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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2021

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 23-2414041

(State or other jurisdiction of (I.R.S. Employer Identification

incorporation or organization) 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:

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

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 stock of the registrant is held by a non-affiliate of the registrant. There is no publicly traded market for any class of voting stock of the registrant. There is one holder of record of our equity, Qurate Retail Group, Inc., an indirect wholly-owned subsidiary of Qurate Retail, Inc.

QVC, Inc.
2021 QUARTERLY REPORT ON FORM 10-Q

Table of Contents

	Part I	Page
Item 1.	Financial Statements (unaudited)	1
	Condensed Consolidated Balance Sheets	1
	Condensed Consolidated Statements of Operations	2
	Condensed Consolidated Statements of Comprehensive Income	3
	Condensed Consolidated Statements of Cash Flows	4
	Condensed Consolidated Statement of Equity	5
	Notes to the Condensed Consolidated Financial Statements (unaudited)	7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	40
Item 4.	Controls and Procedures	41
	Part II	
Item 6.	Exhibits	42
	Signatures	43

Item 1. Financial Statements

QVC, Inc.

Condensed Consolidated Balance Sheets

(unaudited)

(in millions, except share amounts)		September 30, 2021	December 31, 2020
Assets			
Current assets:			
Cash and cash equivalents	$	628	682
Restricted cash		9	8
Accounts receivable, less allowance for credit losses of $93 at September 30, 2021 and $124 at December 31, 2020		1,142	1,602
Inventories		1,482	1,119
Prepaid expenses and other current assets		333	293
Total current assets		3,594	3,704
Property and equipment, net of accumulated depreciation of $1,457 at September 30, 2021 and $1,544 at December 31, 2020		1,086	1,178
Operating lease right-of-use assets (note 6)		206	221
Television distribution rights, net (note 2)		169	63
Goodwill (note 3)		5,988	6,034
Other intangible assets, net (note 3)		3,409	3,454
Note receivable - related party (note 1)		1,825	1,825
Other noncurrent assets		63	79
Total assets	$	16,340	16,558
Liabilities and equity			
Current liabilities:			
Current portion of debt and finance lease obligations (note 5)	$	567	410
Accounts payable-trade		1,049	1,127
Accrued liabilities (note 4)		883	1,302
Total current liabilities		2,499	2,839
Long-term portion of debt and finance lease obligations (note 5)		4,548	4,549
Deferred income taxes (note 8)		716	711
Other long-term liabilities		309	324
Total liabilities		8,072	8,423
Commitments and contingencies (note 9)			
Equity:			
QVC, Inc. stockholder's equity:			
Common stock, $0.01 par value, 1 authorized share		—	—
Additional paid-in capital		10,769	10,741
Accumulated deficit		(2,508)	(2,722)
Accumulated other comprehensive loss		(118)	(17)
Total QVC, Inc. stockholder's equity		8,143	8,002
Noncontrolling interest		125	133
Total equity		8,268	8,135
Total liabilities and equity	$	16,340	16,558

QVC, Inc.

Condensed Consolidated Statements of Operations

(unaudited)

		Three months ended September 30,		Nine months ended September 30,	
(in millions)		**2021**	**2020**	**2021**	**2020**
Net revenue	$	2,512	2,703	8,002	7,853
Operating costs and expenses:					
Cost of goods sold (exclusive of depreciation and amortization shown separately below)		1,617	1,722	5,130	5,041
Operating		183	184	565	548
Selling, general and administrative, including stock-based compensation		285	295	873	881
Depreciation		37	45	115	131
Amortization		74	69	200	213
		2,196	2,315	6,883	6,814
Operating income		316	388	1,119	1,039
Other (expense) income:					
Equity in (losses) earnings of investee		(2)	1	(2)	(1)
(Losses) gains on financial instruments		(5)	1	(8)	(3)
Interest expense, net		(64)	(65)	(192)	(194)
Foreign currency gain (loss)		—	1	(4)	3
Loss on extinguishment of debt		—	(42)	—	(42)
Other income		—	—	8	—
		(71)	(104)	(198)	(237)
Income before income taxes		245	284	921	802
Income tax expense		(85)	(80)	(266)	(232)
Net income		160	204	655	570
Less net income attributable to the noncontrolling interest		(15)	(15)	(48)	(41)
Net income attributable to QVC, Inc. stockholder	$	145	189	607	529

QVC, Inc.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

		Three months ended September 30,		Nine months ended September 30,	
(in millions)		**2021**	**2020**	**2021**	**2020**
Net income	$	160	204	655	570
Foreign currency translation adjustments, net of tax		(28)	49	(92)	45
Comprehensive loss attributable to debt credit risk adjustments		(7)	—	(19)	—
Total comprehensive income		125	253	544	615
Comprehensive income attributable to noncontrolling interest		(14)	(17)	(38)	(45)
Comprehensive income attributable to QVC, Inc. stockholder	$	111	236	506	570

QVC, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in millions)		**Nine months ended September 30, 2021**	**2020**
Operating activities:			
Net income	$	655	570
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in losses of investee		2	1
Deferred income taxes		(1)	8
Foreign currency loss (gain)		4	(3)
Depreciation		115	131
Amortization		200	213
Change in fair value of financial instruments and noncash interest		8	9
Loss on extinguishment of debt		—	42
Stock-based compensation		33	26
Change in other long-term liabilities		5	9
Other income		(8)	—
Other non-cash charges, net		30	30
Change in operating assets and liabilities			
Decrease in accounts receivable		443	718
Increase in inventories		(374)	(49)
Decrease in prepaid expenses and other current assets		47	30
(Decrease) increase in accounts payable-trade		(70)	56
Decrease in accrued liabilities and other		(411)	(111)
Net cash provided by operating activities		678	1,680
Investing activities:			
Capital expenditures		(145)	(140)
Expenditures for television distribution rights		(184)	(41)
Changes in other noncurrent assets		(3)	—
Proceeds from sale of fixed assets		40	—
Other investing activities		8	—
Net cash used in investing activities		(284)	(181)
Financing activities:			
Principal payments of debt and finance lease obligations		(157)	(1,230)
Principal borrowings of debt from senior secured credit facility		135	112
Principal repayment of senior secured notes		—	(500)
Payment of premium on redemption of senior secured notes		—	(41)
Proceeds from issuance of senior secured notes		—	1,075
Payment of debt origination fees		—	(15)
Dividends paid to Qurate Retail, Inc.		(393)	(845)
Dividends paid to noncontrolling interest		(46)	(46)
Withholding taxes on net share settlements of stock-based compensation		(18)	(1)
Derivative payments to counterparties		(38)	—
Derivative proceeds from counterparties		88	—
Other financing activities		2	—
Net cash used in financing activities		(427)	(1,491)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash		(20)	5
Net (decrease) increase in cash, cash equivalents and restricted cash		(53)	13
Cash, cash equivalents and restricted cash, beginning of period		690	569
Cash, cash equivalents and restricted cash, end of period	$	637	582

QVC, Inc.

Condensed Consolidated Statements of Equity

(unaudited)

(in millions, except share data)	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interest	Total equity
Balance, December 31, 2019	1	$ —	9,208	(2,390)	(144)	130	6,804
Net income	—	—	—	529	—	41	570
Foreign currency translation adjustments, net of tax	—	—	—	—	41	4	45
Dividends paid to Qurate Retail, Inc. and noncontrolling interest	—	—	—	(845)	—	(46)	(891)
Impact of tax liability allocation and indemnification agreement with Qurate Retail, Inc.	—	—	—	(7)	—	—	(7)
Stock-based compensation	—	—	26	—	—	—	26
Balance, September 30, 2020	1	$ —	9,234	(2,713)	(103)	129	6,547

(in millions, except share data)	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interest	Total equity
Balance, June 30, 2020	1	$ —	9,224	(2,312)	(150)	128	6,890
Net income	—	—	—	189	—	15	204
Foreign currency translation adjustments, net of tax	—	—	—	—	47	2	49
Dividends paid to Qurate Retail, Inc. and noncontrolling interest	—	—	—	(583)	—	(16)	(599)
Impact of tax liability allocation and indemnification agreement with Qurate Retail, Inc.	—	—	—	(7)	—	—	(7)
Stock-based compensation	—	—	10	—	—	—	10
Balance, September 30, 2020	1	$ —	9,234	(2,713)	(103)	129	6,547

QVC, Inc.

Condensed Consolidated Statements of Equity

(unaudited)

(in millions, except share data)	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interest	Total equity
Balance, December 31, 2020	1	$ —	10,741	(2,722)	(17)	133	8,135
Net income	—	—	—	607	—	48	655
Foreign currency translation adjustments, net of tax	—	—	—	—	(82)	(10)	(92)
Dividends paid to Qurate Retail, Inc. and noncontrolling interest	—	—	—	(393)	—	(46)	(439)
Impact of tax liability allocation and indemnification agreement with Qurate Retail, Inc.	—	—	13	—	—	—	13
Withholding taxes on net share settlements of stock-based compensation	—	—	(18)	—	—	—	(18)
Stock-based compensation	—	—	33	—	—	—	33
Debt credit risk adjustment	—	—	—	—	(19)	—	(19)
Balance, September 30, 2021	1	$ —	10,769	(2,508)	(118)	125	8,268

(in millions, except share data)	Common stock Shares	Common stock Amount	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive loss	Noncontrolling interest	Total equity
Balance, June 30, 2021	1	$ —	10,753	(2,561)	(84)	126	8,234
Net income	—	—	—	145	—	15	160
Foreign currency translation adjustments, net of tax	—	—	—	—	(27)	(1)	(28)
Dividends paid to Qurate Retail, Inc. and noncontrolling interest	—	—	—	(92)	—	(15)	(107)
Impact of tax liability allocation and indemnification agreement with Qurate Retail, Inc.	—	—	4	—	—	—	4
Withholding taxes on net share settlements of stock-based compensation	—		(1)	—	—	—	(1)
Stock-based compensation	—	—	13	—	—	—	13
Debt credit risk adjustment	—	—	—	—	(7)	—	(7)
Balance, September 30, 2021	1	$ —	10,769	(2,508)	(118)	125	8,268

QVC, Inc.

Notes to Condensed Consolidated Financial Statements

(unaudited)

(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 United States ("U.S."), QVC's televised shopping programs, including live and recorded content, are distributed across multiple channels nationally on a full-time basis, including QVC, QVC2, QVC3, HSN and HSN2. The Company's U.S. programming is also available on QVC.com and HSN.com, which we refer to as our "U.S. websites"; virtual multichannel video programming distributors (including Hulu + Live TV, AT&T TV, and YouTube TV); applications via streaming video; Facebook Live, Roku, Apple TV, Amazon Fire and Xfinity Flex; mobile applications; social pages and over-the-air broadcasters.

QVC's digital platforms enable consumers to purchase goods offered on our televised programming, along with a wide assortment of products that are available only on our U.S. websites. QVC.com, HSN.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 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 distributed 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 $46 million during each of the nine months ended September 30, 2021 and 2020.

Prior to September 2021, the Company had a joint venture with CNR Media Group, a limited liability company owned by China National Radio ("CNR"). The Company owned a 49% interest in a CNR subsidiary, CNR Home Shopping Co., Ltd. ("CNRS") that was accounted for as an equity method investment. During the three months ended September 30, 2021, QVC sold its interest in CNRS which resulted in an immaterial loss for the three and nine months ended September 30, 2021 recorded in equity in (losses) earnings of investee in the condensed consolidated statements of operations.

The Company is an indirect wholly-owned subsidiary of Qurate Retail, Inc. ("Qurate Retail") (Nasdaq: QRTEA, QRTEB and QRTEP), 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, formerly QVC Group, a portfolio of brands including QVC, Zulily and Cornerstone Brands, Inc. ("CBI").

On December 31, 2018, QVC entered into the Fourth Amended and Restated Credit Agreement that provides for a $2.95 billion revolving credit facility as explained further in note 5. 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 September 30, 2021, there was $120 million borrowed by Zulily on the $400 million tranche of the Fourth Amended and Restated Credit Agreement, none of which the Company expects to repay on behalf of Zulily.

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

During each of the nine months ended September 30, 2021 and 2020, QVC and Zulily engaged in multiple transactions relating to sales, sourcing of merchandise, marketing initiatives and business advisory services. QVC allocated expenses of $6 million to Zulily for each of the nine months ended September 30, 2021 and 2020. Zulily allocated expenses of $6 million and $8 million to QVC for the nine months ended September 30, 2021 and 2020, respectively.

In September 2020, QVC and Zulily executed a Master Promissory Note ("Promissory Note") whereby Zulily may borrow up to $100 million at a variable interest rate equal to the London Interbank Offered Rate ("LIBOR") rate plus an applicable margin rate. The Promissory Note matures in September 2030. There were no borrowings on the Promissory Note as of September 30, 2021 and December 31, 2020.

During each of the nine months ended September 30, 2021 and 2020, QVC and CBI engaged in multiple transactions relating to personnel and business advisory services. QVC allocated expenses of $16 million and $18 million to CBI for the nine months ended September 30, 2021 and 2020, respectively. CBI allocated expenses of $1 million to QVC for each of the nine months ended September 30, 2021 and 2020.

In December 2019, a new coronavirus disease ("COVID-19"') pandemic was reported to have surfaced in Wuhan, China and has subsequently spread across the globe, including all of the countries in which QVC operates. As a result of the spread of COVID-19, certain local governmental agencies have imposed travel restrictions, local quarantines or stay at home restrictions to contain the spread, which has caused a significant disruption to most sectors of the economy.

Management is not presently aware of any events or circumstances arising from COVID-19 that would require the Company to update the estimates, judgments or revise the carrying value of our assets or liabilities. Management's estimates may change, however, as new events occur and additional information is obtained, and any such changes will be recognized in the consolidated financial statements. Actual results could differ from estimates, and any such differences may be material to our financial statements.

On December 30, 2020, the Company and Liberty Interactive LLC ("LIC") completed an internal realignment of the Company's global finance structure that resulted in a common control transaction with Qurate Retail. As part of the common control transaction, LIC issued a promissory note ("LIC Note") to the Company with an initial face amount of $1.8 billion, a stated interest rate of 0.48% and a maturity of December 29, 2029. Interest on the LIC Note is to be paid annually beginning on December 29, 2021. QVC recorded $2 million and $6 million of related party interest income for the three and nine months ended September 30, 2021, respectively, included in interest expense, net in the consolidated statement of operations.

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

The accompanying (a) condensed consolidated balance sheet as of December 31, 2020, which has been derived from audited financial statements, and (b) the interim unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X as promulgated by the Securities and Exchange Commission. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation of the results for such periods have been included. The results of operations for any interim period are not necessarily indicative of results for the full year. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in QVC's Annual Report on Form 10-K for the year ended December 31, 2020.

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

(2) Television Distribution Rights, Net

Television distribution rights consisted of the following:

(in millions)	September 30, 2021	December 31, 2020
Television distribution rights	$ 823	814
Less accumulated amortization	(654)	(751)
Television distribution rights, net	$ 169	63

The Company recorded amortization expense of $32 million and $33 million for the three months ended September 30, 2021 and 2020, respectively, related to television distribution rights. For the nine months ended September 30, 2021 and 2020, amortization expense for television distribution rights was $80 million and $102 million, respectively.

As of September 30, 2021, related amortization expense for each of the next five years ended December 31 was as follows (in millions):

Remainder of 2021	$ 30
2022	108
2023	26
2024	4
2025	1

(3) Goodwill and Other Intangible Assets, Net

The changes in the carrying amount of goodwill by operating segment for the nine months ended September 30, 2021 were as follows:

(in millions)	QxH	QVC-International	Total
Balance as of December 31, 2020	$ 5,112	922	6,034
Exchange rate fluctuations	—	(46)	(46)
Balance as of September 30, 2021	$ 5,112	876	5,988

Other intangible assets consisted of the following:

	September 30, 2021			December 31, 2020		
(in millions)	Gross cost	Accumulated amortization	Other intangible assets, net	Gross cost	Accumulated amortization	Other intangible assets, net
Purchased and internally developed software	$ 1,002	(721)	281	952	(663)	289
Affiliate and customer relationships	2,836	(2,590)	246	2,845	(2,564)	281
Debt origination fees	10	(6)	4	10	(4)	6
Trademarks (indefinite life)	2,878	—	2,878	2,878	—	2,878
	$ 6,726	(3,317)	3,409	6,685	(3,231)	3,454

The Company recorded amortization expense of $42 million and $36 million for the three months ended September 30, 2021 and 2020, respectively, related to other intangible assets. For the nine months ended September 30, 2021 and 2020, amortization expense for other intangible assets was $120 million and $111 million, respectively.

As of September 30, 2021, the related amortization and interest expense for each of the next five years ended December 31 was as follows (in millions):

Remainder of 2021	$ 47
2022	169
2023	135
2024	86
2025	47

(4) Accrued Liabilities

Accrued liabilities consisted of the following:

(in millions)	September 30, 2021	December 31, 2020
Accounts payable non-trade	$ 271	408
Allowance for sales returns	186	267
Accrued compensation and benefits	147	214
Other	279	413
	$ 883	1,302

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

(5) Long-Term Debt and Finance Lease Obligations

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

(in millions)	September 30, 2021	December 31, 2020
3.5% Exchangeable Senior Debentures due 2031	$ 549	393
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
4.75% Senior Secured Notes due 2027	575	575
4.375% Senior Secured Notes due 2028	500	500
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	500
Finance lease obligations (note 6)	163	168
Less debt issuance costs, net	(45)	(50)
Total debt and finance lease obligations	5,115	4,959
Less current portion	(567)	(410)
Long-term portion of debt and finance lease obligations	$ 4,548	4,549

Exchangeable Senior Debentures

The Company has elected to account for its Motorola Solutions, Inc. 3.5% Exchangeable Senior Debentures Due 2031 (the “MSI Exchangeables”) using the fair value option. Accordingly, changes in the fair value of these instruments are recognized as (losses) gains on financial instruments in the statements of operations and in other comprehensive income as it relates to instrument specific credit risk on the consolidated statements of comprehensive income. The Company has classified for financial reporting purposes the MSI Exchangeables as a current liability as the MSI Exchangeables are exchangeable at the option of the holder at any time. Although we do not own underlying shares, the Company has entered into certain derivative transactions in order to hedge against upward price fluctuations on certain shares. Such derivative instruments are recognized in the other current assets line item in the condensed consolidated balance sheets, and are marked to fair value each reporting period. The changes in fair value are recognized in (losses) gains on financial instruments in the condensed statement of operations.

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 the6.25% Senior Secured Notes due 2068 (the "2068 Notes"), which is payable quarterly.

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 $2.95 billion 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 a $50 million sub-limit for standby letters of credit. The remaining $2.55 billion and any incremental loans may be borrowed only by the Company. Borrowings that are alternate base rate loans will bear interest at a per annum rate equal to the base rate plus a margin that varies between 0.25% and 0.75% depending on the Borrowers’ combined ratio of Consolidated Total Debt to Consolidated EBITDA (the “Combined Consolidated Leverage Ratio”). Borrowings that are 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 $2.81 billion available under the terms of the Fourth Amended and Restated Credit Agreement as of September 30, 2021, including the portion available under the $400 million tranche that Zulily may also borrow on.

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.

Interest Rate Swap Arrangements

In July 2019, the Company entered into a three-year interest 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 $2 million and $3 million as of September 30, 2021 and December 31, 2020, respectively. The swap arrangement was included in accrued liabilities and other long-term liabilities as of September 30, 2021 and December 31, 2020, respectively.

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

Other Debt Related Information

QVC was in compliance with all of its debt covenants as of September 30, 2021.

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 4.9% as of September 30, 2021.

(6) 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 a warehouse.

QVC also leases data processing equipment, facilities, office space and land. These leases are classified as operating leases. 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 13 years, some of which may include the option to extend or terminate the leases.

The components of lease cost for the three and nine months ended September 30, 2021 and 2020, were as follows:

		Three months ended September 30,		Nine months ended September 30,	
(in millions)		2021	2020	2021	2020
Finance lease cost					
Depreciation of leased assets	$	4	5	14	15
Interest on lease liabilities		2	2	6	6
Total finance lease cost		6	7	20	21
Operating lease cost		10	9	30	29
Total lease cost	$	16	16	50	50

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

	September 30, 2021
Weighted-average remaining lease term (years):	
Finance leases	7.9
Operating leases	10.7
Weighted-average discount rate:	
Finance leases	5.1 %
Operating leases	6.0 %

Supplemental balance sheet information related to leases was as follows:

(in millions)		September 30, 2021	December 31, 2020
Operating Leases:			
Operating lease right-of-use assets	$	206	221
Accrued liabilities	$	24	25
Other long-term liabilities		181	195
Total operating lease liabilities	$	205	220
Finance Leases:			
Property and equipment	$	281	278
Accumulated depreciation		(149)	(141)
Property and equipment, net	$	132	137
Current portion of debt and finance lease obligations	$	18	18
Long-term portion of debt and finance lease obligations		145	150
Total finance lease liabilities	$	163	168

Supplemental cash flow information related to leases was as follows:

		Nine months ended September 30,	
(in millions)		2021	2020
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows from operating leases	$	29	33
Operating cash flows from finance leases		6	6
Financing cash flows from finance leases		13	14
Right-of-use assets obtained in exchange for lease obligations:			
Operating leases		6	22
Finance leases	$	11	—

Future payments under noncancelable operating leases and finance leases with initial terms of one year or more as ofSeptember 30, 2021 consisted of the following:

(in millions)		Finance leases	Operating leases	Total leases
Remainder of 2021	$	6	9	15
2022		28	35	63
2023		27	28	55
2024		26	25	51
2025		24	21	45
Thereafter		90	167	257
Total lease payments		201	285	486
Less: imputed interest		(38)	(80)	(118)
Total lease liabilities	$	163	205	368

Table of Contents

(7) Revenue

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

	Three months ended September 30, 2021			Nine months ended September 30, 2021		
(in millions)	QxH	QVC-International	Total	QxH	QVC-International	Total
Home	$ 679	272	951	2,229	905	3,134
Beauty	279	164	443	859	521	1,380
Apparel	336	119	455	985	372	1,357
Accessories	210	62	272	720	199	919
Electronics	171	24	195	539	89	628
Jewelry	95	55	150	269	169	438
Other revenue	43	3	46	137	9	146
Total net revenue	$ 1,813	699	2,512	5,738	2,264	8,002

	Three months ended September 30, 2020			Nine months ended September 30, 2020		
(in millions)	QxH	QVC-International	Total	QxH	QVC-International	Total
Home	$ 819	286	1,105	2,303	829	3,132
Beauty	297	168	465	910	499	1,409
Apparel	312	115	427	913	316	1,229
Accessories	219	67	286	676	188	864
Electronics	197	25	222	588	78	666
Jewelry	93	59	152	273	155	428
Other revenue	43	3	46	119	6	125
Total net revenue	$ 1,980	723	2,703	5,782	2,071	7,853

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. Private Label Credit Card ("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

Revenue is recognized when obligations with our customers are satisfied; generally this occurs at the time of shipment to our customers consistent with when control of the shipped product passes. The recognized revenue reflects the consideration we expect to receive in exchange for transferring goods, net of allowances for returns.

The Company generally recognizes revenue related to the PLCC program 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 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 will be treated as fulfillment costs.

The Company generally extends payment terms with its customers of one year or less and does not consider the time value of money when recognizing revenue.

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.

(8) Income Taxes

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

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

For the three months ended September 30, 2021 and 2020, the Company recorded a tax provision of $85 million and $80 million, respectively, which represented an effective tax rate of 34.7% and 28.2%, respectively. For the nine months ended September 30, 2021 and 2020, the Company recorded a tax provision of $266 million and $232 million, respectively, which represented an effective tax rate of 28.9% for both periods. The 2021 rate differs from the U.S. federal income tax rate of 21% due to state and foreign tax expenses and increases in valuation allowances. The 2021 effective tax rate has increased from the prior year for the three months ended September 30, 2021 primarily due to increases in permanent differences and increases in valuation allowances.

The Company participates in a consolidated federal return filing with Qurate Retail. As of September 30, 2021, the Company's tax years through 2016 are closed for federal income tax purposes, and the Internal Revenue Service ("IRS") has completed its examination of the Company's 2017, 2018 and 2019 tax years. The Company's 2020 and 2021 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 September 30, 2021, the Company was under examination in Pennsylvania, New York City, the U.K. and Japan.

The Company is a 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.

The amounts of the tax-related (receivable) payable (from) due to Qurate Retail as of September 30, 2021 and December 31, 2020 were $(9) million and $47 million, respectively, and were included in accrued liabilities in the accompanying condensed consolidated balance sheets.

(9) Commitments and Contingencies

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

Network and information systems, including the Internet and telecommunication systems, third party delivery services and other technologies are critical to 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.

(10) Financial Instruments and Fair Value Measurements

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

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

	Fair value measurements at September 30, 2021 using			
(in millions)	**Total**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
Current assets:				
Cash equivalents	$ 150	150	—	—
Financial instrument asset (note 5)	92	—	92	—
Current liabilities:				
Debt (note 5)	549	—	549	—
Interest rate swap arrangements (note 5)	2	—	2	—
Long-term liabilities:				
Debt (note 5)	4,699	749	3,950	—

		Fair value measurements at December 31, 2020 using		
(in millions)	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Current assets:				
Cash equivalents	$ 240	240	—	—
Financial instrument asset (note 5)	23		23	—
Current liabilities:				
Debt (note 5)	393	—	393	—
Long-term liabilities:				
Debt (note 5)	4,705	743	3,962	—
Interest rate swap arrangements (note 5)	3	—	3	—

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 and derivative 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.

(11) Information about QVC's Operating Segments

The Company evaluates performance and makes decisions about allocating resources to its operating segments based on financial measures such as net revenue, Adjusted OIBDA (defined below), gross margin, average sales price per unit, number of units shipped and revenue. 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 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 impairment loss (if any) 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's chief operating decision maker ("CODM") is QVC's Chief Executive Officer. QVC's CODM has ultimate responsibility for enterprise decisions. QVC's CODM determines, in particular, resource allocation for, and monitors performance of, the consolidated enterprise. 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.

For the three and nine months ended September 30, 2021 and 2020, QVC 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.

Performance measures

	Three months ended September 30,				Nine months ended September 30,			
	2021		2020		2021		2020	
(in millions)	Net revenue	Adjusted OIBDA	Net revenue	Adjusted OIBDA	Net revenue	Adjusted OIBDA	Net revenue	Adjusted OIBDA
QxH	$ 1,813	325	1,980	380	5,738	1,065	5,782	1,061
QVC-International	699	115	723	132	2,264	402	2,071	348
Consolidated QVC	$ 2,512	440	2,703	512	8,002	1,467	7,853	1,409

Other information

	Three months ended September 30,				Nine months ended September 30,			
	2021		2020		2021		2020	
(in millions)	Depreciation	Amortization	Depreciation	Amortization	Depreciation	Amortization	Depreciation	Amortization
QxH	$ 24	70	31	66	74	190	89	204
QVC-International	13	4	14	3	41	10	42	9
Consolidated QVC	$ 37	74	45	69	115	200	131	213

	September 30, 2021		
(in millions)	Total assets	Capital expenditures	Property and equipment, net
QxH	$ 14,073	124	720
QVC-International	2,267	21	366
Consolidated QVC	$ 16,340	145	1,086

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

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

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	**2021**	**2020**	**2021**	**2020**
Adjusted OIBDA	$ 440	512	1,467	1,409
Stock-based compensation	(13)	(10)	(33)	(26)
Depreciation and amortization	(111)	(114)	(315)	(344)
Operating income	316	388	1,119	1,039
Equity in (losses) earnings of investee	(2)	1	(2)	(1)
(Losses) gains on financial instruments	(5)	1	(8)	(3)
Interest expense, net	(64)	(65)	(192)	(194)
Foreign currency gain (loss)	—	1	(4)	3
Loss on extinguishment of debt	—	(42)	—	(42)
Other income	—	—	8	—
Income before income taxes	$ 245	284	921	802

(12) Other Comprehensive Income

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

(in millions)		Comprehensive earnings attributable to debt credit risk adjustments	Foreign currency translation adjustments	AOCL
Balance at January 1, 2021	$	16	(33)	(17)
Other comprehensive income attributable to QVC, Inc. stockholder		(19)	(82)	(101)
Balance at September 30, 2021		(3)	(115)	(118)
Balance at January 1, 2020	$	—	(144)	(144)
Other comprehensive loss attributable to QVC, Inc. stockholder		—	41	41
Balance at September 30, 2020		—	(103)	(103)

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

(in millions)		Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Three months ended September 30, 2021				
Foreign currency translation adjustments	$	(27)	(1)	(28)
Debt credit risk adjustment		(7)	—	(7)
Other comprehensive income		(34)	(1)	(35)
Three months ended September 30, 2020				
Foreign currency translation adjustments	$	50	(1)	49
Other comprehensive income		50	(1)	49
Nine months ended September 30, 2021				
Foreign currency translation adjustments	$	(89)	(3)	(92)
Debt credit risk adjustment		(19)	—	(19)
Other comprehensive income		(108)	(3)	(111)
Nine months ended September 30, 2020				
Foreign currency translation adjustments	$	48	(3)	45
Other comprehensive loss		48	(3)	45

(13) Subsequent Events

Senior Secured Credit Facility

On October 27, 2021, QVC amended and restated the Fourth Amended and Restated Credit Agreement (as amended and restated, the "Fifth Amended and Restated Credit Agreement") and refinanced QVC's existing bank credit facility by entering into a fifth amended and restated agreement with QVC, Zulily, CBI, and QVC Global Corporate Holdings, LLC ("QVC Global"), each a direct or indirect wholly owned subsidiary of Qurate Retail, as borrowers (QVC, Zulily, CBI and QVC Global, collectively, the "New Borrowers"), JPMorgan Chase Bank, N.A., as administrative agent, and the other parties named therein.

The Fifth Amended and Restated Credit Agreement is a multi-currency facility providing for a $3.25 billion revolving credit facility (the "New Credit Facility"), with a $450 million sub-limit for letters of credit and an alternative currency revolving sub-limit equal to 50% of the revolving commitments thereunder. As of October 27, 2021, $220 million was drawn under the New Credit Facility ($120 million drawn by Zulily and $100 million drawn by QVC Global) and $3.01 billion remained available for borrowing under the terms of the Fifth Amended and Restated Credit Agreement.

The New Credit Facility may be borrowed by any New Borrower, with each New Borrower jointly and severally liable for the outstanding borrowings. Borrowings under the Fifth Amended and Restated Credit Agreement bear interest at either the alternate base rate (such rate, the "ABR Rate") or a LIBOR-based rate (or the applicable non-U.S. Dollar equivalent rate) (such rate, the "Term Benchmark/RFR Rate") at the applicable New Borrower's election in each case plus a margin. Borrowings that are ABR Rate loans will bear interest at a per annum rate equal to the base rate plus a margin that varies between 0.25% and 0.625% depending on the New Borrowers' combined ratio of consolidated total debt to consolidated EBITDA (the "consolidated leverage ratio"). Borrowings that are Term Benchmark/RFR Rate loans will bear interest at a per annum rate equal to the applicable rate plus a margin that varies between 1.25% and 1.625% depending on the New Borrowers' 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, CBI, QVC Global or any other borrower under the New Credit Facility (other than QVC) is removed, at the election of QVC, as a borrower thereunder, all of its loans must be repaid and its letters of credit are terminated or cash collateralized. Any amounts prepaid on the New Credit Facility may be reborrowed.

The loans under the New Credit Facility are scheduled to mature on October 27, 2026. Payment of the loans may be accelerated following certain customary events of default.

The payment and performance of the New Borrowers' obligations under the Fifth Amended and Restated Credit Agreement are guaranteed by each of QVC's, QVC Global's, Zulily's and CBI's Material Domestic Subsidiaries (as defined in the Fifth Amended and Restated Credit Agreement), if any, and certain other subsidiaries of any New Borrower that such New Borrower has chosen to provide guarantees. Further, the borrowings under the Fifth Amended and Restated Credit Agreement are secured, pari passu with QVC's existing notes, by a pledge of all of QVC's equity interests. The borrowings under the Fifth Amended and Restated Credit Agreement are also secured by a pledge of all of Zulily's and CBI's equity interests.

The Fifth Amended and Restated Credit Agreement contains certain affirmative and negative covenants, including certain restrictions on the New Borrowers 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 New Borrowers' consolidated leverage ratio.

Borrowings under the Fifth Amended and Restated Credit Agreement may be used to repay outstanding indebtedness, pay certain fees and expenses, finance working capital needs and general purposes of the New Borrowers and their respective subsidiaries and make certain restricted payments and loans to the New Borrowers' respective parents and affiliates.

Exchangeable Senior Debentures

In December 2020, as part of the internal realignment of the Company's global finance structure referred to above, QVC Global, a subsidiary of QVC, became the primary co-obligor of the MSI Exchangeables, exchangeable for common stock of Motorola Solutions, Inc. ("MSI common stock"), and acquired all of the rights and liabilities associated with certain related hedges. On October 27, 2021, a notice was issued to all holders to redeem any and all outstanding MSI Exchangeables on December 13, 2021 that were not previously properly surrendered for exchange. QVC anticipates that the redemption or exchange of all outstanding MSI Exchangeables and unwinding of related hedges will result in taxable income to QVC. After giving effect to deductions and credits for tax purposes, QVC expects the associated income tax liability to be approximately $105 million, assuming the MSI Exchangeables are retired and the related hedges are unwound at the trading price of the MSI Exchangeables and the closing price per share of the MSI common stock, respectively, as of October 27, 2021. Pursuant to the terms of the Tax Agreement with Qurate Retail, QVC must pay Qurate Retail an amount equal to the tax liability that QVC and its subsidiaries would have if they were to file as a consolidated or combined group separate and apart from Qurate Retail, with exceptions for the treatment and timing of certain tax items. The amount QVC is required to pay Qurate Retail in respect of the 2021 tax year under this agreement will be increased by the income tax liability incurred by QVC in connection with the retirement of the MSI Exchangeables and unwinding of related hedges.

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

Certain statements in this Quarterly Report on Form 10-Q constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements regarding our business, product and marketing strategies; the novel coronavirus ("COVID-19"); the redemption or exchange of the MSI Exchangeables (as defined below), including the related tax liability; capital expenditures; revenue growth; 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. 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:

- the impact of the COVID-19 pandemic and local, state and federal governmental responses to COVID-19 on the economy, our customers, our vendors and our businesses generally;
- customer demand for our products and services and our ability to attract new customers and retain existing customers by anticipating customer demand and adapting 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 effectively manage our installment sales plans and revolving credit card programs;
- the cost and ability of shipping companies, manufacturers, suppliers, digital marketing channels and vendors to deliver products, equipment, software and services;
- the outcome of any pending or threatened litigation;
- availability of qualified personnel;
- the impact of the seasonality of our business;
- changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the Federal Communications Commission, and adverse outcomes from regulatory proceedings;
- changes in the nature of key strategic relationships with partners, distributors, suppliers and vendors;
- domestic and international economic and business conditions and industry trends;
- changes in tariffs, trade policy and trade relations and the United Kingdom's ("U.K.") exit from the European Union (“Brexit”);
- changes in trade policy and trade relations with China;
- consumer spending levels, including the availability and amount of individual consumer debt;
- the effects of our debt obligations;
- advertising spending levels;
- system interruption and the lack of integration and redundancy in the system and infrastructures of our business;

- changes in distribution and viewing of television programming, including the expanded deployment of video on demand technologies and Internet Protocol television and their impact on home shopping programming;
- 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;
- natural disasters, public health crises (including COVID-19), political crises, and other catastrophic events or other events outside of our control; and
- Qurate Retail, Inc.'s ("Qurate Retail") dependence on our cash flow for servicing its debt and for other purposes.

For additional risk factors, please see Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2020 (the "2020 10-K"). These forward-looking statements and such risks, uncertainties and other factors speak only as of the date of this Quarterly Report on Form 10-Q, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any forward-looking statement contained herein, to reflect any change in our expectations with regard thereto, or any other change in events, conditions or circumstances on which any such statement is based.

The following discussion and analysis provides information concerning our results of operations and financial condition. This discussion should be read in conjunction with our accompanying condensed consolidated financial statements and the notes thereto and the 2020 10-K.

Overview

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

In the United States ("U.S."), our televised shopping programs, including live and recorded content, are distributed across multiple channels nationally on a full-time basis, including QVC, QVC2, QVC3, HSN and HSN2. Our U.S. programming is also available on QVC.com and HSN.com, our "U.S. websites"; virtual multichannel video programming distributors (including Hulu + Live TV, AT&T TV, and YouTube TV); applications via streaming video; Facebook Live, Roku, Apple TV, Amazon Fire and Xfinity Flex; mobile applications; social pages and over-the-air broadcasters.

QVC's digital platforms enable consumers to purchase goods offered on our televised programming, along with a wide assortment of products that are available only on U.S. websites. QVC.com, HSN.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 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 U.K., the Republic of Ireland and Italy. In some of the countries where QVC operates, QVC's televised shopping programs are distributed 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. Our international business employs product sourcing teams who select products tailored to the interests of each local market.

The Company's Japanese operations ("QVC-Japan") are conducted through a joint venture with Mitsui & Co., LTD ("Mitsui"). 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 $46 million during each of the nine months ended September 30, 2021 and 2020.

The Company is an indirect wholly-owned subsidiary of Qurate Retail (Nasdaq: QRTEA, QRTEB and QRTEP), 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, formerly QVC Group, a portfolio of brands including QVC, Zulily and Cornerstone Brands, Inc. ("CBI").

QVC has two reportable segments: QxH and QVC-International. These segments reflect the way the Company evaluates its business performance and manages its operations.

On December 31, 2018, QVC entered into the Fourth Amended and Restated Credit Agreement that provided for a $2.95 billion revolving credit facility as explained further in note 5 of the accompanying notes to the condensed consolidated financial statements. The Fourth Amended and Restated Credit Agreement included a $400 million tranche that could be borrowed by QVC or Zulily. Under the terms of the Fourth Amended and Restated Credit Agreement, QVC and Zulily were 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 would record a liability for amounts it had borrowed under the credit facility plus any additional amount it expected to repay on behalf of Zulily. As of September 30, 2021, there was $120 million borrowed by Zulily on the $400 million tranche of the Fourth Amended and Restated Credit Agreement, none of which the Company expected to repay on behalf of Zulily. On October 27, 2021, QVC entered into the Fifth Amended and Restated Credit Agreement (as defined and explained further below under Part I, Item 2 “Management's Discussion and Analysis of Financial Condition and Results of Operations -- "Financial Position, Liquidity and Capital Resources -- Senior Secured Credit Facility").

During each of the nine months ended September 30, 2021 and 2020, QVC and Zulily engaged in multiple transactions relating to sales, sourcing of merchandise, marketing initiatives and business advisory services. QVC allocated expenses of $6 million to Zulily for each of the nine months ended September 30, 2021 and 2020. Zulily allocated expenses of $6 million and $8 million to QVC for the nine months ended September 30, 2021 and 2020, respectively.

In September 2020, QVC and Zulily executed a Master Promissory Note ("Promissory Note") whereby Zulily may borrow up to $100 million at a variable interest rate equal to the London Interbank Offered Rate ("LIBOR") rate plus an applicable margin rate. The Promissory Note matures in September 2030. There were no borrowings on the Promissory Note as of September 30, 2021 and December 31, 2020.

During each of the nine months ended September 30, 2021 and 2020, QVC and CBI engaged in multiple transactions relating to personnel and business advisory services. QVC allocated expenses of $16 million and $18 million to CBI for the nine months ended September 30, 2021 and 2020, respectively. CBI allocated expenses of $1 million to QVC for each of the nine months ended September 30, 2021 and 2020.

On July 12, 2021, the compensation committee of the board of directors of Qurate Retail approved Qurate Retail’s entry into an employment agreement with David Rawlinson II, effective July 12, 2021. Effective August 1, 2021, Mr. Rawlinson began to serve as President and Chief Executive Officer-Elect of Qurate Retail, with Mr. George continuing as Chief Executive Officer, and effective October 1, 2021, Mr. Rawlinson began to serve as President and Chief Executive Officer of Qurate Retail, with Mr. George assuming the role of Senior Advisor. Mr. Rawlinson concurrently assumed the same positions with QVC. Mr. George will resign from the board of directors effective January 1, 2022, at which time Mr. Rawlinson is expected to join Qurate Retail's board of directors. With respect to his roles at Qurate Retail and QVC, Mr. George stepped down as President effective August 1, 2021 and Chief Executive Officer effective October 1, 2021.

In December 2020, QVC Global Corporate Holdings, LLC (“QVC Global”), a subsidiary of QVC, became the primary co-obligor of the 3.5% Exchangeable Senior Debentures due 2031 (the “MSI Exchangeables”) exchangeable for common stock of Motorola Solutions, Inc. (“MSI common stock”) and acquired all of the rights and liabilities associated with certain related hedges. On October 27, 2021, a notice was issued to all holders to redeem any and all outstanding MSI Exchangeables on

December 13, 2021 that were not previously properly surrendered for exchange. The redemption in full of the MSI Exchangeables is expected to be funded with borrowings under our senior secured credit facility, amounts received upon termination of certain related derivative transactions and cash on hand. Any exchanges of the MSI Exchangeables will be settled using shares of MSI common stock acquired in a forward purchase transaction and cash in lieu of a fractional share. QVC anticipates that the redemption or exchange of all outstanding MSI Exchangeables and unwinding of related hedges will result in taxable income to QVC. After giving effect to deductions and credits for tax purposes, QVC expects the associated income tax liability to be approximately $105 million, assuming the MSI Exchangeables are retired and the related hedges are unwound at the trading price of the MSI Exchangeables and the closing price per share of the MSI common stock, respectively, as of October 27, 2021. Pursuant to the terms of a Tax Liability Allocation and Indemnification agreement with Qurate Retail, QVC must pay Qurate Retail an amount equal to the tax liability that QVC and its subsidiaries would have if they were to file as a consolidated or combined group separate and apart from Qurate Retail, with exceptions for the treatment and timing of certain tax items. The amount QVC is required to pay Qurate Retail in respect of the 2021 tax year under this agreement will be increased by the income tax liability incurred by QVC in connection with the retirement of the MSI Exchangeables and unwinding of related hedges.

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 televised 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 video-on-demand technologies and Internet video services; (iv) QVC's ability to source new and compelling products; and (v) general economic conditions.

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 that ran until December 31, 2020. On January 1, 2021, the U.K. left the E.U. Customs Union and Single Market, as well as all E.U. policies and international agreements. On December 24, 2020, the European Commission reached a trade agreement with the U.K. on the terms of its future cooperation with the E.U. (the “Trade Agreement”). The Trade Agreement offers U.K. and E.U. companies preferential access to each other’s markets, ensuring imported goods that satisfy applicable point of origin rules (that is, that U.K. or E.U. goods are wholly produced or significantly worked in the U.K. or E.U., as applicable) will be free of tariffs and quotas; however, economic relations between the U.K. and the E.U. will now be on more restrictive terms than existed previously. For example, packages sent to and from the U.K., will need to satisfy new customs requirements and obtain applicable transit documents which may result in delays exporting items to customers outside of the U.K. and delays importing products into the U.K. that are shipped to us by our vendors. The Trade Agreement did not have a material impact to our business; however, we cannot predict the impact that any future agreements on economic relations between the U.K. and the E.U. will have on our businesses and our customers, and it is possible that new terms may adversely affect our operations and financial results.

Early decisions by the Biden Administration confirm continuity of a bipartisan consensus in the U.S. government favoring increased confrontation of China in trade practices and economic matters, national security and human rights. The imposition of any new U.S. tariffs on Chinese imports or the taking of other actions against China in the future, and any responses by China, could impair our ability to meet customer demand and could result in lost sales or an increase in our cost of merchandise, which would have a material adverse impact on our business and results of operations.

In December 2019, the COVID-19 pandemic was reported to have surfaced in Wuhan, China and has subsequently spread across the globe, including all of the countries in which QVC operates. As a result of the spread of the virus, certain local governmental agencies have imposed travel restrictions and imposed local quarantines or stay at home restrictions to contain the spread, which has caused a significant disruption to most sectors of the economy. In response to these stay at home restrictions, QVC has mandated that non-essential employees work from home and has reduced the number of employees who are allowed on its production set and has implemented increased cleaning protocols, social distancing measures and temperature screenings for those employees who enter into certain facilities. In some cases, the move to a work from home arrangement for our non-essential employees will be permanent, which has resulted in the reduction of office space. We have also mandated that all essential employees who do not feel comfortable coming to work will not be required to do so. As a result of these resource constraints, QVC included fewer hours of live programming on some of its secondary channels and has experienced some delays in shipping at certain fulfillment centers. In certain markets, QVC temporarily increased the wages and salaries for those employees deemed essential who do not have the ability to work from home, including production and fulfillment center employees. The inability to control the spread of COVID-19, or the expansion or extension of these stay at home restrictions could negatively impact our results in the future.

The stay at home restrictions imposed in response to COVID-19 required many traditional brick and mortar retailers to temporarily close their stores, but allowed distance retailers, including QVC, to continue operating. As a result, beginning at the end of the first quarter of 2020 and continuing through the first quarter of 2021, we observed an increase in new customers and an increase in demand for certain categories, such as home. Beginning in the second quarter of 2021, we observed a decline in new customers and a decline in demand for our home product category, while also seeing an increase in demand for our apparel product category.

As a result of COVID-19, for the three and nine months ended September 30, 2020, management had increased the amounts of certain estimated reserves including, but not limited to, uncollectible receivables in anticipation of higher defaults by customers billed through our installment payment option, inventory obsolescence due to decreased demand for certain categories, such as apparel, and sales returns due to our extended return policy. There were no remaining estimated reserves as of December 31, 2020 and September 30, 2021 as a direct result of COVID-19.

In addition, there are several potential adverse impacts of COVID-19 that could cause a material negative impact to the Company's financial results, including its capital and liquidity. These include governmental restrictions on QVC's ability to continue to operate under stay at home restrictions and produce content; reduced demand for products we sell; decreases in the disposable income of existing and potential new customers; the impacts of any recession and other uncertainties with respect to the continuity of government stimulus programs implemented in response to COVID-19; increased currency volatility resulting in adverse currency rate fluctuations; higher unemployment; labor shortages; and an adverse impact to our supply chain and shipping disruptions for both the products we import and purchase domestically and the products we sell, including essential products experiencing higher demand, due to factory closures, labor shortages and other resource constraints. While the impact is currently uncertain, the inability to control the spread of COVID-19 could cause any one of these adverse impacts, or combination of adverse impacts, to have a material impact on our financial results.

Beginning in the second quarter of 2021, the Company saw increased product shortages as a result of high market demand in some product categories such as home and electronics. We also experienced escalating shipping disruptions due to challenges in the global supply chain and labor market. These factors impacted our ability to offer certain goods and ship orders timely to our customers. In addition, the Company began to see increased inflationary pressures during the period. If these pressures persist, it may result in certain increased costs outpacing our pricing power in the near term.

Results of Operations

QVC's operating results were as follows:

(in millions)		Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
Net revenue	$	2,512	2,703	8,002	7,853
Operating costs and expenses:					
Cost of goods sold (exclusive of depreciation and amortization shown separately below)		1,617	1,722	5,130	5,041
Operating		183	184	565	548
Selling, general and administrative, excluding stock-based compensation		272	285	840	855
Adjusted OIBDA (defined below)		440	512	1,467	1,409
Stock-based compensation		13	10	33	26
Depreciation		37	45	115	131
Amortization		74	69	200	213
Operating income		316	388	1,119	1,039
Other (expense) income:					
Equity in (losses) earnings of investee		(2)	1	(2)	(1)
(Losses) gains on financial instruments		(5)	1	(8)	(3)
Interest expense, net		(64)	(65)	(192)	(194)
Foreign currency gain (loss)		—	1	(4)	3
Loss on extinguishment of debt		—	(42)	—	(42)
Other income		—	—	8	—
		(71)	(104)	(198)	(237)
Income before income taxes		245	284	921	802
Income tax expense		(85)	(80)	(266)	(232)
Net income		160	204	655	570
Less net income attributable to the noncontrolling interest		(15)	(15)	(48)	(41)
Net income attributable to QVC, Inc. stockholder	$	145	189	607	529

Net revenue

Net revenue by segment was as follows:

(in millions)		Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
QxH	$	1,813	1,980	5,738	5,782
QVC-International		699	723	2,264	2,071
Consolidated QVC	$	2,512	2,703	8,002	7,853

QVC's consolidated net revenue decreased 7.1% and increased 1.9% for the three and nine months ended September 30, 2021, respectively, as compared to the corresponding periods in the prior year. The three month decrease in net revenue is primarily due to an 8.2% decrease in units shipped and a $29 million decrease in shipping and handling revenue, which was partially offset by a 1.5% increase in average selling price per unit ("ASP"), primarily driven by QxH and QVC-Japan, and a $34 million decrease in estimated product returns primarily driven by QxH. The nine month increase in net revenue is primarily due to a 0.8% increase in units shipped, a $74 million decrease in estimated product returns primarily driven by QxH and $92 million in favorable foreign exchange rates, which was partially offset by a 1% decline in ASP, primarily driven by QxH, and a $15 million decrease in shipping and handling revenue.

During the three and nine months ended September 30, 2021 and 2020, the changes in revenue and expenses were affected by changes in the exchange rates for the U.K. Pound Sterling, the Euro and the Japanese Yen. 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 each of QVC's segments in U.S. Dollars and in constant currency was as follows:

	Three months ended September 30, 2021			Nine months ended September 30, 2021		
	U.S. Dollars	**Foreign Currency Exchange Impact**	**Constant Currency**	**U.S. Dollars**	**Foreign Currency Exchange Impact**	**Constant Currency**
QxH	(8.4)%	— %	(8.4) %	(0.8)%	— %	(0.8) %
QVC-International	(3.3)%	0.4 %	(3.7) %	9.3 %	4.4 %	4.9 %

QxH net revenue decline for the three months ended September 30, 2021 was primarily due to a 9.4% decrease in units shipped and a $25 million decrease in shipping and handling revenue, which was partially offset by a 1.3% increase in ASP and a $29 million decrease in estimated product returns. For the three months ended September 30, 2021, QxH experienced shipped sales declines in home, electronics, beauty and accessories with growth in all other categories. For the nine months ended September 30, 2021, QxH net revenue decreased due to a 2.5% decline in ASP and a $14 million decrease in shipping and handling revenue partially offset by a $68 million decrease in estimated product returns and a 0.7% increase in units shipped. For the nine months ended September 30, 2021, QxH experienced shipped sales growth in apparel and accessories with declines in all other categories. The decrease in estimated product returns for the three months ended September 30, 2021 was primarily due to a decrease in sales volume. The decrease in estimated product returns for the nine months ended September 30, 2021 was primarily driven by lower return rates across all categories.

QVC-International net revenue decline in constant currency for the three months ended September 30, 2021 was primarily due to a 5.3% decrease in units shipped driven by decreases in units shipped across all markets, partially offset by a 2.1% increase in ASP, driven by ASP increases in Japan and the U.K. For the three months ended September 30, 2021, QVC-International experienced shipped sales decline in constant currency across all categories except apparel. QVC-International net revenue growth in constant currency for the nine months ended September 30, 2021 was primarily due to a 3.0% increase in ASP, driven by ASP increases across all markets except Germany, and a 0.9% increase in units shipped, driven by increases in units shipped in Germany and Japan. For the nine months ended September 30, 2021, QVC-International experienced shipped sales growth in constant currency across all product categories.

Cost of goods sold (excluding depreciation and amortization)

QVC's cost of goods sold as a percentage of net revenue was 64.4% and 64.1% for the three and nine months ended September 30, 2021, respectively, compared to 63.7% and 64.2% for the three and nine months ended September 30, 2020, respectively. The increase in cost of goods sold as a percentage of revenue for the three months ended September 30, 2021 is primarily due to increased warehouse expenses driven by higher wages at QxH, increased freight costs and lower shipping and handling revenue at QxH. These increases were partially offset by decreased obsolescence as a result of less aged inventory at QxH. The decrease in cost of goods sold as a percentage of revenue for the nine months ended September 30, 2021 is primarily due to decreased obsolescence as a result of less aged inventory at QxH, and favorable estimated product returns at QxH. These decreases were partially offset by increased freight charges and warehouse expenses at QxH and lower shipping and handling revenue at QxH. Product margin for the three and nine months ended September 30, 2021 was flat due to margin favorability primarily in Japan offset by margin pressure at QxH.

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 $1 million for the three months ended September 30, 2021 and increased $17 million for the nine months ended September 30, 2021, respectively, as compared to the three and nine months ended September 30, 2020. The nine month increase is primarily due to a $9 million increase in customer service expenses primarily at QxH and a $5 million increase due to unfavorable exchange rates. As a percentage of net revenue, such expenses were 7.3% and 7.1% for the three and nine months ended September 30, 2021, respectively, and were 6.8% and 7.0% for the three and nine months ended September 30, 2020, respectively.

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

QVC's selling, general, and administrative expenses (excluding stock-based compensation) include personnel, information technology, provision for doubtful accounts, production costs, and marketing and advertising expenses. Such expenses decreased $13 million and $15 million for the three and nine months ended September 30, 2021, as compared to the three and nine months ended September 30, 2020, respectively. As a percentage of net revenue, such expenses were 10.8% and 10.5% for the three and nine months ended September 30, 2021, respectively, and were 10.5% and 10.9% for the three and nine months ended September 30, 2020, respectively.

For the three months ended September 30, 2021, there was a $29 million decrease in personnel costs, primarily at QxH. This decrease was partially offset by an $11 million increase in online marketing, primarily at QxH, and a $3 million increase in credit losses due to favorable adjustments in the prior year based on actual collections and the release of the credit loss reserve that was recorded as a result of the additional risk due to COVID-19. For the nine months ended September 30, 2021, the decrease was primarily due to a $43 million decrease in credit losses and a $34 million decrease in personnel costs both primarily at QxH. These decreases were partially offset by a $48 million increase in online marketing primarily at QxH and a $13 million increase due to unfavorable exchange rates. The decrease to estimated credit losses for the nine months ended September 30, 2021 was due to favorable adjustments based on actual collections and enhanced risk screening. The decrease related to personnel costs for the three and nine months ended September 30, 2021 was primarily due to a decrease in incentive pay for 2021 in addition to severance and a work from home allowance as a result of COVID-19, which were both recorded in the second quarter of 2020.

Stock-based compensation

Stock-based compensation includes compensation related to options and restricted stock units granted to certain officers and employees. QVC recorded $13 million and $33 million of stock-based compensation expense for the three and nine months ended September 30, 2021, respectively, and recorded $10 million and $26 million of stock-based compensation expense for the three and nine months ended September 30, 2020, respectively. The increase in stock compensation expense for the nine months ended September 30, 2021 is primarily related to certain officers not reaching performance targets for restricted stock units for the nine months ended September 30, 2020.

Depreciation and amortization

Depreciation and amortization consisted of the following:

(in millions)		Three months ended September 30, 2021	2020	Nine months ended September 30, 2021	2020
Affiliate agreements	$	—	1	—	2
Customer relationships		12	13	35	38
Other technology		3	3	11	10
Acquisition related amortization		15	17	46	50
Property and equipment		37	45	115	131
Software amortization		27	20	74	63
Channel placement amortization and related expenses		32	32	80	100
Total depreciation and amortization	$	111	114	315	344

The decrease in property and equipment depreciation for the three and nine months ended September 30, 2021 is due to the sale of fixed assets. The increase in software amortization for the three and nine months ended September, 30 2021 is due to software additions. The decrease in channel placement amortization and related expenses for the nine months ended September 30, 2021 was due to certain channel placement agreements becoming fully amortized.

Equity in (losses) earnings of investee

Prior to September 2021, the Company had a joint venture with CNR Media Group, a limited liability company owned by China National Radio ("CNR"). The Company owned a 49% interest in a CNR subsidiary, CNR Home Shopping Co., Ltd. ("CNRS") that was accounted for as an equity method investment. During the three months ended September 30, 2021, QVC sold its interest in CNRS which resulted in an immaterial loss for the three and nine months ended September 30, 2021 recorded in equity in (losses) earnings of investee in the accompanying condensed consolidated statements of operations.

Interest expense, net

For the three and nine months ended September 30, 2021, consolidated interest expense, net decreased $1 million and $2 million, respectively, as compared to the corresponding periods in the prior year.

Foreign currency gain (loss)

Certain loans between QVC and its subsidiaries are deemed to be short-term in nature, and accordingly, the translation of these loans is recorded in the condensed consolidated statements of operations. For the three and nine months ended September 30, 2021, the change in foreign currency gain (loss) was also due to variances in interest and operating payables balances between QVC and its international subsidiaries denominated in the currency of the subsidiary and the effects of currency exchange rate changes on those balances.

Income taxes

Our effective tax rate was 34.7% and 28.9% for the three and nine months ended September 30, 2021, respectively, compared to an effective tax rate of 28.2% and 28.9% for the three and nine months ended September 30, 2020, respectively. The 2021 rate differs from the U.S. federal income tax rate of 21% due to state and foreign tax expenses and increases in valuation allowances. The 2021 effective tax rate has increased from the prior year for the three months ended September 30, 2021 primarily due to increases in permanent differences and increases in valuation allowances.

Adjusted Operating Income before Depreciation and Amortization (Adjusted OIBDA)

To provide investors with additional information regarding our financial statements, we disclose Adjusted OIBDA (defined below), which is a non-GAAP measure. QVC defines Adjusted OIBDA as operating income plus depreciation and amortization and stock-based compensation. QVC's chief operating decision maker and management team use this measure of performance in conjunction with other measures to evaluate the businesses and make decisions about allocating resources among the businesses. QVC believes that this is an important indicator of the operational strength and performance of the 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.

		Three months ended September 30,		Nine months ended September 30,	
(in millions)		**2021**	**2020**	**2021**	**2020**
Operating income	$	316	388	1,119	1,039
Depreciation and amortization		111	114	315	344
Stock-based compensation		13	10	33	26
Adjusted OIBDA	$	440	512	1,467	1,409

QVC Adjusted OIBDA decreased by $72 million for the three months ended September 30, 2021 compared to the three months ended September 30, 2020. The decrease is comprised of a $17 million decrease in QVC-International and a $55 million decrease in QxH.

QVC Adjusted OIBDA increased by $58 million for the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020. The increase is comprised of a $54 million increase in QVC-International and a $4 million increase in QxH.

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 21% and 24% 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 September 30, 2021, 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.

Exchangeable Senior Debentures

The Company has elected to account for the MSI Exchangeables using the fair value option. Accordingly, changes in the fair value of these instruments are recognized as (losses) gains on financial instruments in the accompanying statements of operations and in other comprehensive income as it relates to instrument specific credit risk on the accompanying consolidated statements of comprehensive income. The Company has classified for financial reporting purposes the MSI Exchangeables as a current liability as the MSI Exchangeables are exchangeable at the option of the holder at any time. Prior to September 30, 2021, the Company had entered into certain derivative transactions in order to hedge against upward price fluctuations on certain shares. Such derivative instruments have been recognized in the other current assets line item in the condensed consolidated balance sheets, and are marked to fair value each reporting period. The changes in fair value are recognized in (losses) gains on financial instruments in the condensed statement of operations. On October 27, 2021, a notice was issued to all holders to redeem any and all outstanding MSI Exchangeables on December 13, 2021 that were not previously properly surrendered for exchange. Please see Part I, Item 2 “Management's Discussion and Analysis of Financial Condition and Results of Operations--Overview.” The Company terminated such derivative transactions in October 2021 and entered into a forward purchase transaction to acquire shares that will be used to settle any exchanges of the MSI Exchangeables.

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 and the 6.25% Senior Secured Notes due 2068, for which interest is payable quarterly, the interest on QVC's senior secured notes is payable semi-annually.

Senior Secured Credit Facility

On October 27, 2021, QVC amended and restated the Fourth Amended and Restated Credit Agreement (as amended and restated, the “Fifth Amended and Restated Credit Agreement”) and refinanced QVC’s existing bank credit facility by entering into a fifth amended and restated agreement with QVC, Zulily, CBI, and QVC Global, each a direct or indirect wholly owned subsidiary of Qurate Retail, as borrowers (QVC, Zulily, CBI and QVC Global, collectively, the “New Borrowers”), JPMorgan Chase Bank, N.A., as administrative agent, and the other parties named therein.

The Fifth Amended and Restated Credit Agreement is a multi-currency facility providing for a $3.25 billion revolving credit facility (the “New Credit Facility”), with a $450 million sub-limit for letters of credit and an alternative currency revolving sub-limit equal to 50% of the revolving commitments thereunder. As of October 27, 2021, $220 million was drawn under the New Credit Facility ($120 million drawn by Zulily and $100 million drawn by QVC Global) and $3.01 billion remained available for borrowing under the terms of the Fifth Amended and Restated Credit Agreement.

The New Credit Facility may be borrowed by any New Borrower, with each New Borrower jointly and severally liable for the outstanding borrowings. Borrowings under the Fifth Amended and Restated Credit Agreement bear interest at either the alternate base rate (such rate, the “ABR Rate”) or a LIBOR-based rate (or the applicable non-U.S. Dollar equivalent rate) (such rate, the “Term Benchmark/RFR Rate”) at the applicable New Borrower’s election in each case plus a margin. Borrowings that are ABR Rate loans will bear interest at a per annum rate equal to the base rate plus a margin that varies between 0.25% and 0.625% depending on the New Borrowers’ combined ratio of consolidated total debt to consolidated EBITDA (the “consolidated leverage ratio”). Borrowings that are Term Benchmark/RFR Rate loans will bear interest at a per annum rate equal to the applicable rate plus a margin that varies between 1.25% and 1.625% depending on the New Borrowers’ 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, CBI, QVC Global or any other borrower under the New Credit Facility (other than QVC) is removed, at the election of QVC, as a borrower thereunder, all of its loans must be repaid and its letters of credit are terminated or cash collateralized. Any amounts prepaid on the New Credit Facility may be reborrowed.

The loans under the New Credit Facility are scheduled to mature on October 27, 2026. Payment of the loans may be accelerated following certain customary events of default.

The payment and performance of the New Borrowers’ obligations under the Fifth Amended and Restated Credit Agreement are guaranteed by each of QVC’s, QVC Global’s, Zulily’s and CBI’s Material Domestic Subsidiaries (as defined in the Fifth Amended and Restated Credit Agreement), if any, and certain other subsidiaries of any New Borrower that such New

Borrower has chosen to provide guarantees. Further, the borrowings under the Fifth Amended and Restated Credit Agreement are secured, pari passu with QVC's existing notes, by a pledge of all of QVC's equity interests. The borrowings under the Fifth Amended and Restated Credit Agreement are also secured by a pledge of all of Zulily's and CBI's equity interests.

The Fifth Amended and Restated Credit Agreement contains certain affirmative and negative covenants, including certain restrictions on the New Borrowers 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 New Borrowers' consolidated leverage ratio.

Borrowings under the Fifth Amended and Restated Credit Agreement may be used to repay outstanding indebtedness, pay certain fees and expenses, finance working capital needs and general purposes of the New Borrowers and their respective subsidiaries and make certain restricted payments and loans to the New Borrowers' respective parents and affiliates.

Parent Issuer and Subsidiary Guarantor Summarized Financial Information

The following information contains the summarized financial information for the combined parent (QVC, Inc.) and subsidiary guarantors (Affiliate Relations Holdings, Inc.; Affiliate Investment, Inc.; AMI 2, Inc.; ER Marks, Inc.; QVC Global Corporate Holdings, LLC; QVC GCH Company, LLC; QVC Rocky Mount, Inc.; QVC San Antonio, LLC; QVC Global Holdings I, 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; Ingenious Designs LLC; NLG Merger Corp.; Ventana Television, Inc.; and Ventana Television Holdings, Inc.) pursuant to Rules 3-10, 13-01 and 13-02 of Regulation S-X.

This consolidated summarized financial information has been prepared from the Company's financial information on the same basis of accounting as the Company's consolidated financial statements. Transactions between the parent and subsidiary guarantors presented on a combined basis have been eliminated. 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.

Summarized financial information for the year-to-date interim period and the most recent annual period was as follows:

	Combined Parent-QVC, Inc. and Subsidiary Guarantors September 30, 2021
Current assets	$ 2,616
Intercompany receivable from non-guarantor subsidiaries	(2,963)
Note receivable - related party	1,825
Noncurrent assets	9,163
Current liabilities	1,838
Noncurrent liabilities	5,284

		Combined Parent-QVC, Inc. and Subsidiary Guarantors December 31, 2020
Current assets	$	2,394
Intercompany receivable from non-guarantor subsidiaries		(2,501)
Note receivable - related party		1,825
Noncurrent assets		11,118
Current liabilities		2,152
Noncurrent liabilities		5,286

		Combined Parent-QVC, Inc. and Subsidiary Guarantors Nine months ended September 30, 2021
Net revenue	$	6,442
Net revenue less cost of goods sold		2,907
Income before taxes		549
Net income		655
Net income attributable to QVC, Inc. Stockholder		607

		Combined Parent-QVC, Inc. and Subsidiary Guarantors Year ended December 31, 2020
Net revenue	$	9,631
Net revenue less cost of goods sold		4,066
Income before taxes		945
Net income		910
Net income attributable to QVC, Inc. Stockholder		852

Other Debt Related Information

QVC was in compliance with all of its debt covenants as of September 30, 2021.

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 the Fifth Amended and Restated Credit Agreement and (i) with respect to QVC’s senior secured notes, QVC's consolidated leverage ratio would be no greater than 3.5 to 1.0 and (ii) with respect to the Fifth Amended and Restated Credit Agreement, the consolidated leverage ratio for QVC, QVC Global, Zulily and CBI, would be no greater than 4.5 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, paying dividends to Qurate Retail's shareholders, including quarterly cash dividends to holders of Qurate Retail's Series A Cumulative Redeemable Preferred Stock (Nasdaq: QRTEP), 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 Fifth Amended and Restated Credit Agreement, increasing QVC's leverage and decreasing liquidity. QVC has made significant distributions to Qurate Retail in the past.

Interest Rate Swap Arrangements

In July 2019, the Company entered into a three-year interest 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 $2 million and $3 million as of September 30, 2021 and December 31, 2020, respectively. The swap arrangement was included in accrued liabilities and other long-term liabilities as of September 30, 2021 and December 31, 2020, respectively.

Additional Cash Flow Information

During the nine months ended September 30, 2021, QVC's primary uses of cash were $393 million of dividends to Qurate Retail, $329 million of capital and television distribution rights expenditures, $157 million of principal payments of the senior secured credit facility and finance lease obligations, $46 million in dividend payments from QVC-Japan to Mitsui and $38 million of derivative payments to counterparties. These uses of cash were funded primarily with $678 million of cash provided by operating activities, $135 million of principal borrowings from the senior secured credit facility, $88 million of derivative proceeds from counterparties and $40 million in proceeds from sale of fixed assets. As of September 30, 2021, QVC's cash, cash equivalents and restricted cash balance was $637 million.

During the nine months ended September 30, 2020, QVC's primary uses of cash were $1,230 million of principal payments of the senior secured credit facility and finance lease obligations, $845 million of dividends to Qurate Retail, $541 million of principal payment and premium of senior secured notes, $181 million of capital and television distribution rights expenditures and $46 million in dividend payments from QVC-Japan to Mitsui. These uses of cash were funded primarily with $1,680 million of cash provided by operating activities, $1,075 million of proceeds from issuance of senior secured notes and $112 million of principal borrowings from the senior secured credit facility. As of September 30, 2020, QVC's cash, cash equivalents balance and restricted cash was $582 million.

The change in cash provided by operating activities for the nine months ended September 30, 2021 compared to the previous year was primarily due to changes in working capital. 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 September 30, 2021, $279 million of the $637 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 73% of this foreign cash balance was that of QVC-Japan. QVC owns 60% of QVC-Japan and shares all profits and losses with the 40% minority interest holder, Mitsui. We believe that we currently have appropriate legal structures in place to repatriate foreign cash as tax efficiently as possible and meet the business needs of QVC.

Other

Capital expenditures in 2021 are expected to be between $210 and $240 million, including $145 million already expended for the nine months ended September 30, 2021.

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 September 30, 2021.

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

Off-balance Sheet Arrangements and Aggregate Contractual Obligations

Information concerning the amount and timing of required payments, both accrued and off-balance sheet, under our contractual obligations as of September 30, 2021 is summarized below:

							Payments due by period
(in millions)	**Remainder of 2021**	**2022**	**2023**	**2024**	**2025**	**Thereafter**	**Total**
Long-term debt (1)	$ —	8	758	609	609	2,676	4,660
Interest payments (2)	28	238	222	182	154	2,587	3,411
Finance lease obligations (including imputed interest)	6	28	27	26	24	90	201
Operating lease obligations	$ 9	35	28	25	21	167	285

(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.

(2) Amounts (i) are based on the terms of our senior secured notes and exchangeable senior debentures, (ii) assumes that our existing debt is repaid at maturity and (iii) excludes finance lease obligations.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

Interest rate risk

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

The table below summarizes the Company's debt obligations, related interest rates and fair value of debt at September 30, 2021:

(in millions, except percentages)	Remainder of 2021	2022	2023	2024	2025	Thereafter	Total	Fair Value
Fixed rate debt (1) (2)	$ —	8	758	609	609	2,676	4,660	5,248
Weighted average interest rate on fixed rate debt	— %	3.5 %	4.4 %	4.8 %	4.4 %	5.3 %	4.9 %	N/A
Variable rate debt	$ —	—	—	—	—	—	—	—
Average interest rate on variable rate debt	— %	— %	— %	— %	— %	— %	— %	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.

(2) Amounts exclude impact related to interest rate swaps, which we have discussed further below.

N/A - Not applicable.

In July 2019, the Company entered into a three-year interest swap arrangement with a notional amount of $125 million. The new 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 approximately $2 million as of September 30, 2021, which was included in accrued liabilities.

Changes in the fair value of the swaps are reflected in (losses) gains on financial instruments in the condensed 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 three and nine months ended September 30, 2021 would have been impacted by approximately $1 million and $4 million, respectively, for every 1% change in foreign currency exchange rates relative to the U.S. Dollar.

The Fifth Amended and Restated Credit Agreement provides QVC with the ability to borrow in multiple currencies. This allows QVC to somewhat mitigate foreign currency exchange rate risks. As of October 27, 2021, no borrowings in foreign currencies were outstanding.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), the Company carried out an evaluation, under the supervision and with the participation of management, including its chief executive officer and its principal accounting and financial officer (the “Executives”), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company's disclosure controls and procedures were effective as of September 30, 2021 to provide reasonable assurance that information required to be disclosed in its reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms.

Changes in Internal Control Over Financial Reporting

In May 2021, QVC completed the implementation of the initial phase of its new Enterprise Resource Planning (“ERP”) system, which has enabled standardization, modernization and best practice in QVC’s financial processes across its global markets and most brands. As a result of the implementation of phase one of a new ERP system, QVC has continued to refine certain related process-level and information technology general controls.

Except as described above, there has been no change in the Company’s internal control over financial reporting that occurred during the three months ended September 30, 2021 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II

Item 6. Exhibits

(a) *Exhibits*

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

4.1	Fifth Amended and Restated Credit Agreement, dated as of October 27, 2021, among QVC, Inc., Zulily, LLC, QVC Global Corporate Holdings, LLC and Cornerstone Brands, Inc., 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 October 28, 2021).
31.1	Rule 13a-14(a)/15d-14(a) Certification*
31.2	Rule 13a-14(a)/15d-14(a) Certification*
32.1	Section 1350 Certification**
101.INS	Inline XBRL Instance Document* - The instance document does not appear in the interactive data file because its XBRL tags are embedded within the inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document*
101.CAL	Inline XBRL Taxonomy Calculation Linkbase Document*
101.LAB	Inline XBRL Taxonomy Label Linkbase Document*
101.PRE	Inline XBRL Taxonomy Presentation Linkbase Document*
101.DEF	Inline XBRL Taxonomy Definition Document*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)*

*Filed herewith.

**Furnished herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

QVC, Inc.

Date: November 4, 2021	By:/s/ DAVID L. RAWLINSON II
	David L. Rawlinson II President and Chief Executive Officer (Principal Executive Officer)
Date: November 4, 2021	By:/s/ JEFFREY A. DAVIS
	Jeffrey A. Davis Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

Exhibit 31.1

CERTIFICATION

I, David L. Rawlinson II, certify that:

1. I have reviewed this report on Form 10-Q of QVC, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

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

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

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

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

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

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

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

Date: November 4, 2021

By:/s/ DAVID L. RAWLINSON II

David L. Rawlinson II
President and Chief Executive Officer (Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Jeffrey A. Davis, certify that:

1. I have reviewed this report on Form 10-Q of QVC, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and we have:

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

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

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

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

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

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

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

Date: November 4, 2021

By:/s/ JEFFREY A. DAVIS

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

Exhibit 32.1

Certification

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

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

The Report on Form 10-Q for the quarter ended September 30, 2021 (the "Form 10-Q") of the Company fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 4, 2021	By:/s/ DAVID L. RAWLINSON II
	David L. Rawlinson II
	President and Chief Executive Officer (Principal Executive Officer)
Date: November 4, 2021	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-Q or as a separate disclosure document.