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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2022

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

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

Securities registered pursuant to Section 12(b) of the Act:

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 x No o

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 x No o

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 o Accelerated filer o 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. o

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

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.
2022 QUARTERLY REPORT ON FORM 10-Q

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Item 1. Financial Statements

QVC, Inc.

Condensed Consolidated Balance Sheets

(unaudited)

(in millions, except share amounts)		September 30, 2022	December 31, 2021
Assets			
Current assets:			
Cash and cash equivalents	$	517	510
Restricted cash		9	9
Accounts receivable, less allowance for credit losses of $97 at September 30, 2022 and $99 at December 31, 2021		992	1,645
Inventories		1,386	1,355
Prepaid expenses and other current assets		137	180
Total current assets		3,041	3,699
Property and equipment, net of accumulated depreciation of $1,010 at September 30, 2022 and $1,371 at December 31, 2021		504	919
Operating lease right-of-use assets (note 6)		420	201
Television distribution rights, net (note 2)		95	145
Goodwill (note 3)		3,399	5,968
Other intangible assets, net (note 3)		3,188	3,407
Note receivable - related party (note 1)		1,740	1,740
Other noncurrent assets		55	62
Total assets	$	12,442	16,141
Liabilities and equity			
Current liabilities:			
Current portion of debt and finance lease obligations (note 5)	$	216	20
Accounts payable-trade		833	1,271
Accrued liabilities (note 4)		905	1,179
Total current liabilities		1,954	2,470
Long-term portion of debt and finance lease obligations (note 5)		4,168	5,023
Deferred income taxes (note 8)		580	633
Other long-term liabilities (note 4)		512	294
Total liabilities		7,214	8,420
Commitments and contingencies (note 9)			
Equity:			
QVC, Inc. stockholder's equity:			
Common stock, $0.01 par value, 1 authorized share		—	—
Additional paid-in capital		10,599	10,687
Accumulated deficit		(5,019)	(2,942)
Accumulated other comprehensive loss		(451)	(146)
Total QVC, Inc. stockholder's equity		5,129	7,599
Noncontrolling interest		99	122
Total equity		5,228	7,721
Total liabilities and equity	$	12,442	16,141

QVC, Inc.

Condensed Consolidated Statements of Operations

(unaudited)

(in millions)		**Three months ended September 30, 2022**	**2021**	**Nine months ended September 30, 2022**	**2021**
Net revenue	$	2,217	2,512	6,963	8,002
Operating costs and expenses:					
Cost of goods sold (exclusive of depreciation and amortization shown separately below)		1,526	1,617	4,775	5,130
Operating		186	183	543	565
Selling, general and administrative, including stock-based compensation		309	285	906	873
Depreciation		21	37	88	115
Amortization		73	74	217	200
Impairment losses (note 3)		2,600	—	2,600	—
Fire related costs, net of recoveries (note 13)		(137)	—	(134)	—
Gains on sales of fixed assets		(277)	—	(520)	—
		4,301	2,196	8,475	6,883
Operating (loss) income		(2,084)	316	(1,512)	1,119
Other (expense) income:					
Equity in losses of investee		—	(2)	—	(2)
(Losses) gains on financial instruments		—	(5)	1	(8)
Interest expense, net		(50)	(64)	(175)	(192)
Foreign currency gain (loss)		21	—	50	(4)
Loss on extinguishment of debt		—	—	(6)	—
Other income		—	—	20	8
		(29)	(71)	(110)	(198)
(Loss) income before income taxes		(2,113)	245	(1,622)	921
Income tax expense		(101)	(85)	(251)	(266)
Net (loss) income		(2,214)	160	(1,873)	655
Less net income attributable to the noncontrolling interest		(12)	(15)	(41)	(48)
Net (loss) income attributable to QVC, Inc. stockholder	$	(2,226)	145	(1,914)	607

QVC, Inc.

Condensed Consolidated Statements of Comprehensive Income

(unaudited)

(in millions)		Three months ended September 30, 2022	Three months ended September 30, 2021	Nine months ended September 30, 2022	Nine months ended September 30, 2021
Net (loss) income	$	(2,214)	160	(1,873)	655
Foreign currency translation adjustments, net of tax		(127)	(28)	(330)	(92)
Comprehensive income (loss) attributable to debt credit risk adjustments		—	(7)	—	(19)
Total comprehensive (loss) income		(2,341)	125	(2,203)	544
Comprehensive income attributable to noncontrolling interest		(6)	(14)	(16)	(38)
Comprehensive (loss) income attributable to QVC, Inc. stockholder	$	(2,347)	111	(2,219)	506

QVC, Inc.

Condensed Consolidated Statements of Cash Flows

(unaudited)

(in millions)		**Nine months ended September 30, 2022**	**2021**
Operating activities:			
Net (loss) income	$	(1,873)	655
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Deferred income taxes		(39)	(1)
Foreign currency (gain) loss		(50)	4
Depreciation		88	115
Amortization		217	200
Impairment losses		2,600	—
Change in fair value of financial instruments and noncash interest		(1)	8
Other charges, net		21	24
Loss on extinguishment of debt		6	—
Stock-based compensation		27	33
Change in other long-term liabilities		9	5
Gains on sale of fixed assets		(520)	—
Gain on insurance proceeds		(139)	—
Insurance proceeds received for operating expenses		96	—
Change in operating assets and liabilities			
Decrease in accounts receivable		482	443
Increase in inventories		(82)	(374)
Decrease in prepaid expenses and other current assets		42	47
Decrease in accounts payable-trade		(362)	(70)
Decrease in accrued liabilities and other		(345)	(411)
Net cash provided by operating activities		177	678
Investing activities:			
Capital expenditures		(135)	(145)
Expenditures for television distribution rights		(36)	(184)
Insurance proceeds received for fixed asset loss		184	—
Changes in other noncurrent assets		(5)	(3)
Proceeds from sale of fixed assets		701	40
Other investing activities		20	8
Net cash provided by (used in) investing activities		729	(284)
Financing activities:			
Principal payments of debt and finance lease obligations		(1,942)	(157)
Principal borrowings of debt from senior secured credit facility		1,850	135
Principal repayment of senior secured notes		(536)	—
Payment of premium on redemption of senior secured notes		(6)	—
Dividends paid to Qurate Retail, Inc.		(162)	(393)
Dividends paid to noncontrolling interest		(39)	(46)
Withholding taxes on net share settlements of stock-based compensation		(5)	(18)
Payments for issuances of financial instruments		—	(38)
Proceeds from settlements of financial instruments		—	88
Other financing activities		—	2
Net cash used in financing activities		(840)	(427)
Effect of foreign exchange rate changes on cash, cash equivalents and restricted cash		(59)	(20)
Net increase (decrease) in cash, cash equivalents and restricted cash		7	(53)
Cash, cash equivalents and restricted cash, beginning of period		519	690
Cash, cash equivalents and restricted cash, end of period	$	526	637

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	(2,766)	(17)	133	8,091
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	(2,552)	(118)	125	8,224

(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	(2,605)	(84)	126	8,190
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	(2,552)	(118)	125	8,224

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, 2021	1	$ —	10,687	(2,942)	(146)	122	7,721
Net (loss) income	—	—	—	(1,914)	—	41	(1,873)
Foreign currency translation adjustments, net of tax	—	—	—	—	(305)	(25)	(330)
Dividends paid to Qurate Retail, Inc. and noncontrolling interest	—	—	—	(162)	—	(39)	(201)
Impact of tax liability allocation and indemnification agreement with Qurate Retail, Inc.	—	—	—	(1)	—	—	(1)
Withholding taxes on net share settlements of stock-based compensation	—	—	(5)	—	—	—	(5)
Stock-based compensation	—	—	27	—	—	—	27
Common control transaction with Qurate Retail, Inc.	—	—	(110)	—	—	—	(110)
Balance, September 30, 2022	1	$ —	10,599	(5,019)	(451)	99	5,228

(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, 2022	1	$ —	10,628	(2,751)	(330)	105	7,652
Net (loss) income	—	—	—	(2,226)	—	12	(2,214)
Foreign currency translation adjustments, net of tax	—	—	—	—	(121)	(6)	(127)
Dividends paid to Qurate Retail, Inc. and noncontrolling interest	—	—	—	(41)	—	(12)	(53)
Impact of tax liability allocation and indemnification agreement with Qurate Retail, Inc.	—	—	(4)	(1)	—	—	(5)
Stock-based compensation	—	—	9	—	—	—	9
Common control transaction with Qurate Retail, Inc.	—	—	(34)	—	—	—	(34)
Balance, September 30, 2022	1	$ —	10,599	(5,019)	(451)	99	5,228

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, Xfinity Flex and Samsung TV Plus; 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. During the nine months ended September 30, 2022 and 2021, QVC-Japan paid dividends to Mitsui of $39 million and $46 million, respectively.

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").

During each of the nine months ended September 30, 2022 and 2021, QVC and Zulily engaged in multiple transactions relating to sales, sourcing of merchandise, marketing initiatives and business advisory services. QVC allocated expenses of $3 million and $6 million to Zulily for the nine months ended September 30, 2022 and 2021, respectively. Zulily allocated expenses of $6 million to QVC for each of the nine months ended September 30, 2022 and 2021.

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 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, 2022 and December 31, 2021.

During each of the nine months ended September 30, 2022 and 2021, QVC and CBI engaged in multiple transactions relating to personnel and business advisory services. QVC allocated expenses of $22 million and $16 million to CBI for the nine months ended September 30, 2022 and 2021, respectively. CBI allocated expenses of $1 million to QVC for each of the nine months ended September 30, 2022 and 2021.

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

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. Since that time, most local, state and federal governmental agencies imposed various restrictions to prevent the spread of COVID-19, including travel restrictions, local quarantines or stay at home restrictions, and vaccine and testing requirements. The spread of COVID-19 and the various containment measures put in place around the world have resulted in significant disruption to the global 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 paid annually. QVC recorded $6 million of related party interest income for each of the nine months ended September 30, 2022 and 2021, included in interest expense, net in the consolidated statement of operations.

The Company has revised its condensed consolidated financial statements and related notes included herein to correct immaterial errors in depreciation expense in periods prior to 2021, along with deferred tax adjustments. Revisions have been reflected in the comparative 2021 financial statements to reduce property and equipment, net by $47 million, reduce deferred tax liabilities by $3 million, and reduce retained earnings by $44 million, including the opening balance as of January 1, 2021.

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, 2021, 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, 2021.

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, 2022	December 31, 2021
Television distribution rights	$	723	818
Less accumulated amortization		(628)	(673)
Television distribution rights, net	$	95	145

The Company recorded amortization expense of $29 million and $32 million for the three months ended September 30, 2022 and 2021, respectively, related to television distribution rights. For the nine months ended September 30, 2022 and 2021, amortization expense for television distribution rights was $88 million and $80 million, respectively.

As of September 30, 2022, related amortization expense for each of the next five years ended December 31 was as follows (in millions):

Remainder of 2022	$	30
2023		51
2024		13
2025		1
2026		—

(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, 2022 were as follows:

(in millions)		QxH	QVC-International	Total
Balance as of December 31, 2021	$	5,112	856	5,968
Impairment		(2,420)	—	(2,420)
Exchange rate fluctuations		—	(149)	(149)
Balance as of September 30, 2022	$	2,692	707	3,399

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

As a result of recent financial performance and macroeconomic conditions including inflation and higher interest rates, the Company initiated a process to evaluate its current business model and long-term business strategy. It was determined during the third quarter of 2022 that an indication of impairment existed for the QxH reporting unit related to its tradenames and goodwill. With the assistance of a third party specialist, the fair value of the tradenames was determined using the relief from royalty method, primarily using a discounted cash flow model using projections of future operating performance (income approach) and applying a royalty rate (market approach) (Level 3), and an impairment in the amount of $180 million related to the HSN Tradename was recorded during the third quarter of 2022, in impairment losses in the consolidated statements of operations. Accumulated tradename impairment loss as of September 30, 2022 is $357 million. With the assistance of a third party specialist, the fair value of the QxH reporting unit was determined using a discounted cash flow method (Level 3), and a goodwill impairment in the amount of $2,420 million was recorded during the third quarter of 2022, in impairment losses in the consolidated statements of operations. Accumulated goodwill impairment loss as of September 30, 2022 is $2,420 million.

Based on the quantitative assessment performed during the third quarter and the resulting impairment losses recorded, the estimated fair values of the HSN tradename and the QxH reporting unit equal their carrying values as of September 30, 2022.

Other intangible assets consisted of the following:

		September 30, 2022			December 31, 2021	
(in millions)	**Gross cost**	**Accumulated amortization**	**Other intangible assets, net**	**Gross cost**	**Accumulated amortization**	**Other intangible assets, net**
Purchased and internally developed software	$ 1,014	(730)	284	945	(659)	286
Affiliate and customer relationships	2,802	(2,603)	199	2,832	(2,598)	234
Debt origination fees	9	(2)	7	9	—	9
Trademarks (indefinite life)	2,698	—	2,698	2,878	—	2,878
	$ 6,523	(3,335)	3,188	6,664	(3,257)	3,407

The Company recorded amortization expense of $44 million and $42 million for the three months ended September 30, 2022 and 2021, respectively, related to other intangible assets. For the nine months ended September 30, 2022 and 2021, amortization expense for other intangible assets was $129 million and $120 million, respectively.

As of September 30, 2022, the related amortization and interest expense for each of the next five years ended December 31 was as follows (in millions):

Remainder of 2022	$ 50
2023	181
2024	136
2025	75
2026	48

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

(4) Accrued and Other Liabilities

Accrued liabilities consisted of the following:

(in millions)		September 30, 2022	December 31, 2021
Accounts payable non-trade	$	334	364
Allowance for sales returns		139	242
Accrued compensation and benefits		108	151
Income taxes		103	132
Other		221	290
	$	905	1,179

Other long-term liabilities consisted of the following:

(in millions)		September 30, 2022	December 31, 2021
Operating lease liability	$	379	177
Other		133	117
		512	294

(5) Long-Term Debt and Finance Lease Obligations

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

(in millions)		September 30, 2022	December 31, 2021
4.375% Senior Secured Notes due 2023, net of original issue discount	$	214	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
Senior secured credit facility (1)		505	481
Finance lease obligations (note 6)		5	157
Less debt issuance costs, net		(38)	(43)
Total debt and finance lease obligations		4,384	5,043
Less current portion		(216)	(20)
Long-term portion of debt and finance lease obligations	$	4,168	5,023

(1) Includes $261 million and $151 million of Zulily's outstanding borrowings as of September 30, 2022 and December 31, 2021, respectively.

Senior Secured Notes

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

In June 2022, QVC completed its purchase of $536 million of the outstanding 4.375% Senior Secured Notes due 2023 (the "2023 Notes") pursuant to a cash tender offer to purchase any and all of its outstanding 2023 Notes (the "Tender Offer"). As a result of the Tender Offer, the Company recorded a loss on extinguishment of debt in the condensed consolidated statements of operations of $6 million for the nine months ended September 30, 2022. As of September 30, 2022, the remaining outstanding 2023 Notes are classified within current portion of long term debt as they mature in less than one year.

Senior Secured Credit Facility

On October 27, 2021, QVC entered into the Fifth Amended and Restated Credit Agreement with QVC, Zulily, CBI, and QVC Global, each a direct or indirect wholly owned subsidiary of Qurate Retail, as borrowers (collectively, the “Borrowers”). The Fifth Amended and Restated Credit Agreement is a multi-currency facility providing for a $3.25 billion revolving 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. The Fifth Amended and Restated Credit Agreement may be borrowed by any Borrower, with each Borrower jointly and severally liable for the outstanding borrowings. Borrowings bear interest at either the alternate base rate (“ABR Rate”) or a LIBOR-based rate (or the applicable non-U.S. Dollar equivalent rate) (“Term Benchmark/RFR Rate”) at the applicable 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 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 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 (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 may be reborrowed. The facility matures on October 27, 2026. Payment of loans may be accelerated following certain customary events of default.

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 senior secured credit facility plus any additional amount it expects to repay on behalf of Zulily or CBI. There was $261 million and $151 million borrowed by Zulily on the senior secured credit facility as of September 30, 2022 and December 31, 2021, respectively; all of which QVC expects to repay on behalf of Zulily. QVC recorded a liability for Zulily's outstanding borrowings as part of a common control transaction with Qurate Retail. The liability for Zulily's outstanding borrowings is included in the long-term portion of debt and finance lease obligations on the condensed consolidated balance sheets. QVC recorded a $34 million and $110 million liability for Zulily's additional borrowings during the three and nine months ended September 30, 2022, which was treated as a return of capital in the consolidated statements of equity. As of September 30, 2022, there was $40 million borrowed by CBI on the senior secured credit facility, none of which the Company expects to repay on behalf of CBI.

Availability under the Fifth Amended and Restated Credit Agreement at September 30, 2022 was $2.68 billion. The interest rate on the senior secured credit facility was 4.5% at September 30, 2022.

The payment and performance of the 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 Borrower that such 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 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 Borrowers’ 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 to mitigate the interest rate risk associated with interest payments related to its variable rate debt. The swap arrangement did not qualify as a cash flow hedge under U.S. GAAP. Changes in the fair value of the swap arrangement are reflected in (losses) gains on financial instruments in the condensed consolidated statements of operations. The swap arrangement expired in July 2022 and was in a net liability position of $1 million as of December 31, 2021, which was included in accrued liabilities.

Other Debt Related Information

QVC was in compliance with all of its debt covenants as of September 30, 2022.

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 5.0% as of September 30, 2022.

(6) Leases

Sale-Leaseback Transactions

In June 2022, QVC modified the finance lease for its distribution center in Ontario, California which reduced the term of the lease and removed QVC's ability to take ownership of the distribution center at the end of the lease term. QVC will make annual payments over the modified lease term. Since the lease was modified and removed QVC's ability to take ownership at the end of the lease term, the Company accounted for the modification similar to a sale and leaseback transaction and, as a result, recognized a $240 million gain on the sale of the distribution center during the second quarter of 2022, calculated as the difference between the aggregate consideration received (including cash and forgiveness of the remaining financing obligation of $84 million) and the carrying value of the distribution center. The gain is included in gain on sale of fixed assets in the condensed consolidated statement of operations. The Company accounted for the modified lease as an operating lease and recorded a $37 million right-of-use asset and a $31 million operating lease liability, with the difference attributable to prepaid rent.

In July 2022, QVC sold five owned and operated properties located in the U.S. to an independent third party and received net cash proceeds of $443 million. Concurrent with the sale, the Company entered into agreements to lease each of the properties back from the purchaser over an initial term of 20 years with the option to extend the terms of the property leases for up to four consecutive terms of five years. QVC recognized a $277 million gain related to the successful sale leaseback for the three and nine months ended September 30, 2022 calculated as the difference between the aggregate consideration received and the carrying value of the properties. The Company accounted for the leases as operating leases and recorded a $207 million right-of-use asset and a $205 million operating lease liability, with the difference attributable to initial direct costs.

(7) Revenue

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

	Three months ended September 30, 2022			Nine months ended September 30, 2022		
(in millions)	QxH	QVC-International	Total	QxH	QVC-International	Total
Home	$ 621	208	829	1,950	729	2,679
Apparel	330	100	430	982	334	1,316
Beauty	252	129	381	766	419	1,185
Accessories	190	49	239	633	162	795
Electronics	152	20	172	411	71	482
Jewelry	73	45	118	231	139	370
Other revenue	45	3	48	128	8	136
Total net revenue	$ 1,663	554	2,217	5,101	1,862	6,963

	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
Apparel	336	119	455	985	372	1,357
Beauty	279	164	443	859	521	1,380
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

Consumer Product Revenue and Other Revenue

QVC's revenue includes sales of consumer products in the following categories; home, apparel, beauty, 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 judgments 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, 2022 and 2021, the Company recorded a tax provision of $101 million and $85 million, respectively, which represented an effective tax rate of (4.8)% and 34.7%, respectively. For the nine months ended September 30, 2022 and 2021, the Company recorded a tax provision of $251 million and $266 million, respectively, which represented an effective tax rate of (15.5)% and 28.9%, respectively. The 2022 rate differs from the U.S. federal income tax rate of 21% primarily due to the goodwill impairment loss of $2,420 million that is not deductible for tax purposes. Excluding the goodwill impairment loss, our effective tax rate would be 32.9% and 31.5% for the three and nine months ended September 30, 2022, respectively, compared to an effective tax rate of 34.7% and 28.9% for the three and nine months ended September 30, 2021, respectively. The 2022 rate excluding goodwill impairment loss differs from the U.S. federal income tax rate of 21% due primarily to state and foreign tax expenses, and changes in valuation allowances.

The Company participates in a consolidated federal return filing with Qurate Retail. As of September 30, 2022, the Company's tax years through 2018 are closed for federal income tax purposes, and the Internal Revenue Service ("IRS") has completed its examination of the Company's 2019 and 2020 tax years. The Company's 2021 and 2022 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, 2022, the Company was under examination in Colorado, Florida, Maine, Minnesota, New Jersey, Pennsylvania, New York City, and the U.K.

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 payable due to Qurate Retail as of September 30, 2022 and December 31, 2021 were $95 million and $85 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 measures the fair value of money market funds based on quoted prices in active markets for identical assets. Money market funds are included as cash equivalents Level 1 fair value instruments in the table below. The 2067 Notes (ticker: QVCD) and the 2068 Notes (ticker: QVCC) are traded on the New York Stock Exchange, which the Company considers to be an "active market," as defined by U.S. GAAP. Therefore, these Notes are measured based on quoted prices in an active market and included as Level 1 fair value instruments in the table below. The remainder of the Company's debt instruments and derivative instruments are considered Level 2 fair value instruments and measured based on quoted market prices that are not considered to be traded on "active markets." Accordingly, these financial instruments are reported in the below tables as Level 2 fair value instruments.

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

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

	Fair value measurements at September 30, 2022 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	$ 233	233	—	—
Current liabilities:				
Debt (note 5)	213	—	213	—
Long-term liabilities:				
Debt (note 5)	3,360	555	2,805	—

	Fair value measurements at December 31, 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	$ 124	124	—	—
Current liabilities:				
Interest rate swap arrangements (note 5)	1	—	1	—
Long-term liabilities:				
Debt (note 5)	5,076	745	4,331	—

(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 or sales per customer. For segment reporting purposes, the Company defines Adjusted OIBDA, as net revenue less cost of goods sold (excluding Fire related costs, net of recoveries and Rocky Mount inventory losses, see note 13), 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, impairment losses, Gains on sales of fixed assets, Fire related costs, net of recoveries and Rocky Mount inventory losses and stock-based compensation that are included in the measurement of operating income pursuant to U.S. GAAP. Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net income, cash flow provided by operating activities and other measures of financial performance prepared in accordance with U.S. GAAP.

The Company'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, QxH, and QVC-International. The segment managers have responsibility for operating decisions, allocating resources and assessing performance within their respective segments. QVC's CODM relies on internal management reporting that analyzes enterprise results and segment results to the Adjusted OIBDA level.

For the three and nine months ended September 30, 2022 and 2021, 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,			
	2022		2021		2022		2021	
(in millions)	Net revenue	Adjusted OIBDA	Net revenue	Adjusted OIBDA	Net revenue	Adjusted OIBDA	Net revenue	Adjusted OIBDA
QxH	$ 1,663	143	1,813	325	5,101	600	5,738	1,065
QVC-International	554	62	699	115	1,862	261	2,264	402
Consolidated QVC	$ 2,217	205	2,512	440	6,963	861	8,002	1,467

Other information

	Three months ended September 30,				Nine months ended September 30,			
	2022		2021		2022		2021	
(in millions)	Depreciation	Amortization	Depreciation	Amortization	Depreciation	Amortization	Depreciation	Amortization
QxH	$ 17	70	24	70	62	207	74	190
QVC-International	4	3	13	4	26	10	41	10
Consolidated QVC	$ 21	73	37	74	88	217	115	200

	September 30, 2022		
(in millions)	Total assets	Capital expenditures	Property and equipment, net
QxH	$ 10,675	116	272
QVC-International	1,767	19	232
Consolidated QVC	$ 12,442	135	504

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)	**2022**	**2021**	**2022**	**2021**
Adjusted OIBDA	$ 205	440	861	1,467
Gains on sales of fixed assets	277	—	520	—
Fire related costs, net of recoveries and Rocky Mount inventory losses (see note 13)	137	—	39	—
Impairment losses	(2,600)	—	(2,600)	—
Stock-based compensation	(9)	(13)	(27)	(33)
Depreciation and amortization	(94)	(111)	(305)	(315)
Operating (loss) income	(2,084)	316	(1,512)	1,119
Equity in losses of investee	—	(2)	—	(2)
(Losses) gains on financial instruments	—	(5)	1	(8)
Interest expense, net	(50)	(64)	(175)	(192)
Foreign currency gain (loss)	21	—	50	(4)
Loss on extinguishment of debt	—	—	(6)	—
Other income	—	—	20	8
(Loss) income before income taxes	$ (2,113)	245	(1,622)	921

QVC, Inc.

Notes to Condensed Consolidated Financial Statements (continued)

(unaudited)

(12) Other Comprehensive Income

The change in the components 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, 2022	$	—	(146)	(146)
Other comprehensive loss attributable to QVC, Inc. stockholder		—	(305)	(305)
Balance at September 30, 2022		—	(451)	(451)
Balance at January 1, 2021	$	16	(33)	(17)
Other comprehensive loss attributable to QVC, Inc. stockholder		(19)	(82)	(101)
Balance at September 30, 2021		(3)	(115)	(118)

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

(in millions)		Before-tax amount	Tax benefit (expense)	Net-of-tax amount
Three months ended September 30, 2022				
Foreign currency translation adjustments	$	(131)	4	(127)
Other comprehensive loss		(131)	4	(127)
Three months ended September 30, 2021				
Foreign currency translation adjustments	$	(27)	(1)	(28)
Debt credit risk adjustment		(7)	—	(7)
Other comprehensive loss		(34)	(1)	(35)
Nine months ended September 30, 2022				
Foreign currency translation adjustments	$	(337)	7	(330)
Other comprehensive loss		(337)	7	(330)
Nine months ended September 30, 2021				
Foreign currency translation adjustments	$	(89)	(3)	(92)
Debt credit risk adjustment		(19)	—	(19)
Other comprehensive loss		(108)	(3)	(111)

(13) Fire at Rocky Mount Fulfillment Center

On December 18, 2021, QVC experienced a fire at its Rocky Mount, Inc. fulfillment center in North Carolina. Rocky Mount was the Company’s second-largest fulfillment center for QxH and the Company’s primary returns center for hard goods. The Company maintains property, general liability and business interruption insurance coverage. Based on provisions of QVC's insurance policies, the Company records estimated insurance recoveries for fire related costs for which recovery is deemed probable.

For the year ended December 31, 2021, the Company recorded $250 million of fire related costs and estimated insurance recoveries of $229 million for which recovery was deemed probable. As of December 31, 2021, the Company received

$100 million of insurance proceeds and had an insurance receivable of $129 million which was recorded in accounts receivable in the condensed consolidated balance sheet.

For the nine months ended September 30, 2022, the Company recorded $147 million of fire related costs, including $95 million for the write-down of inventory, and estimated insurance recoveries of $47 million for which recovery was deemed probable. For the nine months ended September 30, 2022, the Company received $280 million of insurance proceeds for inventory, fixed asset losses and other fire related costs and recorded a gain of $139 million in fire related costs, net of recoveries in the condensed consolidated statement of operations, representing the proceeds received in excess of losses recognized. The Company recorded an insurance receivable, net of advance proceeds received, for other fire related costs for which recovery was deemed probable of $35 million in accounts receivable in the condensed consolidated balance sheet.

During the nine months ended September 30, 2022, inventory write-downs related to Rocky Mount inventory of $95 million were included in Cost of goods sold. Due to the circumstances surrounding the write-downs of the inventory, these write-downs have been excluded from Adjusted OIBDA (as defined in note 11).

We are in the process of submitting our business interruption claim with the insurance company; however, there can be no guarantee that all business interruption losses will be recovered. We expect to continue to record additional costs and recoveries until the insurance claim is fully settled.

(14) Subsequent Events

On November 2, 2022 and November 3, 2022, QVC entered into agreements to sell two properties located in Germany and the U.K. to an independent third party. Under the terms of the agreements, QVC will receive cash payments of approximately
€97 million related to its German facility and approximately £68 million related to its U.K. facility before fees, taxes and other expenses. The sale is expected to close in the first quarter of fiscal year 2023. Contingent on the closing of the sale, the Company entered into agreements to lease each of the properties back from the purchaser over an initial term of 20 years with the option to extend the terms of the property leases for up to four consecutive terms of five years. QVC expects to record a gain in 2023 at the close of the sale leaseback transaction.

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 impact of the fire at the Rocky Mount fulfillment center; the sale leaseback transactions; the remediation of a material weakness; 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, including the impact of inflation;
- changes in tariffs, trade policy and trade relations and the United Kingdom's ("U.K.") exit from the European Union;
- 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 systems 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 II, Item 1A of this Quarterly Report and Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2021 (the "2021 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 2021 10-K.

Overview

QVC, Inc. and its consolidated subsidiaries (unless otherwise indicated or required by the context, the terms "we," "our," "us," the "Company" and "QVC" refer to QVC, Inc. and its consolidated subsidiaries) is a retailer of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised shopping programs, the Internet and mobile applications. QVC is comprised of the reportable segments of QxH, which is comprised of QVC-U.S. and HSN, Inc. ("HSN"), and QVC-International. These segments reflect the way the Company evaluates its business performance and manages its operations.

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

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 or other restrictions 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. Since that time, local, state and federal governmental agencies imposed various restrictions to prevent the spread of COVID-19, including travel restrictions, local quarantines or stay at home restrictions, and vaccine and testing requirements. The spread of COVID-19 and the various containment measures put in place around the world resulted in significant disruption to the global economy. The company transitioned most administrative employees to a hybrid work model and certain employees have moved to permanent work from home arrangements which has resulted in the reduction of office space. Due to ongoing staffing issues and labor shortages, QVC increased wages and offered incentives, resulting in additional costs to the company. As a result of these resource constraints, QVC experienced some delays in shipping at certain fulfillment centers.

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, from 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 through the third quarter of 2022, 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.

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 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 government responses 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 future 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 causing extended lead time on inventory orders. As a result, the delayed receipt of inventory ordered in prior periods impacted our ability to have the right products at the right time and has contributed to higher inventory levels as of September 30, 2022. These factors also impacted our ability to offer certain goods and ship orders timely to our customers. In addition, the Company has seen increasing inflationary pressures during the period including higher wages, freight, and merchandise costs. Russia’s invasion of Ukraine, as well as the related international response, is exacerbating inflationary pressures. If these pressures persist, inflated costs may continue to outpace our pricing power in the near term.

On December 18, 2021, QVC experienced a fire at its Rocky Mount, Inc. fulfillment center in North Carolina. Rocky Mount was the Company's second-largest fulfillment center, processing approximately 25% to 30% of volume for QVC-U.S., and also served as QVC-U.S.'s primary returns center for hard goods. The building was significantly damaged as a result of the fire and related smoke and will not reopen. QVC has made a decision not to rebuild the facility; however, we are still in the process of determining future plans for the property. The Company has taken steps to mitigate disruption to operations including diverting inbound orders, leveraging its existing fulfillment centers and supplementing these facilities with short-term leased space as needed.

Based on the provisions of QVC's insurance policies and discussions with insurance carriers, the Company determined that recovery of certain fire related costs is probable, and recorded an insurance receivable. For the year ended December 31, 2021, the Company recorded $250 million of fire related costs and estimated insurance recoveries of $229 million for which recovery was deemed probable. For the nine months ended September 30, 2022, the Company recorded $147 million of fire related costs, including $95 million for the write-down of inventory, and estimated insurance recoveries of $47 million for which recovery was deemed probable. For the nine months ended September 30, 2022, the Company received $280 million of insurance proceeds for inventory, fixed asset losses and other fire related costs and recorded a gain of $139 million in fire related costs, net of recoveries in the condensed consolidated statement of operations, representing the proceeds received in excess of losses recognized. The Company recorded an insurance receivable, net of advance proceeds received, for other fire related costs for which recovery was deemed probable of $35 million in accounts receivable in the condensed consolidated balance sheet.

During the nine months ended September 30, 2022, inventory write-downs related to Rocky Mount inventory of $95 million were included in Cost of goods sold. Due to the circumstances surrounding the write-downs of the inventory, these write-downs have been excluded from Adjusted OIBDA (as defined in note 11).

We are in the process of submitting our business interruption claim with the insurance company; however, there can be no guarantee that all business interruption losses will be recovered. We expect to continue to record additional costs and recoveries until the insurance claim is fully settled. While the Company has taken steps to minimize the overall impact to the business, we experienced increased warehouse and logistics costs during the nine months ended September 30, 2022 and anticipate these increased warehouse and logistics costs to continue during 2022.

In June 2022, QVC modified the finance lease for its distribution center in Ontario, California which reduced the term of the lease and removed QVC's ability to take ownership of the distribution center at the end of the lease term. QVC will make annual payments over the modified lease term. Since the lease was modified and removed QVC's ability to take ownership at the end of the lease term, the Company accounted for the modification similar to a sale and leaseback transaction and, as a result, recognized a $240 million gain on the sale of the distribution center during the second quarter of 2022, calculated as the difference between the aggregate consideration received (including cash and forgiveness of the remaining financing obligation of $84 million) and the carrying value of the distribution center. The gain is included in gain on sale of fixed assets in the condensed consolidated statement of operations. The Company accounted for the modified lease as an operating lease and recorded a $37 million right-of-use asset and a $31 million operating lease liability, with the difference attributable to prepaid rent.

In July 2022, QVC sold five owned and operated properties located in the U.S. to an independent third party and received net cash proceeds of $443 million. Concurrent with the sale, the Company entered into agreements to lease each of the properties back from the purchaser over an initial term of 20 years with the option to extend the terms of the property leases for up to four consecutive terms of five years. QVC will make initial base rent payments of $27 million per year increasing to $39 million per year. QVC recognized a $277 million gain related to the successful sale leaseback for the three and nine months ended September 30, 2022 calculated as the difference between the aggregate consideration received and the carrying value of the properties. The Company accounted for the leases as operating leases and recorded a $207 million right-of-use asset and a $205 million operating lease liability, with the difference attributable to initial direct costs.

On November 2, 2022 and November 3, 2022, QVC entered into agreements to sell two properties located in Germany and the U.K. to an independent third party. Under the terms of the agreements, QVC will receive cash payments of approximately €97 million related to its German facility and approximately £68 million related to its U.K. facility before fees, taxes and other expenses. The sale is expected to close in the first quarter of fiscal year 2023. Contingent on the closing of the sale, the Company entered into agreements to lease each of the properties back from the purchaser over an initial term of 20 years with the option to extend the terms of the property leases for up to four consecutive terms of five years. QVC expects to record a gain in 2023 at the close of the sale leaseback transaction.

Results of Operations

QVC's operating results were as follows:

	Three months ended September 30,		Nine months ended September 30,	
(in millions)	**2022**	**2021**	**2022**	**2021**
Net revenue	$ 2,217	2,512	6,963	8,002
Operating costs and expenses:				
Cost of goods sold (exclusive of depreciation, amortization and Rocky Mount inventory losses shown below)	1,526	1,617	4,680	5,130
Operating	186	183	543	565
Selling, general and administrative, excluding stock-based compensation	300	272	879	840
Adjusted OIBDA (defined below)	205	440	861	1,467
Fire related costs, net of recoveries and Rocky Mount inventory losses (see note 13)	(137)	—	(39)	—
Gains on sales of fixed assets	(277)	—	(520)	—
Impairment losses	2,600	—	2,600	—
Stock-based compensation	9	13	27	33
Depreciation	21	37	88	115
Amortization	73	74	217	200
Operating (loss) income	(2,084)	316	(1,512)	1,119
Other (expense) income:				
Equity in losses of investee	—	(2)	—	(2)
Losses on financial instruments	—	(5)	1	(8)
Interest expense, net	(50)	(64)	(175)	(192)
Foreign currency gain (loss)	21	—	50	(4)
Loss on extinguishment of debt	—	—	(6)	—
Other income	—	—	20	8
	(29)	(71)	(110)	(198)
(Loss) income before income taxes	(2,113)	245	(1,622)	921
Income tax expense	(101)	(85)	(251)	(266)
Net (loss) income	(2,214)	160	(1,873)	655
Less net income attributable to the noncontrolling interest	(12)	(15)	(41)	(48)
Net (loss) income attributable to QVC, Inc. stockholder	$ (2,226)	145	(1,914)	607

Net revenue

Net revenue by segment was as follows:

		Three months ended September 30,		Nine months ended September 30,	
(in millions)		**2022**	**2021**	**2022**	**2021**
QxH	$	1,663	1,813	5,101	5,738
QVC-International		554	699	1,862	2,264
Consolidated QVC	$	2,217	2,512	6,963	8,002

QVC's consolidated net revenue decreased 11.7% and 13.0% for the three and nine months ended September 30, 2022, respectively, as compared to the corresponding periods in the prior year. The three month decrease in net revenue is primarily due to a 6.6% decrease in units shipped, $113 million in unfavorable foreign exchange rates, a $23 million decrease in shipping and handling revenue driven by QxH and a slight decline in average selling price per unit ("ASP") primarily at QxH, partially offset by an increase at QVC-International. These decreases were partially offset by a $30 million decrease in estimated product returns driven by QxH. The nine month decrease in net revenue is primarily due to an 8.5% decrease in units shipped, $256 million in unfavorable foreign exchange rates, a $77 million decrease in shipping and handling revenue, and a slight decline in ASP primarily at QxH, partially offset by an increase in ASP at QVC-International. These declines were partially offset by a $92 million decrease in estimated product returns primarily driven by QxH.

During the three and nine months ended September 30, 2022 and 2021, 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, 2022			Nine months ended September 30, 2022		
	U.S. Dollars	**Foreign Currency Exchange Impact**	**Constant Currency**	**U.S. Dollars**	**Foreign Currency Exchange Impact**	**Constant Currency**
QxH	(8.3)%	— %	(8.3)%	(11.1)%	— %	(11.1)%
QVC-International	(20.7)%	(16.0)%	(4.7)%	(17.8)%	(11.3)%	(6.5)%

QxH net revenue decline for the three months ended September 30, 2022 was primarily due to a 6.4% decrease in units shipped, a 1.9% decline in ASP, and a $19 million decrease in shipping and handling revenue. These declines were partially offset by a $27 million decrease in estimated product returns. For the three months ended September 30, 2022, QxH experienced shipped sales declines across all categories. For the nine months ended September 30, 2022, QxH net revenue decreased due to a 9.3% decrease in units shipped, a 1.5% decline in ASP, and a $61 million decrease in shipping and handling revenue. These declines were partially offset by an $83 million decrease in estimated product returns. For the nine months ended September 30, 2022, QxH experienced shipped sales declines across all categories. The decrease in estimated product returns for the three and nine months ended September 30, 2022 was primarily due to a decrease in sales volume. The decline in ASP for the three and nine months ended September 30, 2022 was primarily due to inventory reduction actions.

QVC-International net revenue decline in constant currency for the three months ended September 30, 2022 was primarily due to a 7.1% decrease in units shipped driven by Germany and the U.K. and a $4 million decrease in shipping and handling revenue. These declines were partially offset by a 3.5% increase in ASP across all markets except Italy. For the three months ended September 30, 2022, QVC-International experienced shipped sales growth in constant currency in apparel and jewelry with declines across all other product categories except electronics which remained flat. QVC-International net revenue decline in constant currency for the nine months ended September 30, 2022 was primarily due to a 6.7% decrease in units shipped across all markets except Japan and a $16 million decrease in shipping and handling revenue. These declines were partially offset by a 1.4% increase in ASP driven by the U.K. and a $10 million decrease in estimated product returns across all markets except the U.K. For the nine months ended September 30, 2022, QVC-International experienced shipped sales decline in constant currency across all product categories except apparel.

Cost of goods sold (excluding depreciation, amortization and Rocky Mount inventory losses)

QVC's cost of goods sold as a percentage of net revenue was 68.8% and 67.2% for the three and nine months ended September 30, 2022, respectively, compared to 64.4% and 64.1% for the three and nine months ended September 30, 2021, respectively. The increase in cost of goods sold as a percentage of revenue for the three months ended September 30, 2022 is primarily due to higher fulfillment costs driven by QxH due to increased freight and warehousing costs. QVC also experienced product margin pressure at QxH and increased inventory obsolescence across both segments. The increase in cost of goods sold as a percentage of revenue for the nine months ended September 30, 2022 is primarily due to higher fulfillment costs across both segments driven by increased freight and warehousing costs. The increase in cost of goods sold was also impacted by increased inventory obsolescence at QxH. Higher fulfillment costs at QxH for the three and nine months ended September 30, 2022 were also impacted by strains on our fulfillment network due to the loss of the Rocky Mount fulfillment center and rent related to warehouses sold and leased back during the period, partially offset by efficiencies from fulfillment centers closed in the prior year.

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 were 8.4% and 7.8% of net revenue for the three and nine months ended September 30, 2022, respectively, and were 7.3% and 7.1% for the three and nine months ended September 30, 2021, respectively. Operating expenses increased $3 million for the three months ended September 30, 2022 and decreased $22 million for the nine months ended September 30, 2022, as compared to the three and nine months ended September 30, 2021. The three month increase is primarily due to a $6 million increase in telecommunications expenses and a $3 million increase in personnel costs driven by higher wages at QxH. The increase in costs was partially offset by $10 million as a result of favorable exchange rates. The nine month decrease is primarily due to a $22 million decrease as a result of favorable exchange rates.

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

QVC's selling, general, and administrative expenses (excluding transaction related costs as defined below and stock-based compensation) include personnel, information technology, provision for doubtful accounts, production costs, and marketing and advertising expenses. Such expenses increased $28 million for the three months ended September 30, 2022, as compared to the three months ended September 30, 2021 and as a percentage of net revenue from 10.8% to 13.5%. Selling, general, and administrative expenses increased $39 million for the nine months ended September 30, 2022, as compared to the nine months ended September 30, 2021 and increased as a percentage of net revenue from 10.5% to 12.6%.

For the three months ended September 30, 2022, there was a $14 million increase in personnel costs across both segments, a $14 million increase in marketing primarily at QxH and to a lesser extent QVC-International, a $5 million increase in consulting expenses at QxH and a $4 million increase in rent expense, primarily at QxH. These increases were partially offset by a $17 million decrease due to favorable exchange rates. The increase in personnel costs for the three months ended September 30, 2022 was due to higher wages across both segments. For the nine months ended September 30, 2022, the increase was primarily due to a $28 million increase in credit losses, primarily at QxH, a $14 million increase in marketing expenses primarily at QxH and to a lesser extent QVC-International, a $13 million increase in consulting expenses primarily at QxH, and increases in IT expenses, non-income related taxes and rent expenses. These increases were partially offset by a $35 million decrease due to favorable exchange rates. The increase to estimated credit losses for the nine months ended September 30, 2022 was due to lower expected collections in the current year compared to favorable adjustments recognized in the prior year based on actual collections experience.

Fire related costs, net of recoveries and Rocky Mount inventory losses

QVC recorded a gain of $137 million and $39 million for the three and nine months ended September 30, 2022, respectively, in fire related costs, net of recoveries and Rocky Mount inventory losses. For the three months ended September 30, 2022, the gain primarily related to insurance proceeds received for inventory and fixed asset losses. For the nine months ended September 30, 2022, the gain primarily related to insurance proceeds received for inventory and fixed asset losses partially offset by write-downs on Rocky Mount inventory. Fire related costs, net of recoveries includes expenses directly related to the Rocky Mount fulfillment center fire net of expected and received insurance recoveries. Expenses indirectly related to the Rocky Mount fulfillment center fire, including operational inefficiencies, are primarily included in Cost of goods sold. These indirect expenses will be submitted as part of our business interruption insurance claim; however, there can be no guarantee they will be recovered.

Gains on sales of fixed assets

QVC recorded $277 million and $520 million of gains on sales of fixed assets for the three and nine months ended September 30, 2022. For the three months ended September 30, 2022, the gain related to the sale leaseback of five owned and operated U.S. properties. For the nine months ended September 30, 2022, the gain was primarily related to the sale leaseback of five U.S. properties and the Ontario, California distribution center.

Impairment losses

QVC recorded impairment losses of $2,600 million for the three and nine months ended September 30, 2022, related to the decrease in the fair value of the HSN indefinite-lived tradename and the QxH reporting unit as a result of the quantitative assessments that were performed by the Company (refer to note 3 to the accompanying consolidated financial statements).

Stock-based compensation

Stock-based compensation includes compensation related to options and restricted stock units granted to certain officers and employees. QVC recorded $9 million and $27 million of stock-based compensation expense for the three and nine months ended September 30, 2022, respectively, and recorded $13 million and $33 million of stock-based compensation expense for the three and nine months ended September 30, 2021, respectively. The decrease in stock compensation expense is primarily due to the retirement of our former Chief Executive Officer.

Depreciation and amortization

Depreciation and amortization consisted of the following:

(in millions)		Three months ended September 30, 2022	2021	Nine months ended September 30, 2022	2021
Customer relationships		12	12	35	35
Other technology		3	3	11	11
Acquisition related amortization		15	15	46	46
Property and equipment		21	37	88	115
Software amortization		29	27	83	74
Channel placement amortization and related expenses		29	32	88	80
Total depreciation and amortization	$	94	111	305	315

For the three and nine months ended September 30, 2022, property and equipment depreciation decreased primarily due to assets disposed of related to the Rocky Mount fulfillment center fire and assets sold as part of the Ontario distribution center and U.S. properties sale leasebacks. The increase in software amortization for the nine months ended September 30, 2022 is due to software additions including QVC's new Enterprise Resource Planning (“ERP”) system that was placed into service in the second quarter of 2021. The increase in channel placement amortization and related expenses for the nine months ended September 30, 2022 was due to adjustments recognized in the prior year related to lower subscriber counts.

Interest expense, net

For the three and nine months ended September 30, 2022, consolidated interest expense, net decreased $14 million and $17 million, respectively, as compared to the corresponding periods in the prior year. The decrease in interest expense is primarily due to lower outstanding debt, including finance lease obligations, during the nine months ended September 30, 2022 in comparison to the nine months ended September 30, 2021.

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, 2022, 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.

Loss on extinguishment of debt

For the nine months ended September 30, 2022, the Company recorded a loss on extinguishment of debt of $6 million related to the repayment of $536 million of the outstanding 4.375% Senior Secured Notes due 2023.

Income taxes

Our effective tax rate was (4.8)% and (15.5)% for the three and nine months ended September 30, 2022, respectively, compared to an effective tax rate of 34.7% and 28.9% for the three and nine months ended September 30, 2021, respectively. The 2022 rate differs from the U.S. federal income tax rate of 21% primarily due to the goodwill impairment loss of $2,420 million that is not deductible for tax purposes. Excluding the goodwill impairment loss, our effective tax rate would be 32.9% and 31.5% for the three and nine months ended September 30, 2022, respectively, compared to an effective tax rate of 34.7% and 28.9% for the three and nine months ended September 30, 2021, respectively. The 2022 rate excluding goodwill impairment loss differs from the U.S. federal income tax rate of 21% due primarily to state and foreign tax expenses, and changes 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, impairment losses, stock-based compensation and excluding fire related costs, net of recoveries and Rocky Mount inventory losses and gains on sales of fixed assets. 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)	**2022**	**2021**	**2022**	**2021**
Operating (loss) income	$ (2,084)	316	(1,512)	1,119
Depreciation and amortization	94	111	305	315
Impairment losses	2,600	—	2,600	—
Stock-based compensation	9	13	27	33
Fire related costs, net of recoveries and Rocky Mount inventory losses (see note 13)	(137)	—	(39)	—
Gains on sales of fixed assets	(277)	—	(520)	—
Adjusted OIBDA	$ 205	440	861	1,467

QVC Adjusted OIBDA decreased by $235 million for the three months ended September 30, 2022 compared to the three months ended September 30, 2021. The decrease is comprised of a $182 million decrease in QxH and a $53 million decrease in QVC-International.

QVC Adjusted OIBDA decreased by $606 million for the nine months ended September 30, 2022 compared to the nine months ended September 30, 2021. The decrease is comprised of a $465 million decrease in QxH and an $141 million decrease in QVC-International.

Seasonality

QVC's business is seasonal due to a higher volume of sales in the fourth calendar quarter related to year-end holiday shopping. In recent years, QVC has earned, on average, between 21% and 24% of its revenue in each of the first three quarters of the year and between 30% and 32% of its revenue in the fourth quarter of the year.

Financial Position, Liquidity and Capital Resources

General

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

As of September 30, 2022, substantially all of QVC's cash and cash equivalents were invested in AAA rated money market funds and time deposits with banks rated equal to or above A.

Senior Secured Notes

All of QVC's senior secured notes are secured by the capital stock of QVC and 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.

In June 2022, QVC completed its purchase of $536 million of the outstanding 4.375% Senior Secured Notes due 2023 (the "2023 Notes") pursuant to a cash tender offer to purchase any and all of its outstanding 2023 Notes (the "Tender Offer"). As a result of the Tender Offer, the Company recorded a loss on extinguishment of debt in the condensed consolidated statements of operations of $6 million for the nine months ended September 30, 2022. As of September 30, 2022, the remaining outstanding 2023 Notes are classified within current portion of long term debt as they mature in less than one year.

Senior Secured Credit Facility

On October 27, 2021, QVC entered into the Fifth Amended and Restated Credit Agreement with QVC, Zulily, CBI, and QVC Global, each a direct or indirect wholly owned subsidiary of Qurate Retail, as borrowers (collectively, the "Borrowers"). The Fifth Amended and Restated Credit Agreement is a multi-currency facility providing for a $3.25 billion revolving 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. The Fifth Amended and Restated Credit Agreement may be borrowed by any Borrower, with each Borrower jointly and severally liable for the outstanding borrowings. Borrowings bear interest at either the alternate base rate ("ABR Rate") or a LIBOR-based rate (or the applicable non-U.S. Dollar equivalent rate) ("Term Benchmark/RFR Rate") at the applicable 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 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 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 (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 may be reborrowed. The facility matures on October 27, 2026. Payment of loans may be accelerated following certain customary events of default.

Availability under the Fifth Amended and Restated Credit Agreement at September 30, 2022 was $2.68 billion. The interest rate on the senior secured credit facility was 4.5% at September 30, 2022.

The payment and performance of the 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 Borrower that such 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 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 Borrowers' consolidated leverage ratio.

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, 2022
Current assets	$	2,246
Intercompany payable to non-guarantor subsidiaries		(2,752)
Note receivable - related party		1,740
Noncurrent assets		6,338
Current liabilities		1,445
Noncurrent liabilities		5,060

		Combined Parent-QVC, Inc. and Subsidiary Guarantors December 31, 2021
Current assets	$	2,734
Intercompany payable to non-guarantor subsidiaries		(3,040)
Note receivable - related party		1,740
Noncurrent assets		9,027
Current liabilities		1,840
Noncurrent liabilities		5,678

		Combined Parent-QVC, Inc. and Subsidiary Guarantors Nine months ended September 30, 2022
Net revenue	$	5,575
Net revenue less cost of goods sold		2,147
Loss before taxes		(1,998)
Net loss		(1,873)
Net loss attributable to QVC, Inc. Stockholder		(1,914)

		Combined Parent-QVC, Inc. and Subsidiary Guarantors Year ended December 31, 2021
Net revenue	$	9,292
Net revenue less cost of goods sold		4,090
Income before taxes		836
Net income		851
Net income attributable to QVC, Inc. Stockholder		787

Other Debt Related Information

QVC was in compliance with all of its debt covenants as of September 30, 2022.

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 4.0 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 to mitigate the interest rate risk associated with interest payments related to its variable rate debt. The swap arrangement did not qualify as a cash flow hedge under U.S. GAAP. Changes in the fair value of the swap arrangement are reflected in (losses) gains on financial instruments in the condensed consolidated statements of operations. The swap arrangement expired in July 2022 and was in a net liability position of $1 million as of December 31, 2021, which was included in accrued liabilities.

Additional Cash Flow Information

During the nine months ended September 30, 2022, QVC's primary uses of cash were $1,942 million of principal payments of the senior secured credit facility and finance lease obligations, $536 million of principal repayment of senior secured notes, $171 million of capital and television distribution rights expenditures, $162 million of dividends to Qurate Retail and $39 million in dividend payments from QVC-Japan to Mitsui. These uses of cash were funded primarily with $1,850 million of principal borrowings from the senior secured credit facility, $701 million in proceeds from sale of fixed assets, $184 million of insurance proceeds for fixed asset loss, and $177 million of cash provided by operating activities. As of September 30, 2022, QVC's cash, cash equivalents and restricted cash balance was $526 million.

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 and $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.

The change in cash provided by operating activities for the nine months ended September 30, 2022 compared to the previous year was primarily due to a decrease in operating performance (excluding non-cash items) and 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, 2022, $219 million of the $526 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 82% 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

QVC’s material cash requirements for 2022, outside of normal operating expenses, include the costs to service outstanding debt, expenditures for affiliation agreements with television providers, and capital expenditures. Capital expenditures are expected to be between $210 and $240 million, including $135 million already expended for the nine months ended September 30, 2022. The Company also may make dividend payments to Qurate Retail. Refer to the off-balance sheet arrangements and aggregate contractual obligations table below for a summary of other material cash requirements as of September 30, 2022. The Company expects that cash on hand and cash provided by operating activities in future periods and outstanding borrowing capacity will be sufficient to fund projected uses of cash.

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 cash requirements, both accrued and off-balance sheet, under our contractual obligations as of September 30, 2022 is summarized below:

							Payments due by period
(in millions)	Remainder of 2022	2023	2024	2025	2026	Thereafter	Total
Long-term debt (1)	$ —	214	600	600	505	2,500	4,419
Interest payments (2)	33	223	204	176	159	2,423	3,218
Finance lease obligations (including imputed interest)	1	3	1	—	—	—	5
Operating lease obligations	$ 19	72	64	54	47	595	851

(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 (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, 2022:

(in millions, except percentages)	Remainder of 2022	2023	2024	2025	2026	Thereafter	Total	Fair Value
Fixed rate debt (1)	$ —	214	600	600	—	2,500	3,914	3,068
Weighted average interest rate on fixed rate debt	— %	4.4 %	4.9 %	4.5 %	— %	5.4 %	5.1 %	N/A
Variable rate debt	$ —	—	—	—	505	—	505	505
Average interest rate on variable rate debt	— %	— %	— %	— %	4.5 %	— %	4.5 %	N/A

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

N/A - Not applicable.

In July 2019, the Company entered into a three-year interest swap arrangement with a notional amount of $125 million to mitigate the interest rate risk associated with interest payments related to its variable rate debt. The swap arrangement did not qualify as a cash flow hedge under U.S. GAAP. Changes in the fair value of the swap arrangement are reflected in (losses) gains on financial instruments in the condensed consolidated statements of operations. The swap arrangement expired in July 2022 and was in a net liability position of $1 million as of December 31, 2021, which was included in accrued liabilities.

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, 2022 would have been impacted by approximately $1 million and $3 million, respectively, for every 1% change in foreign currency exchange rates relative to the U.S. Dollar.

The 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 September 30, 2022, no borrowings in foreign currencies were outstanding.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

In accordance with Exchange Act Rules 13a-15 and 15d-15, the Company carried out an evaluation, under the supervision and with the participation of management, including its chief executive officer and its principal accounting and financial officer (the “Executives”), of the effectiveness of its disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the Executives concluded that the Company's disclosure controls and procedures were not effective as of September 30, 2022 because of the material weakness in its internal control over financial reporting that is described below in “Material Weakness in Internal Control over Financial Reporting.”

However, giving full consideration to the material weakness, the Company’s management believes the consolidated financial statements included in this Quarterly Report on Form 10-Q present fairly, in all material respects, the Company’s financial position, results of operations and cash flows for the periods disclosed in conformity with U.S. generally accepted accounting principles (“GAAP”).

Changes in Internal Control Over Financial Reporting

In response to the material weakness described below, the Company reviewed the design of its controls and began remediation activities to alleviate the noted control deficiencies. Other than these items, there was no change in the Company’s internal control over financial reporting that occurred during the Company’s quarter ended September 30, 2022, that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

Material Weakness in Internal Control over Financial Reporting

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis. We have identified a material weakness related to information technology general controls (“ITGCs”) that impacts an inventory management system in place for certain QVC and HSN fulfillment centers. These ITGCs were not designed and operating effectively to ensure (i) that access to applications and data, and the ability to make program changes, were adequately restricted to appropriate personnel, (ii) that the activities of individuals with access to modify data and make program and job changes were appropriately monitored and (iii) that changes introduced in the production environment had undergone sufficient testing and review. Our business process controls (automated and manual) and reports and information that are dependent on the affected ITGCs were also deemed ineffective because they could have been adversely impacted.

We believe these control deficiencies are due to:

- Inadequate risk assessment to fully understand the nature and extent of risk related to certain segregation of duties, provisioning and the design of the change control environment.
- Insufficient training of IT personnel related to change management and logical access processes.
- Lack of adequate resources with knowledge of our internal controls over financial reporting related to general information technology systems.
- Failure to select and apply appropriate ITGCs with accountability enforced through formal policies and procedures.

The control deficiencies did not result in any identified misstatements.

Remediation Plan for Material Weakness in Internal Control over Financial Reporting

In response to the material weakness described above, the Company has developed a plan with oversight from the Audit Committee of the Board of Directors to remediate the material weakness. The remediation efforts are underway and include the following:

- Enhancing the ITGC risk assessment process;
- Evaluating talent and addressing identified gaps;
- Delivering training on internal control over financial reporting;

- Improving change management and logical access control activities that contributed to the ITGC material weakness including removing all inappropriate IT system access associated with the ITGC material weakness;
- Implementing user activity monitoring for control activities contributing to the ITGC material weakness; and
- Implementing additional compensating control activities over the completeness and accuracy of data provided by the affected systems.

The Company believes the foregoing efforts will remediate the material weakness described above. Because the reliability of the internal control process requires repeatable execution, the successful on-going remediation of the material weakness will require on-going review and evidence of effectiveness prior to concluding that the controls are effective.

Item 1A. Risk Factors

Any further impairment of our goodwill or other intangible assets could have a material adverse effect on our business, results of operations and financial condition.

From time to time we review the recoverability of goodwill and other certain identifiable intangible assets, including whenever events or circumstances indicate that the carrying value of a reporting unit, including goodwill, or an identifiable intangible asset may not be recoverable. We may incur impairment charges on goodwill or identifiable intangible assets if we determine that the fair values of a reporting unit, including goodwill, or identifiable intangible assets are less than their current carrying values. We evaluate, on a regular basis, whether events or circumstances have occurred that indicate all, or a portion, of the carrying amount of goodwill may no longer be recoverable, in which case an impairment charge to earnings would become necessary.

As a result of recent financial performance and macroeconomic conditions, the Company identified significant impairments for the quarter ended September 30, 2022 for the QxH reporting unit related to the HSN tradename and goodwill.

Recent business trends and global economic conditions may continue to make it a challenge for our reporting units to be able to realize their current long-term forecast. The Company will continue to monitor its reporting units' current business performance versus the current and updated long-term forecasts, among other relevant considerations, to determine if the carrying value of its assets (including goodwill and trademarks) is appropriate. Future outlook declines in revenue, cash flows, or other factors could result in a further decrease in fair value that may result in a determination that carrying value adjustments are required, which could be material, and we could be required to record additional impairment charges on our goodwill or other identifiable intangible assets in the future, which could result in reductions to stockholders' equity and material non-cash charges to our earnings and may negatively impact our stock price and financial condition.

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the Company's annual or interim consolidated financial statements will not be prevented or detected on a timely basis. As described in "Item 4. Controls and Procedures," we have concluded that our disclosure controls and procedures were ineffective as of September 30, 2022 due to a material weakness in our internal control over financial reporting. The identified material weakness relates to information technology general controls ("ITGCs") that impact an inventory management system in place for certain QVC and HSN fulfillment centers. Specifically, the ITGCs were not designed and operating effectively to ensure (i) that access to applications and data, and the ability to make program changes, were adequately restricted to appropriate personnel, (ii) that the activities of individuals with access to modify data and make program and job changes were appropriately monitored and (iii) that changes introduced in the production environment had undergone sufficient testing and review.

Our business process controls (automated and manual) that are dependent on the affected ITGCs were also deemed ineffective because they could have been adversely impacted.

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

As further described in "Item 4. Controls and Procedures," we are taking the necessary steps to remediate the material weakness. However, as the reliability of the internal control process requires repeatable execution, the successful on-going remediation of this material weakness will require on-going review and evidence of effectiveness prior to concluding that the controls are effective. Therefore, we cannot assure you that the remediation efforts will remain effective following their completion in the future or that additional or similar material weaknesses will not develop or be identified.

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

PART II

Item 6. Exhibits

(a) *Exhibits*

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

31.1	Rule 13a-14(a)/15d-14(a) Certification*
31.2	Rule 13a-14(a)/15d-14(a) Certification*
32.1	Section 1350 Certification**
101.INS	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, 2022	By:/s/ DAVID L. RAWLINSON II
	David L. Rawlinson II President and Chief Executive Officer (Principal Executive Officer)
Date: November 4, 2022	By:/s/ JAMES M. HATHAWAY
	James M. Hathaway Senior Vice President and Interim 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, 2022

By:/s/ DAVID L. RAWLINSON II

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

Exhibit 31.2

CERTIFICATION

I, James M. Hathaway, 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, 2022

By:/s/ JAMES M. HATHAWAY

James M. Hathaway
Senior Vice President and Interim 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, 2022 (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, 2022	By:/s/ DAVID L. RAWLINSON II
	David L. Rawlinson II
	President and Chief Executive Officer (Principal Executive Officer)
Date: November 4, 2022	By:/s/ JAMES M. HATHAWAY
	James M. Hathaway
	Senior Vice President and Interim 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.