

QEP RESOURCES, INC.
Form 10-Q
July 31, 2012

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 quarter ended June 30, 2012

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

For the transition period from _____ to _____

QEP RESOURCES, INC.

(Exact name of registrant as specified in its charter)

STATE OF DELAWARE	001-34778	87-0287750
(State or other jurisdiction of incorporation or organization)	(Commission File Number)	(I.R.S. Employer Identification No.)

1050 17th Street, Suite 500, Denver, Colorado 80265
(Address of principal executive offices)

Registrant's telephone number, including area code (303) 672-6900

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

At June 30, 2012, there were 177,769,238 shares of the registrant's common stock, \$0.01 par value, outstanding.

QEP Resources, Inc.
Form 10-Q for the Quarter Ended June 30, 2012

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

QEP RESOURCES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
	(in millions, except per share amounts)			
REVENUES				
Natural gas sales	\$ 138.9	\$ 298.7	\$ 300.1	\$ 611.3
Oil sales	107.2	80.7	218.0	143.7
NGL sales	82.1	63.8	179.5	111.7
Gathering, processing and other	45.8	58.9	95.6	105.5
Purchased gas, oil and NGL sales	125.3	306.0	309.3	453.8
Total Revenues	499.3	808.1	1,102.5	1,426.0
OPERATING EXPENSES				
Purchased gas, oil and NGL expense	124.9	303.9	313.3	450.6
Lease operating expense	40.5	34.3	80.6	67.1
Natural gas, oil and NGL transportation and other handling costs	40.7	24.0	75.2	45.7
Gathering, processing and other	20.6	27.2	44.3	52.4
General and administrative	36.8	28.7	72.8	60.4
Production and property taxes	19.4	27.1	44.1	50.8
Depreciation, depletion and amortization	214.1	186.6	413.3	377.4
Exploration expenses	2.1	2.3	4.1	5.1
Abandonment and impairment	55.7	5.3	62.3	10.7
Total Operating Expenses	554.8	639.4	1,110.0	1,120.2
Net gain from asset sales	-	0.2	1.5	0.2
OPERATING (LOSS) INCOME	(55.5)	168.9	(6.0)	306.0
Realized and unrealized gains on derivative contracts (See Note 6)	82.3	-	298.6	-
Interest and other income (loss)	0.9	(0.4)	2.6	0.2
Income from unconsolidated affiliates	1.4	1.3	3.3	2.2
Loss from early extinguishment of debt	(0.6)	-	(0.6)	-
Interest expense	(28.2)	(22.1)	(52.9)	(44.2)
INCOME BEFORE INCOME TAXES	0.3	147.7	245.0	264.2
Income taxes	(0.1)	(54.2)	(88.8)	(96.9)
NET INCOME	0.2	93.5	156.2	167.3
Net income attributable to noncontrolling interest	(0.9)	(0.7)	(1.7)	(1.3)
NET (LOSS) INCOME ATTRIBUTABLE TO QEP	\$(0.7)	\$92.8	\$154.5	\$166.0
Earnings Per Common Share Attributable to QEP				
Basic total	\$-	\$0.52	\$0.87	\$0.94
Diluted total	\$-	\$0.52	\$0.87	\$0.93
Weighted-average common shares outstanding				

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Used in basic calculation	177.7	176.6	177.6	176.4
Used in diluted calculation	177.7	178.6	178.5	178.5
Dividends per common share	\$0.02	\$0.02	\$0.04	\$0.04

See notes accompanying the condensed consolidated financial statements.

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QEP RESOURCES, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2012	2011	2012	2011
	(in millions)			
Net income	\$0.2	\$93.5	\$156.2	\$167.3
Other comprehensive (loss) income, net of tax:				
Reclassification of previously deferred derivative gains(1)	(44.7)	(2.5)	(91.7)	(50.3)
Pension and other postretirement plans adjustments:				
Amortization of net actuarial loss (2)	0.1	-	0.2	-
Amortization of prior service cost (3)	0.8	1.7	1.7	1.7
Total pension and other postretirement plans adjustments	0.9	1.7	1.9	1.7
Other comprehensive loss	(43.8)	(0.8)	(89.8)	(48.6)
Comprehensive (loss) income	(43.6)	92.7	66.4	118.7
Comprehensive income attributable to noncontrolling interests	(0.9)	(0.7)	(1.7)	(1.3)
Comprehensive (loss) income attributable to QEP	\$(44.5)	\$92.0	\$64.7	\$117.4

- (1) Presented net of income tax benefit of \$26.5 million and \$54.3 million during the three and six months ended June 30, 2012, respectively, and net of income tax benefit of \$1.5 million and \$29.8 million during the three and six months ended June 30, 2011, respectively.
- (2) Presented net of income tax expense of \$0.1 million and \$0.2 million during the three and six months ended June 30, 2012, respectively.
- (3) Presented net of income tax expense of \$0.5 million and \$1.1 million during the three and six months ended June 30, 2012, respectively, and net of income tax expense of \$1.1 million during the three and six months ended June 30, 2011, respectively.

See notes accompanying the condensed consolidated financial statements.

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QEP RESOURCES, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	June 30, 2012	December 31, 2011
	(in millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 146.4	\$ -
Accounts receivable, net	236.9	397.4
Fair value of derivative contracts	268.2	273.7
Inventories, at lower of average cost or market		
Gas, oil and NGL	11.6	16.2
Materials and supplies	90.0	87.6
Prepaid expenses and other	42.5	43.7
Total Current Assets	795.6	818.6
Property, Plant and Equipment (successful efforts method for gas and oil properties)		
Proved properties	8,822.3	8,172.4
Unproved properties	305.4	326.8
Midstream field services	1,550.1	1,463.6
Marketing and other	53.6	49.8
Total Property, Plant and Equipment	10,731.4	10,012.6
Less Accumulated Depreciation, Depletion and Amortization		
Exploration and production	3,763.7	3,339.2
Midstream field services	327.8	297.5
Marketing and other	16.3	14.6
Total Accumulated Depreciation, Depletion and Amortization	4,107.8	3,651.3
Net Property, Plant and Equipment	6,623.6	6,361.3
Investment in unconsolidated affiliates	41.9	42.2
Goodwill	59.5	59.5
Fair value of derivative contracts	76.2	123.5
Other noncurrent assets	40.8	37.6
TOTAL ASSETS	\$ 7,637.6	\$ 7,442.7
LIABILITIES AND EQUITY		
Current Liabilities		
Checks outstanding in excess of cash balances	\$-	\$ 29.4
Accounts payable and accrued expenses	373.8	457.3
Production and property taxes	47.2	40.0
Interest payable	33.0	24.4
Fair value of derivative contracts	2.3	1.3
Deferred income taxes	31.0	85.4
Total Current Liabilities	487.3	637.8
Long-term debt	1,866.6	1,679.4
Deferred income taxes	1,563.1	1,484.7
Asset retirement obligations	172.2	163.9
Fair value of derivative contracts	2.4	-
Other long-term liabilities	129.8	124.8

Commitments and contingencies

EQUITY

Common stock - par value \$0.01 per share; 500.0 million shares authorized; 178.5 million and 177.2 million shares issued, respectively	1.8	1.8
Treasury stock - 0.7 million and 0.4 million shares, respectively	(24.0)	(13.1)
Additional paid-in capital	450.4	431.4
Retained earnings	2,820.7	2,673.5
Accumulated other comprehensive income	118.1	207.9
Total Common Shareholders' Equity	3,367.0	3,301.5
Noncontrolling interest	49.2	50.6
Total Equity	3,416.2	3,352.1
TOTAL LIABILITIES AND EQUITY	\$7,637.6	\$ 7,442.7

See notes accompanying the condensed consolidated financial statements.

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QEP RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2012	2011
	(in millions)	
OPERATING ACTIVITIES		
Net income	\$156.2	\$167.3
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation, depletion and amortization	413.3	377.4
Deferred income taxes	77.1	95.7
Abandonment and impairment	62.3	10.7
Share-based compensation	12.3	10.8
Amortization of debt issuance costs and discounts	2.4	1.5
Dry exploratory well expense	0.1	0.5
Net gain from asset sales	(1.5)	(0.2)
Income from unconsolidated affiliates	(3.3)	(2.2)
Distributions from unconsolidated affiliates and other	3.5	2.6
Non-cash loss on early extinguishment of debt	0.1	-
Unrealized gain on derivative contracts	(89.9)	(58.8)
Changes in operating assets and liabilities	61.7	23.3
Net Cash Provided by Operating Activities	694.3	628.6
INVESTING ACTIVITIES		
Property acquisitions	(4.0)	(29.8)
Property, plant and equipment, including dry exploratory well expense	(681.5)	(632.0)
Proceeds from disposition of assets	3.6	1.6
Net Cash Used in Investing Activities	(681.9)	(660.2)
FINANCING ACTIVITIES		
Checks outstanding in excess of cash balances	(29.4)	(1.5)
Long-term debt issued	800.0	-
Long-term debt issuance costs paid	(8.8)	-
Long-term debt repaid	(6.7)	(58.5)
Proceeds from credit facility	194.5	200.0
Repayments of credit facility	(801.0)	(100.0)
Other capital contributions	(6.4)	(0.4)
Dividends paid	(7.1)	(7.1)
Excess tax benefit on share-based compensation	2.0	1.4
Distribution from Questar	-	0.2
Distribution to noncontrolling interest	(3.1)	(2.5)
Net Cash Provided by Financing Activities	134.0	31.6
Change in cash and cash equivalents	146.4	-
Beginning cash and cash equivalents	-	-
Ending cash and cash equivalents	\$146.4	\$-
Supplemental Disclosures:		
Cash paid for interest	\$42.7	\$64.6
Cash paid (received) for income taxes	8.0	(7.2)

Non-cash investing activities

Change in capital expenditure accrual balance	\$45.3	\$12.3
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See notes accompanying the condensed consolidated financial statements.

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QEP RESOURCES, INC.

NOTES ACCOMPANYING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 – Nature of Business

QEP Resources, Inc. (QEP or the Company) is a holding company with three major lines of business – natural gas and crude oil exploration and production; midstream field services; and energy marketing. These businesses are conducted through the Company’s three principal subsidiaries:

§ QEP Energy Company (QEP Energy) acquires, explores for, develops, and produces natural gas, oil, and natural gas liquids (NGL);

§ QEP Field Services Company (QEP Field Services) provides midstream field services; including natural gas gathering, processing, compression, and treating services, for affiliates and third parties; and

§ QEP Marketing Company (QEP Marketing) markets affiliate and third-party natural gas and oil, provides risk-management services, and owns and operates an underground gas-storage reservoir.

Operations are focused in two major regions, the Northern Region (primarily in the Rockies) and the Southern Region (primarily Oklahoma, Louisiana, and the Texas Panhandle) of the United States. QEP’s corporate headquarters are located in Denver, Colorado.

Shares of QEP Resources’ common stock trade on the New York Stock Exchange under the ticker symbol “QEP”.

Note 2 – Basis of Presentation of Interim Consolidated Financial Statements

The interim condensed consolidated financial statements contain the accounts of QEP and its majority-owned or controlled subsidiaries. The condensed consolidated financial statements were prepared in accordance with United States Generally Accepted Accounting Principles (GAAP) and with the instructions for quarterly reports on Form 10-Q and Regulations S-X and S-K. All significant intercompany accounts and transactions have been eliminated in consolidation.

The condensed consolidated financial statements reflect all normal recurring adjustments and accruals that are, in the opinion of management, necessary for a fair statement of financial position and results of operations for the interim periods presented. Interim condensed consolidated financial statements do not include all of the information and notes required by GAAP for audited annual consolidated financial statements. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

The preparation of the condensed consolidated financial statements and notes in conformity with GAAP requires that management make estimates and assumptions that affect revenues, expenses, assets and liabilities, and disclosure of contingent assets and liabilities. Actual results could differ from estimates. The results of operations for the three and six months ended June 30, 2012, are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

De-designation of commodity derivative contracts

Effective January 1, 2012, QEP elected to discontinue hedge accounting prospectively for all of its derivative instruments. Accordingly, all realized and unrealized gains and losses will be recognized in earnings immediately each quarter as derivative contracts are settled and marked-to-market. For the three and six months ended June 30, 2012, unrealized losses of \$38.4 million and unrealized gains of \$89.9 million were included in income that, prior to January 1, 2012, would have been deferred in Accumulated Other Comprehensive Income (AOCI) under hedge accounting. Refer to Note 6 – Derivative Contracts for additional information.

Transportation and other handling costs

In the fourth quarter of 2011, QEP revised its reporting of transportation and handling costs to reflect revenues in accordance with industry practice and GAAP. Transportation and handling costs, previously netted against revenues, were recast on the Condensed Consolidated Statement of Income from “Revenues” to “Natural gas, oil and NGL transportation and other handling costs” for prior periods presented. The impact of this revision was immaterial to the accompanying financial statements and had no effect on income from continuing operations, net income, or earnings per share.

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The following table details the impact for the three and six months ended June 30, 2011, on the Condensed Consolidated Statement of Income.

	Three Months Ended June 30, 2011			Six Months Ended June 30, 2011		
	As reported (1)	As revised (in millions)	Change	As reported (1)	As revised (in millions)	Change
REVENUES						
Natural gas sales	\$258.1	\$298.7	\$40.6	\$529.1	\$611.3	\$82.2
Oil sales	80.0	80.7	0.7	142.3	143.7	1.4
NGL sales	61.6	63.8	2.2	107.4	111.7	4.3
Gathering, processing and other	78.4	58.9	(19.5)	147.7	105.5	(42.2)
OPERATING EXPENSES						
Natural gas, oil and NGL transportation and other handling costs	-	24.0	24.0	-	45.7	45.7

(1) The “As reported” numbers reflect QEP Field Services NGL sales of \$45.1 million and \$73.7 million for the three and six months ended June 30, 2011, which were reclassified from “Gathering, processing and other” into “NGL sales” for consistency with current period presentation. In its second quarter 2011 Form 10-Q, QEP reported “NGL sales” of \$16.5 million and \$33.7 million, and “Gathering, processing and other” of \$123.5 million and \$221.4 million for the three and six months ended June 30, 2011, respectively. The QEP Field Services NGL reclassification is all within “Revenues” and has no effect on income from continuing operations, net income or earnings per share.

Impairment of long-lived assets

Proved gas and oil properties are evaluated on a field-by-field basis for potential impairment. Other properties are evaluated on a specific-asset basis or in groups of similar assets, as applicable. Impairment is indicated when a triggering event occurs and/or the sum of the estimated undiscounted future net cash flows of an evaluated asset is less than the asset’s carrying value. Triggering events could include, but are not limited to, an impairment of gas and oil reserves caused by mechanical problems, faster-than-expected decline of reserves, lease-ownership issues, other-than-temporary decline in natural gas, NGL and crude oil prices and changes in the utilization of midstream gathering and processing assets. If impairment is indicated, fair value is calculated using a discounted-cash flow approach. Cash flow estimates require forecasts and assumptions for many years into the future for a variety of factors, including commodity prices, operating costs, and estimates of probable and possible reserves. Cash flow estimates relating to future cash flows from probable and possible reserves are reduced by additional risk-weighting factors. During the three and six months ended June 30, 2012, QEP Energy recorded non-cash, price-related impairment charges of \$48.9 million and \$49.3 million, respectively, on some of its proved properties. The impairment charges are related to the reduced value of certain fields resulting from lower natural gas, crude oil and NGL prices. The assets were written down to their estimated fair values. Of the \$49.3 million impairment charge during the six months ended June 30, 2012, \$48.9 million is related to proved properties in the Southern Region and \$0.4 million is related to proved properties in the Northern Region.

The Company also performs periodic assessments of unproved gas and oil properties for impairment and recognizes a loss at the time of impairment. In determining whether an unproved property is impaired the Company considers numerous factors including current development and exploration plans, results of development or exploration activity on adjacent leaseholds, technical personnel evaluations of the properties, and the remaining lease term. During the three and six months ended June 30, 2012, QEP recorded non-cash impairment charges of \$6.1 million and \$12.1 million, respectively, on some of its unproved properties relating to the various factors described. Of the \$6.1 million

and \$12.1 million impairment charges during the three and six months ended June 30, 2012, \$3.1 million and \$6.1 million, respectively, related to unproved properties in the Southern Region and \$3.0 million and \$6.0 million, respectively, related to unproved properties in the Northern Region.

Natural gas, NGL and crude oil prices

Historically, field-level prices received for QEP's natural gas, NGL, and crude oil production have been volatile and unpredictable, and that volatility is expected to continue. In recent years, domestic natural gas supply has grown faster than natural gas demand, driven by advances in drilling and completion technologies, including horizontal drilling and multi-stage hydraulic fracturing, which have allowed producers to extract increased quantities of natural gas from shale, tight sand formations, and other unconventional reservoirs. Increased natural gas and NGL drilling and supplies have resulted in downward pressure on natural gas and NGL prices, while concern about the global economy and other factors has created volatility in the price of crude oil. Changes in the market prices for natural gas, crude oil, and NGL directly impact many aspects of QEP's business, including its financial condition, revenues, results of operations, planned drilling activity and related capital expenditures, liquidity, rate of growth, costs of goods and services required to drill and complete wells, and may impact the carrying value of its oil and natural gas properties.

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New accounting pronouncements

In May of 2011, the FASB issued ASU 2011-04, which develops common measurement and disclosure requirements regarding an entity's fair value measurements and aligns GAAP and International Financial Reporting Standards. The amendments are required for interim and annual reporting periods beginning after December 15, 2011. The adoption of these requirements did not have a material impact on the financial statements of QEP.

In June of 2011, the FASB issued ASU 2011-05, which revises the manner in which entities are able to present the components of comprehensive income in their financial statements. The new guidance requires entities to report the components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. However, this ASU does not change the items that are reported in other comprehensive income. The amendments are effective for reporting periods (including interim periods) beginning after December 15, 2011. The adoption of this ASU required minor disclosure changes to QEP's financial statements and footnotes.

In December of 2011, the FASB issued ASU 2011-11, which enhances disclosure requirements regarding an entity's financial instruments and derivative instruments that are offset or subject to a master netting arrangement. This information about offsetting and related netting arrangements will enable users of financial statements to understand the effect of those arrangements on the entity's financial position, including the effect of rights of setoff. The amendments are required for annual reporting periods beginning after January 1, 2013, and interim periods within those annual periods. QEP is evaluating the impact of this ASU on its disclosure requirements.

Note 3 – Earnings Per Share

Basic earnings per share (EPS) are computed by dividing net income attributable to QEP by the weighted-average number of common shares outstanding during the reporting period. Diluted EPS includes the potential increase in the number of outstanding shares that could result from the exercise of in-the-money stock options. QEP's unvested restricted shares are included in weighted-average basic common shares outstanding because once the shares are granted, the restricted shares are considered issued and outstanding, the historical forfeiture rate is minimal and the restricted shares receive dividends.

Unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents are considered participating securities and are included in the computation of earnings per share pursuant to the two-class method. The Company's unvested restricted stock awards contain non-forfeitable dividend rights and participate equally with common stock with respect to dividends issued or declared. However, the Company's unvested restricted stock does not have a contractual obligation to share in losses of the Company. The Company's unexercised stock options do not contain rights to dividends. Under the two-class method, the earnings used to determine basic earnings per common share are reduced by an amount allocated to participating securities. When the Company records a net loss, none of the loss is allocated to the participating securities since the securities are not obligated to share in Company losses. Use of the two-class method has an insignificant impact on the calculation of basic and diluted earnings per common share. During the three months ended June 30, 2012, 0.9 million shares were not included in diluted common shares outstanding as they were anti-dilutive due to QEP's net loss. There were no anti-dilutive shares during the six months ended June 30, 2012 and during the three and six months ended June 30, 2011.

A reconciliation of the components of basic and diluted shares used in the EPS calculation follows:

Three Months Ended		Six Months Ended	
June 30,		June 30,	
2012	2011	2012	2011

	(in millions)			
Weighted-average basic common shares outstanding	177.7	176.6	177.6	176.4
Potential number of shares issuable upon exercise of in-the-money stock options under the Long-term Stock Incentive Plan	-	2.0	0.9	2.1
Average diluted common shares outstanding	177.7	178.6	178.5	178.5

Note 4 – Asset Retirement Obligations

QEP records asset retirement obligations (ARO) when there are legal obligations associated with the retirement of tangible long-lived assets. The Company's ARO liability applies primarily to abandonment costs associated with gas and oil wells, production facilities and certain other properties. The fair values of such costs are estimated by Company personnel based on abandonment costs of similar assets and depreciated over the life of the related assets. Revisions to ARO estimates result from changes in expected cash flows or material changes in estimated asset retirement costs. The ARO liability is adjusted to present value each period through an accretion calculation using a credit-adjusted risk-free interest rate.

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The following is a reconciliation of the changes in the asset retirement obligation from January 1, 2012 and 2011 to June 30, 2012 and 2011, respectively:

	Asset Retirement Obligations	
	2012	2011
	(in millions)	
ARO liability at January 1,	\$ 163.9	\$ 148.3
Accretion	5.1	4.8
Liabilities incurred	3.6	2.9
Liabilities settled	(0.4)	(0.3)
ARO liability at June 30,	\$ 172.2	\$ 155.7

Note 5 – Fair Value Measurements

QEP measures and discloses fair values in accordance with the provisions of ASC 820 “Fair Value Measurements and Disclosures”. This guidance defines fair value in applying GAAP, establishes a framework for measuring fair value and expands disclosures about fair-value measurements, but does not change existing guidance as to whether or not an instrument is carried at fair value. ASC 820 also establishes a fair-value hierarchy. Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that the Company has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted 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.

QEP has determined its commodity derivative instruments are Level 2. The Level 2 fair value of commodity derivative contracts (see Note 6 - Derivative Contracts) is based on market prices posted on the NYMEX on the last trading day of the reporting period and industry standard discounted cash flow models. QEP primarily applies the market approach for recurring fair value measurements and maximizes its use of observable inputs and minimizes its use of unobservable inputs. QEP considers bid and ask prices for valuing the majority of its assets and liabilities measured and reported at fair value. In addition to using market data, QEP makes assumptions in valuing its assets and liabilities, including assumptions about risk and the risks inherent in the inputs to the valuation technique. The Company’s policy is to recognize significant transfers between levels at the end of the reporting period.

However, certain commodity derivative instruments are valued using industry standard models that consider various inputs, including quoted forward prices for commodities, time value, volatility, and current market and contractual prices for the underlying instruments, as well as other relevant economic measures. Substantially all of these inputs are observable in the marketplace throughout the full term of the instrument and can be derived from observable data or are supported by observable prices at which transactions are executed in the marketplace. The determination of fair value for derivative assets and liabilities also incorporates nonperformance risk for counterparties and for QEP. Derivative contract fair values are reported on a net basis to the extent a legal right of offset with the counterparty exists.

In addition, QEP has Level 2 interest rate swaps. The fair values of the interest rate swaps are determined using the market standard methodology of discounting the future expected cash flows that would occur under the contractual terms of the swap. The variable interest rates used in the calculation of projected cash flows are based on an expectation of future interest rates derived from observable market interest rate curves. QEP incorporates credit valuation adjustments to reflect both its nonperformance risk and the respective counterparty’s nonperformance risk in the fair value measurements. While the credit valuation adjustments are not observable inputs, they are not significant to the overall valuation and the other inputs used to value the interest rate swaps are observable Level 2 inputs.

As of June 30, 2012 and December 31, 2011, the Company did not have assets or liabilities classified as Level 1 or Level 3 within the fair value hierarchy.

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The fair value of financial assets and liabilities at June 30, 2012 is shown in the table below:

	Fair Value Measurements June 30, 2012				Total
	Level 1	Level 2	Level 3	Netting Adjustments (in millions)	
Financial Assets					
Commodity derivative instruments - short-term	\$ -	\$ 272.2	\$ -	\$ (4.0)	\$ 268.2
Commodity derivative instruments - long-term	-	77.5	-	(1.3)	76.2
Total financial assets	\$ -	\$ 349.7	\$ -	\$ (5.3)	\$ 344.4
Financial Liabilities					
Commodity derivative instruments - short-term	\$ -	\$ 4.0		\$ (4.0)	\$ -
Interest rate swaps - short-term	-	2.3		-	2.3
Commodity derivative instruments - long-term	-	1.7		(1.3)	0.4
Interest rate swaps - long-term	-	2.0	-		2.0
Total financial liabilities	\$ -	\$ 10.0	\$ -	\$ (5.3)	\$ 4.7

Fair values related to the Company's crude oil costless collars were transferred from Level 3 to Level 2 in the second quarter of 2012, due to the enhancements to the Company's internal valuation process, including the use of observable inputs to assess the fair value. There were no other significant transfers in or out of Levels 1, 2 or 3 for the periods presented herein. The Company's policy is to recognize transfers in and/or out of fair value hierarchy levels as of the end of the quarterly reporting period in which the event or change in circumstances causing the transfer occurred.

The change in the fair value of Level 3 commodity derivative instruments assets and liabilities for the six months ended June 30, 2012, is shown below:

	Change in Level 3 Fair Value Measurements 2012 (in millions)
Balance at January 1,	\$ -
Realized gains and losses	0.6
Unrealized gains and losses	3.8
Settlements	(0.6)
Transfers out of Level 3	(3.8)
Balance at June 30,	\$ -

The fair value of financial assets and liabilities at December 31, 2011 is shown in the table below:

Fair Value Measurements
December 31, 2011

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	Level 1	Level 2	Level 3	Netting Adjustments (in millions)	Total
Financial Assets					
Commodity derivative instruments - short-term	\$ -	\$ 284.1	\$ -	\$ (10.4)	\$ 273.7
Commodity derivative instruments - long-term	-	123.5	-	-	123.5
Total financial assets	\$ -	\$ 407.6	\$ -	\$ (10.4)	\$ 397.2
Financial Liabilities					
Commodity derivative instruments - short-term	\$ -	\$ 11.7	\$ -	\$ (10.4)	\$ 1.3
Commodity derivative instruments - long-term	-	-	-	-	-
Total financial liabilities	\$ -	\$ 11.7	\$ -	\$ (10.4)	\$ 1.3

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The following table discloses the fair value and related carrying amount of certain financial instruments not disclosed in other notes to the condensed consolidated financial statements in this quarterly report on Form 10-Q:

	Carrying Amount June 30, 2012	Level 1 Fair Value	Carrying Amount December 31, 2011	Level 1 Fair Value
(in millions)				
Financial assets				
Cash and cash equivalents	\$146.4	\$146.4	\$-	\$-
Financial liabilities				
Checks outstanding in excess of cash balances	\$-	\$-	\$29.4	\$29.4
Long-term debt	\$1,866.6	\$1,967.2	\$1,679.4	\$1,754.9

The carrying amounts of cash, cash equivalents, and checks outstanding in excess of cash balances approximate fair value. The fair value of fixed-rate long-term debt is based on the trading levels and dollar prices for the Company's debt at the end of the quarter. The carrying amount of variable-rate long-term debt approximates fair value.

The initial measurement of asset retirement obligations at fair value is calculated using discounted cash flow techniques and based on internal estimates of future retirement costs associated with property, plant and equipment. Significant Level 3 inputs used in the calculation of asset retirement obligations include plugging costs and reserve lives. A reconciliation of the Company's asset retirement obligations is presented in Note 4 – Asset Retirement Obligations.

Nonrecurring Fair Value Measurements

The provisions of the fair value measurement standard are also applied to the Company's nonrecurring, non-financial measurements. The Company utilizes fair value on a non-recurring basis to review its proved oil and gas properties for potential impairment when events and circumstances indicate a possible decline in the recoverability of the carrying value of such property. During the first half of 2012 and through the period ended December 31, 2011, the Company recorded impairments on certain oil & gas property resulting in a write down of the associated carrying value to fair value. The fair value of the property was measured utilizing the income approach and utilizing inputs which are primarily based upon internally developed cash flow models. Given the unobservable nature of the inputs, proved oil and gas property impairments would be considered Level 3 within the fair value hierarchy.

The following table summarizes the non-financial assets and liabilities measured at fair value on a nonrecurring basis in periods subsequent to their initial recognition and their associated impairment:

	Level 3 Fair Value June 30, 2012	Level 3 Impairment	Level 3 Fair Value December 31, 2011	Level 3 Impairment
(in millions)				
Proved Property	\$5,058.6	\$49.3	\$4,833.2	\$195.5

Note 6 – Derivative Contracts

QEP has established policies and procedures for managing commodity price volatility through the use of derivative instruments. In the normal course of business, QEP uses commodity derivative instruments to reduce the impact of downward movements in commodity prices on cash flow, returns on capital, and other financial results. However, these instruments typically limit gains from favorable price movements. The volume of production subject to

commodity derivative instruments and the mix of the instruments are frequently evaluated and adjusted by management in response to changing market conditions. QEP may enter into commodity derivative contracts for up to 100% of forecasted production from proved reserves. In addition, QEP may enter into commodity derivative contracts on a portion of its extracted NGL volumes in its midstream business and may enter into commodity derivative contracts on natural gas sales and purchases for marketing transactions. QEP does not enter into commodity derivative instruments for speculative purposes.

QEP uses commodity derivative instruments known as fixed-price swaps and costless collars to realize a known price or range of prices for a specific volume of production delivered into a regional sales point. Costless collars are combinations of put and call options that have a floor price and a ceiling price and payments are made or received only if the settlement price is outside the range between the floor and ceiling prices. QEP's commodity derivative instruments do not require the physical delivery of natural gas, crude oil, or NGL between the parties at settlement. Swap and costless collar transactions are settled in cash with one party paying the other for the net difference in prices, multiplied by the contract volume, for the settlement period. Natural gas price derivative instruments are typically structured as fixed-price swaps at regional price indices. Oil price derivative instruments are typically structured as NYMEX fixed-price swaps based at Cushing, Oklahoma. NGL price derivative instruments are typically structured as Mont Belvieu, Texas fixed-price swaps.

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QEP enters into commodity derivative transactions that do not have margin requirements or collateral provisions that would require payments prior to the scheduled settlement dates. Commodity derivative contract counterparties are normally financial institutions and energy trading firms with investment-grade credit ratings. QEP routinely monitors and manages its exposure to counterparty risk by requiring specific minimum credit standards for all counterparties and avoids concentration of credit exposure by transacting with multiple counterparties.

Through December 31, 2011, QEP designated the majority of its natural gas, oil and NGL derivative contracts as cash flow hedges, whose unrealized fair value gains and losses were recorded to AOCI. Effective January 1, 2012, QEP elected to de-designate all of its natural gas, crude oil and NGL derivative contracts that were previously designated as cash flow hedges and discontinue hedge accounting prospectively. As a result of discontinuing hedge accounting, the mark-to-market values at December 31, 2011, were frozen in AOCI as of the de-designation date and are being reclassified into the Consolidated Statement of Income as the transactions settle and affect earnings. At June 30, 2012, AOCI consisted of \$249.8 million (\$156.9 million after tax) of unrealized gains. QEP expects to reclassify into earnings from AOCI the frozen value related to de-designated natural gas, oil and NGL hedges over the remainder of 2012 and 2013. Currently, QEP recognizes all gains and losses from changes in the fair value of natural gas, oil and NGL derivative contracts immediately in earnings rather than deferring any such amounts in AOCI. All commodity derivative instruments are recorded on the Consolidated Balance Sheets as either assets or liabilities measured at their fair values and all realized and unrealized gains and losses from derivative instruments incurred after January 1, 2012, are presented in the Consolidated Statement of Income in "Realized and unrealized gains on derivative contracts" below operating income.

QEP also uses interest rate swaps to mitigate a portion of its exposure to interest rate volatility risk. During the second quarter of 2012, QEP entered into variable-to-fixed interest rate swap agreements having a combined notional principal amount of \$300.0 million to minimize the interest rate volatility risk associated with its \$300.0 million senior, unsecured term loan agreement. QEP locked in a fixed interest rate in exchange for a variable interest rate indexed to the one-month LIBOR rate. The interest rate swaps settle monthly and will mature in March of 2017.

QEP derivative contracts as a percentage of reported production

The following table details the percentage of reported production subject to commodity price derivative contracts for QEP Energy and QEP Field Services:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	2012	2011
QEP Energy				
Natural gas derivative volumes as a percent of QEP Energy natural gas production				
Fixed price swaps	67	% 46	% 63	% 44
Costless collars	0	% 12	% 0	% 12
Oil derivative volumes as a percent of QEP Energy oil production				
Fixed price swaps	35	% 3	% 36	% 2
Costless collars	28	% 31	% 22	% 33
NGL derivative volumes as a percent of QEP Energy NGL production				
Fixed price swaps	18	% 0	% 17	% 0
QEP Field Services				

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Ethane derivative volumes as a percent of ethane volumes

- QEP Field Services

Fixed price swaps	15	%	0	%	27	%	0	%
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Propane derivative volumes as a percent of propane

volumes - QEP Field Services

Fixed price swaps	59	%	0	%	76	%	0	%
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QEP Energy Derivative Contracts

The following table sets forth QEP Energy's volumes and average prices for its commodity derivative contracts as of June 30, 2012:

Year	Type of Contract	Index	Total Volumes (in millions)	Swaps Average price per unit	Floor price	Collars Ceiling price
Natural gas sales						
			(MMBtu)			
2012	Swap	NYMEX	39.9	\$ 4.66		
2012	Swap	IFPEPL (1)	4.9	\$ 4.14		
2012	Swap	IFNPCR (2)	45.4	\$ 4.61		
2012	Swap	IFCNPTE (3)	5.5	\$ 2.66		
2013	Swap	NYMEX	29.2	\$ 3.68		
2013	Swap	IFNPCR (2)	65.7	\$ 5.66		
Oil sales						
			(Bbls)			
2012	Swap	NYMEX WTI	0.9	\$ 97.03		
2012	Collar	NYMEX WTI	0.7		\$ 87.50	\$ 115.36
2013	Swap	NYMEX WTI	0.9	\$ 104.12		
NGL sales						
			(Gals)			
2012	Swap	Mt. Belvieu Ethane	7.7	\$ 0.64		
2012	Swap	Mt. Belvieu Propane	11.6	\$ 1.28		

(1) Inside FERC monthly settlement index for the Panhandle Eastern Pipeline Company.

(2) Inside FERC monthly settlement index for the Northwest Pipeline Corp. Rocky Mountains.

(3) Inside FERC monthly settlement index for Centerpoint East.

QEP Field Services Derivative Contracts

QEP Field Services enters into commodity derivative transactions to manage price risk on extracted NGL volumes. The following table sets forth QEP Field Services' volumes and swap prices for its commodity derivative contracts as of June 30, 2012:

Year	Type of Contract	Index	Total Volumes (in millions)	Average Swap price per gallon
NGL sales				
			(Gals)	
2012	Swap	Mt. Belvieu Ethane	7.7	\$ 0.64
2012	Swap	Mt. Belvieu Propane	3.9	\$ 1.28

QEP Marketing Derivative Contracts

QEP Marketing enters into commodity derivative transactions to lock in a margin on natural gas volumes placed into storage and for marketing transactions in which QEP Marketing is required to deliver gas volumes at a fixed price. The following table sets forth QEP Marketing's volumes and swap prices for its commodity derivative contracts as of June 30, 2012:

Year	Type of Contract	Index	Total Volumes (in millions) (MMBtu)	Average Swaps price per MMBtu
Natural gas sales			(MMBtu)	
2012	Swap	IFNPCR (1)	1.8	\$ 4.06
2013	Swap	IFNPCR (1)	1.2	\$ 4.57
Natural gas purchases			(MMBtu)	
2012	Swap	IFNPCR (1)	0.7	\$ 2.97
2013	Swap	IFNPCR (1)	0.1	\$ 2.59

(1) Inside FERC monthly settlement index for the Northwest Pipeline Corp. Rocky Mountains.

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QEP Resources Derivative Contracts

In the second quarter of 2012, QEP Resources entered into interest rate swap agreements to effectively lock in a fixed interest rate on debt outstanding under its Term Loan.

The following table sets forth QEP Resources' notional amounts and interest rates for its interest rate swaps outstanding as of June 30, 2012:

Notional amount (in millions)	Type of Contract	Maturity	Fixed Rate Paid	Variable Rate Received
\$300.0	Swap	March 2017	1.07%	One month LIBOR

The following table presents the balance sheet location of QEP's outstanding derivative contracts on a gross contract basis as opposed to the net contract basis presentation in the Condensed Consolidated Balance Sheets and the related fair values at the balance sheet dates:

	Balance Sheet line item	Gross asset derivative instruments fair value December		Gross liability derivative instruments fair value December	
		June 30, 2012 (in millions)	31, 2011 (in millions)	June 30, 2012 (in millions)	31, 2011 (in millions)
Current:					
Commodity	Fair value of derivative contracts	\$272.2	\$ 284.1	Fair value of derivative contracts	\$4.0 \$ 11.7
Interest rate swaps	Fair value of derivative contracts	-	-	Fair value of derivative contracts	2.3 -
Long-term:					
Commodity	Fair value of derivative contracts	77.5	123.5	Fair value of derivative contracts	1.7 -
Interest rate swaps	Fair value of derivative contracts	-	-	Fair value of derivative contracts	2.0 -
Total derivative instruments		\$349.7	\$ 407.6	\$10.0	\$ 11.7

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The effects and location of derivative transactions on the Condensed Consolidated Statements of Income are summarized in the following tables:

Derivative instruments not designated as cash flow hedges	Location of gain (loss) recognized in earnings	Three Months Ended		Six Months Ended	
		June 30, 2012 (in millions)	2011	June 30, 2012	2011
Realized gain (loss) on commodity derivative contracts					
QEP Energy					
Natural gas derivative contracts		\$ 111.9	\$ (27.6)	\$ 197.6	\$ (58.8)
Oil derivative contracts		2.2	-	(0.5)	-
NGL derivative contracts		2.7	-	3.1	-
QEP Field Services					
NGL derivative contracts		3.3	-	4.4	-
QEP Marketing					
Natural gas derivative contracts		0.6	-	4.1	-
Total realized gain (loss) on commodity derivative contracts		120.7	(27.6)	208.7	(58.8)
Unrealized gain (loss) on commodity derivative contracts					
QEP Energy					
Natural gas derivative contracts		(78.4)	27.6	53.9	58.8
Oil derivative contracts		38.6	-	27.1	-
NGL derivative contracts		4.9	-	7.8	-
QEP Field Services					
NGL derivative contracts		1.5	-	4.5	-
QEP Marketing					
Natural gas derivative contracts		(0.7)	-	0.9	-
Total unrealized (loss) gain on commodity derivative contracts		(34.1)	27.6	94.2	58.8
Total realized and unrealized gain on commodity derivative contracts	Realized and unrealized gains on derivative contracts	\$ 86.6	\$ -	\$ 302.9	\$ -
Unrealized gain (loss) on interest rate swaps					
		\$ (4.3)	\$ -	\$ (4.3)	\$ -

Unrealized loss on interest rate swaps	Realized and unrealized gains on derivative contracts	Three Months Ended		Six Months Ended	
Derivative instruments classified as cash flow hedges	Location of gain (loss) recognized in earnings	June 30, 2012	2011	2012	June 30, 2011
Commodity derivatives		(in millions)			
Gain on derivative instruments for the effective portion of hedge recognized in AOCI	Accumulated other comprehensive income	\$ -	\$ 61.3	\$ -	\$ 61.5
Gain reclassified from AOCI into income for effective portion of hedge	Natural gas sales	-	64.4	-	137.5
Gain reclassified from AOCI into income for effective portion of hedge	Oil sales	-	0.1	-	0.1
Gain reclassified from AOCI into income for effective portion of hedge	Marketing purchases	-	0.5	-	3.9
Gain recognized in income for the ineffective portion of hedges	Interest and other income	-	0.3	-	0.1

The Company estimates that derivative contracts that were outstanding and frozen in AOCI at June 30, 2012, having a frozen fair value of \$120.0 million will be settled and reclassified from AOCI to the Condensed Consolidated Statements of Income during the next twelve months.

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Note 7 – Restructuring Costs

During the first quarter 2012, QEP announced the closure of its Oklahoma City office and the subsequent consolidation of its Southern Region operations into a single regional office located in Tulsa. The creation of one office for QEP’s Southern Region is intended to increase regional efficiency, team-based collaboration and organizational productivity, over the long-term. As part of this restructuring plan and office closure, QEP will incur costs associated with the severance and relocation of employees and other exit costs associated with the termination of the operating lease of its Oklahoma City office space. In addition, QEP has incurred costs from other restructuring and reorganization activities in an effort to centralize and gain efficiencies. All costs will be incurred by QEP Energy and are reported within QEP Energy’s financial statements. QEP anticipates total restructuring costs to be approximately \$6.0 million, consisting of \$2.1 million in one-time termination benefits, \$3.4 million in retention and relocation expenses for certain employees relocating to the Tulsa office, and \$0.5 million for the termination of the QEP’s Oklahoma City office space lease. During the three and six months ended June 30, 2012, a total of \$2.3 million and \$5.0 million, respectively, of restructuring costs were incurred and recorded in “General and administrative” expense on the Condensed Consolidated Statement of Income, of which \$0.8 million and \$1.9 million, respectively, related to one-time termination benefits. The remaining one-time termination benefits will be recognized ratably over the remaining transition period. QEP expects to recognize the remaining costs not yet incurred in the remainder of 2012. The relocation costs and contract termination costs will be recorded in future periods as the costs are incurred.

The following is a reconciliation of QEP Energy’s restructuring liability, which is included within “Accounts payable and accrued expenses” on the Condensed Consolidated Balance Sheets:

	Restructuring Liability (in millions)
Balance at December 31, 2011	\$ -
Costs incurred and charged to expense	5.0
Costs paid or otherwise settled	(4.6)
Balance at June 30, 2012	\$ 0.4

Note 8 – Debt

As of the indicated dates, the principal amount of QEP’s debt, including amounts outstanding under its revolving credit facility, consisted of the following:

	June 30, 2012	December 31, 2011
	(in millions)	
Revolving Credit Facility due 2016	\$-	\$ 606.5
Term Loan due 2017	300.0	-
6.05% Senior Notes due 2016	176.8	176.8
6.80% Senior Notes due 2018	134.0	138.6
6.80% Senior Notes due 2020	136.0	138.0
6.875% Senior Notes due 2021	625.0	625.0
5.375% Senior Notes due 2022	500.0	-
Total principal amount of debt	1,871.8	1,684.9
Less unamortized discount	(5.2)	(5.5)
Total long-term debt outstanding	\$1,866.6	\$ 1,679.4

Of the total debt outstanding on June 30, 2012, only the revolving credit facility, due August 25, 2016, the Term Loan due April 18, 2017, and the 6.05% Senior Notes, due September 1, 2016, will mature within the next five years.

Credit Arrangements

QEP's revolving credit facility agreement (Credit Facility), which matures in August 2016, provides for loan commitments of \$1.5 billion from a group of financial institutions. The Credit Facility provides for borrowing at short-term interest rates and contains customary covenants and restrictions. The revolving credit agreement also contains an accordion provision that would allow for the amount of the facility to be increased to \$2.0 billion and for the maturity to be extended for up to two additional one-year periods.

During the first half of 2012, QEP's weighted-average interest rate on borrowings from its Credit Facility was 2.05%. At June 30, 2012 and December 31, 2011, QEP was in compliance with the covenants under the credit agreement. At June 30, 2012, there were no borrowings outstanding and QEP had \$4.1 million in letters of credit outstanding under the Credit Facility.

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Term Loan

During the second quarter of 2012, QEP entered into a \$300.0 million senior, unsecured term loan agreement (Term Loan) with a group of financial institutions. The Term Loan provides for borrowings at short-term interest rates and contains covenants, restrictions and interest rates that are substantially the same as the Company's existing Credit Facility. The Term Loan matures in April 2017, and the maturity date may be extended one year with the agreement of the lenders. The proceeds from the Term Loan were used to pay down the Credit Facility and for general corporate purposes. During the second quarter of 2012, QEP's weighted-average interest rate on borrowings from the Term Loan was 2.02%. At June 30, 2012, QEP was in compliance with the covenants under the credit agreement.

Senior Notes

During the first quarter of 2012, QEP completed a public offering for \$500.0 million in aggregate principal amount of 5.375% senior notes due in October 2022 (2022 Senior Notes). The 2022 Senior Notes were issued at face value. Interest on the 2022 Senior Notes will be paid semi-annually, in April and October of each respective year. The net proceeds of \$493.1 million were used to repay indebtedness under QEP's Credit Facility. The finance costs incurred of \$6.9 million were deferred and are being amortized over the life of the notes. The amortization of all of the Company's deferred finance costs is included in "Interest expense" on the Condensed Consolidated Statement of Income.

During the second quarter of 2012, QEP repurchased \$6.7 million of its senior notes outstanding. QEP recognized a loss on extinguishment of debt from those repurchases and associated write-offs of debt issuance costs, discounts and premiums paid of \$0.6 million. At June 30, 2012, the Company had \$1,571.8 million principal amount of senior notes outstanding with maturities ranging from September 2016 to October 2022 and coupons ranging from 5.375% to 6.875%. The senior notes pay interest semi-annually, are unsecured senior obligations and rank equally with all of our other existing and future unsecured and senior obligations. QEP may redeem some or all of its senior notes at any time before their maturity at a redemption price based on a make-whole amount plus accrued and unpaid interest to the date of redemption. The indenture governing QEP's senior notes contains customary events of default and covenants that may limit QEP's ability to, among other things, place liens on its property or assets.

Note 9 – Contingencies

QEP is involved in various commercial and regulatory claims and litigation and other legal proceedings that arise in the ordinary course of its business. Management does not believe any of them will have a material adverse effect on the Company's financial position, results of operations or cash flows. In accordance with ASC 450, a liability is recorded for a loss contingency when its occurrence is probable and damages can be reasonably estimated based on the anticipated most likely outcome or the minimum amount within a range of possible outcomes. QEP's estimates are based on information known about the claims, experience in contesting, litigating and settling similar claims. Although actual amounts could differ from management's estimates, QEP believes that the exposure to potential losses, in excess of the amount which has been accrued, from its probable contingencies is immaterial. For claims deemed reasonably possible the Company does not have a range of potential exposure as an estimate cannot be made because the cases are in their early stages or have a large number of plaintiffs. Disclosures are provided for contingencies reasonably possible to occur which would have a material adverse effect on the Company's financial position, results of operations or cash flows but have not yet been accrued. Some of the claims involve numerous plaintiffs, highly complex issues relating to liability, damages and other matters subject to substantial uncertainties and, therefore, the probability of liability or an estimate of loss cannot be reasonably determined. The following discussion describes the nature of QEP's major loss contingencies.

Environmental Claims

United States of America v. QEP Field Services, Civil No. 208CV167, U.S. District Court for Utah. As previously disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, and its Quarterly Report on Form 10-Q for the three months ended March 31, 2012, the U.S. Environmental Protection Agency (EPA) alleges that QEP Field Services (f/k/a Questar Gas Management) violated the Clean Air Act (CAA) and seeks substantial penalties and a permanent injunction involving the manner of operation of five compressor stations located in the Uinta Basin of eastern Utah. On May 16, 2012, QEP Field Services settled this matter through the parties' execution of a consent decree which was subsequently approved by court order. The civil penalty payable to the government is \$3.7 million. A contribution of \$0.4 million will be payable to a non-profit corporation or trust to be created by the Ute Indian Tribe of the Uintah and Ouray Reservation for the implementation of environmental programs for the benefit of tribal members. The settlement also requires the company to reduce its emissions by removing certain equipment, installing additional pollution controls and replacing the natural gas powered instrument control systems with compressed air control systems, all of which will require capital expenditures of approximately \$2.4 million, of which \$0.5 million had be spent at June 30, 2012. QEP Field Services will have continuing operational compliance obligations under the consent decree at the affected facilities.

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Litigation

Chieftain Royalty Company v. QEP Energy Company, Case No CJ2011-1, U. S. District Court for Oklahoma. This is a class action filed by a royalty owner on behalf of every QEP Energy royalty owner in the state of Oklahoma since 1988 asserting various claims for damages related to royalty valuation, including breach of contract, breach of fiduciary duty, fraud and conversion, based generally on asserted improper deduction of post-production costs. Because this case is in an early stage prior to full discovery, it is difficult to reasonably estimate potential liability. QEP Energy believes it has properly valued and paid royalty under Oklahoma law and will vigorously defend this claim. Because of the complexities and uncertainties of this legal dispute, including the early stage of discovery and the number of plaintiffs, it is difficult to predict all reasonably possible outcomes.

Questar Gas Company v. QEP Field Services Company, Civil No. 120902969, Third Judicial District Court, State of Utah. QEP Field Services' former affiliate Questar Gas Company (QGC) filed this complaint in state court in Utah on May 1, 2012, asserting claims for breach of contract, breach of implied covenant of good faith and fair dealing, for an accounting and declaratory judgment related to a 1993 gathering agreement (1993 Agreement) entered when the parties were affiliates. Under the 1993 Agreement, QEP Field Services provides gathering services for producing properties developed by former affiliate Wexpro Company on behalf of QGC's utility ratepayers. The core dispute pertains to the annual recalculation of the gathering rate which is based on a cost of service concept expressed in the 1993 Agreement and in a 1998 amendment. The annual gathering rate has been calculated in the same manner under the contract since it was amended in 1998, without any prior objection or challenge by QGC. Specific monetary damages are not asserted. Because of the complexities and uncertainties of this legal dispute in its early stages, it is difficult to predict all reasonably possible outcomes. Also, on May 1, 2012, QEP Field Services Company filed a legal action against Questar Gas entitled QEP Field Services Company v. Questar Gas Company, in the Second District Court in Denver County, Colorado, seeking declaratory judgment relating to its gathering service and charges under the same agreement. While QEP Field Services intends to defend itself against QGC's claims and vigorously pursue its legal rights, the claims involve complex legal issues and uncertainties that make it difficult to predict the outcome of the cases and therefore management cannot determine at this time whether this litigation may have an adverse material effect on its financial position, results of operations or cash flows.

Note 10 – Share-Based Compensation

QEP issues stock options and restricted shares under its Long-Term Stock Incentive Plan (LTSIP) and awards performance-based share units under its Cash Incentive Plan (CIP) to certain officers, employees, and non-employee directors. QEP recognizes expense over time as the stock options, restricted shares, and performance-based share units vest. Deferred share-based compensation is included in additional paid-in capital in the Condensed Consolidated Balance Sheets. There were 13.1 million shares available for future grants under the LTSIP at June 30, 2012. Share-based compensation expense is recognized in "General and administrative" on the Condensed Consolidated Statements of Income. During the three and six months ended June 30, 2012, QEP recognized \$6.6 million and \$12.3 million, respectively, in total compensation expense related to share-based compensation compared to \$3.4 million and \$10.8 million during the three and six months ended June 30, 2011.

Stock Options

QEP uses the Black-Scholes-Merton mathematical model to estimate the fair value of stock options for accounting purposes. Fair-value calculations rely upon subjective assumptions used in the mathematical model and may not be representative of future results. The Black-Scholes-Merton model is intended for measuring the value of options traded on an exchange.

The calculated fair value of options granted and major assumptions used in the model at the date of grant are listed below:

	Stock Option Variables	
	Six Months Ended	
	June 30, 2012	
Fair value of options at grant date	\$	14.46
Risk-free interest rate		0.81 %
Expected price volatility		55.9 %
Expected dividend yield		0.26 %
Expected life in years		5.0

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Stock option transactions under the terms of the LTSIP are summarized below:

	Options Outstanding	Weighted- Average Price (per share)	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at December 31, 2011	2,003,694	\$ 21.23		
Granted	291,143	30.83		
Exercised	(313,342)	8.15		
Forfeited	-	-	-	
Outstanding at June 30, 2012	1,981,495	\$ 24.71	3.6	\$ 12.5
Options Exercisable at June 30, 2012	1,500,192	\$ 22.19	2.8	\$ 12.3
Unvested Options at June 30, 2012	481,303	\$ 32.56	6.1	\$ 0.2

The total intrinsic value (the difference between the market price at the exercise date and the exercise price) of options exercised was \$6.9 million and \$2.6 million during the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012, \$4.6 million of unrecognized compensation cost related to stock options granted under the LTSIP is expected to be recognized over a weighted-average period of 2.4 years.

Restricted Shares

Restricted share grants typically vest in equal installments over a three or four-year period from the grant date. The total fair value of restricted stock that vested during the six months ended June 30, 2012 and 2011, was \$12.6 million and \$9.9 million, respectively. The weighted average grant-date fair value of restricted stock was \$30.74 per share and \$39.14 per share for the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012, \$25.3 million of unrecognized compensation cost related to restricted shares granted under the LTSIP is expected to be recognized over a weighted-average vesting period of 2.4 years.

Transactions involving restricted shares under the terms of the LTSIP are summarized below:

	Restricted Shares Outstanding	Weighted- Average Price (per share)
Unvested balance at December 31, 2011	1,099,752	\$ 32.80
Granted	706,221	30.74
Vested	(397,204)	32.31
Forfeited	(49,209)	32.71
Unvested balance at June 30, 2012	1,359,560	\$ 31.88

Performance Share Units

Cash payouts are dependent upon the Company's total shareholder return compared to a group of its peers over a three-year period. The awards are denominated in share units but delivered in cash at the end of the performance period. The weighted average grant-date fair value of the performance share units was \$30.90 per share and \$39.07 per share for the six months ended June 30, 2012 and 2011, respectively. As of June 30, 2012, \$5.3 million of unrecognized compensation cost, or the fair market value, related to performance shares granted under the CIP is expected to be recognized over a weighted-average vesting period of 2.4 years.

Transactions involving performance share units under the terms of the CIP are summarized below:

	Performance Share Units Outstanding	Weighted- Average Price
Unvested balance at December 31, 2011	115,274	\$ 39.07
Granted	171,954	30.90
Vested	-	-
Forfeited	(4,148)	39.07
Unvested balance at June 30, 2012	283,080	\$ 34.11

Note 11 – Employee Benefits

The Company has a funded qualified defined benefit pension plan and an unfunded supplemental defined benefit pension plan. The Company also has unfunded postretirement benefits that provide certain health care and life insurance benefits for certain retired employees. During the six months ended June 30, 2012, the Company made contributions of \$2.7 million to its funded pension plan, and \$1.0 million to its unfunded pension plan. Contributions to funded plans increase plan assets while contributions to unfunded plans are used to fund current benefit payments. During the remainder of 2012, the Company expects to contribute approximately \$3.6 million to its funded pension plans, and approximately \$0.3 million to its unfunded pension plans. In July 2012, Congress passed the Moving Ahead for Progress in the 21st Century Act, which included pension funding stabilization provisions. The measure, which is designed to stabilize the discount rate used to determine funding requirements from the effects of interest rate volatility, may reduce the Company's United States Pension Plan contributions during 2012 from the planned amounts.

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The following table sets forth the Company's pension and postretirement benefits net period benefit costs:

	Pension			
	Three Months Ended		Six Months Ended June 30,	
	June 30, 2012	2011	2012	2011
	(in millions)			
Service cost	\$0.9	\$0.7	\$ 1.9	\$ 1.4
Interest cost	1.2	1.1	2.4	2.2
Expected return on plan assets	(0.9)	(0.6)	(1.8)	(1.2)
Amortization of prior service costs	1.3	1.3	2.6	2.6
Amortization of actuarial loss	0.2	-	0.4	-
Periodic expense	\$2.7	\$2.5	\$ 5.5	\$ 5.0

	Postretirement benefits			
	Three Months Ended		Six Months Ended June 30,	
	June 30, 2012	2011	2012	2011
	(in millions)			
Service cost	\$-	\$-	\$ -	\$ -
Interest cost	0.1	0.1	0.2	0.2
Expected return on plan assets	-	-	-	-
Amortization of prior service costs	0.1	0.1	0.2	0.2
Recognized net actuarial loss	-	-	-	-
Periodic expense	\$0.2	\$0.2	\$ 0.4	\$ 0.4

Note 12 – Operations by Line of Business

QEP's lines of business include natural gas and oil exploration and production (QEP Energy), midstream field services (QEP Field Services) and marketing (QEP Marketing and other). The lines of business are managed separately and therefore the financial information is presented separately due to the distinct differences in the nature of operations of each line of business, among other factors.

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The following table is a summary of operating results by line of business:

	QEP Energy	QEP Field Services	QEP Marketing & Other	Eliminations	QEP Consolidated
	(in millions)				
For the three months ended June 30, 2012					
Revenues (1)					
From unaffiliated customers	\$335.5	\$83.4	\$ 80.4	\$ -	\$ 499.3
From affiliated customers	-	30.2	118.2	(148.4)	-
Total Revenues	335.5	113.6	198.6	(148.4)	499.3
Operating expenses					
Purchased gas, oil and NGL expense	40.6	4.1	197.4	(117.2)	124.9
Lease operating expense	41.4	-	-	(0.9)	40.5
Natural gas, oil and NGL transportation and other handling costs	57.2	12.0	-	(28.5)	40.7
Gathering, processing and other	-	20.4	0.5	(0.3)	20.6
General and administrative	29.2	9.0	0.1	(1.5)	36.8
Production and property taxes	18.2	1.2	-	-	19.4
Depreciation, depletion and amortization	197.2	16.1	0.8	-	214.1
Other operating expenses	57.8	-	-	-	57.8
Total operating expenses	441.6	62.8	198.8	(148.4)	554.8
Operating (loss) income (2)	(106.1)	50.8	(0.2)	-	(55.5)
Realized and unrealized gains (losses) on derivative contracts					
Interest and other income	81.8	4.8	(4.3)	-	82.3
Interest expense	0.7	0.1	26.8	(26.7)	0.9
Income from unconsolidated affiliates	0.1	1.3	-	-	1.4
Loss on early extinguishment of debt	-	-	(0.6)	-	(0.6)
Interest expense	(23.4)	(3.6)	(27.9)	26.7	(28.2)
(Loss) income before income taxes	(46.9)	53.4	(6.2)	-	0.3
Income taxes	16.6	(19.2)	2.5	-	(0.1)
Net (loss) income	(30.3)	34.2	(3.7)	-	0.2
Net income attributable to noncontrolling interest	-	(0.9)	-	-	(0.9)
Net (loss) income attributable to QEP (3)	\$(30.3)	\$33.3	\$ (3.7)	\$ -	\$ (0.7)

(1) The impact of QEP's settled derivative contracts, for the three months ended June 30, 2012, are reflected below operating (loss) income.

(2) Operating (loss) income for the three months ended June 30, 2012, excludes the impact of realized commodity derivative contract settlements. During the three months ended June 30, 2012, gains and losses from realized commodity derivative contract settlements were included below operating (loss) income.

(3) Net income (loss) attributable to QEP for the three months ended June 30, 2012, includes the impact of unrealized gains and losses from changes in the fair value of the commodity derivative contracts.

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	QEP Energy	QEP Field Services	QEP Marketing & Other (in millions)	Eliminations	QEP Consolidated
For the three months ended June 30, 2011					
Revenues (1)					
From unaffiliated customers	\$555.5	\$102.0	\$ 150.6	\$ -	\$ 808.1
From affiliated customers	-	20.2	145.2	(165.4)	-
Total Revenues	555.5	122.2	295.8	(165.4)	808.1
Operating expenses					
Purchased gas, oil and NGL expenses	154.7	-	292.5	(143.3)	303.9
Lease operating expense	35.0	-	-	(0.7)	34.3
Natural gas, oil and NGL transportation and other handling costs	42.3	1.2	-	(19.5)	24.0
Gathering, processing and other	-	26.9	0.4	(0.1)	27.2
General and administrative	22.9	6.8	0.8	(1.8)	28.7
Production and property taxes	25.4	1.6	0.1	-	27.1
Depreciation, depletion and amortization	172.5	13.5	0.6	-	186.6
Other operating expenses	7.6	-	-	-	7.6
Total operating expenses	460.4	50.0	294.4	(165.4)	639.4
Net gain (loss) from asset sales	0.2	0.1	(0.1)	-	0.2
Operating income (2)	95.3	72.3	1.3	-	168.9
Interest and other (loss) income	(0.5)	-	24.8	(24.7)	(0.4)
Income from unconsolidated affiliates	0.1	1.2	-	-	1.3
Interest expense	(20.4)	(3.1)	(23.3)	24.7	(22.1)
Income before income taxes	74.5	70.4	2.8	-	147.7
Income taxes	(27.7)	(25.5)	(1.0)	-	(54.2)
Net income	46.8	44.9	1.8	-	93.5
Net income attributable to noncontrolling interest	-	(0.7)	-	-	(0.7)
Net income attributable to QEP (3)	\$46.8	\$44.2	\$ 1.8	\$ -	\$ 92.8

(1) Revenues for the three months ended June 30, 2011, have been recast to reflect QEP's revised reporting of its transportation and handling costs. See Note 2 - Basis of Presentation of Interim Consolidated Financial Statements for additional information. In addition, revenues for the three months ended June 30, 2011, reflect the impact of QEP's settled derivative contracts. See Note 6 - Derivative Contracts for detailed information on derivative contract settlements in the three months ended June 30, 2011.

(2) Under hedge accounting, gains and losses from realized commodity derivative contract settlements were included in revenues and operating income during the three months ended June 30, 2011.

(3) Under hedge accounting, unrealized gains and losses from changes in the fair value were deferred in accumulated other comprehensive income during the three months ended June 30, 2011.

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	QEP Energy	QEP Field Services	QEP Marketing & Other (in millions)	Eliminations	QEP Consolidated
For the six months ended June 30, 2012					
Revenues (1)					
From unaffiliated customers	\$732.3	\$177.0	\$ 193.2	\$ -	\$ 1,102.5
From affiliated customers	-	56.3	250.5	(306.8)	-
Total Revenues	732.3	233.3	443.7	(306.8)	1,102.5
Operating expenses					
Purchased gas, oil and NGL expense	113.1	4.1	445.0	(248.9)	313.3
Lease operating expense	82.2	-	-	(1.6)	80.6
Natural gas, oil and NGL transportation and other handling costs	107.6	20.8	-	(53.2)	75.2
Gathering, processing and other	-	43.8	0.7	(0.2)	44.3
General and administrative	62.1	13.5	0.1	(2.9)	72.8
Production and property taxes	41.1	2.9	0.1	-	44.1
Depreciation, depletion and amortization	380.3	31.4	1.6	-	413.3
Other operating expenses	66.4	-	-	-	66.4
Total operating expenses	852.8	116.5	447.5	(306.8)	1,110.0
Net gain from asset sales	1.5	-	-	-	1.5
Operating (loss) income (2)	(119.0)	116.8	(3.8)	-	(6.0)
Realized and unrealized gains on derivative contracts					
	289.0	8.9	0.7	-	298.6
Interest and other income	2.4	0.1	52.7	(52.6)	2.6
Income from unconsolidated affiliates	0.1	3.2	-	-	3.3
Loss on early extinguishment of debt	-	-	(0.6)	-	(0.6)
Interest expense	(47.0)	(5.9)	(52.6)	52.6	(52.9)
Income (loss) before income taxes	125.5	123.1	(3.6)	-	245.0
Income taxes	(47.7)	(42.7)	1.6	-	(88.8)
Net income (loss)	77.8	80.4	(2.0)	-	156.2
Net income attributable to noncontrolling interest					
	-	(1.7)	-	-	(1.7)
Net income (loss) attributable to QEP (3)	\$77.8	\$78.7	\$ (2.0)	\$ -	\$ 154.5

(1) The impact of QEP's settled derivative contracts, for the six months ended June 30, 2012, are reflected below operating (loss) income.

(2) Operating (loss) income for the six months ended June 30, 2012, excludes the impact of realized commodity derivative contract settlements. During the six months ended June 30, 2012, gains and losses from realized commodity derivative contract settlements were included below operating (loss) income.

(3) Net (loss) income attributable to QEP for the six months ended June 30, 2012, includes the impact of unrealized gains and losses from changes in the fair value of the commodity derivative contracts.

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	QEP Energy	QEP Field Services	QEP Marketing & Other	Eliminations	QEP Consolidated
For the six months ended June 30, 2011					
(in millions)					
Revenues (1)					
From unaffiliated customers	\$951.7	\$175.3	\$ 299.0	\$ -	\$ 1,426.0
From affiliated customers	-	43.5	278.3	(321.8)	-
Total Revenues	951.7	218.8	577.3	(321.8)	1,426.0
Operating expenses					
Purchased gas, oil and NGL expense	154.7	-	570.4	(274.5)	450.6
Lease operating expense	68.4	-	-	(1.3)	67.1
Natural gas, oil and NGL transportation and other handling costs	85.8	2.1	-	(42.2)	45.7
Gathering, processing and other	-	51.7	0.7	-	52.4
General and administrative	46.8	15.8	1.6	(3.8)	60.4
Production and property taxes	47.6	3.0	0.2	-	50.8
Depreciation, depletion and amortization	349.6	26.7	1.1	-	377.4
Other operating expenses	15.8	-	-	-	15.8
Total operating expenses	768.7	99.3	574.0	(321.8)	1,120.2
Net gain (loss) from asset sales	0.2	0.1	(0.1)	-	0.2
Operating income (2)	183.2	119.6	3.2	-	306.0
Interest and other income	0.2	-	49.2	(49.2)	0.2
Income from unconsolidated affiliates	0.1	2.1	-	-	2.2
Interest expense	(40.3)	(6.6)	(46.5)	49.2	(44.2)
Income before income taxes	143.2	115.1	5.9	-	264.2
Income taxes	(53.3)	(41.6)	(2.0)	-	(96.9)
Net income	89.9	73.5	3.9	-	167.3
Net income attributable to noncontrolling interest	-	(1.3)	-	-	(1.3)
Net income attributable to QEP (3)	\$89.9	\$72.2	\$ 3.9	\$ -	\$ 166.0

(1) Revenues for the six months ended June 30, 2011, have been recast to reflect QEP's revised reporting of its transportation and handling costs. See Note 2 - Basis of Presentation of Interim Consolidated Financial Statements for additional information. In addition, revenues for the six months ended June 30, 2011, reflect the impact of QEP's settled derivative contracts. See Note 6 - Derivative Contracts for detailed information on derivative contract settlements in the six months ended June 30, 2011.

(2) Under hedge accounting, realized gains and losses from realized commodity derivative contract settlements were included in revenues and operating income during the three and six months ended June 30, 2011.

(3) Under hedge accounting, unrealized gains and losses from changes in the fair value were deferred in accumulated other comprehensive income during the three and six months ended June 30, 2011.

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ITEM 2.MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide a reader of the financial statements with a narrative from the perspective of management on the financial condition, results of operations, liquidity and certain other factors that may affect the Company’s operating results. MD&A should be read in conjunction with the Condensed Consolidated Financial Statements and related notes included in Item 1 of this Quarterly Report on Form 10-Q.

The following information updates the discussion of QEP’s financial condition provided in its 2011 Annual Report on Form 10-K filing and analyzes the changes in the results of operations between the three and six-month periods ended June 30, 2012 and 2011. For definitions of commonly used gas and oil terms found in this Quarterly Report on Form 10-Q, please refer to the “Glossary of Commonly Used Terms” provided in QEP’s 2011 Annual Report on Form 10-K.

OVERVIEW

QEP Resources, Inc. (QEP or the Company) is a holding company with three major lines of business – natural gas and crude oil exploration and production; midstream field services; and energy marketing. These businesses are conducted through the Company’s three principal subsidiaries:

§ QEP Energy Company (QEP Energy) acquires, explores for, develops and produces natural gas, crude oil, and natural gas liquids (NGL) in two principal operating regions in the United States: the Northern Region, which includes the Pinedale Division with properties on the Pinedale Anticline in western Wyoming, the Uinta Basin Division with properties in eastern Utah, and the Legacy Division, with properties in the Bakken/Three Forks area in western North Dakota, the Greater Green River and Powder River Basins of Wyoming and other properties primarily in Colorado and New Mexico, and the Southern Region, which includes the Haynesville/Cotton Valley Division with properties in northwest Louisiana and the Midcontinent Division with properties primarily located in Oklahoma and the Texas Panhandle;

§ QEP Field Services Company (QEP Field Services) provides midstream field services in the Northern Region and northwest Louisiana, including natural gas gathering and processing, compression and treating services, for affiliates and third parties; and

§ QEP Marketing Company (QEP Marketing) markets affiliate and third-party natural gas and oil, provides risk-management services, and owns and operates an underground gas storage reservoir.

Strategies

We create value for our shareholders through a returns-focused investment, superior operational execution, and a low-cost business model. To achieve these objectives we strive to:

§ Operate in a safe and environmentally responsible manner;

§ Allocate capital to those projects that generate optimal returns;

§ Maintain a sustainable, diverse inventory of low-cost, high-margin resource plays;

§ Be in the highest-potential areas of the resource plays in which we operate;

- § Build contiguous acreage positions to drive operating efficiencies;
- § Be the operator of our assets, whenever possible;
- § Be the low-cost driller and producer in each area where we operate;
- § Own and operate midstream infrastructure in our core producing areas to capture value downstream of the wellhead;
- § Build gas processing plants to extract liquids from our natural gas streams;
- § Gather, compress and treat our production to drive down costs;
- § Actively market our QEP Energy production to maximize value;
- § Utilize derivative contracts to mitigate the impact of natural gas, crude oil or NGL price volatility, while locking acceptable cash flows required to support future capital expenditures;
- § Attract and retain the best people; and
- § Maintain a capital structure that allows us the necessary financial flexibility with which to invest in organic growth and potential acquisition opportunities, as they may arise.

Outlook

The Company has substantial acreage positions and operations in some of the most prolific hydrocarbon resource plays in the continental United States, including the Bakken/Three Forks, Pinedale, Uinta Basin, Woodford “Cana” and Haynesville Shale. These resource plays are characterized by unconventional oil or natural gas accumulations in continuous tight sands or shales that underlie broad geographic areas. The lateral continuity of such resource plays means that aside from wells abandoned due to mechanical issues, the Company does not expect to drill unsuccessful wells. Resource plays allow the Company the opportunity to gain considerable operational efficiencies through high-density, repeatable drilling and completion operations. The Company has a large inventory of lower-risk, predictable development drilling locations across its acreage holdings in the onshore United States that provide a solid base for consistent growth in organic production and reserves. QEP believes that it has one of the lowest cash operating structures among its exploration and production company peers. However, in certain of its resource plays, QEP, like its peers, has experienced rising drilling and completion costs which could impact future drilling plans.

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While predominantly a natural gas producer, the Company has increased its focus on growing the relative proportion of crude oil and NGL production in its exploration and production business. QEP Energy oil and NGL production increased by 106% in the second quarter of 2012 compared with the second quarter of 2011. During the six months ended June 30, 2012, QEP Energy oil and NGL production increased 109% compared with the six months ended June 30, 2011. In the second quarter of 2012 oil and NGL revenue accounted for approximately 52% of QEP Energy's field-level production revenues compared to 30% in the second quarter of 2011. During the first half of 2012, oil and NGL revenue accounted for approximately 51% of QEP Energy's field-level production revenues compared to 27% during the first half of 2011. The increased NGL volumes in the second quarter and first half of 2012, were primarily the result of the agreement entered into by QEP Energy with QEP Field Services for Pinedale production, in August of 2011, for fee-based processing at the Blacks Fork II plant, liquids recovered for QEP Energy by QEP Field Services in the Uinta Basin and the liquids recovered for QEP Energy by third party processors associated with the development of liquids-rich plays in the Midcontinent and Bakken/Three Forks areas. QEP Energy has allocated approximately 90% of its 2012 total forecasted capital expenditure budget to oil and liquids-rich natural gas plays due to depressed natural gas prices.

While QEP believes that it can grow production and reserves from an extensive inventory of drilling locations, the Company also evaluates acquisition opportunities that might have the potential to create significant long-term value. QEP believes that its experience, expertise, and substantial presence in its core operating areas, combined with its low-cost operating model and financial strength, enhance its ability to pursue acquisition opportunities.

QEP also owns and operates gathering and transmission pipelines and natural gas processing and treatment facilities in many of its core producing areas. These assets allow the Company to promptly connect its wells, better control its costs, and generate a significant, consistent revenue stream by providing gathering and processing services to third parties.

Financial and Operating Results

During the three and six months ended June 30, 2012, the Company had substantial production growth at QEP Energy, as well as increased processing and gathering volumes at QEP Field Services. In the second quarter of 2012, QEP Energy reported production of 79.6 Bcfe compared to 64.7 Bcfe in the second quarter of 2011, an increase of 23%. During the first half of 2012, QEP Energy reported total equivalent production of 153.8 Bcfe, 18% higher than the first half of 2011. During both the three and six months ended June 30, 2012, the Southern Region contributed 55% of total equivalent production, and the Northern Region contributed 45% of total equivalent production. QEP Field Services gathering throughput volumes during the three and six months ended June 30, 2012, were 11% and 7% higher than the 2011 comparable periods. QEP Field Services reported gathering system throughput of 1.5 million MMBtu per day for the second quarter of 2012, up from 1.3 million MMBtu per day in the second quarter of 2011. During the first half of 2012, QEP Field Services gathering system throughput was 1.4 million MMBtu per day compared to 1.3 million MMBtu per day in the first half of 2011. During the three and six months ended June 30, 2012, QEP Field Services reported 14% and 35% increases in NGL sales volumes, respectively. QEP Field Services fee-based processing volumes were 7% and 6% higher in the three and six months of 2012, respectively, when compared to the prior year periods.

The increases in production at QEP Energy and system throughput at QEP Field Services were offset by decreased commodity prices at both QEP Energy and QEP Field Services. For the three and six months ended June 30, 2012, QEP Energy's average total net realized equivalent price was \$5.13 per Mcfe and \$5.29 per Mcfe compared to \$5.71 per Mcfe and \$5.60 per Mcfe during the three and six months ended June 30, 2011, respectively. In addition, at QEP Field Services, the increase in NGL sales volumes was more than offset by a 21% decrease in the per unit NGL margin (NGL revenue, including realized derivative gains, less fuel and shrink), resulting in a 43% decrease to the keep-whole processing margin during the second quarter of 2012. QEP Field Services' increased NGL sales volumes

during the first half of 2012 were more than offset by a 5% decrease in the per unit NGL margin, resulting in a 6% decrease to the keep-whole processing margin when compared the same period last year.

In the first quarter of 2012, QEP completed a public offering for \$500.0 million in aggregate principal amount of 5.375% senior notes due in October 2022 (2022 Senior Notes). The 2022 Senior Notes were issued at face value. The net proceeds of \$493.1 million were used to repay indebtedness under QEP's revolving credit facility. Interest on the 2022 Senior Notes is payable April 1 and October 1 of each year, with the first interest payment due on October 1, 2012.

During the second quarter of 2012, QEP entered into a \$300.0 million senior unsecured term loan agreement (Term Loan) with a group of financial institutions. The Term Loan provides for borrowings at short-term interest rates and contains covenants, restrictions and interest rates that are substantially the same as the Company's existing revolving credit agreement. The Term Loan matures in April 2017, and the maturity date may be extended one year with the agreement of the lenders. In conjunction with the Term Loan, QEP entered into interest rate swap contracts with an aggregate notional amount of \$300.0 million that effectively locks in a fixed rate that QEP will pay over the duration of the Term Loan.

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Factors Affecting Results of Operations

Oil, Natural Gas, and NGL Prices

Historically, field-level prices received for QEP's natural gas, NGL, and crude oil production have been volatile and unpredictable, and that volatility is expected to continue. In recent years, domestic natural gas supply has grown faster than natural gas demand, driven by advances in drilling and completion technologies, including horizontal drilling and multi-stage hydraulic fracturing. These changes have allowed producers to extract increased quantities of natural gas from shale, tight sand formations, and other unconventional reservoirs. Increased natural gas supplies have resulted in downward pressure on natural gas prices, while concern about the global economy and other factors has created volatility in the price of crude oil. Changes in the market prices for natural gas, crude oil, and NGL directly impact many aspects of QEP's business, including its financial condition, revenues, results of operations, planned drilling activity and related capital expenditures, liquidity, rate of growth, costs of goods and services required to drill and complete wells, and may impact the carrying value of its oil and natural gas properties.

QEP uses commodity derivatives to reduce the volatility of the prices QEP receives for a portion of its production and to protect cash flow and returns on invested capital from a drop in commodity prices. Generally, QEP intends to enter into commodity derivative contracts for approximately 50% of its forecasted annual production by the end of the first quarter of each fiscal year. As of June 30, 2012, QEP Energy had approximately 70% of its remaining forecasted 2012 natural gas, oil and NGL production covered with fixed-price swaps or costless collars assuming 2012 annual production of 307.5 Bcfe, including 79% of its remaining forecasted 2012 natural gas production covered with fixed-price swaps assuming 2012 annual natural gas production of 242.5 Bcfe. During the first half of 2012, QEP entered into commodity derivative contracts for a greater portion of its 2012 natural gas production in light of concerns of oversupply in the natural gas market. See Item 3 "Quantitative and Qualitative Disclosures about Market Risk—Commodity Derivative Transactions" for further details concerning QEP's commodity derivatives transactions. In addition, as a result of the continued spread between oil and natural gas prices, QEP Energy has allocated approximately 90% of its forecasted 2012 drilling and completion capital expenditure budget to oil and liquids-rich natural gas projects in its portfolio.

Unrealized Derivative Gains and Losses

The Company elected to discontinue hedge accounting beginning January 1, 2012, and unrealized gains and losses from mark-to-market valuations of all derivative positions are reflected as unrealized derivative gains or losses in the Company's income statement. See Note 6 - Derivative Contracts to the Condensed Consolidated Financial Statements, in Item 1, Part I of this Quarterly Report on Form 10-Q for additional information regarding the discontinuance of hedge accounting. Payments due to or from counterparties in the future on these derivatives will typically be offset by corresponding changes in prices ultimately received from the sale of QEP's production. QEP has incurred significant unrealized gains and losses in the first half of 2012 and in prior periods and may continue to incur these types of gains and losses in the future.

Global Geopolitical and Macroeconomic Factors

QEP continues to monitor the outlook of the global economy, including the European debt crisis and its potential impact on global economic growth and the banking and financial sectors, political unrest in the Middle East, the United States federal budget deficit, changes in regulatory oversight policy and commodity price volatility. A dramatic decline in regional or global economic conditions, a major recession or depression, regional political instability, economic sanctions, war, or other factors beyond the control of QEP could have a significant impact on natural gas, NGL and crude oil supply, demand and prices.

Supply, Demand and Other Market Risk Factors

While the U.S. natural gas directed drilling rig count peaked in late 2011, the inventory of drilled gas wells waiting on completion caused the decreased natural gas production response to lag the downturn in the natural gas rig count. As a result of the lag, U.S. natural gas production eventually began to decline during the second quarter of 2012. The U.S. natural gas market entered the storage injection season with record high inventory levels. However, the combination of strong natural gas demand from electric power generation, combined with recent declines in U.S. natural gas production, has led to a decrease in natural gas inventories, resulting in a general firming of natural gas prices at the end of the second quarter of 2012. Despite increased stability in natural gas prices at the end of the second quarter of 2012, QEP expects U.S. natural gas prices to remain volatile and well below the five year average price over the next 12 to 18 months. Continued low natural gas prices have caused U.S. E&P companies, including QEP, to shift capital investments away from predominantly dry gas areas towards fields that are known to have liquids-rich natural gas and crude oil deposits. This shift in focus has caused domestic NGL production to increase dramatically. The increased NGL supplies, the warmer than average winter of 2011-2012, and price dislocations from infrastructure bottlenecks in certain regions, have all contributed to a weakening in domestic NGL prices. QEP expects NGL prices to remain volatile for the foreseeable future. QEP anticipates global crude oil prices to remain near current levels, assuming the global economy and socio-political backdrops remain relatively stable. Disruption to the global oil supply system, political and/or economic instability, and/or other factors could trigger additional volatility in crude oil prices. In addition, transportation, refining, or other infrastructure constraints could introduce significant price differentials between regional markets where QEP sells its crude oil production and national (NYMEX or Cushing) and global (Brent or U.S. Gulf Coast) markets. Because of the global and regional price volatility and the uncertainty around the commodity price environment, QEP continues to manage its capital spending program and financial flexibility accordingly.

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Potential for Future Asset Impairments

During the second quarter and first half of 2012, QEP recorded non-cash, price-related impairment charges of \$48.9 million and \$49.3 million, respectively, on some of its proved properties. The impairment charges related to the reduced value of certain fields resulting from lower natural gas, crude oil and NGL prices. The assets were written down to their estimated fair values. Of the \$49.3 million impairment charge during the six months ended June 30, 2012, \$48.9 million related to proved properties in the Southern Region and \$0.4 million related to proved properties in the Northern Region.

During the first half of 2012, U.S. natural gas prices were lower than in the first half of 2011, due to market concerns about growing natural gas production and record high levels of natural gas storage after an unusually warm winter season. The carrying values of some of the Company's properties are sensitive to declines in natural gas, crude oil and NGL prices. These assets are at risk of impairment if future prices for natural gas, crude oil or NGL prices decline. The cash flow model that the Company uses to assess proved properties for impairment includes numerous assumptions, such as management's estimates of future oil and gas production, market outlook on forward commodity prices, operating and development costs, and discount rates. All inputs to the cash flow model must be evaluated at each date of estimate. However, a decrease in forward natural gas, crude oil and NGL prices alone could result in an impairment of properties. For additional information see Item 1A - Risk Factors of Part I and see Item 8, Note 1 - Significant Accounting Policies of Part II of QEP's 2011 Annual Report on Form 10-K.

Impact of Dodd-Frank Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), was passed by Congress and signed into law in July 2010, establishing the Commodity Futures Trading Commission (CFTC). The Dodd-Frank Act is designed to provide a comprehensive framework for the regulation of the over-the-counter derivatives market with the intent to provide greater transparency and reduction of risk between counterparties. The Dodd-Frank Act subjects swap dealers and major swap participants to capital and margin requirements and requires many derivative transactions to be cleared on exchanges. The Dodd-Frank Act provides for a potential exemption from these clearing and cash collateral requirements for commercial end-users. QEP is currently evaluating the CFTC's final rules and assessing the impact on the Company's risk management program. In its initial evaluation, QEP believes it will meet the requirements for the commercial end-user clearing exception and be able to continue to execute derivative transactions and not be required to meet the mandated clearing requirements. The CFTC's final rules are expected to have an impact on many of QEP's derivatives counterparties which may result in additional costs that may be passed on to the Company, thereby potentially decreasing the relative effectiveness of our derivatives and potential profitability.

Critical Accounting Estimates

QEP's significant accounting policies are described in Item 7 of Part II of its 2011 Annual Report on Form 10-K. The Company's Condensed Consolidated Financial Statements are prepared in accordance with United States Generally Accepted Accounting Principles (GAAP). The preparation of the Company's Condensed Consolidated Financial Statements requires management to make assumptions and estimates that affect the reported results of operations and financial position. QEP's accounting policies on gas and oil reserves, successful efforts accounting for gas and oil operations, impairment of gas and oil properties, asset retirement obligations, accounting for derivative contracts, revenue recognition, environmental obligations and other contingencies, benefit plan obligations, share-based compensation, and income taxes, among others, may involve a high degree of complexity and judgment on the part of management.

RESULTS OF OPERATIONS

Net Income (Loss)

QEP Resources' net loss was \$0.7 million, or \$0.00 per diluted share, in the second quarter of 2012, compared to net income of \$92.8 million, or \$0.52 per diluted share, in the second quarter of 2011. The decline in net income during the second quarter of 2012 was attributable to a 165% decrease in QEP Energy's net income and a 25% decrease in QEP Field Services net income. QEP Energy's net income decreased in the second quarter of 2012 due to a \$34.9 million loss on unrealized derivative contracts and a \$48.9 million commodity price-related impairment charge on some of its proved properties, partially offset by increased production volumes. The decrease in QEP Field Services' second quarter 2012 net income was driven by a 9% decline in gathering margins and a 23% decline in processing margins. Net income attributable to QEP for the first half of 2012 was \$154.5 million, or \$0.87 per diluted share, compared to \$166.0 million, or \$0.93 per diluted share in the first half of 2011. The decrease in the six month period of 2012 was due to a 13% decrease in QEP Energy's net income, partially offset by a 9% increase in QEP Field Services net income. QEP Energy's net income decreased during the first half of 2012 due to a commodity price-related impairment charges on proved properties of \$49.3 million and 6% lower total equivalent commodity prices, offset partially by an \$88.8 million gain on unrealized commodity derivative contracts, deferred in AOCI in the first half of 2011 and increased production volumes. QEP Field Services' increase in net income during the six months ended June 30, 2012 was driven by 14% higher processing margins.

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The following table provides a summary of net income (loss) attributable to QEP by line of business:

	Three Months Ended			Six Months Ended		
	2012	June 30, 2011	Change	2012	June 30, 2011	Change
	(in millions)					
QEP Energy	\$ (30.3)	\$ 46.8	\$ (77.1)	\$ 77.8	\$ 89.9	\$ (12.1)
QEP Field Services	33.3	44.2	(10.9)	78.7	72.2	6.5
QEP Marketing and other	(3.7)	1.8	(5.5)	(2.0)	3.9	(5.9)
Net (loss) income attributable to QEP	\$ (0.7)	\$ 92.8	\$ (93.5)	\$ 154.5	\$ 166.0	\$ (11.5)
Earnings per diluted share	\$ -	\$ 0.52	\$ (0.52)	\$ 0.87	\$ 0.93	\$ (0.06)
Average diluted shares	177.7	178.6	(0.9)	178.5	178.5	-

Adjusted EBITDA

Management believes Adjusted EBITDA (a non-GAAP measure) is an important measure of the Company's cash flow, liquidity, and ability to incur and service debt, fund capital expenditures and make distributions to shareholders. The use of this measure allows investors to understand how management evaluates financial performance to make operating decisions and allocate resources. It is also an important measure for comparing the Company's financial performance to other gas and oil producing companies. In addition, Adjusted EBITDA is a measure used in the Company's debt covenants under its revolving credit agreement and Term Loan.

Consistent with such debt covenants, management defines Adjusted EBITDA as net income before the following items: depreciation, depletion and amortization (DD&A), abandonment and impairment, interest and other income, interest expense, income taxes, unrealized gains and losses on derivative contracts, losses on early extinguishment of debt, gains and losses from assets sales, and exploration expense. During the year ended December 31, 2011, QEP revised its reporting of transportation and handling costs to better align with industry practice and GAAP. This revised disclosure does not change current or prior period disclosure of net income or Adjusted EBITDA. For additional information, see Note 2 - Basis of Presentation of Interim Consolidated Financial Statements to the Condensed Consolidated Financial Statements, in Item 1, Part I of the Quarterly Report on Form 10-Q, for additional details.

The following table provides a summary of Adjusted EBITDA by line of business:

	Three Months Ended			Six Months Ended		
	2012	June 30, 2011	Change	2012	June 30, 2011	Change
	(in millions)					
QEP Energy	\$265.7	\$247.7	\$18.0	\$526.5	\$489.7	\$36.8
QEP Field Services						