indenture will be discharged and will cease to be of further effect (except as to transfer or exchange of Notes which shall survive until all Notes have been canceled) as to all outstanding Notes when either:

- (1) all the Notes that have been authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has been deposited in trust or segregated and held in trust by the Issuer and thereafter repaid to the Issuer or discharged from this trust) have been delivered to the Trustee for cancellation, or
-

- (2) (a) all Notes not delivered to the Trustee for cancellation otherwise (i) have become due and payable, (ii) will become due and payable, or may be called for redemption, within one year or (iii) have been called for redemption pursuant to the provisions described under “-Optional Redemption,” and, in any case, the Issuer has irrevocably deposited or caused to be deposited with the Trustee as trust funds, in trust solely for the benefit of the Holders of such Notes, U.S. legal tender, U.S. Government Obligations or a combination thereof, in such amounts as will be sufficient (without consideration of any reinvestment of interest) to pay and discharge the entire Indebtedness (including all principal and accrued interest) on the Notes not theretofore delivered to the Trustee for cancellation, (b) the Issuer has paid all sums payable by it under the Indenture with respect to the Notes, and (c) the Issuer has delivered irrevocable instructions to the Trustee to apply the deposited money toward the payment of the Notes at maturity or on the date of redemption, as the case may be.

In addition, the Issuer must deliver an Officer’s Certificate and an opinion of counsel stating that all conditions precedent to satisfaction and discharge have been complied with.

Amendment, Supplement and Waiver

Subject to certain exceptions, the Indenture or the Notes may be amended with the consent (which may include consents obtained in connection with a tender offer or exchange offer for Notes) of the Holders of at least a majority in aggregate principal amount of the Notes then outstanding, and any existing Default under, or compliance with any provision of, the Indenture may be waived (other than any continuing Default in the payment of the principal or interest on the Notes) with the consent (which may include consents obtained in connection with a tender offer or exchange offer for Notes) of the Holders of a majority in aggregate principal amount of the Notes then outstanding. Furthermore, without the consent of each Holder affected, no amendment or waiver may:

- (1) reduce, or change the maturity of, the principal of any Note;
 - (2) reduce the rate of or extend the time for payment of interest on any Note;
 - (3) reduce any premium payable upon redemption of the Notes or change the date on, or the circumstances under, which any Notes are subject to redemption (other than provisions relating to the purchase of Notes described above under “-Change of Control,” except that if a Change of Control has occurred, no amendment or other modification of the obligation of the Issuer to make a Change of Control Offer relating to such Change of Control shall be made without the consent of each Holder of the Notes affected);
 - (4) make any Note payable in money or currency other than that stated in the Notes;
 - (5) modify or change any provision of the Indenture or the related definitions to affect the ranking of the Notes or any Note Guarantee in a manner that adversely affects the Holders;
 - (6) reduce the percentage of Holders necessary to consent to an amendment or waiver to the Indenture or the Notes;
 - (7) waive a default in the payment of principal of or premium or interest on any Notes (except a rescission of acceleration of the Notes by the Holders thereof as provided in the Indenture and a waiver of the payment default that resulted from such acceleration);
 - (8) impair the rights of Holders to receive payments of principal of or interest on the Notes on or after the due date therefor or to institute suit for the enforcement of any payment on the Notes;
 - (9) release any Guarantor that is a Material Domestic Subsidiary from any of its obligations under its Note Guarantee or the Indenture, except as permitted by the Indenture, or amend the definition of Material Domestic Subsidiary in a manner adverse to Holders; or
-

(10) make any change in these amendment and waiver provisions.

In addition, without the consent of at least 75% in aggregate principal amount of Notes then outstanding, no amendment, supplement or waiver may modify any Security Document or the provisions of the Indenture dealing with the Security Documents or application of trust moneys, or otherwise release any Collateral, in each case in any manner that materially and adversely affects the rights of the Holders to equally and ratably share in the Liens provided for in the Security Documents in a manner that is materially disproportionate to the effect of such amendment, supplement or waiver on the holders of the other obligations secured by the Security Documents.

Notwithstanding the foregoing, the Issuer and the Trustee (or, in the case of Security Documents, the Collateral Agent) may amend the Indenture, the Security Documents, the Note Guarantees or the Notes without the consent of any Holder, to cure any ambiguity, defect or inconsistency; to provide for uncertificated Notes in addition to or in place of certificated Notes; to provide for the assumption of the Issuer's or a Guarantor's obligations to the Holders in the case of a merger, consolidation or sale of all or substantially all of the assets in accordance with "-Certain Covenants-Limitations on Mergers, Consolidations, etc."; to release any Guarantor from any of its obligations under its Note Guarantee or the Indenture (to the extent permitted by the Indenture); to make any change that does not materially adversely affect the rights of any Holder; in the case of the Indenture, to maintain the qualification of the Indenture under the Trust Indenture Act; to mortgage, pledge, hypothecate or grant any other Lien in favor of the Trustee or the Collateral Agent for the benefit of the Holders of the Notes as additional security for the payment and performance of all or any portion of the obligations under the Notes and the Indenture in any property or assets, including any which are required to be mortgaged, pledged or hypothecated, or in which a Lien is required to be granted to or for the benefit of the Trustee or the Collateral Agent pursuant to the Indenture, any of the Security Documents or otherwise; to add or remove Secured Parties (or any agent acting on their behalf) to any Security Documents or to release Collateral from the Lien of the Indenture and the Security Documents when permitted or required by the Security Documents or the Indenture. The consent of the Holders is not necessary under the Indenture to approve the particular form of any proposed amendment. It is sufficient if such consent approves the substance of the proposed amendment.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Issuer or any Guarantor will have any liability for any obligations of the Issuer under the Notes or the Indenture or of any Guarantor under its Note Guarantee or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes and the Note Guarantees. The waiver may not be effective to waive liabilities under the federal securities laws. It is the view of the SEC that this type of waiver is against public policy.

Concerning the Trustee

U.S. Bank National Association is the Trustee under the Indenture and has been appointed by the Issuer as Registrar and Paying Agent with regard to the Notes. The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Issuer, to obtain payment of claims in certain cases, or to realize on certain assets received in respect of any such claim as security or otherwise. The Trustee is permitted to engage in other transactions; however, if it acquires any conflicting interest (as defined in the Indenture), it must eliminate such conflict within 90 days, apply to the SEC for permission to continue (if the Indenture has been qualified under the Trust Indenture Act) or resign.

The Holders of a majority in principal amount of the then outstanding Notes have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. The Indenture provides that, in case an Event of Default occurs and is not cured, the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent person in similar circumstances in the conduct of his own affairs. Subject to such provisions, the Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to the Trustee.

Governing Law

The Indenture, the Notes and the Note Guarantees are governed by, and construed in accordance with, the laws of the State of New York.

Certain Definitions Related to the 6.250% Senior Secured Notes due 2068

Set forth below is a summary of certain of the defined terms used in the Indenture. Reference is made to the Indenture for the full definition of all such terms.

"**2012 Notes**" means the 5.125% Senior Secured Notes due 2022 issued by the Issuer on July 2, 2012.

“**2012 Notes Indenture**” means the indenture governing the 2012 Notes dated as of July 2, 2012, among the Issuer and certain of its subsidiaries party thereto and the trustee named therein from time to time, as amended, restated, supplemented or otherwise modified from time to time in accordance with the requirements thereof.

“**2013 Notes**” means the 4.375% Senior Secured Notes due 2023 and the 5.950% Senior Secured Notes due 2043 issued by the Issuer on March 18, 2013.

“**2013 Notes Indenture**” means the indenture governing the 2013 Notes dated as of March 18, 2013, among the Issuer and certain of its subsidiaries party thereto and the trustee named therein from time to time, as amended, restated, supplemented or otherwise modified from time to time in accordance with the requirements thereof.

“**2014 Notes**” means (i) the 4.850% Senior Secured Notes due 2024 issued by the Issuer on March 18, 2014 and (ii) the 4.45% Senior Secured Notes due 2025 and the 5.45% Senior Secured Notes due 2034 issued by the Issuer on August 21, 2014.

“**2014 Notes Indentures**” means (i) the indenture governing the 4.850% Senior Secured Notes due 2024, dated as of March 18, 2014, among the Issuer and certain of its subsidiaries party thereto and the trustee named therein from time to time, as amended, restated, supplemented or otherwise modified from time to time in accordance with the requirements thereof and (ii) the indenture governing the 4.45% Senior Secured Notes due 2025 and the 5.45% Senior Secured Notes due 2034, dated as of August 21, 2014, among the Issuer and certain of its subsidiaries party thereto and the trustee named therein from time to time, as amended, restated, supplemented or otherwise modified from time to time in accordance with the requirements thereof.

“**2018 Notes**” means the 6.375% Senior Secured Notes due 2067 issued by the Issuer on September 13, 2018.

“**2018 Notes Indenture**” means the indenture governing the 2018 Notes dated as of September 13, 2018, among the Issuer and certain of its subsidiaries party thereto and the trustee named therein from time to time, as amended, restated, supplemented or otherwise modified from time to time in accordance with the requirements thereof.

“**Acquired Indebtedness**” means (1) with respect to any Person that becomes a Restricted Subsidiary after the Issue Date, Indebtedness of such Person and its Subsidiaries existing at the time such Person becomes a Restricted Subsidiary that was not incurred in connection with, or in contemplation of, such Person becoming a Restricted Subsidiary and (2) with respect to the Issuer or any Restricted Subsidiary, any Indebtedness of a Person (other than the Issuer or a Restricted Subsidiary) existing at the time such Person is merged with or into the Issuer or a Restricted Subsidiary, or Indebtedness expressly assumed by the Issuer or any Restricted Subsidiary in connection with the acquisition of an asset or assets from another Person, which Indebtedness was not, in any case, incurred by such other Person in connection with, or in contemplation of, such merger or acquisition.

“**Affiliate**” of any Person means any other Person which directly or indirectly Controls or is Controlled by, or is under direct or indirect common Control with, the referent Person.

“**Affiliated Persons**” means, with respect to any specified Person, (a) such specified Person’s parents, spouse, siblings, descendants, stepchildren, step grandchildren, nieces and nephews and their respective spouses, (b) the estate, legatees and devisees of such specified Person and each of the Persons referred to in clause (a), and (c) any company, partnership, trust or other entity or investment vehicle Controlled by any of the Persons referred to in clause (a) or (b) or the holdings of which are for the primary benefit of any of such Persons.

“**amend**” means to amend, supplement, restate, amend and restate or otherwise modify, including successively, and “**amendment**” shall have a correlative meaning.

“**asset**” means any asset or property.

“**Asset Acquisition**” means

(1) an Investment by the Issuer or any Restricted Subsidiary in any other Person if, as a result of such Investment, such Person shall become a Restricted Subsidiary, or shall be merged with or into the Issuer or any Restricted Subsidiary, or

(2) the acquisition by the Issuer or any Restricted Subsidiary of all or substantially all of the assets of any other Person or any division or line of business of any other Person.

“**Asset Sale**” means any sale, issuance, conveyance, transfer, lease, assignment or other disposition by the Issuer or any Restricted Subsidiary to any Person other than the Issuer or any Restricted Subsidiary (including by means of a Sale and Leaseback Transaction or a merger or consolidation) (collectively, for purposes of this definition, a “**transfer**”), in one transaction or a series of related transactions, of any assets of the Issuer or any of its Restricted Subsidiaries other than in the ordinary course of business. For purposes of this definition, the term “Asset Sale” shall not include:

- (1) transfers of cash or Cash Equivalents;
- (2) transfers of assets (including Equity Interests) that are governed by, and made in accordance with, the covenant described under “-Certain Covenants-Limitations on Mergers, Consolidations, etc.”;
- (3) Permitted Investments and Restricted Payments permitted under the covenant described under “-Certain Covenants-Limitations on Restricted Payments”;
- (4) the creation of or realization on any Lien permitted under the Indenture;
- (5) transfers of inventory and damaged, worn out or obsolete equipment or assets that are no longer used or useful in the business of the Issuer or its Restricted Subsidiaries;
- (6) sales or grants of licenses or sublicenses to use the patents, trade secrets, know-how and other intellectual property, and licenses, leases or subleases of other assets, of the Issuer or any Restricted Subsidiary to the extent not materially interfering with the business of Issuer and the Restricted Subsidiaries;
- (7) any transfer or series of related transfers that, but for this clause, would be Asset Sales, if the aggregate Fair Market Value of the assets transferred in such transaction or any such series of related transactions does not exceed \$50.0 million;
- (8) Asset Sales by the Issuer or any Restricted Subsidiary to any other Restricted Subsidiary or the Issuer; and
- (9) any transfer or series of transfers that, but for this clause, would be Asset Sales if consummated at a time when, after giving pro forma effect thereto, (x) the Consolidated Leverage Test is satisfied, and (y) no Default shall have occurred and be continuing or occur as a consequence thereof.

“**Bankruptcy Law**” means Title 11 of the United States Code, as amended, or any similar federal or state law for the relief of debtors.

“**Board of Directors**” means, with respect to any Person, (i) in the case of any corporation, the board of directors of such Person, or the functional equivalent of the foregoing, (ii) in the case of any limited liability company, the board of managers of such Person, (iii) in the case of any partnership, the Board of Directors of the general partner of such Person and (iv) in any other case, the functional equivalent of the foregoing or, in each case, other than for purposes of the definition of “Change of Control,” any duly authorized committee of such body.

“**Business Day**” means a day other than a Saturday, Sunday or other day on which banking institutions in New York are authorized or required by law to close.

“**Capitalized Lease Obligations**” of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as finance leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP; provided, however, that any obligations relating to a lease that would have been accounted by such Person as an operating lease in accordance with GAAP as of the Issue Date shall be deemed an operating lease and not a Capitalized Lease Obligation for all purposes under the Indenture.

“**Cash Equivalents**” means:

- (1) marketable direct obligations issued by, or unconditionally guaranteed by, the United States Government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition;
-

(2) certificates of deposit, time deposits, eurodollar time deposits or overnight bank deposits having maturities of six months or less from the date of acquisition issued by any commercial bank organized under the laws of the United States or any state thereof;

(3) commercial paper of an issuer rated at least A-1 by Standard & Poor's or P-1 by Moody's, or carrying an equivalent rating by a nationally recognized rating agency, if both of the two named rating agencies cease publishing ratings of commercial paper issuers generally, and maturing within six months from the date of acquisition;

(4) repurchase obligations of any commercial bank satisfying the requirements of clause (2) of this definition, having a term of not more than 30 days, with respect to securities issued or fully guaranteed or insured by the United States government;

(5) securities with maturities of one year or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States, by any political subdivision or taxing authority of any such state, commonwealth or territory or by any foreign government, the securities of which state, commonwealth, territory, political subdivision, taxing authority or foreign government (as the case may be) are rated at least A by Standard & Poor's or A by Moody's;

(6) securities with maturities of six months or less from the date of acquisition backed by standby letters of credit issued by any commercial bank satisfying the requirements of clause (2) of this definition;

(7) money market mutual or similar funds that invest exclusively in assets satisfying the requirements of clauses (1) through (6) of this definition;

(8) money market funds that (i) comply with the criteria set forth in SEC Rule 2a-7 under the Investment Company Act of 1940, as amended, (ii) are rated AAA by Standard & Poor's or Aaa by Moody's and (iii) have portfolio assets of at least \$5,000,000,000; and

(9) in the case of any Foreign Subsidiary, investments substantially comparable to any of the foregoing investments with respect to the country in which such Foreign Subsidiary is organized.

"Cash Management Services Agreement" means any agreement with respect to any of the following bank services: (1) commercial credit cards, other commercial cards, purchase cards and merchant card services, (2) stored value cards, (3) treasury management services or other payment services (including, without limitation, electronic payment services, controlled disbursement, automated clearinghouse transactions, return items, overdrafts and interstate depository network services).

"Change of Control" means the occurrence of any of the following events:

(1) the acquisition of beneficial ownership by any person or group (excluding any Permitted Holder or group Controlled by any Permitted Holder) of more than 30% of the aggregate voting power of all outstanding classes or series of the Issuer's voting stock and such aggregate voting power exceeds the aggregate voting power of all outstanding classes or series of the Issuer's voting stock beneficially owned by the Permitted Holders collectively, and either (a) such person or group does not have on the date of such acquisition or within 45 days thereafter (i) an investment grade corporate family rating by Moody's or Standard & Poor's or (ii) a corporate family rating equal to or better than Qurate Retail's rating with Moody's or Standard and Poor's or (b) on any day until the date that is six months after the date of such acquisition, the Issuer is rated by one of Moody's or Standard & Poor's and the rating assigned by either of them is not an Investment Grade Rating;

(2) after the consummation of an initial public offering of the Issuer's Equity Interests, during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of the Issuer (together with any new directors whose election by the Board of Directors or whose nomination for election by the equity holders of the Issuer was approved by a vote of the majority of the directors of the Issuer then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Issuer's Board of Directors then in office; or

(3) the Issuer shall adopt a plan of liquidation or dissolution or any such plan shall be approved by the stockholders of the Issuer.

For purposes of this definition, a Person shall not be deemed to have beneficial ownership of securities subject to a stock purchase agreement, merger agreement or similar agreement until the consummation of the transactions contemplated by such agreement.

“**Collateral**” has the meaning set forth under “-Ranking.”

“**Collateral Agent**” means JPMorgan Chase Bank, N.A. in its capacity as collateral agent under the Security Documents and any successors or new collateral agents in such capacity.

“**Consolidated Amortization Expense**” for any period means the amortization expense of the Issuer and its Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

“**Consolidated Cash Flow**” for any period means, without duplication, the sum of the amounts for such period of

(1) Consolidated Net Income, *plus*

(2) in each case only to the extent (and in the same proportion) deducted in determining Consolidated Net Income,

(a) Consolidated Income Tax Expense,

(b) Consolidated Amortization Expense (but only to the extent not included in Consolidated Interest Expense),

(c) Consolidated Depreciation Expense,

(d) Consolidated Interest Expense net of consolidated interest income of the Issuer and its Restricted Subsidiaries, and

(e) stock compensation, as reported in the Issuer’s financial statements, in each case determined on a consolidated basis in accordance with GAAP; provided that

(i) the aggregate amount of all other non-cash charges, expenses or losses reducing such Consolidated Net Income (excluding any non-cash charge, expense or loss that results in an accrual of a reserve for cash charges in any future period and any non-cash charge, expense or loss relating to writeoffs, writedowns or reserves with respect to accounts or inventory) for such period, and

(ii) the aggregate amount of all non-cash items, determined on a consolidated basis, to the extent such items increased Consolidated Net Income for such period will, in each case, be excluded from Consolidated Net Income for purposes of this definition only.

“**Consolidated Depreciation Expense**” for any period means the depreciation expense of the Issuer and its Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP.

“**Consolidated Income Tax Expense**” for any period means the provision for taxes of the Issuer and its Restricted Subsidiaries, determined on a consolidated basis in accordance with GAAP.

“**Consolidated Interest Coverage Ratio**” means the ratio of (i) Consolidated Cash Flow during the most recent four consecutive full fiscal quarters for which financial statements are available (the “**Four-Quarter Period**”) ending on or prior to the date of the transaction giving rise to the need to calculate the Consolidated Interest Coverage Ratio (the “**Transaction Date**”) to (ii) Consolidated Interest Expense for such Four-Quarter Period. For purposes of this definition, Consolidated Cash Flow and Consolidated Interest Expense shall be calculated after giving effect on a pro forma basis for the period of such calculation to:

(1) the incurrence of any Indebtedness or the issuance of any Preferred Stock of the Issuer or any Restricted Subsidiary (and the application of the proceeds thereof) and any repayment of other Indebtedness or redemption of other Preferred Stock (and the application of the proceeds therefrom) (other than the incurrence or repayment of Indebtedness in the ordinary course of business for working capital purposes pursuant to any revolving credit arrangement) occurring during the Four-Quarter Period or at any time subsequent to the last day of the Four-Quarter Period and on or prior to the Transaction Date, as if such incurrence, repayment, issuance or redemption, as the case may be (and the application of the proceeds thereof), occurred on the first day of the Four-Quarter Period; and

(2) any Asset Sale, asset sale which is solely excluded from the definition of Asset Sale pursuant to clause (9) of such definition or Asset Acquisition (including, without limitation, any Asset Acquisition giving rise to the need to make such calculation as a result of the Issuer or any Restricted Subsidiary (including any Person who becomes a Restricted Subsidiary as a result of such Asset Acquisition or as a result of a Redesignation) incurring Acquired Indebtedness and also including any Consolidated Cash Flow (including any pro forma expense and cost reductions calculated on a basis consistent with Regulation S-X under the Exchange Act) associated with any such Asset Acquisition) occurring during the Four-Quarter Period or at any time subsequent to the last day of the Four-Quarter Period and on or prior to the Transaction Date, as if such Asset Sale, asset sale which is solely excluded from the definition of "Asset Sale" pursuant to clause (9) of such definition, or Asset Acquisition (including the incurrence of, or assumption or liability for, any such Indebtedness or Acquired Indebtedness) occurred on the first day of the Four-Quarter Period.

In calculating Consolidated Interest Expense for purposes of determining the denominator (but not the numerator) of this Consolidated Interest Coverage Ratio:

(a) interest on outstanding Indebtedness determined on a fluctuating basis as of the Transaction Date and which will continue to be so determined thereafter shall be deemed to have accrued at a fixed rate per annum equal to the rate of interest on such Indebtedness in effect on the Transaction Date;

(b) if interest on any Indebtedness actually incurred on the Transaction Date may optionally be determined at an interest rate based upon a factor of a prime or similar rate, a eurocurrency interbank offered rate, or other rates, then the interest rate in effect on the Transaction Date will be deemed to have been in effect during the Four-Quarter Period; and

(c) notwithstanding clause (a) or (b) above, interest on Indebtedness determined on a fluctuating basis, to the extent such interest is covered by agreements relating to Hedging Obligations, shall be deemed to accrue at the rate per annum resulting after giving effect to the operation of the agreements governing such Hedging Obligations.

"**Consolidated Interest Expense**" for any period means the sum, without duplication, of the total interest expense of the Issuer and its Restricted Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP and including, without duplication,

(1) imputed interest on Capitalized Lease Obligations,

(2) commissions, discounts and other fees and charges owed with respect to letters of credit securing financial obligations, bankers' acceptance financing and receivables financings,

(3) the net costs associated with Hedging Obligations related to interest rates,

(4) amortization of debt issuance costs, debt discount or premium and other financing fees and expenses,

(5) the interest portion of any deferred payment obligations,

(6) all other non-cash interest expense,

(7) capitalized interest,

(8) the product of (a) all dividend payments on any series of Disqualified Equity Interests of the Issuer or any Preferred Stock of any Restricted Subsidiary (other than any such Disqualified Equity Interests or any Preferred Stock held by the Issuer or a Wholly-Owned Restricted Subsidiary or to the extent paid in Qualified Equity Interests), multiplied by (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of the Issuer and the Restricted Subsidiaries, expressed as a decimal,

(9) all interest payable with respect to discontinued operations, and

(10) all interest on any Indebtedness described in clause (6) or (7) of the definition of "Indebtedness."

"**Consolidated Leverage Ratio**" means, at any date, the ratio of:

- to:
- (i) Indebtedness of the Issuer and its Restricted Subsidiaries as of such date of calculation (determined on a consolidated basis in accordance with GAAP)
 - (ii) Consolidated Cash Flow during the most recent four consecutive full fiscal quarters for which financial statements are available ending on or prior to the date of the transaction giving rise to the need to calculate the Consolidated Leverage Ratio.

In the event that the Issuer or any of its Restricted Subsidiaries incurs, repays, repurchases or redeems any Indebtedness subsequent to the commencement of the period for which the Consolidated Leverage Ratio is being calculated but prior to the event for which the calculation of the Consolidated Leverage Ratio is made, then the Consolidated Leverage Ratio shall be calculated giving pro forma effect to such incurrence, repayment, repurchase or redemption of Indebtedness as if the same had occurred at the beginning of the applicable four-quarter period; provided that the Issuer may elect, pursuant to an Officer's Certificate delivered to the Trustee to treat all or any portion of the commitment under any Indebtedness as being incurred at such time, in which case any subsequent incurrence of Indebtedness under such commitment shall not be deemed, for purposes of this calculation, to be an incurrence at such subsequent time.

"**Consolidated Leverage Test**" means, at any date, that the Consolidated Leverage Ratio is no greater than 3.50 to 1.00.

"**Consolidated Net Income**" for any period means the net income (or loss) of the Issuer and the Restricted Subsidiaries for such period determined on a consolidated basis in accordance with GAAP; provided that there shall be excluded from such net income (to the extent otherwise included therein), without duplication:

- (1) the net income (or loss) of any Person that is not a Restricted Subsidiary, except to the extent that cash in an amount equal to any such income has actually been received by the Issuer or any Restricted Subsidiary during such period;
 - (2) except to the extent includible in the consolidated net income of the Issuer pursuant to the foregoing clause (1), the net income (or loss) of any Person that accrued prior to the date that (a) such Person becomes a Restricted Subsidiary or is merged into or consolidated with the Issuer or any Restricted Subsidiary or (b) the assets of such Person are acquired by the Issuer or any Restricted Subsidiary;
 - (3) any gain (or loss), together with any related provisions for taxes on any such gain (or the tax effect of any such loss), realized during such period by the Issuer or any Restricted Subsidiary upon (a) the acquisition of any securities, or the extinguishment of any Indebtedness, of the Issuer or any Restricted Subsidiary or (b) the sale of any financial or equity investment by the Issuer or any Restricted Subsidiary;
 - (4) gains and losses due solely to fluctuations in currency values and the related tax effects according to GAAP;
 - (5) gains and losses with respect to Hedging Obligations;
 - (6) the cumulative effect of any change in accounting principles;
 - (7) the net income (or loss) associated with minority interests in Restricted Subsidiaries that are not Wholly-Owned Restricted Subsidiaries; and
-

(8) any extraordinary or nonrecurring gain (or extraordinary or nonrecurring loss), together with any related provision for taxes on any such extraordinary or nonrecurring gain (or the tax effect of any such extraordinary or nonrecurring loss), realized by the Issuer or any Restricted Subsidiary during such period.

For the purpose of this definition of “Consolidated Net Income,” **“nonrecurring”** means any gain or loss as of any date that is not reasonably likely to recur within the two years following such date; provided that if there was a gain or loss similar to such gain or loss within the two years preceding such date, such gain or loss shall not be deemed nonrecurring.

“Consolidated Net Tangible Assets” means the total amount of assets (including investments in joint ventures) of the Issuer and its Restricted Subsidiaries after deducting therefrom (a) all current liabilities of the Issuer and its Restricted Subsidiaries and (b) all goodwill, trade names, trademarks, patents, unamortized debt discount and expense and any other like intangibles of the Issuer and its Restricted Subsidiaries, all as set forth on the consolidated balance sheet of the Issuer for the most recently completed fiscal quarter for which financial statements are available and computed in accordance with generally accepted accounting principles.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. **“Controlling”** and **“Controlled”** have meanings correlative thereto.

“Coverage Ratio Exception” has the meaning set forth in the proviso in the first paragraph of the covenant described under “-Certain Covenants-Limitations on Incurrence of Indebtedness.”

“Credit Agreement” means the Fourth Amended and Restated Credit Agreement dated December 31, 2018, by and among the Issuer and Zulily, LLC, as borrowers, the guarantors party thereto from time to time, the lenders party thereto from time to time, JPMorgan Chase Bank, N.A., as administrative agent, and the other parties thereto, including any notes, guarantees, collateral and security documents, instruments and agreements executed in connection therewith, and in each case as amended or refinanced from time to time.

“Credit Facilities” means one or more (A) debt facilities (which may be outstanding at the same time and including, without limitation, the Credit Agreement) or commercial paper facilities, providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to lenders or to special purpose entities formed to borrow from lenders against such receivables) or letters of credit, (B) debt securities (including, without limitation, the Notes), indentures or other forms of debt financing (including convertible or exchangeable debt instruments or bank guarantees or bankers’ acceptances), or (C) instruments or agreements evidencing any other Indebtedness, in each case, with the same or different borrowers or issuers and, in each case, as amended, supplemented, modified, extended, restructured, renewed, refinanced, restated, replaced or refunded in whole or in part from time to time (including increasing the amount of available borrowings thereunder or adding Subsidiaries of the Issuer as additional borrowers or guarantors thereunder).

“Custodian” means any receiver, trustee, assignee, liquidator or similar official under any Bankruptcy Law.

“Default” means (1) any Event of Default or (2) any event, act or condition that, after notice or the passage of time or both, would be an Event of Default.

“Designation” has the meaning given to this term in the covenant described under “-Certain Covenants-Limitations on Designation of Unrestricted Subsidiaries.”

“**Disqualified Equity Interests**” of any Person means any class of Equity Interests of such Person that, by its terms, or by the terms of any related agreement or of any security into which it is convertible, puttable or exchangeable, is, or upon the happening of any event or the passage of time would be, required to be redeemed by such Person, whether or not at the option of the holder thereof, or matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, in whole or in part, in each case on or prior to the date that is 91 days after the final maturity date of the Notes; provided, however, that any class of Equity Interests of such Person that, by its terms, authorizes such Person to satisfy in full its obligations with respect to the payment of dividends or upon maturity, redemption (pursuant to a sinking fund or otherwise) or repurchase thereof or otherwise by the delivery of Equity Interests that are not Disqualified Equity Interests, and that is not convertible, puttable or exchangeable for Disqualified Equity Interests or Indebtedness, will not be deemed to be Disqualified Equity Interests so long as such Person satisfies its obligations with respect thereto solely by the delivery of Equity Interests that are not Disqualified Equity Interests; provided, further, however, that any Equity Interests that would not constitute Disqualified Equity Interests but for provisions thereof giving holders thereof (or the holders of any security into or for which such Equity Interests are convertible, exchangeable or exercisable) the right to require the Issuer to redeem such Equity Interests upon the occurrence of a change in control occurring prior to the 91st day after the final maturity date of the Notes shall not constitute Disqualified Equity Interests if (1) the change of control provisions applicable to such Equity Interests are no more favorable to such holders than the provisions described under “-Change of Control,” and (2) such Equity Interests specifically provide that the Issuer will not redeem any such Equity Interests pursuant to such provisions prior to the Issuer’s purchase of the Notes as required pursuant to the provisions described under “-Change of Control.”

“**Domestic Subsidiary**” means any Subsidiary of the Issuer organized under the laws of the United States, any state thereof or the District of Columbia.

“**Equity Interests**” of any Person means (1) any and all shares or other equity interests (including common stock, preferred stock, limited liability company interests and partnership interests) in such Person and (2) all rights to purchase, warrants or options (whether or not currently exercisable), participations or other equivalents of or interests in (however designated) such shares or other interests in such Person.

“**Exchange Act**” means the U.S. Securities Exchange Act of 1934, as amended.

“**Existing Notes**” means the 2012 Notes, each series of the 2013 Notes, each series of the 2014 Notes and the 2018 Notes.

“**Existing Note Guarantees**” means the guarantees of the Existing Notes by the Guarantors.

“**Existing Notes Indentures**” means the 2012 Notes Indenture, the 2013 Notes Indenture, the 2014 Notes Indentures and the 2018 Notes Indenture.

“**Fair Market Value**” means, with respect to any asset, the price (after taking into account any liabilities relating to such assets) that would be negotiated in an arm’s-length transaction for cash between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction.

“**Foreign Subsidiary**” means any Subsidiary of the Issuer that is not a Domestic Subsidiary.

“**GAAP**” means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as may be approved by a significant segment of the accounting profession of the United States, consistently applied.

“**guarantee**” means a direct or indirect guarantee by any Person of any Indebtedness of any other Person and includes any obligation, direct or indirect, contingent or otherwise, of such Person (1) to purchase or pay (or advance or supply funds for the purchase or payment of) Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep well, to purchase assets, goods, securities or services (unless such purchase arrangements are on arm’s-length terms and are entered into in the ordinary course of business), to take-or-pay, or to maintain financial statement conditions or otherwise); or (2) entered into for purposes of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part); “**guarantee**,” when used as a verb, and “**guaranteed**” have correlative meanings.

“**Guarantors**” means each Material Domestic Subsidiary of the Issuer on the Issue Date, and each other Person that is required to, or at the election of the Issuer does, become a Guarantor by the terms of the Indenture, in each case, until such Person is released from its Note Guarantee in accordance with the terms of the Indenture.

“**Hedging Obligations**” of any Person means the obligations of such Person under swap, cap, collar, forward purchase or similar agreements or arrangements dealing with interest rates, currency exchange rates or commodity prices, either generally or under specific contingencies.

“**Holder**” means any registered holder, from time to time, of the Notes.

“**incur**” means, with respect to any Indebtedness or Obligation, incur, create, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to such Indebtedness or Obligation; provided that (1) the Indebtedness of a Person existing at the time such Person became a Restricted Subsidiary shall be deemed to have been incurred by such Restricted Subsidiary and (2) neither the accrual of interest nor the accretion of original issue discount or the accretion or accumulation of dividends on any Equity Interests shall be deemed to be an incurrence of Indebtedness.

“**Indebtedness**” of any Person at any date means, without duplication:

- (1) all liabilities, contingent or otherwise, of such Person for borrowed money (whether or not the recourse of the lender is to the whole of the assets of such Person or only to a portion thereof) or with respect to deposits or advances of any kind;
- (2) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all reimbursement obligations of such Person in respect of letters of credit, letters of guaranty, bankers’ acceptances and similar credit transactions;
- (4) all obligations of such Person to pay the deferred and unpaid purchase price of property or services, except trade payables and accrued expenses incurred by such Person in the ordinary course of business in connection with obtaining goods, materials or services;
- (5) all Capitalized Lease Obligations of such Person;
- (6) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) a Lien on any asset of such Person, whether or not such Indebtedness is assumed by such Person;
- (7) all Indebtedness of others guaranteed by such Person to the extent of such guarantee; provided that Indebtedness of the Issuer or its Subsidiaries that is guaranteed by the Issuer or the Issuer’s Subsidiaries shall only be counted once in the calculation of the amount of Indebtedness of the Issuer and its Subsidiaries on a consolidated basis; and
- (8) all obligations of such Person under conditional sale or other title retention agreements relating to assets purchased by such Person (excluding obligations arising from inventory transactions in the ordinary course of business).

The amount of any Indebtedness which is incurred at a discount to the principal amount at maturity thereof as of any date shall be deemed to have been incurred at the accreted value thereof as of such date. The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above, the maximum liability of such Person for any such contingent obligations at such date and, in the case of clause (6), the lesser of (a) the Fair Market Value of any asset subject to a Lien securing the Indebtedness of others on the date that the Lien attaches and (b) the amount of the Indebtedness secured.

“**interest**” means, with respect to the Notes, interest on the Notes.

“**Investment Grade Rating**” has the meaning set forth under “-Change of Control.”

“**Investments**” of any Person means:

- (1) all direct or indirect investments by such Person in any other Person in the form of loans, advances or capital contributions or other credit extensions constituting Indebtedness of such other Person, and any guarantee of Indebtedness of any other Person;
- (2) all purchases (or other acquisitions for consideration) by such Person of Indebtedness, Equity Interests or other securities of any other Person (other than any such purchase that constitutes a Restricted Payment of the type described in clause (2) of the definition thereof);
- (3) all other items that would be classified as investments on a balance sheet of such Person prepared in accordance with GAAP (including, if required by GAAP, purchases of assets outside the ordinary course of business); and
- (4) the Designation of any Subsidiary as an Unrestricted Subsidiary.

Except as otherwise expressly specified in this definition, the amount of any Investment (other than an Investment made in cash) shall be the Fair Market Value thereof on the date such Investment is made. The amount of Investment pursuant to clause (4) shall be the Fair Market Value of the Issuer's proportionate interest in such Unrestricted Subsidiary as of the date of such Unrestricted Subsidiary's designation as an Unrestricted Subsidiary. If the Issuer or any Restricted Subsidiary sells or otherwise disposes of any Equity Interests of any Restricted Subsidiary, or any Restricted Subsidiary issues any Equity Interests, in either case, such that, after giving effect to any such sale or disposition, such Person is no longer a Subsidiary, the Issuer shall be deemed to have made an Investment on the date of any such sale or other disposition equal to the Fair Market Value of the Equity Interests of and all other Investments in such Restricted Subsidiary retained. Notwithstanding the foregoing, purchases or redemptions of Equity Interests of the Issuer or Parent shall be deemed not to be Investments.

"Issue Date" means November 26, 2019.

"Issuer Stock Collateral" has the meaning set forth under "-Ranking."

"Lien" means, with respect to any asset, any mortgage, deed of trust, lien (statutory or other), pledge, easement, charge, security interest or other encumbrance of any kind or nature in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset.

"Material Domestic Subsidiary" means any Domestic Subsidiary of the Issuer, as of the last day of the fiscal quarter of the Issuer most recently ended for which financial statements are available, that has assets (including Equity Interests in Subsidiaries) or revenues (including both third party and intercompany revenues) with a value in excess of 7.50% of the consolidated assets of the Issuer and its Domestic Subsidiaries or 7.50% of the consolidated revenues of the Issuer and its Domestic Subsidiaries; provided, that in the event Domestic Subsidiaries that would otherwise not be Material Domestic Subsidiaries shall in the aggregate account for a percentage in excess of 7.50% of the consolidated assets of the Issuer and its Domestic Subsidiaries or 7.50% of the consolidated revenues of the Issuer and its Domestic Subsidiaries as of the end of such fiscal quarter, then one or more of such Domestic Subsidiaries designated by the Issuer (or, if the Issuer shall make no designation, one or more of such Domestic Subsidiaries in descending order based on their respective contributions to the consolidated assets of the Issuer), shall be included as Material Domestic Subsidiaries to the extent necessary to eliminate such excess.

"Moody's" has the meaning set forth under "-Change of Control."

"Non-Material Domestic Subsidiary" means any Domestic Subsidiary of the Issuer other than a Material Domestic Subsidiary.

"Non-Recourse Debt" means Indebtedness of an Unrestricted Subsidiary:

- (1) as to which neither the Issuer nor any Restricted Subsidiary (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness) or (b) is directly or indirectly liable as a guarantor or otherwise, and
-

(2) no default with respect to which (including any rights that the holders thereof may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness (other than the Credit Agreement, Existing Notes or Notes) of the Issuer or any Restricted Subsidiary to declare a default on the other Indebtedness or cause the payment thereof to be accelerated or payable prior to its stated maturity.

“**Obligation**” means any principal, interest, penalties, fees, indemnification, reimbursements, costs, expenses, damages and other liabilities payable under the documentation governing any Indebtedness.

“**Officer**” means any of the following of the Issuer: the Chairman of the Board of Directors, the Chief Executive Officer, the Chief Financial Officer, the President, any Vice President, the Treasurer or the Secretary.

“**Officer’s Certificate**” means a certificate signed by an Officer.

“**Parent**” means Qurate Retail.

“**Parent Pledge Agreement**” has the meaning set forth under “-Security-Issuer Stock Collateral.”

“**Parent Pledgor**” has the meaning set forth under “-Ranking.”

“**Permitted Holders**” means any one or more of (a) Qurate Retail, (b) John C. Malone, (c) Greg Maffei, (d) each of the respective Affiliated Persons of the Persons referred to in clauses (b) and (c), and (e) any Person a majority of the aggregate voting power of all the outstanding classes or series of the equity securities of which are beneficially owned by any one or more of the Persons referred to in clauses (a), (b), (c) and (d).

“**Permitted Investment**” means:

- (1) Investments by the Issuer or any Restricted Subsidiary in any Restricted Subsidiary;
 - (2) Investments in the Issuer by any Restricted Subsidiary;
 - (3) loans and advances to directors, employees and officers of Parent (prior to the consummation of an initial public offering of the Issuer’s Equity Interests) or the Issuer or any of the Restricted Subsidiaries for bona fide business purposes and to purchase Equity Interests of the Parent (prior to the consummation of an initial public offering of the Issuer’s Equity Interests) or the Issuer (after the consummation of an initial public offering of the Issuer’s Equity Interests) not in excess of \$10.0 million at any one time outstanding;
 - (4) cash and Cash Equivalents;
 - (5) receivables owing to the Issuer or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; provided, however, that such trade terms may include such concessionary trade terms as the Issuer or any such Restricted Subsidiary deems reasonable under the circumstances;
 - (6) Investments in securities of trade creditors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditors or customers;
 - (7) Investments made by the Issuer or any Restricted Subsidiary as a result of consideration received in connection with a sale of assets made in compliance with the covenant described under “-Certain Covenants-Limitations on Asset Sales”;
 - (8) lease, utility and other similar deposits in the ordinary course of business;
 - (9) stock, obligations or securities received in settlement of debts created in the ordinary course of business and owing to the Issuer or any Restricted Subsidiary or in satisfaction of judgments;
 - (10) any Investment existing on, or made pursuant to binding commitments existing on, the Issue Date; and
 - (11) Investments, including in joint ventures of the Issuer or any of its Restricted Subsidiaries, not to exceed \$100.0 million in the aggregate outstanding at any time.
-

“**Permitted Liens**” means the following types of Liens:

- (1) Liens for taxes, assessments or governmental charges or claims either (a) not delinquent or (b) contested in good faith by appropriate proceedings and as to which the Issuer or a Restricted Subsidiary shall have set aside on its books such reserves as may be required pursuant to GAAP;
 - (2) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law incurred in the ordinary course of business for sums not yet delinquent by more than 30 days or being contested in good faith, if such reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made in respect thereof;
 - (3) pledges and deposits made in the ordinary course of business in compliance with workers’ compensation (or pursuant to letters of credit issued in connection with such workers’ compensation compliance), unemployment insurance and other social security laws or regulations;
 - (4) Liens incurred or deposits made in the ordinary course of business to secure the performance of tenders, statutory obligations, surety and appeal bonds, bids, leases, government contracts, performance and return-of- money bonds, letters of credit and other similar obligations (exclusive of obligations for the payment of borrowed money);
 - (5) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person’s obligations in respect of bankers’ acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;
 - (6) judgment Liens not giving rise to an Event of Default;
 - (7) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of the Issuer or any Restricted Subsidiary;
 - (8) Liens securing obligations in respect of trade-related letters of credit and covering the goods (or the documents of title in respect of such goods) financed or the purchase of which is supported by such letters of credit and the proceeds and products thereof;
 - (9) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual or warranty requirements of the Issuer or any Restricted Subsidiary, including rights of offset and setoff;
 - (10) bankers’ Liens, rights of setoff and other similar Liens existing solely with respect to cash and Cash Equivalents on deposit in one or more accounts maintained by the Issuer or any Restricted Subsidiary, in each case granted in the ordinary course of business in favor of the bank or banks with which such accounts are maintained, securing amounts owing to such bank with respect to cash management and operating account arrangements, including those involving pooled accounts and netting arrangements; provided that in no case shall any such Liens secure (either directly or indirectly) the repayment of any Indebtedness;
 - (11) leases or subleases granted to others that do not materially interfere with the ordinary course of business of the Issuer or any Restricted Subsidiary;
 - (12) Liens arising from filing Uniform Commercial Code financing statements regarding leases;
 - (13) [Reserved];
 - (14) Liens securing Hedging Obligations entered into for bona fide hedging purposes of the Issuer or any Restricted Subsidiary in the ordinary course of business not for the purpose of speculation;
 - (15) Liens existing on the Issue Date securing obligations outstanding on the Issue Date;
 - (16) Liens in favor of the Issuer or a Guarantor;
-

(17) Liens securing Purchase Money Indebtedness; provided that such Liens shall secure Capitalized Lease Obligations or be created within 90 days of the acquisition of such fixed or capital assets and shall not extend to any asset other than the specified asset being financed and additions and improvements thereon;

(18) Liens securing Acquired Indebtedness permitted to be incurred under the Indenture; provided that the Liens do not extend to assets not subject to such Lien at the time of acquisition (other than improvements thereon) and are no more favorable to the lienholders than those securing such Acquired Indebtedness prior to the incurrence of such Acquired Indebtedness by the Issuer or a Restricted Subsidiary;

(19) deposits and other Liens securing credit card operations of the Issuer and its Subsidiaries, provided the amount secured does not exceed amounts owed by the Issuer and its Subsidiaries in connection with such credit card operations;

(20) Liens to secure Refinancing Indebtedness of Indebtedness secured by Liens referred to in the foregoing clauses (15), (17) and (18); provided that in the case of Liens securing Refinancing Indebtedness of Indebtedness secured by Liens referred to in the foregoing clauses (15), (17) and (18) such Liens do not extend to any additional assets (other than improvements thereon and replacements thereof);

(21) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(22) Interests of vendors in inventory arising out of such inventory being subject to a "sale or return" arrangement with such vendor or any consignment by any third party of any inventory; and

(23) Liens incurred in the ordinary course of business of the Issuer or any Restricted Subsidiary with respect to obligations that do not in the aggregate exceed \$150.0 million at any one time outstanding, so long as such Liens do not encumber Collateral consisting of assets of the Issuer or any Restricted Subsidiary.

"Permitted Parity Indebtedness" has the meaning given to such term in the covenant described under "-Certain Covenants-Limitations on Liens."

"Person" means any individual, corporation, partnership, limited liability company, joint venture, incorporated or unincorporated association, joint-stock company, trust, unincorporated organization or government or other agency or political subdivision thereof or other entity of any kind.

"Plan of Liquidation" with respect to any Person, means a plan that provides for, contemplates or the effectuation of which is preceded or accompanied by (whether or not substantially contemporaneously, in phases or otherwise): (1) the sale, lease, conveyance or other disposition of all or substantially all of the assets of such Person other than as an entirety or substantially as an entirety; and (2) the distribution of all or substantially all of the proceeds of such sale, lease, conveyance or other disposition of all or substantially all of the remaining assets of such Person to holders of Equity Interests of such Person.

"Preferred Stock" means, with respect to any Person, any and all preferred or preference stock or other equity interests (however designated) of such Person whether issued before or after the Issue Date.

"principal" means, with respect to the Notes, the principal of, and premium, if any, on the Notes.

"Purchase Money Indebtedness" means Indebtedness, including Capitalized Lease Obligations, of the Issuer or any Restricted Subsidiary incurred for the purpose of financing all or any part of the purchase price of property, plant or equipment used in the business of the Issuer or any Restricted Subsidiary or the cost of installation, construction or improvement thereof; provided, however, that such Indebtedness is comprised of Capitalized Lease Obligations or (1) the amount of such Indebtedness shall not exceed such purchase price or cost and (2) such Indebtedness shall be incurred within 90 days after such acquisition of such asset by the Issuer or such Restricted Subsidiary or such installation, construction or improvement.

"Qualified Equity Interests" of any Person means Equity Interests of such Person other than Disqualified Equity Interests; provided that such Equity Interests shall not be deemed Qualified Equity Interests to the extent sold or owed to a Subsidiary of such Person or financed, directly or indirectly, using funds (1) borrowed from such Person or any Subsidiary of such Person until and to the extent such borrowing is repaid or (2) contributed, extended, guaranteed or advanced by such Person or any Subsidiary of such Person (including, without limitation, in respect of any employee stock ownership or benefit plan). Unless otherwise specified, Qualified Equity Interests refer to Qualified Equity Interests of the Issuer.

“**Qurate Retail**” means Qurate Retail, Inc. (f/k/a Liberty Interactive Corporation), a Delaware corporation, and any successor (by merger, consolidation, transfer or otherwise) to all or substantially all of its assets; and any subsequent successor (by merger, consolidation, transfer or otherwise) to all or substantially all of a successor’s assets, provided, that if a Transferee Parent becomes the beneficial owner of all or substantially all of the equity securities of the Issuer then beneficially owned by Qurate Retail as to which Qurate Retail has dispositive power, the term “Qurate Retail” shall also mean such Transferee Parent and any successor (by merger, consolidation, transfer or otherwise) to all or substantially all of its assets. “**Transferee Parent**” for this purpose means, in the event of any transaction or series of related transactions involving the direct or indirect transfer (or relinquishment of control) by Qurate Retail of a Person or Persons (a “**Transferred Person**”) that hold equity securities of the Issuer beneficially owned by Qurate Retail, such Transferred Person or its successor in such transaction or any ultimate parent entity (within the meaning of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended) of such Transferred Person or its successor if immediately after giving effect to such transaction or the last transaction in such series, voting securities representing at least a majority of the voting power of the outstanding voting securities of such Transferred Person, successor or ultimate parent entity are beneficially owned by any combination of Qurate Retail, Persons who prior to such transaction were beneficial owners of a majority of, or a majority of the voting power of, the outstanding voting securities of Qurate Retail (or of any publicly traded class or series of voting securities of Qurate Retail designed to track the economic performance of a specified group of assets or businesses) or Persons who are Control Persons as of the date of such transaction or the last transaction in such series. “**Control Person**” for this purpose means each of (a) the Chairman of the Board of Qurate Retail, (b) the President of Qurate Retail, (c) any Executive Vice President or Senior Vice President of Qurate Retail, (d) each of the directors of Qurate Retail and (e) the respective Affiliated Persons of the Persons referred to in clauses (a) through (d).

“**Recovery**” has the meaning set forth under “-Security-Certain Bankruptcy Provisions.”

“**redeem**” means to redeem, repurchase, purchase, defease, retire, discharge or otherwise acquire or retire for value; and “redemption” shall have a correlative meaning; provided that this definition shall not apply for purposes of “-Optional Redemption.”

“**Redesignation**” has the meaning given to such term in the covenant described under “-Certain Covenants-Limitations on Designation of Unrestricted Subsidiaries.”

“**refinance**” means to refinance, repay, prepay, replace, renew or refund.

“**Refinancing Indebtedness**” means Indebtedness of the Issuer or a Restricted Subsidiary incurred in exchange for, or the proceeds of which are used to redeem or refinance in whole or in part, any Indebtedness of the Issuer or any Restricted Subsidiary (the “**Refinanced Indebtedness**”); provided that:

- (1) the principal amount (and accreted value, in the case of Indebtedness issued at a discount) of the Refinancing Indebtedness does not exceed the principal amount (and accreted value, as the case may be) of the Refinanced Indebtedness plus the amount of accrued and unpaid interest on the Refinanced Indebtedness, any reasonable premium paid to the holders of the Refinanced Indebtedness and reasonable expenses incurred in connection with the incurrence of the Refinancing Indebtedness;
 - (2) the obligor of Refinancing Indebtedness does not include any Person (other than the Issuer or any Restricted Subsidiary) that is not an obligor of the Refinanced Indebtedness;
 - (3) if the Refinanced Indebtedness was subordinated in right of payment to the Notes or the Note Guarantees, as the case may be, then such Refinancing Indebtedness, by its terms, is subordinate in right of payment to the Notes or the Note Guarantees, as the case may be, at least to the same extent as the Refinanced Indebtedness;
 - (4) the Refinancing Indebtedness has a final stated maturity either (a) no earlier than the Refinanced Indebtedness being repaid or amended or (b) after the final maturity date of the Notes; and
 - (5) the portion, if any, of the Refinancing Indebtedness that is scheduled to mature on or prior to the final maturity date of the Notes has a Weighted Average Life to Maturity at the time such Refinancing Indebtedness is incurred that is equal to or greater than the Weighted Average Life to Maturity of the portion of the Refinanced Indebtedness being repaid that is scheduled to mature on or prior to the final maturity date of the Notes; provided that Refinancing Indebtedness in respect of Refinanced Indebtedness that has no amortization may provide for amortization installments, sinking fund payments, senior maturity dates or other required payments of principal of up to 1% of the aggregate principal amount per annum.
-

“Restricted Payment” means any of the following:

(1) the declaration or payment of any dividend or any other distribution on Equity Interests of the Issuer or any Restricted Subsidiary or any payment made to the direct or indirect holders (in their capacities as such) of Equity Interests of the Issuer or any Restricted Subsidiary, including, without limitation, any such payment in connection with any merger or consolidation involving the Issuer but excluding (a) dividends or distributions payable solely in Qualified Equity Interests or through accretion or accumulation of such dividends on such Equity Interests and (b) in the case of Restricted Subsidiaries, dividends or distributions payable to the Issuer or to a Restricted Subsidiary and *pro rata* dividends or distributions payable to minority stockholders of any Restricted Subsidiary;

(2) the redemption of any Equity Interests of the Issuer or any Restricted Subsidiary, or any equity holder of the Issuer, including, without limitation, any payment in exchange for such Equity Interests in connection with any merger or consolidation involving the Issuer but excluding any such Equity Interests held by the Issuer or any Restricted Subsidiary;

(3) any Investment other than a Permitted Investment; or

(4) any payment or redemption prior to the scheduled maturity or prior to any scheduled repayment of principal or sinking fund payment, as the case may be, in respect of Subordinated Indebtedness (other than any Subordinated Indebtedness owed to and held by the Issuer or any Restricted Subsidiary).

“Restricted Subsidiary” means any Subsidiary of the Issuer other than an Unrestricted Subsidiary.

“Sale and Leaseback Transactions” means with respect to any Person an arrangement with any bank, insurance company or other lender or investor or to which such lender or investor is a party, providing for the leasing by such Person of any asset of such Person which has been or is being sold or transferred by such Person to such lender or investor or to any Person to whom funds have been or are to be advanced by such lender or investor on the security of such asset.

“SEC” means the U.S. Securities and Exchange Commission.

“Secured Party” means the lenders and the agents under the Credit Agreement, holders of Existing Notes, the trustee under the Existing Notes, providers of the Specified Swap Agreements, providers of the Specified Cash Management Services Agreements, the Trustee, the Holders, the Collateral Agent and any other party designated as an additional secured party under the Security Documents in accordance with the terms of the Security Documents, Indenture, the Credit Agreement or the Existing Notes Indentures.

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Security Documents” means, collectively, the Parent Pledge Agreement and any other security agreement relating to the Collateral, each as in effect on the Issue Date (in the case of the Parent Pledge Agreement) and as any such Security Document may be amended, amended and restated, modified, renewed or replaced from time to time.

“Significant Subsidiary” means (1) any Restricted Subsidiary that would be a “significant subsidiary” as defined in Regulation S-X promulgated pursuant to the Securities Act as such Regulation is in effect on the Issue Date and (2) any Restricted Subsidiary that, when aggregated with all other Restricted Subsidiaries that are not otherwise Significant Subsidiaries and as to which any event described in clause (7) or (8) under “-Events of Default” has occurred and is continuing, would constitute a Significant Subsidiary under clause (1) of this definition.

“Specified Cash Management Services Agreement” means any Cash Management Services Agreement entered into by the Issuer or any of its subsidiaries and any Person that is a lender or an affiliate of a lender under the Credit Agreement at the time such Cash Management Services Agreement is entered into.

“Specified Swap Agreement” means any Swap Agreement in respect of interest rates, currency exchange rates or commodity prices existing on the Issue Date or entered into by the Issuer or any Guarantor and any Person that is a lender or an affiliate of a lender under the Credit Agreement at the time such Swap Agreement is entered into and is secured equally and ratably with such Credit Agreement pursuant to the terms of the Credit Agreement and Security Documents or any such agreement secured equally and ratably with any Credit Facility pursuant to the terms of such Credit Facility and Security Documents.

“**Standard & Poor’s**” has the meaning set forth under “-Change of Control.”

“**Stock Compensation Plans**” means compensation plans in connection with which the Issuer and its Subsidiaries make payments to Parent and its Affiliates in consideration for securities of Parent issued to employees of the Issuer and its Subsidiaries.

“**Subordinated Indebtedness**” means Indebtedness of the Issuer or any Restricted Subsidiary that is expressly subordinated in right of payment to the Notes or the Note Guarantees.

“**Subsidiary**” means, with respect to any Person:

- (1) any corporation, limited liability company, association or other business entity of which more than 50% of the total voting power of the Equity Interests entitled (without regard to the occurrence of any contingency) to vote in the election of the Board of Directors thereof is at the time owned or controlled, directly or indirectly, by such Person or one or more of the other Subsidiaries of such Person (or a combination thereof); and
- (2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are such Person or of one or more Subsidiaries of such Person (or any combination thereof).

Unless otherwise specified, “Subsidiary” refers to a Subsidiary of the Issuer.

“**Swap Agreement**” means any agreement with respect to any swap, forward, future or derivative transaction or option or similar agreement involving, or settled by reference to, one or more rates, currencies, commodities, equity or debt instruments or securities, or economic, financial or pricing indices or measures of economic, financial or pricing risk or value or any similar transaction or any combination of these transactions; provided that no phantom stock or similar plan providing for payments only on account of services provided by current or former directors, officers, employees or consultants of the Issuer or the Subsidiaries shall be a Swap Agreement.

“**Tax Liability Allocation and Indemnification Agreement**” means that certain Tax Liability Allocation and Indemnification Agreement entered into as of April 26, 2004 by and between Liberty Interactive LLC (f/k/a Liberty Media Corporation) and the Issuer, as amended, modified or replaced from time to time in a manner no less favorable to the Issuer than as in effect on the Issue Date; provided that such agreement may be amended from time to time in the future to permit Issuer to pay the portion of any additional consolidated, combined or similar income taxes payable by any direct or indirect parent of Issuer that are attributable to the income of Issuer and/or any of its Subsidiaries.

“**Trust Indenture Act**” means the Trust Indenture Act of 1939, as amended.

“**Unrestricted Subsidiary**” means (1) QVC France SAS, (2) any Subsidiary that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors of the Issuer in accordance with the covenant described under “-Certain Covenants-Limitations on Designation of Unrestricted Subsidiaries” and (3) any Subsidiary of an Unrestricted Subsidiary.

“**U.S. Government Obligations**” means direct non-callable obligations of, or guaranteed by, the United States of America for the payment of which guarantee or obligations the full faith and credit of the United States is pledged.

“**Weighted Average Life to Maturity**” when applied to any Indebtedness at any date, means the number of years obtained by dividing (1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payment of principal, including payment at final maturity, in respect thereof by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment by (2) the then outstanding principal amount of such Indebtedness.

“**Wholly-Owned Restricted Subsidiary**” means a Restricted Subsidiary of which 100% of the Equity Interests (except for directors’ qualifying shares or certain minority interests owned by other Persons solely due to local law requirements that there be more than one stockholder, but which interest is not in excess of what is required for such purpose) are owned directly by the Issuer or through one or more Wholly-Owned Restricted Subsidiaries.

Entity Name	Domicile
QVC, Inc.	DE
California Voices, LLC	DE
DMS DE, Inc.	DE
NSTBC, Inc.	DE
Diamonique Canada Holdings, Inc.	DE
RQ Holdings Corp.	Nova Scotia
ER Development International, Inc.	PA
HSN, Inc.	DE
Home Shopping Espanol (Mexico) S. DE. R.D.DE C.V.	Mexico
Home Shopping Espanol Services (Mexico) S. DE. R.D.DE C.V.	DE
Home Shopping Network En Espanol, L.L.C.	DE
Home Shopping Network En Espanol, L.P.	DE
Home Shopping Espanol (Mexico) S. DE. R.D.DE C.V.	Mexico
Home Shopping Espanol Services (Mexico) S. DE. R.D.DE C.V.	Mexico
Home Shopping Network En Espanol, L.P.	DE
H.O.T. Networks Holdings (Delaware) LLC	DE
HSN Holding LLC	DE
HSNi, LLC	DE
AST Sub, Inc.	DE
HSN of Nevada LLC	DE
H.O.T. Networks Holdings (Delaware) LLC	DE
Ingenious Designs LLC	DE
NLG Merger Corp.	DE
Ventana Television Holdings, Inc.	DE
Ventana Television Inc.	DE
Innovative Retailing, Inc.	DE
QVC Information and Technologies (Shenzhen) Co., Ltd	China
QDirect Ventures, Inc.	DE
QExhibits, Inc.	DE
QHealth, Inc.	DE
QLocal, Inc.	DE
QVC Britain	UK
QVC Chesapeake, LLC	VA
QVC China Licensing, Inc.	DE
QVC Global DDGS, Inc.	DE
QVC India, Ltd.	DE
QVC Global Holdings II, Inc.	DE
QVC Cayman Holdings LLC	DE
QVC Cayman, Ltd.	Cayman Islands
QVC Global Holdings I, Inc.	DE

Affiliate Investment, Inc.	DE
Affiliate Relations Holdings, Inc.	DE
Affiliate Distribution & Mktg., Inc.	DE
AMI 2, Inc.	DE
ER Marks, Inc.	DE
GC Marks, Inc.	DE
IC Marks, Inc.	DE
QC Marks, Inc.	DE
RS Marks, Inc.	DE
IM Experience, Inc.	PA
Influence Marketing Corp	Nova Scotia
Influence Marketing Services, Inc.	Ontario
Savor North Carolina, Inc.	NC
QVC China, Inc.	DE
QVC Deutschland GP, Inc.	DE
QVC France Holdings, S.a.r.l.	Luxembourg
QVC France SAS	France
QVC International SCS	Luxembourg
QVC International SCS	Luxembourg
QVC International Holdings SARL	Luxembourg
1227844 Ontario Ltd.	Ontario
QVC Germany I SARL	Luxembourg
QVC Handel S.à.r.l. & Co. KG	Germany
QVC Call Center GmbH & Co. KG	Germany
QVC Call Center Verwaltung-GmbH	Germany
QVC Delaware LLC	DE
QVC Grundstücksverwaltungs GmbH	Germany
QVC Realty LLC	DE
QVC eDistribution Inc. & Co. KG	Germany
QVC Grundstücksverwaltungs GmbH	Germany
QVC eService LLC & Co. KG	Germany
QVC UK Holdings Limited	UK
QVC Britain	UK
QVC UK	UK
QVC Japan, Inc.	Japan
QVC Satellite, Inc.	Japan
QVC Japan Services, LLC	DE
QVC UK	UK
QVC Iberia, S.L.	Spain
QVC Germany II SARL	Luxembourg
QVC Handel S.à.r.l. & Co. KG	Germany
QVC International Management GP S.à.r.l.	Luxembourg
QVC Suisse Holdings GmbH	Switzerland

QVC (Barbados) International Finance SRL	Barbados
QVC Poland Global Services Sp. z.o.o.	Poland
QVC Suisse Finance GmbH	Switzerland
QVC Italy Holdings, LLC	DE
QVC Italia S.r.l.	Italy
QVC San Antonio, LLC	TX
QVC Vendor Development, Inc.	DE
QVC Grundstücksverwaltungs GmbH	Germany
QVC HK Holdings, LLC	DE
QVC China Holdings Limited	Hong Kong
CNR Home Shopping Co., Ltd.	China
QVC (Shanghai) Management Co., Ltd.	China
QVC Trading (Shanghai) Co., Ltd.	China
QVC Trading (Shenzhen) Co., Ltd.	China
QVC Northeast, LLC	DE
QVC Ontario Holdings, LLC	DE
QVC Ontario, LLC	DE
QVC Rocky Mount, Inc.	NC
QVC RS Naples, Inc.	FL
QVC Shop International, Inc.	DE
QVC STT Holdings, LLC	DE
Send the Trend, Inc.	DE
QVC St. Lucie, Inc.	FL
QVC Suffolk, LLC	MN
RS Mebane, Inc.	NC
RS Myrtle Beach, Inc.	SC
TOBH, Inc.	DE

Consent of Independent Registered Public Accounting Firm

To the Stockholder-Director
QVC, Inc.:

We consent to the incorporation by reference in the registration statement (Nos. 333-213066 and 333-233799) on Form S-3 of QVC, Inc. of our report dated February 26, 2020, with respect to the consolidated balance sheets of QVC, Inc. as of December 31, 2019 and 2018, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes, which report appears in the December 31, 2019 annual report on Form 10-K of QVC, Inc. Our report refers to a change in the accounting for revenue and leases.

/s/ KPMG LLP

Philadelphia, Pennsylvania
February 26, 2020

CERTIFICATION

I, Michael A. George, certify that:

1. I have reviewed this report on Form 10-K 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: February 26, 2020

By: /s/ MICHAEL A. GEORGE

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

CERTIFICATION

I, Jeffrey A. Davis, certify that:

1. I have reviewed this report on Form 10-K 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: February 26, 2020

By: /s/ JEFFREY A. DAVIS

Jeffrey A. Davis
Executive Vice President and Chief Financial Officer (Principal Financial
Officer and Principal Accounting Officer)

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-K for the period ended December 31, 2019 (the "Form 10-K") 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-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 26, 2020

By: /s/ MICHAEL A. GEORGE

Michael A. George

President and Chief Executive Officer (Principal Executive Officer)

Date: February 26, 2020

By: /s/ JEFFREY A. DAVIS

Jeffrey A. Davis

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-K or as a separate disclosure document.