
**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, 2020

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 001-33982

QURATE RETAIL, INC.

(Exact name of Registrant as specified in its charter)

State of Delaware
(State or other jurisdiction of
incorporation or organization)

84-1288730
(I.R.S. Employer
Identification No.)

12300 Liberty Boulevard
Englewood, Colorado
(Address of principal executive offices)

80112
(Zip Code)

Registrant's telephone number, including area code: **(720) 875-5300**

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Series A common stock	QRTEA	The Nasdaq Stock Market LLC
Series B common stock	QRTEB	The Nasdaq Stock Market LLC
8.0% Series A Cumulative Redeemable Preferred Stock	QRTEP	The Nasdaq Stock Market LLC

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of outstanding shares of Qurate Retail, Inc.'s common stock as of October 31, 2020 was:

Series A common stock	387,844,870
Series B common stock	29,376,619

Table of Contents

[PART I – FINANCIAL INFORMATION](#)

[Item 1. Financial Statements.](#)

QURATE RETAIL, INC. AND SUBSIDIARIES Condensed Consolidated Balance Sheets (unaudited)	I-3
QURATE RETAIL, INC. AND SUBSIDIARIES Condensed Consolidated Statements of Operations (unaudited)	I-5
QURATE RETAIL, INC. AND SUBSIDIARIES Condensed Consolidated Statements of Comprehensive Earnings (Loss) (unaudited)	I-6
QURATE RETAIL, INC. AND SUBSIDIARIES Condensed Consolidated Statements of Cash Flows (unaudited)	I-7
QURATE RETAIL, INC. AND SUBSIDIARIES Condensed Consolidated Statements of Equity (unaudited)	I-8
QURATE RETAIL, INC. AND SUBSIDIARIES Notes to Condensed Consolidated Financial Statements (unaudited)	I-10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	I-24
Item 3. Quantitative and Qualitative Disclosures about Market Risk.	I-38
Item 4. Controls and Procedures.	I-38

[PART II—OTHER INFORMATION](#)

[Item 1. Legal Proceedings](#)

Item 1. Legal Proceedings	II-1
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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	II-1
---	------

Item 6. Exhibits	II-2
----------------------------------	------

SIGNATURES	II-3
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QURATE RETAIL, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(unaudited)

	September 30, 2020	December 31, 2019
	amounts in millions	
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 1,044	673
Trade and other receivables, net of allowance for doubtful accounts of \$147 million and \$129 million, respectively	1,142	1,854
Inventory, net	1,481	1,413
Other current assets	702	636
Total current assets	<u>4,369</u>	<u>4,576</u>
Property and equipment, net	1,282	1,351
Intangible assets not subject to amortization (note 5):		
Goodwill	6,601	6,576
Trademarks	3,168	3,168
	<u>9,769</u>	<u>9,744</u>
Intangible assets subject to amortization, net (note 5)	799	955
Other assets, at cost, net of accumulated amortization	573	679
Total assets	<u>\$ 16,792</u>	<u>17,305</u>

(continued)

See accompanying notes to condensed consolidated financial statements.

QURATE RETAIL, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Continued)
(unaudited)

	September 30, 2020	December 31, 2019
	amounts in millions, except share amounts	
<i>Liabilities and Equity</i>		
Current liabilities:		
Accounts payable	\$ 1,147	1,091
Accrued liabilities	1,101	1,173
Current portion of debt, including \$1,682 million and \$1,557 million measured at fair value (note 6)	1,682	1,557
Other current liabilities	226	180
Total current liabilities	<u>4,156</u>	<u>4,001</u>
Long-term debt (note 6)	5,184	5,855
Deferred income tax liabilities	1,744	1,716
Preferred stock (note 7)	1,248	—
Other liabilities	753	761
Total liabilities	<u>13,085</u>	<u>12,333</u>
<i>Equity</i>		
Stockholders' equity:		
Series A common stock, \$.01 par value. Authorized 4,000,000,000 shares; issued and outstanding 387,810,463 shares at September 30, 2020 and 386,691,461 shares at December 31, 2019	4	4
Series B common stock, \$.01 par value. Authorized 150,000,000 shares; issued and outstanding 29,376,619 shares at September 30, 2020 and 29,278,424 shares at December 31, 2019	—	—
Series C common stock, \$.01 par value. Authorized 400,000,000 shares; no shares issued	—	—
Additional paid-in capital	27	—
Accumulated other comprehensive earnings (loss), net of taxes	16	(55)
Retained earnings	3,531	4,891
Total stockholders' equity	<u>3,578</u>	<u>4,840</u>
Noncontrolling interests in equity of subsidiaries	129	132
Total equity	<u>3,707</u>	<u>4,972</u>
Commitments and contingencies (note 8)		
Total liabilities and equity	<u>\$ 16,792</u>	<u>17,305</u>

See accompanying notes to condensed consolidated financial statements.

QURATE RETAIL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	amounts in millions			
Total revenue, net	\$ 3,383	3,089	9,725	9,285
Operating costs and expenses:				
Cost of retail sales (exclusive of depreciation shown separately below)	2,178	2,026	6,328	6,045
Operating expense	203	200	605	593
Selling, general and administrative, including stock-based compensation (note 2)	455	424	1,323	1,273
Depreciation and amortization	141	146	427	457
Impairment of intangible assets	—	1,020	—	1,020
	<u>2,977</u>	<u>3,816</u>	<u>8,683</u>	<u>9,388</u>
Operating income (loss)	406	(727)	1,042	(103)
Other income (expense):				
Interest expense	(98)	(93)	(290)	(282)
Share of earnings (losses) of affiliates, net	(32)	(36)	(96)	(104)
Realized and unrealized gains (losses) on financial instruments, net (note 4)	(12)	(45)	(127)	(239)
Gains (losses) on transactions, net	223	—	224	(1)
Other, net	(65)	(4)	(65)	(18)
	<u>16</u>	<u>(178)</u>	<u>(354)</u>	<u>(644)</u>
Earnings (loss) before income taxes	422	(905)	688	(747)
Income tax (expense) benefit	(70)	150	(111)	188
Net earnings (loss)	352	(755)	577	(559)
Less net earnings (loss) attributable to the noncontrolling interests	14	15	39	38
Net earnings (loss) attributable to Qurate Retail, Inc. shareholders	<u>\$ 338</u>	<u>(770)</u>	<u>538</u>	<u>(597)</u>
Basic net earnings (loss) attributable to Series A and Series B Qurate Retail, Inc. shareholders per common share (note 3):	\$ 0.81	(1.85)	1.29	(1.40)
Diluted net earnings (loss) attributable to Series A and Series B Qurate Retail, Inc. shareholders per common share (note 3):	\$ 0.80	(1.85)	1.28	(1.40)

See accompanying notes to condensed consolidated financial statements.

QURATE RETAIL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Earnings (Loss)
(unaudited)

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	amounts in millions			
Net earnings (loss)	\$ 352	(755)	577	(559)
Other comprehensive earnings (loss), net of taxes:				
Foreign currency translation adjustments	49	(37)	45	(29)
Recognition of previously unrealized losses (gains) on debt, net	—	—	(1)	—
Comprehensive earnings (loss) attributable to debt credit risk adjustments	(68)	5	31	(9)
Other comprehensive earnings (loss)	(19)	(32)	75	(38)
Comprehensive earnings (loss)	333	(787)	652	(597)
Less comprehensive earnings (loss) attributable to the noncontrolling interests	16	14	43	40
Comprehensive earnings (loss) attributable to Qurate Retail, Inc. shareholders	<u>\$ 317</u>	<u>(801)</u>	<u>609</u>	<u>(637)</u>

See accompanying notes to condensed consolidated financial statements.

QURATE RETAIL, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(unaudited)

	Nine months ended September 30,	
	2020	2019
amounts in millions		
Cash flows from operating activities:		
Net earnings (loss)	\$ 577	(559)
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	427	457
Impairment of intangible assets	—	1,020
Stock-based compensation	46	54
Share of (earnings) losses of affiliates, net	96	104
Realized and unrealized (gains) losses on financial instruments, net	127	239
(Gains) losses on transactions, net	(224)	1
Deferred income tax expense (benefit)	19	(165)
Other, net	52	10
Changes in operating assets and liabilities		
Decrease (increase) in accounts receivable	720	575
Decrease (increase) in inventory	(63)	(209)
Decrease (increase) in prepaid expenses and other assets	69	53
(Decrease) increase in trade accounts payable	52	(192)
(Decrease) increase in accrued and other liabilities	(43)	(478)
Net cash provided (used) by operating activities	<u>1,855</u>	<u>910</u>
Cash flows from investing activities:		
Investments in and loans to cost and equity investees	(88)	(109)
Capital expenditures	(165)	(249)
Expenditures for television distribution rights	(41)	(128)
Cash proceeds from dispositions of investments	269	—
Net cash provided (used) by investing activities	<u>(25)</u>	<u>(486)</u>
Cash flows from financing activities:		
Borrowings of debt	1,300	2,215
Repayments of debt	(2,077)	(2,179)
Repurchases of Qurate Retail common stock	—	(392)
Withholding taxes on net settlements of stock-based compensation	(3)	(6)
Dividends paid to noncontrolling interest	(46)	(34)
Dividends paid to common shareholders	(626)	—
Other financing activities, net	(12)	(72)
Net cash provided (used) by financing activities	<u>(1,464)</u>	<u>(468)</u>
Effect of foreign currency exchange rates on cash, cash equivalents and restricted cash	5	(3)
Net increase (decrease) in cash, cash equivalents and restricted cash	371	(47)
Cash, cash equivalents and restricted cash at beginning of period	681	660
Cash, cash equivalents and restricted cash at end of period	<u>\$ 1,052</u>	<u>613</u>

The following table reconciles cash, cash equivalents and restricted cash reported in our condensed consolidated balance sheets to the total amount presented in our condensed consolidated statements of cash flows:

	September 30,	December 31,
	2020	2019
in millions		
Cash and cash equivalents	\$ 1,044	673
Restricted cash included in other current assets	8	8
Total cash, cash equivalents and restricted cash in the condensed consolidated statement of cash flows	<u>\$ 1,052</u>	<u>681</u>

See accompanying notes to condensed consolidated financial statements.

	Stockholders' Equity							Total equity
	Preferred stock	Common stock		Additional paid-in capital	Accumulated other comprehensive earnings (loss)	Retained earnings	Noncontrolling interest in equity of subsidiaries	
		Series A	Series B					
	amounts in millions							
Balance at January 1, 2019	\$ —	4	—	—	(55)	5,675	120	5,744
Net earnings (loss)	—	—	—	—	—	(597)	38	(559)
Other comprehensive earnings (loss)	—	—	—	—	(40)	—	2	(38)
Stock compensation	—	—	—	54	—	—	—	54
Series A Qurate Retail stock repurchases	—	—	—	(392)	—	—	—	(392)
Distribution to noncontrolling interest	—	—	—	—	—	—	(34)	(34)
Withholding taxes on net share settlements of stock-based compensation	—	—	—	(6)	—	—	—	(6)
Reclassification	—	—	—	344	—	(344)	—	—
Balance at September 30, 2019	\$ —	4	—	—	(95)	4,734	126	4,769

	Stockholders' Equity							Total equity
	Preferred stock	Common stock		Additional paid-in capital	Accumulated other comprehensive earnings (loss)	Retained earnings	Accumulated Noncontrolling interest in equity of subsidiaries	
		Qurate Retail Series A	Series B					
	amounts in millions							
Balance at June 30, 2019	\$ —	4	—	—	(64)	5,583	118	5,641
Net earnings (loss)	—	—	—	—	—	(770)	15	(755)
Other comprehensive income (loss)	—	—	—	—	(31)	—	(1)	(32)
Stock compensation	—	—	—	17	—	—	—	17
Series A Qurate Retail stock repurchases	—	—	—	(96)	—	—	—	(96)
Distribution to noncontrolling interest	—	—	—	—	—	—	(6)	(6)
Reclassification	—	—	—	79	—	(79)	—	—
Balance at September 30, 2019	\$ —	4	—	—	(95)	4,734	126	4,769

See accompanying notes to condensed consolidated financial statements.

QURATE RETAIL, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(unaudited)

(1) Basis of Presentation

The accompanying condensed consolidated financial statements include the accounts of Qurate Retail, Inc. (formerly named Liberty Interactive Corporation, prior to the GCI Liberty Split-Off defined and described below) and its controlled subsidiaries (collectively, "Qurate Retail," the "Company," "Consolidated Qurate Retail," "us," "we," or "our" unless the context otherwise requires). All significant intercompany accounts and transactions have been eliminated in consolidation. Qurate Retail is made up of wholly-owned subsidiaries QVC, Inc. ("QVC"), which includes HSN, Inc. ("HSN"), Cornerstone Brands, Inc. ("Cornerstone"), Zulily, LLC ("Zulily"), and other cost and equity method investments.

Qurate Retail is primarily engaged in the video and online commerce industries in North America, Europe and Asia. The businesses of the Company's wholly-owned subsidiaries, QVC, Cornerstone and Zulily, are seasonal due to a higher volume of sales in the fourth calendar quarter related to year-end holiday shopping.

The accompanying (a) condensed consolidated balance sheet as of December 31, 2019, 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 ("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 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. Additionally, certain prior period amounts have been reclassified for comparability with current period presentation. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto contained in Qurate Retail's Annual Report on Form 10-K for the year ended December 31, 2019 (the "2019 10-K").

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. Qurate Retail considers (i) fair value measurements, (ii) accounting for income taxes, and (iii) estimates of retail-related adjustments and allowances to be its most significant estimates.

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

As a result of COVID-19, management increased the amounts of certain estimated reserves, including but not limited to, uncollectible receivables and inventory obsolescence for the three and nine months ended September 30, 2020. Other than these changes, management is not presently aware of any events or circumstances arising from the COVID-19 pandemic that would require the Company to update our estimates or 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 financial statements. Actual results could differ from estimates, and any such differences may be material to our financial statements.

Qurate Retail has entered into certain agreements with Liberty Media Corporation ("LMC") (for accounting purposes, a related party of the Company), a separate publicly traded company. These agreements include a reorganization agreement, services agreement and facilities sharing agreement. As a result of certain corporate transactions, LMC and Qurate Retail may have obligations to each other for certain tax related matters. Neither Qurate Retail nor LMC has any stock ownership, beneficial or otherwise, in the other. In connection with a split-off transaction that occurred in the first quarter of 2018 (the "GCI Liberty Split-Off"), Qurate Retail and GCI Liberty, Inc. ("GCI Liberty") (for accounting purposes, a related party of the Company) entered into a tax sharing agreement. Pursuant to the tax sharing agreement, GCI Liberty has agreed to indemnify Qurate Retail for taxes and tax-related losses resulting from the GCI Liberty Split-Off to the extent such taxes or tax-related losses (i) result primarily from, individually or in the aggregate, the breach of certain restrictive covenants

QURATE RETAIL, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

made by GCI Liberty (applicable to actions or failures to act by GCI Liberty and its subsidiaries following the completion of the GCI Liberty Split-Off), or (ii) result from Section 355(e) of the Internal Revenue Code applying to the GCI Liberty Split-Off as a result of the GCI Liberty Split-Off being part of a plan (or series of related transactions) pursuant to which one or more persons acquire, directly or indirectly, a 50-percent or greater interest (measured by vote or value) in the stock of GCI Liberty (or any successor corporation).

In December 2019, the Company entered into an amendment to the services agreement in connection with LMC's entry into a new employment arrangement with Gregory B. Maffei, the Company's Chairman of the Board (the "Chairman"). Under the amended services agreement, components of his compensation will either be paid directly to him by each of the Company, Liberty TripAdvisor Holdings, Inc., GCI Liberty, and Liberty Broadband Corporation (collectively, the "Service Companies") or reimbursed to LMC, in each case, based on allocations among LMC and the Service Companies set forth in the amended services agreement, currently set at 19% for the Company.

The reorganization agreement with LMC provides for, among other things, provisions governing the relationship between Qurate Retail and LMC, including certain cross-indemnities. Pursuant to the services agreement, LMC provides Qurate Retail with certain general and administrative services including legal, tax, accounting, treasury and investor relations support. Qurate Retail reimburses LMC for direct, out-of-pocket expenses incurred by LMC in providing these services and for Qurate Retail's allocable portion of costs associated with any shared services or personnel based on an estimated percentage of time spent providing services to Qurate Retail. Under the facilities sharing agreement, LMC shares office space and related amenities at its corporate headquarters with Qurate Retail. Under these various agreements, approximately \$2 million was reimbursable to LMC for both the three months ended September 30, 2020 and 2019, and \$7 million and \$5 million was reimbursable to LMC for the nine months ended September 30, 2020 and 2019, respectively. Qurate Retail had a tax sharing payable with LMC and GCI Liberty in the amount of approximately \$125 million and \$95 million as of September 30, 2020 and December 31, 2019, respectively, included in Other liabilities in the condensed consolidated balance sheets.

On August 21, 2020, Qurate Retail announced that an authorized committee of its Board of Directors had declared a special dividend (the "Special Dividend") on each outstanding share of its Series A and Series B common stock consisting of (i) cash in the amount of \$1.50 per common share, for an aggregate cash dividend of approximately \$633 million, and (ii) 0.03 shares of newly issued 8.0% Series A Cumulative Redeemable Preferred Stock, par value \$0.01 per share (the "Preferred Stock"), having an initial liquidation price of \$100 per share of Preferred Stock, with cash paid in lieu of fractional shares. The distribution ratio for the Preferred Stock portion of the Special Dividend was equivalent to \$3.00 in initial liquidation preference per common share, for an aggregate issuance of approximately \$1.3 billion aggregate liquidation preference. The dividend was distributed on September 14, 2020 to holders of record of Qurate Retail's Series A and Series B common stock. Holders of the Preferred Stock are entitled to receive quarterly cash dividends at a fixed rate of 8.0% per year on a cumulative basis, beginning December 15, 2020 and thereafter on each of March 15, June 15, September 15 and December 15 during the term. The Preferred Stock is non-voting, except in limited circumstances as required by law, and subject to a mandatory redemption on March 15, 2031.

During the three and nine months ended September 30, 2020 the Company recognized a gain as a result of the sale of one of its alternative energy investments. The Company received total cash consideration of \$272 million and recorded a gain of \$224 million on the sale.

(2) Stock-Based Compensation

The Company has granted to certain of its directors, employees and employees of its subsidiaries, restricted stock ("RSAs"), restricted stock units ("RSUs") and options to purchase shares of the Company's common stock (collectively, "Awards"). The Company measures the cost of employee services received in exchange for an equity classified Award (such as stock options and restricted stock) based on the grant-date fair value ("GDFV") of the Award, and recognizes that cost over the period during which the employee is required to provide service (usually the vesting period of the Award). The Company measures the cost of employee services received in exchange for a liability classified Award based on the current fair value of the Award, and remeasures the fair value of the Award at each reporting date.

QURATE RETAIL, INC. AND SUBSIDIARIES**Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)**

In connection with the Special Dividend, holders of RSAs and RSUs of Series A Qurate Retail common stock (“QRTEA”) outstanding at the close of business on the record date received:

- i. a special cash dividend in the amount of \$1.50 per share for each QRTEA RSA and RSU so held (“Cash Dividend”), and
- ii. a special dividend of 0.03 shares of newly issued Preferred Stock for each QRTEA RSA and RSU so held, with cash distributed in lieu of fractional shares. The Preferred Stock dividend related to QRTEA RSAs and RSUs was issued in the form of Preferred Stock RSAs and RSUs, corresponding to the original grant of either RSAs or RSUs.

The Cash Dividend for RSA holders was paid upon distribution. The Cash Dividend for RSU holders along with the Preferred Stock RSAs and RSUs are subject to the same vesting schedules as those applicable to the corresponding original QRTEA RSAs and RSUs.

Also in connection with the Special Dividend, holders of outstanding stock options and stock appreciation rights (“SARs”) to purchase shares of QRTEA or Series B Qurate Retail common stock (“QRTEB” and together with QRTEA, “QRTEA/B”) on the record date were adjusted pursuant to the anti-dilution provisions of the incentive plans under which the stock options and SARs were granted. The adjustment to the exercise price and the number of shares subject to the original stock option or SAR award preserved:

- i. the pre-Special Dividend intrinsic value of the original QRTEA/B stock option or SAR, and
- ii. the pre-Special Dividend ratio of the exercise price to the market price of the corresponding original QRTEA/B stock option or SAR.

Included in selling, general and administrative expenses in the accompanying condensed consolidated statements of operations are \$9 million and \$17 million of stock-based compensation during the three months ended September 30, 2020 and 2019, respectively, and \$46 million and \$54 million of stock-based compensation during the nine months ended September 30, 2020 and 2019, respectively.

The following table presents the number and weighted average GDFV of options granted by the Company during the nine months ended September 30, 2020:

	Nine months ended	
	September 30, 2020	
	Options Granted (000's)	Weighted Average GDFV
Series A Qurate Retail common stock, QVC and HSN employees (1)	4,166	\$ 1.94
Series A Qurate Retail common stock, Zulily employees (1)	618	\$ 1.94
Series A Qurate Retail common stock, Qurate Retail employees (2)	84	\$ 4.65

(1) Grants vest semi-annually over four years.

(2) Grants vest between three and four years.

During the nine months ended September 30, 2020, Qurate Retail granted to employees 9.8 million RSUs of QRTEA. The Series A RSUs had a GDFV of \$4.66 per share and generally vest annually over four years. In connection with our Chairman’s employment agreement, during the nine months ended September 30, 2020, Qurate Retail granted 584 thousand performance-based RSUs of QRTEA to the Chairman. The Series A RSUs had a GDFV of \$4.44 per share at the time they were granted and will cliff vest one year from the month of grant, subject to the satisfaction of certain performance objectives. During the nine months ended September 30, 2020, Qurate Retail also granted 725 thousand performance-based RSUs of QRTEA to its CEO. The Series A RSUs had a GDFV of \$4.44 per share at the time they were granted and will cliff vest one year from the month of grant, subject to the satisfaction of certain performance objectives. Performance objectives, which are subjective, are considered in determining the timing and amount of compensation.

QURATE RETAIL, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

expense recognized. When the satisfaction of the performance objectives becomes probable, the Company records compensation expense. The probability of satisfying the performance objectives is assessed at the end of each reporting period.

Also during the nine months ended September 30, 2020, Qurate Retail granted 38 thousand time-based RSUs of QRTEA to our Chairman. The RSUs had a GDFV of \$7.44 per share and cliff vest on December 10, 2020. This RSU grant was issued in lieu of our Chairman receiving 50% of his remaining base salary for the last three quarters of calendar year 2020, and he has waived his right to receive the other 50%, in each case, in light of the ongoing financial impact of COVID-19.

The Company has calculated the GDFV for all of its equity classified Awards and any subsequent remeasurement of its liability classified Awards using the Black-Scholes-Merton Model. The Company estimates the expected term of the Awards based on historical exercise and forfeiture data. The volatility used in the calculation for Awards is based on the historical volatility of Qurate Retail's stock and the implied volatility of publicly traded Qurate Retail options. The Company uses a zero dividend rate and the risk-free rate for Treasury Bonds with a term similar to that of the subject options.

Qurate Retail—Outstanding Awards

The following tables present the number and weighted average exercise price ("WAEP") of the Awards to purchase Qurate Retail common stock granted to certain officers, employees and directors of the Company, as well as the weighted average remaining life and aggregate intrinsic value of the Awards.

	Series A (000's)	WAEP	Weighted average remaining life	Aggregate intrinsic value (millions)
Outstanding at January 1, 2020	23,248	\$ 21.28		
Granted	4,868	\$ 4.53		
Exercised	(212)	\$ 0.50		
Forfeited/Cancelled	(4,447)	\$ 18.74		
Special Dividend adjustment	15,145	\$ 11.19		
Outstanding at September 30, 2020	38,602	\$ 11.22	4.3 years	\$ 45
Exercisable at September 30, 2020	20,002	\$ 14.59	3.2 years	\$ 7

	Series B (000's)	WAEP	Weighted average remaining life	Aggregate intrinsic value (millions)
Outstanding at January 1, 2020	1,844	\$ 27.09		
Granted	—	\$ —		
Exercised	—	\$ —		
Forfeited/Cancelled	—	\$ —		
Special Dividend adjustment	1,182	\$ 16.51		
Outstanding at September 30, 2020	3,026	\$ 16.51	2.3 years	\$ —
Exercisable at September 30, 2020	3,026	\$ 16.51	2.3 years	\$ —

There were no options to purchase shares of QRTEB granted during the nine months ended September 30, 2020.

As of September 30, 2020, the total unrecognized compensation cost related to unvested Awards was approximately \$45 million. Such amount will be recognized in the Company's consolidated statements of operations over a weighted average period of approximately 2.4 years.

QURATE RETAIL, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

As of September 30, 2020, Qurate Retail reserved for issuance upon exercise of outstanding stock options approximately 38.6 million shares of QRTEA and 3.0 million shares of QRTEB.

(3) Earnings (Loss) Per Common Share

Basic earnings (loss) per common share ("EPS") is computed by dividing net earnings (loss) by the weighted average number of common shares outstanding ("WASO") for the period. Diluted EPS presents the dilutive effect on a per share basis of potential common shares as if they had been converted at the beginning of the periods presented. Potentially dilutive shares are excluded from the computation of diluted EPS during periods in which losses are reported since the result would be antidilutive.

Excluded from diluted EPS for both of the three and nine months ended September 30, 2020 and 2019 are 29 million potential common shares, because their inclusion would have been antidilutive.

	Qurate Retail Common Stock			
	Three months ended		Nine months ended	
	September 30,		September 30,	
	2020	2019	2020	2019
	number of shares in millions			
Basic WASO	417	417	417	426
Potentially dilutive shares	4	1	3	1
Diluted WASO	421	418	420	427

(4) Assets and Liabilities Measured at Fair Value

For assets and liabilities required to be reported at fair value, 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 are inputs, other than quoted market prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability.

The Company's assets and liabilities measured at fair value are as follows:

Description	Fair Value Measurements at September 30, 2020			Fair Value Measurements at December 31, 2019		
	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)
		amounts in millions				
Cash equivalents	\$ 524	524	—	339	339	—
Indemnification asset	\$ 310	—	310	202	—	202
Debt	\$ 1,682	—	1,682	1,557	—	1,557

The majority of the Company's Level 2 financial assets and liabilities are primarily debt instruments with quoted market prices that are not considered to be traded on "active markets," as defined in GAAP. The fair values for such instruments are derived from a typical model using observable market data as the significant inputs.

The indemnification asset relates to GCI Liberty's agreement to indemnify Liberty Interactive LLC ("LI LLC") and pertains to the ability of holders of LI LLC's 1.75% exchangeable debentures due 2046 (the "1.75% Exchangeable

QURATE RETAIL, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Debtentures”) to exercise their exchange right according to the terms of the debentures on or before October 5, 2023. Such amount will equal the difference between the exchange value and par value of the 1.75% Exchangeable Debentures at the time the exchange occurs. The indemnification asset recorded in the condensed consolidated balance sheets as of September 30, 2020 represents the fair value of the estimated exchange feature included in the 1.75% Exchangeable Debentures primarily based on market observable inputs (Level 2). As of September 30, 2020, a holder of the 1.75% Exchangeable Debentures has the ability to exchange and, accordingly, such indemnification asset is included as a current asset in our condensed consolidated balance sheet as of that date.

Realized and Unrealized Gains (Losses) on Financial Instruments

Realized and unrealized gains (losses) on financial instruments are comprised of changes in the fair value of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	amounts in millions			
Exchangeable senior debentures	(145)	(49)	(225)	(304)
Indemnification asset	94	3	107	58
Other financial instruments	39	1	(9)	7
	<u>\$ (12)</u>	<u>(45)</u>	<u>(127)</u>	<u>(239)</u>

The Company has elected to account for its exchangeable debt using the fair value option. Changes in the fair value of the exchangeable senior debentures recognized in the condensed consolidated statement of operations are primarily due to market factors primarily driven by changes in the fair value of the underlying shares into which the debt is exchangeable. The Company isolates the portion of the unrealized gain (loss) attributable to the change in the instrument specific credit risk and recognizes such amount in other comprehensive earnings (loss). The change in the fair value of the exchangeable senior debentures attributable to changes in the instrument specific credit risk was a loss of \$90 million and a gain of \$7 million for the three months ended September 30, 2020 and 2019, respectively, and a gain of \$39 million and a loss of \$12 million for the nine months ended September 30, 2020 and 2019, respectively. The cumulative change was a gain of \$210 million as of September 30, 2020.

(5) Intangible Assets

Goodwill

Changes in the carrying amount of goodwill are as follows:

	QxH	QVC Int'l	Zulily	Corporate and Other	Total
	amounts in millions				
Balance at January 1, 2020	\$ 5,228	859	477	12	6,576
Foreign currency translation adjustments	—	25	—	—	25
Balance at September 30, 2020	<u>\$ 5,228</u>	<u>884</u>	<u>477</u>	<u>12</u>	<u>6,601</u>

QURATE RETAIL, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Continued)
(unaudited)
Intangible Assets Subject to Amortization

Amortization expense for intangible assets with finite useful lives was \$89 million and \$95 million for the three months ended September 30, 2020 and 2019, respectively, and \$274 million and \$289 million for the nine months ended September 30, 2020 and 2019, respectively. Based on its amortizable intangible assets as of September 30, 2020, Qurate Retail expects that amortization expense will be as follows for the next five years (amounts in millions):

Remainder of 2020	\$	92
2021	\$	267
2022	\$	157
2023	\$	103
2024	\$	75

(6) Long-Term Debt

Debt is summarized as follows:

	Outstanding principal at September 30, 2020	Carrying value	
		September 30, 2020	December 31, 2019
amounts in millions			
Corporate level debentures			
8.5% Senior Debentures due 2029	\$ 287	285	285
8.25% Senior Debentures due 2030	504	502	502
4% Exchangeable Senior Debentures due 2029	431	355	327
3.75% Exchangeable Senior Debentures due 2030	432	342	318
3.5% Exchangeable Senior Debentures due 2031	218	371	422
0.75% Exchangeable Senior Debentures due 2043	—	—	2
1.75% Exchangeable Senior Debentures due 2046	332	614	488
Subsidiary level notes and facilities			
QVC 5.125% Senior Secured Notes due 2022	—	—	500
QVC 4.375% Senior Secured Notes due 2023	750	750	750
QVC 4.85% Senior Secured Notes due 2024	600	600	600
QVC 4.45% Senior Secured Notes due 2025	600	599	599
QVC 4.75% Senior Secured Notes due 2027	575	575	—
QVC 4.375% Senior Secured Notes due 2028	500	500	—
QVC 5.45% Senior Secured Notes due 2034	400	399	399
QVC 5.95% Senior Secured Notes due 2043	300	300	300
QVC 6.375% Senior Secured Notes due 2067	225	225	225
QVC 6.25% Senior Secured Notes due 2068	500	500	500
QVC Bank Credit Facilities	—	—	1,235
Deferred loan costs	—	(51)	(40)
Total consolidated Qurate Retail debt	\$ 6,654	6,866	7,412
Less current classification		(1,682)	(1,557)
Total long-term debt		\$ 5,184	5,855

QVC Bank Credit Facilities

On December 31, 2018, QVC entered into the Fourth Amended and Restated Credit Agreement with Zulily as co-borrower (collectively, the "Borrowers") which is a multi-currency facility that provides for a \$2.95 billion revolving credit facility, with a \$450 million sub-limit for standby letters of credit and \$1.5 billion of uncommitted incremental revolving

QURATE RETAIL, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

loan commitments or incremental term loans. The Fourth Amended and Restated Credit Agreement includes a \$400 million tranche that may be borrowed by QVC or Zulily, with a \$50 million sub-limit for standby letters of credit. The remaining \$2.55 billion and any incremental loans may be borrowed only by QVC. Borrowings that are alternate base rate loans will bear interest at a per annum rate equal to the base rate plus a margin that varies between 0.25% to 0.75% depending on the Borrowers combined ratio of Consolidated Total Debt to Consolidated EBITDA (the "Combined Consolidated Leverage Ratio"). Borrowings that are LIBOR loans will bear interest at a per annum rate equal to the applicable LIBOR rate plus a margin that varies between 1.25% and 1.75% depending on the Borrowers' Combined Consolidated Leverage Ratio. Each loan may be prepaid at any time and from time to time without penalty other than customary breakage costs. No mandatory prepayments will be required other than when borrowings and letter of credit usage exceed availability; provided that, if Zulily ceases to be controlled by Qurate Retail, all of its loans must be repaid and its letters of credit cash collateralized. The facility matures on December 31, 2023. Payment of loans may be accelerated following certain customary events of default.

The payment and performance of the Borrowers' obligations (including Zulily's obligations) under the Fourth Amended and Restated Credit Agreement are guaranteed by each of QVC's Material Domestic Subsidiaries (as defined in the Fourth Amended and Restated Credit Agreement). Further, the borrowings under the Fourth Amended and Restated Credit Agreement are secured, *pari passu* with QVC's existing notes, by a pledge of all of QVC's equity interests. In addition, the payment and performance of the Borrowers' obligations with respect to the \$400 million tranche available to both QVC and Zulily are also guaranteed by each of Zulily's Material Domestic Subsidiaries (as defined in the Fourth Amended and Restated Credit Agreement), if any, and are secured by a pledge of all of Zulily's equity interests.

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

Availability under the Fourth Amended and Restated Credit Agreement at September 30, 2020 was \$2.9 billion, including the portion available under the \$400 million tranche that Zulily may also borrow on.

4.75% Senior Secured Notes due 2027

On February 4, 2020, QVC completed a registered debt offering for \$75 million of the 4.75% Senior Secured Notes due 2027 (the "2027 Notes") at par. Interest on the 2027 Notes will be paid semi-annually in February and August, with payments commencing on August 15, 2020. The proceeds were used to partially prepay existing indebtedness under QVC's bank credit facilities.

4.375% Senior Secured Notes due 2028

On August 20, 2020, QVC completed a registered debt offering for \$500 million of the 4.375% Senior Secured Notes due 2028 (the "2028 Notes") at par. Interest on the 2028 Notes will be paid semi-annually in March and September, with payments commencing on March 1, 2021. The proceeds were used in a cash tender offer (the "Tender Offer") to purchase the outstanding \$500 million of 5.125% Senior Secured Notes due 2022 (the "2022 Notes"). QVC also issued a notice of redemption exercising its right to optionally redeem any of the 2022 Notes that remained outstanding following the Tender Offer. As a result of the Tender Offer and the redemption, the Company recorded a loss on extinguishment of debt in the condensed consolidated statements of operations of \$42 million for both the three and nine months ended September 30, 2020.

QURATE RETAIL, INC. AND SUBSIDIARIES**Notes to Condensed Consolidated Financial Statements (Continued)****(unaudited)*****Exchangeable Senior Debentures***

The Company has elected to account for its exchangeable senior debentures using the fair value option. Accordingly, changes in the fair value of these instruments are recognized as unrealized gains (losses) in the statements of operations. See note 4 for information related to unrealized gains (losses) on debt measured at fair value. As of September 30, 2020 the Company's exchangeable debentures have been classified as current because the Company does not own shares to redeem the debentures or they are currently redeemable. The Company reviews the terms of the debentures on a quarterly basis to determine whether a triggering event has occurred to require current classification of the exchangeables upon a call event.

On April 1, 2020, T-Mobile US, Inc. completed its acquisition of Sprint Corporation ("TMUS/S Acquisition") for 0.10256 shares of T-Mobile US, Inc. for every share of Sprint Corporation. Following the TMUS/S Acquisition, the reference shares attributable to each \$1,000 original principal amount of the 4.0% Senior Exchangeable Debentures due 2029 and the 3.75% Senior Exchangeable Debentures due 2030 consist of 0.3309 shares and 0.2419 shares of common stock of T-Mobile US, Inc., respectively, and 0.7860 shares and 0.5746 shares of common stock of CenturyLink, Inc., respectively.

Debt Covenants

Qurate Retail and its subsidiaries are in compliance with all debt covenants at September 30, 2020.

Fair Value of Debt

Qurate Retail estimates the fair value of its debt based on the quoted market prices for the same or similar issues or on the current rate offered to Qurate Retail for debt of the same remaining maturities (Level 2). The QVC 6.375% Senior Secured Notes due 2067 ("2067 Notes") and the QVC 6.25% Senior Secured Notes Due 2068 ("2068 Notes") are traded on the New York Stock Exchange, and the Company considers them to be actively traded. As such, the 2067 Notes and 2068 Notes are valued based on their trading price (Level 1). The fair value of Qurate Retail's publicly traded debt securities that are not reported at fair value in the accompanying condensed consolidated balance sheet at September 30, 2020 are as follows (amounts in millions):

Senior debentures	\$	846
QVC senior secured notes	\$	4,481

Due to the variable rate nature, Qurate Retail believes that the carrying amount of its other debt, not discussed above, approximated fair value at September 30, 2020.

(7) Preferred Stock

On September 14, 2020, Qurate Retail issued the Preferred Stock. There were 13,500,000 shares of Preferred Stock authorized and 12,500,216 shares issued and outstanding at September 30, 2020.

Priority. The Preferred Stock ranks senior to the shares of common stock of Qurate Retail, with respect to dividend rights, rights of redemption and rights on the distribution of assets on any voluntary or involuntary liquidation, dissolution or winding up of Qurate Retail's affairs. Shares of Preferred Stock are not convertible into shares of common stock of Qurate Retail.

Dividends. Holders of the Preferred Stock are entitled to receive quarterly cash dividends at a rate of 8.0% per annum of the liquidation price (as described below) on a cumulative basis, during the term. If declared, accrued dividends will be payable quarterly on each dividend payment date, beginning December 15, 2020 and thereafter on each March 15, June 15, September 15, and December 15 during the term (or, if such date is not a business day, the next business day after such date). If Qurate Retail fails to pay dividends or the applicable redemption price with respect to any redemption within

QURATE RETAIL, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

30 days after the applicable dividend payment or redemption date, the dividend rate will increase as provided by the Certificate of Designations for the Preferred Stock (the "Certificate of Designations"). Accrued dividends that are not paid within 30 days after the applicable dividend payment date will be added to the liquidation price until paid together with all dividends accrued thereon.

The ability of Qurate Retail to declare or pay any dividend on, or purchase, redeem, or otherwise acquire, any of its common stock or any other stock ranking on parity with the Preferred Stock will be subject to restrictions if Qurate Retail does not pay all dividends and all redemption payments on the Preferred Stock, subject to certain exceptions as set forth in the Certificate of Designations.

Distributions upon Liquidation, Dissolution or Winding Up. Upon Qurate Retail's liquidation, winding-up or dissolution, each holder of shares of the Preferred Stock will be entitled to receive, before any distribution is made to the holders of Qurate Retail common stock, an amount equal to the liquidation price plus all unpaid dividends (whether or not declared) accrued from the immediately preceding dividend payment date, subject to the prior payment of liabilities owed to Qurate Retail's creditors and the preferential amounts to which any stock senior to the Preferred Stock is entitled. The Preferred Stock has a liquidation price equal to the sum of (i) \$100, plus (ii) all accrued and unpaid dividends (whether or not declared) that have been added to the liquidation price.

Mandatory and Optional Redemption. The Preferred Stock is subject to mandatory redemption on March 15, 2031 at the liquidation price plus all unpaid dividends (whether or not declared) accrued from the most recent dividend payment date. On or after the fifth anniversary of September 14, 2020 (the "Original Issue Date"), Qurate Retail may redeem all or a portion of the outstanding shares of Preferred Stock, at the liquidation price plus all unpaid dividends (whether or not declared) accrued from the most recent dividend payment date plus, if the redemption is (x) on or after the fifth anniversary of the Original Issue Date but prior to its sixth anniversary, 4.00% of the liquidation price, (y) on or after the sixth anniversary of the Original Issue Date but prior to its seventh anniversary, 2.00% of the liquidation price and (z) on or after the seventh anniversary of the Original Issue Date, zero. Both mandatory and optional redemptions must be paid in cash.

Voting Power. Holders of the Preferred Stock will not have any voting rights or powers, except as specified in the Certificate of Designations or as required by Delaware law.

Preferred Stock Directors. So long as the aggregate liquidation price of the outstanding shares of Preferred Stock exceeds 25% of the aggregate liquidation price of the shares of Preferred Stock issued on the Original Issue Date, holders of Preferred Stock will have certain director election rights as described in the Certificate of Designations whenever dividends on shares of Preferred Stock have not been declared and paid for two consecutive dividend periods and whenever Qurate Retail fails to pay the applicable redemption price in full with respect to any redemption of the Preferred Stock or fails to make a payment with respect to the Preferred Stock in connection with a liquidation or Extraordinary Transactions (as defined in the Certificate of Designations).

Recognition. As the Preferred Stock is subject to unconditional mandatory redemption in cash and was issued in the form of a share, the Company concluded the Preferred Stock was a mandatorily redeemable financial instrument and should be classified as a liability in the condensed consolidated balance sheets. The Preferred Stock was initially recorded at its fair value, which was determined to be the liquidation preference of \$100 per share. Given the liability classification of the Preferred Stock, all dividends accrued will be classified as interest expense in the condensed consolidated statements of operations.

QURATE RETAIL, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

(8) Commitments and Contingencies

Litigation

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 Qurate Retail 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 amounts, if any, which may be required to satisfy such contingencies will not be material in relation to the accompanying condensed consolidated financial statements.

(9) Information About Qurate Retail's Operating Segments

Qurate Retail, through its ownership interests in subsidiaries and other companies, is primarily engaged in the video and online commerce industries. Qurate Retail identifies its reportable segments as (A) those operating segments that represent 10% or more of its consolidated annual revenue, annual Adjusted OIBDA (as defined below) or total assets and (B) those equity method affiliates whose share of earnings represent 10% or more of Qurate Retail's annual pre-tax earnings.

Qurate Retail evaluates performance and makes decisions about allocating resources to its operating segments based on financial measures such as revenue, Adjusted OIBDA, gross margin, average sales price per unit and revenue or sales per customer equivalent. In addition, Qurate Retail reviews nonfinancial measures such as unique website visitors, number of units shipped, conversion rates and active customers, as appropriate.

For the nine months ended September 30, 2020, Qurate Retail has identified the following operating segments as its reportable segments:

- QxH - QVC U.S. and HSN market and sell a wide variety of consumer products in the United States, primarily by means of their televised shopping programs and via the Internet through their websites and mobile applications.
- QVC International – QVC International markets and sells a wide variety of consumer products in several foreign countries, primarily by means of its televised shopping programs and via the Internet through its international websites and mobile applications.
- Zulily – Zulily markets and sells a wide variety of consumer products in the United States and several foreign countries through flash sales events, primarily through its app, mobile and desktop experiences.

Qurate Retail's operating segments are strategic business units that offer different products and services. They are managed separately because each segment requires different technologies, distribution channels and marketing strategies. The accounting policies of the segments are the same as those described in the Company's Summary of Significant Accounting Policies in the 2019 10-K.

QURATE RETAIL, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Performance Measures

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

	Three months ended September 30, 2020				
	QxH	QVC Int'l	Zulily in millions	Corp and other	Total
Home	\$ 819	286	115	248	1,468
Apparel	312	115	147	37	611
Beauty	297	168	17	—	482
Accessories	219	67	94	—	380
Electronics	197	25	3	—	225
Jewelry	93	59	12	—	164
Other revenue	43	3	7	—	53
Total Revenue	<u>\$ 1,980</u>	<u>723</u>	<u>395</u>	<u>285</u>	<u>3,383</u>

	Nine months ended September 30, 2020				
	QxH	QVC Int'l	Zulily in millions	Corp and other	Total
Home	\$ 2,303	829	326	631	4,089
Apparel	913	316	411	108	1,748
Beauty	910	499	50	—	1,459
Accessories	676	188	281	—	1,145
Electronics	588	78	10	—	676
Jewelry	273	155	34	—	462
Other revenue	119	6	21	—	146
Total Revenue	<u>\$ 5,782</u>	<u>2,071</u>	<u>1,133</u>	<u>739</u>	<u>9,725</u>

	Three months ended September 30, 2019				
	QxH	QVC Int'l	Zulily in millions	Corp and other	Total
Home	\$ 670	236	95	187	1,188
Apparel	334	107	141	39	621
Beauty	303	161	12	—	476
Accessories	199	63	90	—	352
Electronics	209	21	3	—	233
Jewelry	98	59	12	—	169
Other revenue	41	3	6	—	50
Total Revenue	<u>\$ 1,854</u>	<u>650</u>	<u>359</u>	<u>226</u>	<u>3,089</u>

QURATE RETAIL, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Continued)
(unaudited)

	Nine months ended September 30, 2019				Total
	QxH	QVC Int'l	Zulily in millions	Corp and other	
Home	\$ 2,009	714	298	530	3,551
Apparel	1,005	327	422	117	1,871
Beauty	915	462	37	—	1,414
Accessories	667	190	295	—	1,152
Electronics	564	68	10	—	642
Jewelry	303	161	37	—	501
Other revenue	122	12	20	—	154
Total Revenue	<u>\$ 5,585</u>	<u>1,934</u>	<u>1,119</u>	<u>647</u>	<u>9,285</u>

For segment reporting purposes, Qurate Retail defines Adjusted OIBDA as revenue less cost of sales, operating expenses, and selling, general and administrative expenses excluding all stock-based compensation and transaction related costs. Qurate Retail believes this measure is an important indicator of the operational strength and performance of its businesses by identifying those items that are not directly a reflection of each business' performance or indicative of ongoing business trends. In addition, this measure allows management to view operating results and perform analytical comparisons and benchmarking between businesses and identify strategies to improve performance. This measure of performance excludes depreciation and amortization, stock-based compensation, certain acquisition accounting adjustments, separately reported litigation settlements, transaction related costs (including restructuring, integration, and advisory fees), and impairment charges that are included in the measurement of operating income pursuant to GAAP. Accordingly, Adjusted OIBDA should be considered in addition to, but not as a substitute for, operating income, net income, cash flows provided by operating activities and other measures of financial performance prepared in accordance with GAAP. Qurate Retail generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties, that is, at current prices.

Adjusted OIBDA is summarized as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	amounts in millions			
QxH	\$ 380	346	1,061	1,093
QVC International	132	106	348	313
Zulily	27	8	74	32
Corporate and other	27	(4)	32	(9)
Consolidated Qurate Retail	<u>\$ 566</u>	<u>456</u>	<u>1,515</u>	<u>1,429</u>

QURATE RETAIL, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Continued)

(unaudited)

Other Information

	September 30, 2020		
	Total assets	Investments in affiliates	Capital expenditures
	amounts in millions		
QxH	\$ 11,928	38	121
QVC International	2,294	—	19
Zulily	1,085	—	17
Corporate and other	1,485	14	8
Consolidated Qurate Retail	<u>\$ 16,792</u>	<u>52</u>	<u>165</u>

The following table provides a reconciliation of Adjusted OIBDA to Operating income (loss) and Earnings (loss) before income taxes:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	amounts in millions			
Adjusted OIBDA	\$ 566	456	1,515	1,429
Stock-based compensation	(19)	(17)	(46)	(54)
Depreciation and amortization	(141)	(146)	(427)	(457)
Impairment of intangible assets	—	(1,020)	—	(1,020)
Transaction related costs	—	—	—	(1)
Operating income (loss)	<u>\$ 406</u>	<u>(727)</u>	<u>1,042</u>	<u>(103)</u>
Interest expense	(98)	(93)	(290)	(282)
Share of earnings (loss) of affiliates, net	(32)	(36)	(96)	(104)
Realized and unrealized gains (losses) on financial instruments, net	(12)	(45)	(127)	(239)
Gains (losses) on transactions, net	223	—	224	(1)
Other, net	(65)	(4)	(65)	(18)
Earnings (loss) before income taxes	<u>\$ 422</u>	<u>(905)</u>	<u>688</u>	<u>(747)</u>

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 strategies; COVID-19 (as defined below); revenue growth at QVC, Inc. ("QVC"); remediation of a material weakness; our projected sources and uses of cash; the recoverability of our goodwill and other intangible assets; and fluctuations in interest rates and foreign currency exchange rates. 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 novel coronavirus ("COVID-19") pandemic and local, state and federal governmental responses to the pandemic on the economy, our customers, our vendors and our businesses generally;
- customer demand for our products and services and our ability to anticipate customer demand and to adapt to changes in demand;
- competitor responses to our products and services;
- increased digital TV penetration and the impact on channel positioning of our programs;
- the levels of online traffic to our businesses' websites and our ability to convert visitors into customers or contributors;
- uncertainties inherent in the development and integration of new business lines and business strategies;
- our future financial performance, including availability, terms and deployment of capital;
- our ability to successfully integrate and recognize anticipated efficiencies and benefits from the businesses we acquire;
- the cost and ability of shipping companies, suppliers and vendors to deliver products, equipment, software and services;
- the outcome of any pending or threatened litigation;
- availability of qualified personnel;
- changes in, or failure or inability to comply with, government regulations, including, without limitation, regulations of the 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 Brexit (as defined below);
- consumer spending levels, including the availability and amount of individual consumer debt and customer credit losses;
- advertising spending levels;
- 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;
- rapid technological changes;
- failure to protect the security of personal information, subjecting us to potentially costly government enforcement actions and/or private litigation and reputational damage;
- the regulatory and competitive environment of the industries in which we operate;
- natural disasters, public health crises (including COVID-19), political crises, and other catastrophic events or other events outside of our control;
- threatened terrorist attacks, political and economic unrest in international markets and ongoing military action around the world; and
- fluctuations in foreign currency exchange rates.

For additional risk factors, please see Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2019 (the “2019 10-K”), as well as Part II, Item 1A. Risk Factors of our Quarterly Report on Form 10-Q for the quarter ended March 31, 2020. 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 2019 10-K.

The information herein relates to Qurate Retail, Inc. (formerly named Liberty Interactive Corporation) and its controlled subsidiaries (collectively “Qurate Retail,” the “Company,” “Consolidated Qurate Retail,” “us,” “we” or “our” unless the context otherwise requires).

Overview

We own controlling and non-controlling interests in a broad range of video and online commerce companies. Our largest businesses and reportable segments are our operating segment comprised of QVC U.S. and HSN (“QxH”) and QVC International. QVC markets and sells a wide variety of consumer products in the United States (“U.S.”) and several foreign countries, primarily by means of its televised shopping programs and the Internet through its domestic and international websites and mobile applications. Zulily, LLC (“Zulily”), an online retailer offering customers a fun and entertaining shopping experience with a fresh selection of new product styles launched every day, is a reportable segment.

Our “Corporate and other” category includes our consolidated subsidiary Cornerstone Brands, Inc. (“Cornerstone”), along with various cost and equity method investments.

In December 2019, the COVID-19 pandemic was reported to have surfaced in Wuhan, China and has subsequently spread across the globe, impacting all countries where Qurate Retail operates. As a result of the spread of the virus, certain local governmental agencies have imposed travel restrictions, local quarantines or stay at home restrictions to contain the spread, which has caused a significant disruption to most sectors of the economy.

In response to these stay at home restrictions, QVC has mandated that non-essential employees work from home, has reduced the number of employees who are allowed on its production set and has implemented increased cleaning protocols, social distancing measures and temperature screenings for those employees who enter into certain facilities. In some cases, the move to a work from home arrangement for QVC’s non-essential employees will be permanent, which may result in the reduction of office space. QVC has also mandated that all essential employees who do not feel comfortable coming to work will not be required to do so. As a result of these resource constraints, QVC included fewer hours of live programming on some of its secondary channels and has experienced some delays in shipping at certain fulfillment centers. In certain markets, QVC temporarily increased the wages and salaries for those employees deemed essential who do not have the ability to work from home, including production and fulfillment center employees. QVC has also paid a one-time work from home allowance to its employees during the second quarter of 2020. While the temporary increase in wages and salaries has been terminated in most of QVC’s facilities, the inability to control the spread of COVID-19, or the expansion or extension of these stay at home restrictions could negatively impact QVC’s results in the future.

The stay at home restrictions imposed in response to COVID-19 required many traditional brick and mortar retailers to temporarily close their stores, but allowed distance retailers, including QVC, to continue operating. As a result, beginning at the end of March 2020, QVC observed an increase in new customers and an increase in demand for certain categories, such as home.

As a result, for the three and nine months ended September 30, 2020, management has increased certain estimated reserves including, but not limited to, uncollectible receivables in anticipation of higher defaults by customers billed through QVC’s installment payment option, and inventory obsolescence due to decreased demand for certain categories, such as apparel. 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.

Zulily has seen increased freight surcharges from China due to COVID-19 and in concert with QVC has made work accommodations in its fulfillment centers which has resulted in an increase in labor expense. Zulily has also incurred additional expenses to deep clean its fulfillment centers and office buildings, coupled with a work-from-home allowance to reimburse its employees for home office and associated technology costs as a result of COVID-19. In addition, Zulily management cut all travel expenses, and reduced capital expenditures due to uncertainty created by COVID-19.

In addition, there are several potential adverse impacts of COVID-19 that could cause a material negative impact to the Company's financial results, including its capital and liquidity, for the remainder of 2020 and beyond. These include governmental restrictions on the Company's ability to continue to operate under stay at home restrictions, produce content, reduced demand for products sold, decreases in the disposable income of existing and potential new customers, the impacts of any recession and other uncertainties with respect to the continuity of government stimulus programs implemented in response to COVID-19, increased currency volatility resulting in adverse currency rate fluctuations, higher unemployment, labor shortages, an adverse impact to our supply chain and shipping disruptions for both the products we import and purchase domestically and the products the Company sells, including essential products experiencing higher demand due to factory closures, labor shortages and other resource constraints. While the impact is currently uncertain, the inability to control the spread of COVID-19 could cause any one of these adverse impacts, or combination of adverse impacts, to have a material impact on the Company's financial results.

In July 2020, QVC implemented a planned workforce reduction with the goal of making the organizational structure more streamlined and efficient. As part of the workforce reduction, QVC decided to eliminate live hours on QVC 2 in the U.S. and other secondary channels within the various markets. See more details below in the "Results of Operations—Businesses" section.

Results of Operations—Consolidated

General. We provide in the tables below information regarding our consolidated Operating Results and Other Income and Expense, as well as information regarding the contribution to those items from our principal reporting segments. The "Corporate and other" category consists of those assets or businesses which we do not disclose separately. For a more detailed discussion and analysis of the financial results of the principal reporting segments, see "Results of Operations—Businesses" below.

Operating Results

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	amounts in millions			
<i>Revenue</i>				
QxH	\$ 1,980	1,854	5,782	5,585
QVC International	723	650	2,071	1,934
Zulily	395	359	1,133	1,119
Corporate and other	285	226	739	647
Consolidated Qurate Retail	<u>\$ 3,383</u>	<u>3,089</u>	<u>9,725</u>	<u>9,285</u>
<i>Operating Income (Loss)</i>				
QxH	\$ 274	243	744	782
QVC International	114	87	295	239
Zulily	3	(1,042)	3	(1,078)
Corporate and other	15	(15)	—	(46)
Consolidated Qurate Retail	<u>\$ 406</u>	<u>(727)</u>	<u>1,042</u>	<u>(103)</u>
<i>Adjusted OIBDA</i>				
QxH	\$ 380	346	1,061	1,093
QVC International	132	106	348	313
Zulily	27	8	74	32
Corporate and other	27	(4)	32	(9)
Consolidated Qurate Retail	<u>\$ 566</u>	<u>456</u>	<u>1,515</u>	<u>1,429</u>

Revenue. Consolidated Qurate Retail revenue increased 9.5% or \$294 million and 4.7% or \$440 million for the three and nine months ended September 30, 2020, respectively, as compared to the corresponding periods in the prior year. The increase in the three and nine months ended September 30, 2020 was due to increased revenue at QxH of \$126 million and \$197 million for the three and nine months ended September 30, 2020, respectively, increased revenue at QVC International of \$73 million and \$137 million for the three and nine month periods ended September 30, 2020, respectively, increased revenue at Zulily of \$36 million and \$14 million for the three and nine months ended September 30, 2020, and increased revenue in the Corporate and other segment of \$59 million and \$92 million for the three and nine months ended September 30, 2020, respectively, compared to the same periods in the prior year. The increase in Corporate and other revenue was due to an increase in revenue at Cornerstone due to strong revenue in the home category. See "Results of Operations—Businesses" below for a more complete discussion of the results of operations of QVC and Zulily.

Stock-based compensation. Stock-based compensation includes compensation primarily related to options, restricted stock awards and restricted stock units for shares of our common stock that are granted to certain of our officers and employees.

We recorded \$19 million and \$17 million of stock-based compensation for the three months ended September 30, 2020 and 2019, respectively, and \$46 million and \$54 million of stock-based compensation for the nine months ended September 30, 2020 and 2019, respectively. The increase of \$2 million for the three months ended September 30, 2020 was primarily due to increases at QxH, Zulily and at the corporate level. The decrease of \$8 million for the nine months ended September 30, 2020 was primarily due to a decrease of \$4 million at QxH, a decrease of \$1 million at Zulily, and a

decrease of \$3 million at the corporate level. As of September 30, 2020, the total unrecognized compensation cost related to unvested Qurate Retail equity awards was approximately \$45 million. Such amount will be recognized in our condensed consolidated statements of operations over a weighted average period of approximately 2.4 years.

Operating income. Our consolidated operating income increased \$1,133 million and \$1,145 million for the three and nine months ended September 30, 2020, respectively, as compared to the corresponding periods in the prior year. The increase in operating results for the three and nine months ended September 30, 2020 was primarily due to a decrease in operating losses at Zulily of \$1,045 million and \$1,081 million for the three and nine months ended September 30, 2020 due to a \$1,020 million impairment of intangible assets in the third quarter of 2019, respectively, an increase in operating income at QVC International of \$27 million and \$56 million for the three and nine months ended September 30, 2020, respectively, an increase in operating income at QxH of \$31 million for the three months ended September 30, 2020, and a decrease in operating losses at the Corporate and other segment of \$30 million and \$46 million for the three and nine months ended September 30, 2020, respectively, partially offset by a decrease in operating income at QxH of \$38 million for the nine months ended September 30, 2020, compared to the corresponding periods in the prior year. Operating loss in the Corporate and other segment improved for the three months ended September 30, 2020, as compared to the corresponding period in the prior year, primarily related to an increase in operating income at Cornerstone due to strong revenue and product margin performance in the home category. Operating loss in the Corporate and other segment improved for the nine months ended September 30, 2020, compared to the same period in the prior year, primarily related to a decrease in operating losses at the corporate level and increased operating income at Cornerstone due to strong revenue and product margin performance in the home category. See "Results of Operations—Businesses" below for a more complete discussion of the results of operations of QVC and Zulily.

Adjusted OIBDA. To provide investors with additional information regarding our financial results, we also disclose Adjusted OIBDA, which is a non-GAAP financial measure. We define Adjusted OIBDA as operating income (loss) plus depreciation and amortization, stock-based compensation, separately reported litigation settlements, restructuring, acquisition and other related costs and impairments. Our chief operating decision maker and management team use this measure of performance in conjunction with other measures to evaluate our businesses and make decisions about allocating resources among our businesses. We believe this is an important indicator of the operational strength and performance of our businesses by identifying those items that are not directly a reflection of each business' performance or indicative of ongoing business trends. In addition, this measure allows us to view operating results, perform analytical comparisons and benchmarking between 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 flows provided by operating activities and other measures of financial performance prepared in accordance with U.S. generally accepted accounting principles. The following table provides a reconciliation of Operating income (loss) to Adjusted OIBDA:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	amounts in millions			
Operating income (loss)	\$ 406	(727)	1,042	(103)
Depreciation and amortization	141	146	427	457
Stock-based compensation	19	17	46	54
Impairment of intangible assets	—	1,020	—	1,020
Transaction related costs	—	—	—	1
Adjusted OIBDA	<u>\$ 566</u>	<u>456</u>	<u>1,515</u>	<u>1,429</u>

Consolidated Adjusted OIBDA increased 24.1% or \$110 million and 6.0% or \$86 million for the three and nine months ended September 30, 2020, respectively, as compared to the corresponding periods in the prior year. The increase in Adjusted OIBDA for the three and nine months ended September 30, 2020 was primarily due to an increase at Zulily of \$19 million and \$42 million for the three and nine months ended September 30, 2020, respectively, an increase at QVC International of \$26 million and \$35 million for the three and nine months ended September 30, 2020, respectively, an increase at QxH of \$34 million for the three months ended September 30, 2020, and an increase at Corporate and other of \$31 million and \$41 million for the three and nine months ended September 30, 2020, respectively, partially offset by a decrease at QxH of \$32 million for the nine months ended September 30, 2020, compared to the same periods in the prior year. The change in the Corporate and other segment for the three months ended September 30, 2020 was primarily due to an increase in Cornerstone Adjusted OIBDA due to strong revenue and product margin performance in the home category. The change in the Corporate and other segment for the nine months ended September 30, 2020 was primarily

due to a decrease in Adjusted OIBDA losses at the corporate level, and an increase in Cornerstone Adjusted OIBDA due to strong revenue and product margin performance in the home category. See "Results of Operations—Businesses" below for a more complete discussion of the results of operations of QVC and Zulily.

Other Income and Expense

Components of Other income (expense) are presented in the table below.

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	amounts in millions			
Interest expense	\$ (98)	(93)	(290)	(282)
Share of earnings (losses) of affiliates	(32)	(36)	(96)	(104)
Realized and unrealized gains (losses) on financial instruments, net	(12)	(45)	(127)	(239)
Gains (losses) on transactions, net	223	—	224	(1)
Other, net	(65)	(4)	(65)	(18)
Other income (expense)	\$ 16	(178)	(354)	(644)

Interest expense. Interest expense increased \$5 million and \$8 million for the three and nine months ended September 30, 2020, respectively, as compared to the corresponding periods in the prior year. The increases are primarily related to QVC refinancing its borrowings on its senior secured credit facility with newly issued senior secured notes in February 2020, which have higher interest rates, partially offset by lower debt balances mainly due to the repayment of amounts outstanding on the senior secured credit facility.

Share of earnings (losses) of affiliates. Share of losses of affiliates decreased \$4 million and \$8 million for the three and nine months ended September 30, 2020, respectively, as compared to the corresponding periods in the prior year. The losses decreased during the three and nine months ended September 30, 2020 due to improved results at the Company's alternative energy entities. These entities typically operate at a loss and the Company records its share of such losses but have favorable tax attributes and credits, which are recorded in the Company's tax accounts.

Realized and unrealized gains (losses) on financial instruments, net. Realized and unrealized gains (losses) on financial instruments, net are comprised of changes in the fair value of the following:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	amounts in millions			
Exchangeable senior debentures	(145)	(49)	(225)	(304)
Indemnification asset	94	3	107	58
Other financial instruments	39	1	(9)	7
	\$ (12)	(45)	(127)	(239)

The changes in realized and unrealized gains (losses) on financial instruments, net are due to market activity in the applicable period related to the financial instruments that are marked to market on a periodic basis. The decrease in realized and unrealized losses for the three months ended September 30, 2020, compared to the corresponding period in the prior year, was primarily driven by unrealized gains on the indemnification asset and derivative instruments (described in note 4 of the accompanying condensed consolidated financial statements), partially offset by an increase in unrealized losses on the exchangeable senior debentures. The decrease in realized and unrealized losses for the nine months ended September 30, 2020, compared to the corresponding period in the prior year, was driven by a decrease in unrealized losses on the exchangeable senior debentures and an increase in unrealized gains on the indemnification asset, partially offset by an increase in unrealized losses on derivative instruments.

Gains (losses) on transactions, net. Gains (losses) on transactions, net increased during the three and nine months ended September 30, 2020 as the result of the sale of one of the Company's alternative energy investments during the third

quarter of 2020. The Company received total cash consideration of \$272 million and recorded a gain of \$224 million on the sale of the alternative energy investment.

Other, net. Other, net declined \$61 million and \$47 million for the three and nine months ended September 30, 2020, respectively, compared to the corresponding periods in the prior year. The activity captured in other, net is primarily attributable to the impact of the tax sharing arrangement with GCI Liberty, extinguishment of debt in the current year, and foreign exchange gains in the current year and losses in the prior year.

Income taxes. We had income tax expense of \$70 million and tax benefit of \$150 million for the three months ended September 30, 2020 and 2019, respectively, and tax expense of \$111 million and tax benefit of \$188 million for the nine months ended September 30, 2020 and 2019, respectively. Income tax expense was lower than the U.S. statutory tax rate of 21% during the three months ended September 30, 2020 due to tax benefits from tax credits generated by our alternative energy investments, partially offset by state and foreign income tax expense. Income tax benefit during the three months ended September 30, 2019 was due primarily due to a goodwill impairment that was not deductible for tax purposes, partially offset by tax benefits from tax credits generated by our alternative energy investments. Income tax expense was lower than the U.S. statutory tax rate of 21% during the nine months ended September 30, 2020 due to tax benefits from tax credits generated by our alternative energy investments, partially offset by state and foreign income tax expense. Income tax benefit during the nine months ended September 30, 2019 was due primarily to tax benefits from tax credits generated by our alternative energy investments and tax benefits from losses generated in 2019 and eligible for carryback to tax years with federal income tax rates greater than the U.S. statutory tax rate of 21%, partially offset by a goodwill impairment that is not deductible for tax purposes and an increase in the valuation allowance recorded against foreign tax credits and certain foreign tax losses.

Net earnings. We had net earnings of \$352 million and net losses of \$755 million for the three months ended September 30, 2020 and 2019, respectively, and net earnings of \$577 million and net losses of \$559 million for the nine months ended September 30, 2020 and 2019, respectively. The change in net earnings (loss) was the result of the above-described fluctuations in our revenue, expenses and other gains and losses.

Material Changes in Financial Condition

As of September 30, 2020, substantially all of our cash and cash equivalents are invested in U.S. Treasury securities, securities of other government agencies, AAA rated money market funds and other highly rated financial and corporate debt instruments.

The following are potential sources of liquidity: available cash balances, availability under QVC's Senior Secured Credit Facility (the "Fourth Amended and Restated Credit Facility"), as discussed in note 6 of the accompanying condensed consolidated financial statements, debt issuances, equity issuances, interest receipts, proceeds from asset sales, and cash generated by the operating activities of our wholly-owned subsidiaries. Cash generated by the operating activities of our subsidiaries is only a source of liquidity to the extent such cash exceeds the working capital needs of the subsidiaries and is not otherwise restricted such as, in the case of QVC and Zulily, due to a requirement that a leverage ratio (calculated in accordance with the terms of such indebtedness) of less than 3.5 must be maintained.

During the nine months ended September 30, 2020 the Company's issuer debt credit rating was lowered from BB to BB- and QVC's issue-level rating on secured debt was lowered from BBB- to BB+ by S&P Global Ratings. All other credit ratings remained unchanged.

As of September 30, 2020, Qurate Retail's liquidity position included the following:

	Cash and cash equivalents	
	amounts in millions	
QVC	\$	574
Zulily		18
Corporate and other		452
Total Qurate Retail	\$	1,044
	Borrowing capacity	
	amount in billions	
Fourth Amended and Restated Credit Facility	\$	2.9

To the extent that the Company recognizes any taxable gains from the sale of assets we may incur tax expense and be required to make tax payments, thereby reducing any cash proceeds. As of September 30, 2020, the Company had approximately \$306 million of cash and cash equivalents held in foreign subsidiaries that is available for domestic purposes with no significant tax consequences upon repatriation to the United States. QVC accrues foreign taxes on the unremitted earnings of its international subsidiaries. Approximately 63% of QVC's foreign cash balance was that of QVC-Japan (as defined below). QVC owns 60% of QVC-Japan and shares all profits and losses with the 40% minority interest holder, Mitsui & Co., LTD ("Mitsui").

Additionally, our operating businesses have generated, on average, more than \$1 billion in annual cash provided by operating activities over the prior three years and we do not anticipate any significant reductions in that amount in future periods.

	Nine months ended September 30,	
	2020	2019
	amounts in millions	
Cash Flow Information		
Net cash provided (used) by operating activities	\$ 1,855	910
Net cash provided (used) by investing activities	\$ (25)	(486)
Net cash provided (used) by financing activities	\$ (1,464)	(468)

During the nine months ended September 30, 2020, Qurate Retail's primary uses of cash were net debt repayments of \$777 million, payment of cash dividends to common stockholders of \$626 million, capital expenditures of \$165 million and investments in and loans to equity method investments of \$88 million, partially offset by proceeds from dispositions of investments of \$269 million, which primarily related to the sale of an investment in an alternative energy company accounted for as an equity method investment

The projected uses of Qurate Retail cash for the remainder of 2020 are continued capital improvement spending of approximately \$115 million, debt service payments (including approximately \$40 million for interest payments on outstanding debt), the potential buyback of common stock under the approved share buyback program, payment of dividends to the holders of the 8.0% Series A Cumulative Redeemable Preferred Stock and additional investments in existing or new businesses. We also may be required to make net payments of income tax liabilities to settle items under discussion with tax authorities. We expect that cash on hand and cash provided by operating activities and borrowing capacity in future periods will be sufficient to fund projected uses of cash.

Results of Operations—Businesses

QVC. QVC is a retailer of a wide range of consumer products, which are marketed and sold primarily by merchandise-focused televised shopping programs, the Internet and mobile applications. In the U.S., QVC's televised shopping programs, including live and recorded content, are distributed across multiple channels nationally on a full-time basis, including QVC, QVC 2, QVC 3, HSN and HSN2. During the first quarter of 2019, QVC transitioned its televised Beauty iQ channel to QVC 3 and Beauty iQ content was moved to a digital only platform. QVC U.S. programming is also available on QVC.com and HSN.com, QVC's U.S. websites; applications via streaming video; Facebook Live, Roku, Apple TV and Amazon Fire; mobile applications; social pages and over-the-air broadcasters.

QVC's digital platforms enable consumers to purchase goods offered on its televised programming, along with a wide assortment of products that are available only on QVC.com and HSN.com. QVC.com and HSN.com and QVC's other digital platforms (including mobile applications, social pages, and others) are natural extensions of its business model, allowing customers to engage in its shopping experience wherever they are, with live or on-demand content customized to the device they are using. In addition to offering video content, QVC.com and HSN.com 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.

QVC's international televised shopping programs, including live and recorded content, are distributed to households outside of the U.S., primarily in Germany, Austria, Japan, the United Kingdom ("U.K."), the Republic of Ireland and Italy. In some of the countries where QVC operates, its 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., QVC's 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.

QVC's Japanese operations ("QVC-Japan") are conducted through a joint venture with Mitsui. QVC-Japan is owned 60% by QVC and 40% by Mitsui. QVC and Mitsui share in all profits and losses based on their respective ownership interests. During the nine months ended September 30, 2020 and 2019, QVC-Japan paid dividends to Mitsui of \$46 million and \$34 million, respectively.

In response to stay at home restrictions as a result of COVID-19, QVC has mandated that non-essential employees work from home, has reduced the number of employees who are allowed on its production set and has implemented increased cleaning protocols, social distancing measures and temperature screenings for those employees who enter into certain facilities. In some cases, the move to a work from home arrangement for QVC's non-essential employees will be permanent, which may result in the reduction of office space. QVC has also mandated that all essential employees who do not feel comfortable coming to work will not be required to do so. As a result of these resource constraints, QVC included fewer hours of live programming on some of its secondary channels and has experienced some delays in shipping at certain fulfillment centers. In certain markets, QVC temporarily increased the wages and salaries for those employees deemed essential who do not have the ability to work from home, including production and fulfillment center employees. The total increase in wages and salaries of \$8 million was recorded during the second quarter of 2020 and is primarily recorded in cost of goods sold for the nine months ended September 30, 2020. QVC has also paid a one-time work from home allowance to its employees during the second quarter of 2020 totaling \$4 million, which is primarily recorded in selling, general and administrative expenses for the nine months ended September 30, 2020. While the temporary increase in wages and salaries has been terminated in most of QVC's facilities, the inability to control the spread of COVID-19, or the expansion or extension of these stay at home restrictions could negatively impact QVC's results in the future.

The stay at home restrictions imposed in response to COVID-19 required many traditional brick and mortar retailers to temporarily close their stores, but allowed distance retailers, including QVC, to continue operating. As a result, beginning at the end of March 2020, QVC observed an increase in new customers and an increase in demand for certain categories, such as home.

As a result, for the nine months ended September 30, 2020, management has increased certain estimated reserves including, but not limited to, uncollectible receivables in anticipation of higher defaults by customers billed through QVC's installment payment option, and inventory obsolescence due to decreased demand for certain categories, such as apparel.

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.

In July 2020, QVC implemented a planned workforce reduction with the goal of making the organizational structure more streamlined and efficient. As part of the workforce reduction, QVC has decided to eliminate live hours on QVC 2 in the U.S. and other secondary channels within the various markets. As a result, QVC recorded \$2 million and \$18 million of severance expense during the three and nine months ended September 30, 2020, respectively, which is recorded in selling, general and administrative expense.

QVC's operating results were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	amounts in millions			
Net revenue	\$ 2,703	2,504	7,853	7,519
Cost of sales	(1,722)	(1,615)	(5,041)	(4,803)
Operating expenses	(184)	(181)	(548)	(537)
SG&A expenses (excluding stock-based compensation and transaction related costs)	(285)	(256)	(855)	(773)
Adjusted OIBDA	512	452	1,409	1,406
Stock-based compensation	(10)	(10)	(26)	(30)
Depreciation and amortization	(114)	(112)	(344)	(354)
Transaction related costs	—	—	—	(1)
Operating income	<u>\$ 388</u>	<u>330</u>	<u>1,039</u>	<u>1,021</u>

Net revenue was generated in the following geographical areas:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	amounts in millions			
QxH	\$ 1,980	1,854	5,782	5,585
QVC International	723	650	2,071	1,934
Consolidated QVC	<u>\$ 2,703</u>	<u>2,504</u>	<u>7,853</u>	<u>7,519</u>

QVC's consolidated net revenue increased 7.9% and 4.4% for the three and nine months ended September 30, 2020, respectively, as compared to the corresponding periods in the prior year. The three month increase in net revenue is primarily due to a 6.6% increase in units shipped, a \$45 million decrease in estimated product returns, primarily driven by QxH, a \$27 million increase in shipping and handling revenue across all markets except Japan and \$24 million in favorable foreign exchange rates, which was partially offset by a 2.8% decline in average selling price per unit ("ASP"), primarily at QxH. The nine months increase in net revenue is primarily due to a 3.4% increase in units shipped, a \$105 million decrease in estimated product returns, primarily driven by QxH, a \$23 million increase in shipping and handling revenue across all markets except Italy and \$11 million in favorable foreign exchange rates, which was partially offset by a 1% decline in ASP.

During the three and nine months ended September 30, 2020 and 2019, 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 describing QVC's operating results, the term currency exchange rates refers to the currency exchange rates QVC uses to convert the operating results for all countries where the functional currency is not the U.S. Dollar. QVC calculates the effect of changes in currency exchange rates as the difference between current period activity translated using the prior period's currency exchange rates. QVC refers to the results of this calculation as the impact of currency exchange rate fluctuations. Constant currency operating results refers to operating results without the impact of the currency exchange

rate fluctuations. The disclosure of constant currency amounts or results permits investors to better understand QVC's underlying performance without the effects of currency exchange rate fluctuations.

The percentage change in net revenue for each of QVC's geographic areas in U.S. Dollars and in constant currency was as follows:

	Three months ended September 30, 2020			Nine months ended September 30, 2020		
	U.S. Dollars	Foreign Currency Exchange Impact	Constant Currency	U.S. Dollars	Foreign Currency Exchange Impact	Constant currency
QxH	6.8 %	— %	6.8 %	3.5 %	— %	3.5 %
QVC International	11.2 %	3.5 %	7.7 %	7.1 %	0.5 %	6.6 %

The increase in QxH net revenue for the three months ended September 30, 2020 was primarily due to a 6.7% increase in units shipped, a \$40 million decrease in estimated product returns and an \$18 million increase in shipping and handling revenue, which was partially offset by a 3.3% decline in ASP. For the three months ended September 30, 2020, QxH experienced shipped sales growth in home and accessories with declines in all other categories. For the nine months ended September 30, 2020, QxH net revenue increased due to a 2.8% increase in units shipped, a \$100 million decrease in estimated product returns and a \$13 million increase in shipping and handling revenue, partially offset by a 1.3% decline in ASP. For the nine months ended September 30, 2020, QxH experienced shipped sales growth in home, electronics, and accessories with declines in all other categories. The decrease in estimated product returns for both comparable periods was primarily driven by a shift in product mix to lower return rate categories, partially offset by an increase in sales volume. The increase in shipping and handling revenue for both comparable periods was primarily driven by the increase in units shipped.

QVC International net revenue growth in constant currency for the three months ended September 30, 2020 was primarily due to a 6.6% increase in units shipped, driven by increases in units shipped across all markets, partially offset by a 1.5% decline in ASP, driven by ASP declines in Japan and Italy. For the three months ended September 30, 2020, QVC International experienced shipped sales growth in constant currency in all categories except jewelry. QVC-International net revenue growth in constant currency for the nine months ended September 30, 2020 was primarily due to a 4.6% increase in units shipped, driven by increases in units shipped across all markets, and a 0.5% increase in ASP, driven by ASP increases in Germany and the U.K. For the nine months ended September 30, 2020, QVC-International experienced shipped sales growth in constant currency in home, beauty and electronics with declines in all other categories.

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 due to COVID-19 in various regions of the world in which QVC's subsidiaries and affiliates operate could adversely affect demand for its products and services since a substantial portion of its revenue is derived from discretionary spending by individuals, which typically declines during times of economic instability. Global financial markets have recently experienced disruptions, including increased volatility and diminished liquidity and credit availability. If economic and financial market conditions in the U.S. or other key markets, including Japan and Europe, continues to be uncertain, QVC's customers may respond by suspending, delaying or reducing their discretionary spending. A suspension, delay or reduction in discretionary spending could adversely affect revenue. Accordingly, QVC's ability to increase or maintain revenue and earnings could be adversely affected to the extent that relevant economic environments decline.

On June 23, 2016, the U.K. held a referendum in which British citizens approved an exit from the European Union (the “E.U.”), commonly referred to as “Brexit.” The Brexit process and negotiations have created political and economic uncertainty, particularly in the U.K. and the E.U. and this uncertainty may last for years, and could potentially have a negative impact on QVC’s business. The potential impacts include, but are not limited to, unfavorable new trade agreements, the possible imposition of trade or other regulatory barriers which could result in shipping delays or shortages of products, and a negative impact to the global economy and consumer demand.

QVC’s cost of sales as a percentage of net revenue was 63.7% and 64.2% for the three and nine months ended September 30, 2020, respectively, compared to 64.5% and 63.9% for the three and nine months ended September 30, 2019, respectively. The decrease in cost of goods sold as a percentage of revenue for the three months ended September 30, 2020 is primarily due to strategic promotional and pricing initiatives, which decreased product costs as a percentage of net revenue across QxH, the U.K. and Germany, which was partially offset by increased freight and obsolescence charges at QxH. The increase in cost of goods sold as a percentage of revenue for the nine months ended September 30, 2020 is primarily due to increased freight and obsolescence charges at QxH.

QVC’s operating expenses are principally comprised of commissions, order processing and customer service expenses, credit card processing fees and telecommunications expenses. Operating expenses increased \$3 million and \$11 million for the three and nine months ended September 30, 2020, respectively, as compared to the three and nine months ended September 30, 2019. The three month increase is primarily due to an increase in customer service expenses primarily at QxH partially offset by lower commissions at QxH and Germany. The nine month increase is primarily due to an increase in customer service expenses and an increase in credit card fees at QxH partially offset by lower commissions at QxH. The increase in credit card fees for the nine months is primarily due to increased sales during the periods and lower sales penetration of QVC’s U.S. Private Label Credit Cards, which do not charge credit card fees. The decrease in commissions for both comparable periods is primarily due to increased digital penetration.

QVC’s SG&A expenses (excluding stock-based compensation and transaction related costs) include personnel, information technology, provision for doubtful accounts, production costs, and marketing and advertising expenses. Such expenses increased \$29 million and increased \$82 million for three and nine months ended September 30, 2020, respectively, as compared to the same periods in the prior year, and as a percentage of net revenue, increased from 10.2% to 10.5% and 10.3% to 10.9% for the three and nine months ended September 30, 2020, respectively, as compared to the three and nine months ended September 30, 2019, respectively. For the three months ended September 30, 2020, the increase was primarily due to a \$35 million increase in personnel costs across all markets, an \$8 million increase in marketing primarily at QxH and a \$3 million increase due to unfavorable exchange rates. The increases were partially offset by a \$13 million decrease in credit losses, primarily at QxH, a \$5 million decrease in outside services primarily at QxH and a \$3 million decrease in travel expenses across all markets.

For the nine months ended September 30, 2020, the increase was primarily due to a \$65 million increase in personnel costs across all markets and a \$26 million increase in marketing primarily at QxH. These increases were partially offset by a \$7 million decrease in travel expenses across all markets and a \$4 million decrease in outside services primarily at QxH. The increase related to personnel costs for the three and nine months ended September 30, 2020 was primarily due to an increase to our estimated incentive pay across all markets. Additionally, the nine months ended September 30, 2020 increase was impacted by increased severance and a work from home allowance as a result of COVID-19, which was partially offset by the closure of our operations in France in 2019. The decrease to estimated credit losses for the three months ended September 30, 2020 was due to favorable adjustments based on actual collections and the release of the additional credit loss reserve that was recorded during the first and second quarters of 2020 as a result of the additional risk due to COVID-19. The decrease in travel expenses for both comparable periods was primarily due to less travel as a result of COVID-19.

Stock-based compensation includes compensation related to options and restricted stock units granted to certain officers and employees. QVC recorded \$10 million of stock-based compensation expense for both of the three months ended September 30, 2020 and September 30, 2019, and \$26 million and \$30 million for the nine months ended September 30, 2020 and September 30, 2019, respectively. The decrease in stock compensation expense for the nine months ended September 30, 2020 is primarily related to certain officers not reaching performance targets for restricted stock units.

Depreciation and amortization decreased \$2 million and \$10 million for the three and nine months ended September 30, 2020 and September 30, 2019, respectively, and included \$17 million and \$50 million of acquisition related

amortization for the three and nine months ended September 30, 2020, respectively, and \$17 million and \$51 million of acquisition related amortization for the three and nine months ended September 30, 2019, respectively. The decrease was primarily a result of the disposition of assets in France in the second quarter of 2019.

Zulily. Zulily is an online retailer offering customers a fun and entertaining shopping experience with a fresh selection of new product styles launched each day. The Zulily website was launched in January 2010 with the goal of revolutionizing the way consumers shop. Through its app, mobile and desktop experiences, Zulily helps its customers discover new and unique products at great values that they would likely not find elsewhere. Zulily’s merchandise includes women’s, children’s and men’s apparel and other products such as home, accessories and beauty products.

Zulily’s stand-alone operating results for the three and nine months ended September 30, 2020 and 2019 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2020	2019	2020	2019
	amounts in millions			
Net revenue	\$ 395	359	1,133	1,119
Costs of sales	(288)	(267)	(836)	(832)
Operating expenses	(11)	(10)	(31)	(31)
SG&A expenses (excluding stock-based compensation)	(69)	(74)	(192)	(224)
Adjusted OIBDA	27	8	74	32
Stock-based compensation	(4)	(4)	(11)	(12)
Depreciation and amortization	(20)	(26)	(60)	(78)
Impairment of intangible assets	—	(1,020)	—	(1,020)
Operating income (loss)	\$ 3	(1,042)	3	(1,078)

Zulily’s consolidated net revenue increased 10.0% and 1.3% for the three and nine months ended September 30, 2020, respectively, as compared to the corresponding periods in the prior year. The increase in net revenue for the three months ended September 30, 2020 was primarily related to an increase of 4.7% in total units shipped and 6.7% in average sale price driven by increased demand for online shopping and Zulily’s merchandise as a result of stay-at-home orders and the temporary closure of brick-and-mortar retail due to COVID-19 and higher merchandise pricing. The increase in net revenue for the nine months ended September 30, 2020 was primarily attributed to increased demand in the nine months ended September 30, 2020 and an increase of 4.6% in average sale price, partially offset by a decrease in new customers and lower purchasing frequency from existing customers compared to the corresponding periods in the prior year.

Zulily’s cost of sales as a percentage of net revenue was 72.9% and 74.4% for the three months ended September 30, 2020 and 2019, respectively, and 73.8% and 74.4% for the nine months ended September 30, 2020 and 2019, respectively. For the three months ended September 30, 2020, the decrease was primarily due to an increase of 6.7% in average sale price.

Operating expenses are principally comprised of credit card processing fees and customer service expenses. For the three months ended September 30, 2020, operating expenses increased compared to the corresponding period in the prior year, driven by increased sales volumes. For the nine months ended September 30, 2020, operating expenses remained flat.

Zulily’s SG&A expenses (excluding stock-based compensation) include personnel related costs for general corporate functions, marketing and advertising expenses, information technology, and the costs associated with the use by these functions of facilities and equipment, including rent. For the three months ended September 30, 2020, as a percentage of net revenue, these expenses decreased from 20.6% to 17.5%, and for the nine months ended September 30, 2020, as a percentage of net revenue, these expenses decreased from 20.0% to 16.9%. The decrease is primarily attributable to lower marketing spend and better leverage attributable to the increase in sales. Additionally, Zulily recognized a \$10 million reduction in a sales tax accrual during the nine months ended September 30, 2020, which was originally recorded at the acquisition date.

Zulily's total depreciation and amortization expense decreased for the three and nine months ended September 30, 2020, as compared to the corresponding periods in the prior year. The decline is due to the amortization of Zulily's customer relationship asset being front-loaded in the earlier years of its useful life.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

We are exposed to market risk in the normal course of business due to our ongoing investing and financial activities and the conduct of operations by our subsidiaries in different foreign countries. Market risk refers to the risk of loss arising from adverse changes in 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. We have established policies, procedures and internal processes governing our management of market risks and the use of financial instruments to manage our exposure to such risks.

We are exposed to changes in interest rates primarily as a result of our borrowing and investment activities, which include investments in fixed and floating rate debt instruments and borrowings used to maintain liquidity and to fund business operations. The nature and amount of our long-term and short-term debt are expected to vary as a result of future requirements, market conditions and other factors. We manage our exposure to interest rates by maintaining what we believe is an appropriate mix of fixed and variable rate debt. We believe this best protects us from interest rate risk. We have achieved this mix by (i) issuing fixed rate debt that we believe has a low stated interest rate and significant term to maturity, (ii) issuing variable rate debt with appropriate maturities and interest rates and (iii) entering into interest rate swap arrangements when we deem appropriate. As of September 30, 2020, our debt is comprised of the following amounts:

	Variable rate debt		Fixed rate debt	
	Principal amount	Weighted average interest rate	Principal amount	Weighted average interest rate
dollar amounts in millions				
QxH and QVC International	\$ —	— %	\$ 4,450	5.0 %
Corporate and other	\$ —	— %	\$ 2,204	5.1 %

Qurate Retail is exposed to foreign exchange rate fluctuations related primarily to the monetary assets and liabilities and the financial results of QVC's 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 generally 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 accumulated other comprehensive earnings (loss) as a separate component of stockholders' 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 translations) or realized upon settlement of the transactions. Cash flows from our operations in foreign countries are translated at the average rate for the period. Accordingly, Qurate Retail may experience economic loss and a negative impact on earnings and equity with respect to our holdings solely as a result of foreign currency exchange rate fluctuations. QVC's reported Adjusted OIBDA for the nine months ended September 30, 2020 would have been impacted by approximately \$4 million, for every 1% change in foreign currency exchange rates relative to the U.S. Dollar.

We periodically assess the effectiveness of our derivative financial instruments. With regard to interest rate swaps, we monitor the fair value of interest rate swaps as well as the effective interest rate the interest rate swap yields, in comparison to historical interest rate trends. We believe that any losses incurred with regard to interest rate swaps would be largely offset by the effects of interest rate movements on the underlying debt facilities. These measures allow our management to evaluate the success of our use of derivative instruments and to determine when to enter into or exit from derivative instruments.

Item 4. Controls and Procedures.

Disclosure Controls and Procedures

In accordance with Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934, as amended, the 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, 2020 because of the material weakness in our internal control over financial reporting as discussed in more detail in our 2019 10-K. Management has continued to monitor the implementation of the remediation plan described in the 2019 10-K, as described below.

Changes in Internal Control Over Financial Reporting

During the third quarter of 2020, we continued to assess Information Technology system related risks and implement control improvements to alleviate the noted control deficiencies. Other than these items, there has been no change in the Company's internal control over financial reporting that occurred during the three months ended September 30, 2020 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 pandemic.

Remediation Plan for Material Weakness in Internal Control Over Financial Reporting

In response to the material weakness identified in Management's Report on Internal Control Over Financial Reporting as set forth in Part II, Item 9A in the 2019 10-K, the Company developed a plan with oversight from the Audit Committee of the Board of Directors of Qurate Retail to remediate the material weakness. The remediation efforts include the following:

- Ensure user access is appropriately restricted to the IT systems in Germany that contributed to the material weakness
- Continue to assess the risks in and around IT systems that could impact internal controls over financial reporting
- Enhance design and/or operating effectiveness of control activities to address identified risks

The Company has appropriately restricted access to the affected IT systems in Germany and has implemented annual and ongoing processes to assess and address risk in the IT environment. However, because the reliability of the internal control process requires repeatable execution, the successful on-going remediation of the material weakness will require on-going risk assessments and control improvements to mitigate risks identified. We expect to conclude the effective remediation of the material weakness prior to the end of 2020.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Share Repurchase Programs

In May 2019, the board authorized the repurchase of \$500 million of Series A or Series B common stock. There were no repurchases of Series A or Series B common stock during the three months ended September 30, 2020. As of September 30, 2020, \$497 million was available to be used for share repurchases of Series A or Series B common stock under the Company's share repurchase program.

During the three months ended September 30, 2020, no shares of Series A common stock were surrendered by our officers and employees to pay withholding taxes and other deductions in connection with the vesting of their restricted stock and restricted stock units.

Item 6. Exhibits

(a) Exhibits

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

4.1	Certificate of Designations of 8.0% Series A Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 3.1 to the Registrant's Current Report on Form 8-K filed on August 26, 2020 (File No. 001-33982)).
4.2	Specimen Certificate for shares of 8.0% Series A Cumulative Redeemable Preferred Stock (incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form 8-A filed on August 27, 2020 (File No. 001-33982)).
10.1	Fourth Supplemental Indenture, dated August 20, 2020, by and among QVC, Inc., Affiliate Investment, Inc., Affiliate Relations Holdings, Inc., AMI 2, Inc., ER Marks, Inc., QVC Global Holdings I, Inc., QVC Global Holdings II, Inc., QVC Rocky Mount, Inc., QVC San Antonio, LLC, QVC Deutschland GP, Inc., HSN, Inc., HSNi, LLC, HSN Holding LLC, AST Sub, Inc., Home Shopping Network En Espanol, L.L.C., Home Shopping Network En Espanol, L.P., H.O.T. Networks Holdings (Delaware) LLC, HSN of Nevada LLC, Ingenious Designs LLC, NLG Merger Corp., Ventana Television, Inc., and Ventana Television Holdings, Inc., as guarantors, and U.S. Bank National Association, as trustee (incorporated by reference to Exhibit 4.2 to QVC Inc.'s Current Report on Form 8-K filed on August 20, 2020 (File No. 001-38654) (the "August 2020 Form 8-K")).
10.2	Form of 4.375% Senior Secured Notes due 2028 (incorporated by reference to Exhibit 4.3 to the August 2020 Form 8-K).
31.1	Rule 13a-14(a)/15d-14(a) Certification*
31.2	Rule 13a-14(a)/15d-14(a) Certification*
32	Section 1350 Certification**
99.1	Reconciliation of Qurate Retail, Inc. Net Assets and Net Earnings to Liberty Interactive LLC Net Assets and Net Earnings**
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

CERTIFICATION

I, Michael A. George, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Qurate Retail, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers 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 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 quarterly 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 quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) disclosed in this quarterly 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 officers 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 5, 2020

/s/ MICHAEL A. GEORGE

Michael A. George
President and Chief Executive Officer

CERTIFICATION

I, Brian J. Wendling, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Qurate Retail, Inc.;
2. Based on my knowledge, this quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers 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 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 quarterly 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 quarterly report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this quarterly report based on such evaluation; and
 - d) disclosed in this quarterly 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 officers 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 5, 2020

/s/ BRIAN J. WENDLING

Brian J. Wendling

Chief Accounting Officer and Principal Financial Officer

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

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

The Quarterly Report on Form 10-Q for the period ended September 30, 2020 (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 5, 2020

/s/ MICHAEL A. GEORGE

Michael A. George
President and Chief Executive Officer

Date: November 5, 2020

/s/ BRIAN J. WENDLING

Brian J. Wendling
Chief Accounting Officer and Principal Financial 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.

Qurate Retail, Inc.
Reconciliation of Qurate Retail, Inc. ("Qurate Retail") Net Assets and
Net Earnings to Liberty Interactive LLC ("Liberty LLC") Net Assets and Net Earnings

September 30, 2020

(unaudited)

amounts in millions

Qurate Retail Net Assets	\$	3,707
Reconciling items:		
Zulily, llc ("Zulily") net assets		(675)
Cornerstone Brands, Inc. ("Cornerstone") net assets (1)		(261)
Equity investment in Cornerstone held by Liberty LLC (1)		37
Tax sharing agreement with GCI Liberty, Inc.		115
Preferred Stock liability (2)		1,248
Preferred restricted stock unit liability (2)		37
Accrued preferred dividends payable (2)		4
Liberty LLC Net Assets	\$	<u>4,212</u>
Qurate Retail Net Earnings	\$	577
Reconciling items:		
Zulily net (earnings) loss		2
Cornerstone net (earnings) loss (1)		(22)
Cornerstone equity method investment share of earnings (loss)		8
GCI Liberty, Inc. tax sharing expense		30
Accrued preferred dividends payable (2)		4
Liberty LLC Net Earnings	\$	<u>599</u>

- (1) On December 29, 2017, Qurate Retail acquired the approximate remaining 62% of HSN, Inc. (which includes its televised shopping business "HSN" and its catalog retail business "Cornerstone") it did not already own. On December 31, 2018, Qurate Retail transferred their 100% ownership interest in HSN to QVC, Inc. through a transaction amongst entities under common control and based on the guidance for accounting for transactions amongst entities under common control HSN's results have been excluded for the entire period. Liberty LLC continues to hold 38% of Cornerstone and accounts for its ownership in Cornerstone as an equity method investment.
- (2) On September 14, 2020, Qurate Retail issued the 8.0% Series A Cumulative Redeemable Preferred Stock, par value \$0.01 per share (the "Preferred Stock"). Holders of the Preferred Stock are entitled to receive quarterly cash dividends at a fixed rate of 8.0% per year on a cumulative basis, beginning December 15, 2020 and thereafter on each of March 15, June 15, September 15 and December 15 during the term. As the Preferred Stock is subject to unconditional mandatory redemption in cash and was issued in the form of a share, Qurate Retail concluded the Preferred Stock was a mandatorily redeemable financial instrument and should be classified as a liability in the condensed consolidated balance sheets.