QEP RESOURCES, INC.
Form 10-Q
July 25, 2018

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

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

For the transition period from ______ to ______

Commission File Number: 001-34778
QEP RESOURCES, INC.

(Exact name of registrant as specified in its charter)

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

1050 17th Street, Suite 800, 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 ý No o

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 ý No o

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

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

Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ý

At June 30, 2018, there were 236,975,957 shares of the registrant's common stock, $0.01 par value, outstanding.

QEP Resources, Inc.
Form 10-Q for the Quarter Ended June 30, 2018

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS
QEP RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
REVENUES	(in millions, except per share amounts)			
Oil and condensate, gas and NGL sales	$520.3	$373.0	$930.1	$758.2
Other revenue	3.0	2.7	8.0	6.7
Purchased oil and gas sales	9.1	8.0	23.2	38.9
Total Revenues	532.4	383.7	961.3	803.8
OPERATING EXPENSES				
Purchased oil and gas expense	9.8	9.1	25.3	38.5
Lease operating expense	66.5	70.0	139.0	139.2
Transportation and processing costs	31.2	72.2	65.2	142.4
Gathering and other expense	3.4	1.8	6.2	3.3
General and administrative	55.8	31.3	115.9	64.9
Production and property taxes	37.6	28.5	66.5	57.6
Depreciation, depletion and amortization	242.2	191.5	438.7	383.3
Exploration expenses	0.1	—	0.1	0.4
Impairment	403.7	—	404.4	0.1
Total Operating Expenses	850.3	404.4	1,261.3	829.7
Net gain (loss) from asset sales, inclusive of restructuring costs	(3.9)	19.8	(0.4)	19.8
OPERATING INCOME (LOSS)	(321.8)	(0.9)	(300.4)	(6.1)
Realized and unrealized gains (losses) on derivative contracts (Note 7)	(79.1)	106.7	(132.3)	267.6
Interest and other income (expense)	(3.1)	1.8	(3.8)	2.4
Interest expense	(38.2)	(34.9)	(73.2)	(68.7)
INCOME (LOSS) BEFORE INCOME TAXES	(442.2)	72.7	(509.7)	195.2
Income tax (provision) benefit	106.2	(27.3)	120.1	(72.9)
NET INCOME (LOSS)	$(336.0)	$45.4	$(389.6)	$122.3
Earnings (loss) per common share				
Basic	$(1.42)	$0.19	$(1.63)	$0.51
Diluted	$(1.42)	$0.19	$(1.63)	$0.51
Weighted-average common shares outstanding				
Used in basic calculation	237.0	240.5	238.9	240.4
Used in diluted calculation	237.0	240.6	238.9	240.5
Dividends per common share	$—	$—	$—	$—

Refer to Notes accompanying the Condensed Consolidated Financial Statements.

QEP RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)			
Net income (loss)	$(336.0)	$45.4	$(389.6)	$122.3
Other comprehensive income, net of tax:				
Postretirement medical plan change[(1)]	—	—	—	1.6
Fair value of plan assets adjustment[(2)]	—	—	0.3	—
Pension and other postretirement plans adjustments:				
Amortization of prior service costs[(3)]	0.1	0.2	0.2	0.3
Amortization of actuarial losses[(4)]	0.2	(0.1)	0.4	0.1
Other comprehensive income	0.3	0.1	0.9	2.0
Comprehensive income (loss)	$(335.7)	$45.5	$(388.7)	$124.3

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(1) Presented net of income tax expense of $1.0 million for the six months ended June 30, 2017.

(2) Adjustment recorded during the six months ended June 30, 2018, related to a change in the fair value of plan assets as of December 31, 2017.

(3) Presented net of income tax expense of $0.1 million and $0.1 million for the three and six months ended June 30, 2018, respectively. Presented net of income tax expense of $0.1 million and $0.2 million for the three and six months ended June 30, 2017, respectively.

(4) Presented net of income tax expense of $0.1 million and $0.2 million for the three and six months ended June 30, 2018, respectively. Presented net of income tax expense of $0.1 million for the six months ended June 30, 2017.

Refer to Notes accompanying the Condensed Consolidated Financial Statements.

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

	June 30, 2018	December 31, 2017
ASSETS	(in millions)	
Current Assets		
Cash and cash equivalents	$—	$ —
Accounts receivable, net	175.0	141.8
Income tax receivable	5.3	4.9
Fair value of derivative contracts	23.7	3.4
Prepaid expenses	9.8	10.1
Other current assets	0.3	4.3
Total Current Assets	214.1	164.5
Property, Plant and Equipment (successful efforts method for oil and gas properties)		
Proved properties	12,852.3	11,873.6
Unproved properties	1,041.0	1,086.4
Gathering and other	359.7	318.7
Materials and supplies	32.2	32.9
Total Property, Plant and Equipment	14,285.2	13,311.6
Less Accumulated Depreciation, Depletion and Amortization		
Exploration and production	7,267.1	6,642.9
Gathering and other	116.2	124.3
Total Accumulated Depreciation, Depletion and Amortization	7,383.3	6,767.2
Net Property, Plant and Equipment	6,901.9	6,544.4
Fair value of derivative contracts	5.4	0.1
Other noncurrent assets	56.5	53.0
Noncurrent assets held for sale	211.8	632.8
TOTAL ASSETS	$7,389.7	$ 7,394.8
LIABILITIES AND EQUITY		
Current Liabilities		
Checks outstanding in excess of cash balances	$8.5	$ 44.0
Accounts payable and accrued expenses	388.0	363.8
Production and property taxes	36.3	31.6
Interest payable	32.7	26.0
Fair value of derivative contracts	155.2	103.6
Asset retirement obligations	6.0	3.5
Total Current Liabilities	626.7	572.5
Long-term debt	2,649.4	2,160.8
Deferred income taxes	397.7	518.0
Asset retirement obligations	154.6	159.0
Fair value of derivative contracts	49.3	31.8
Other long-term liabilities	97.8	102.2
Other long-term liabilities held for sale	52.8	52.6
Commitments and contingencies (Note 10)		
EQUITY		
Common stock – par value $0.01 per share; 500.0 million shares authorized; 239.7 million and 243.0 million shares issued, respectively	2.4	2.4
Treasury stock – 2.7 million and 2.0 million shares, respectively	(41.2)	(34.2)

Additional paid-in capital	1,415.7	1,398.2
Retained earnings	1,994.7	2,442.6
Accumulated other comprehensive income (loss)	(10.2)	(11.1)
Total Common Shareholders' Equity	3,361.4	3,797.9
TOTAL LIABILITIES AND EQUITY	$7,389.7	$ 7,394.8

Refer to Notes accompanying the Condensed Consolidated Financial Statements.

QEP RESOURCES, INC.
CONDENSED CONSOLIDATED STATEMENT OF EQUITY
(Unaudited)

	Common Stock		Treasury Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Total
	Shares	Amount	Shares	Amount				
	(in millions)							
Balance at December 31, 2017	243.0	$ 2.4	(2.0)	$ (34.2)	$ 1,398.2	$ 2,442.6	$ (11.1)	$ 3,797.9
Net income (loss)	—	—	—	—	—	(389.6)	—	(389.6)
Common stock repurchased and retired	(6.2)	(0.1)	—	—	—	(58.3)	—	(58.4)
Share-based compensation	2.9	0.1	(0.7)	(7.0)	17.5	—	—	10.6
Change in pension and postretirement liability, net of tax	—	—	—	—	—	—	0.9	0.9
Balance at June 30, 2018	239.7	$ 2.4	(2.7)	$ (41.2)	$ 1,415.7	$ 1,994.7	$ (10.2)	$ 3,361.4

Refer to Notes accompanying the Condensed Consolidated Financial Statements.

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

	Six Months Ended June 30,	
	2018	2017
OPERATING ACTIVITIES	(in millions)	
Net income (loss)	$(389.6)	$122.3
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation, depletion and amortization	438.7	383.3
Deferred income taxes (benefit)	(120.5)	67.2
Impairment	404.4	0.1
Share-based compensation	23.4	7.7
Amortization of debt issuance costs and discounts	2.6	3.1
Bargain purchase gain from acquisition	—	0.4
Net (gain) loss from asset sales, inclusive of restructuring costs	0.4	(19.8)
Unrealized (gains) losses on marketable securities	(0.4)	(1.4)
Unrealized (gains) losses on derivative contracts	43.6	(277.6)
Changes in operating assets and liabilities	(25.7)	10.7
Net Cash Provided by (Used in) Operating Activities	376.9	296.0
INVESTING ACTIVITIES		
Property acquisitions	(45.1)	(76.6)
Property, plant and equipment, including exploratory well expense	(764.3)	(477.9)
Proceeds from disposition of assets	48.8	2.3
Net Cash Provided by (Used in) Investing Activities	(760.6)	(552.2)
FINANCING ACTIVITIES		
Checks outstanding in excess of cash balances	(35.5)	(0.5)
Long-term debt issuance costs paid	—	(1.1)
Proceeds from credit facility	2,029.5	—
Repayments of credit facility	(1,543.5)	—
Common stock repurchased and retired	(58.4)	—
Treasury stock repurchases	(5.9)	(6.4)
Other capital contributions	0.2	—
Net Cash Provided by (Used in) Financing Activities	386.4	(8.0)
Change in cash, cash equivalents and restricted cash	2.7	(264.2)
Beginning cash, cash equivalents and restricted cash[1]	23.4	465.4
Ending cash, cash equivalents and restricted cash[1]	$26.1	$201.2
Supplemental Disclosures:		
Cash paid for interest, net of capitalized interest	$63.5	$64.3
Cash paid for income taxes, net	$0.2	$—
Non-cash Investing Activities:		
Change in capital expenditure accruals and other non-cash adjustments	$20.2	$42.4

(1) Refer to New Accounting Pronouncements in Note 1 – Basis of Presentation.

Refer to Notes accompanying the Condensed Consolidated Financial Statements.

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QEP RESOURCES, INC.
NOTES ACCOMPANYING THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Note 1 – Basis of Presentation

Nature of Business

QEP Resources, Inc. is an independent crude oil and natural gas exploration and production company with operations in two regions of the United States: the Southern Region (primarily in Texas and Louisiana) and the Northern Region (primarily in North Dakota and Utah). Unless otherwise specified or the context otherwise requires, all references to "QEP" or the "Company" are to QEP Resources, Inc. and its subsidiaries on a consolidated basis. QEP's corporate headquarters are located in Denver, Colorado and shares of QEP's common stock trade on the New York Stock Exchange (NYSE) under the ticker symbol "QEP".

Basis of Presentation of Interim Condensed 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 Generally Accepted Accounting Principles (GAAP) in the United States and with the instructions for Quarterly Reports on Form 10-Q and Regulation S-X. 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 and the year-end balance sheet 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, 2017.

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, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

Reclassifications

Certain prior period balances on the Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Cash Flows have been reclassified due to noncurrent held for sale classification related to the signing of a purchase and sale agreement associated with the pending divestiture of the Uinta Basin assets and to conform to the current year presentation. Such reclassifications had no effect on the Company's net income (loss), earnings (loss) per share or retained earnings previously reported.

Impairment of Long-Lived Assets

During the six months ended June 30, 2018, QEP recorded impairment charges of $404.4 million, of which $402.8 million of proved and unproved properties impairment was triggered due to the signing of a purchase and sale agreement for the divestiture of the Uinta Basin assets. Additionally, QEP recorded $1.6 million related to expiring leaseholds on unproved properties and impairment of proved properties for a divestiture in the Other Northern area.

Cash, Cash Equivalents and Restricted Cash

Cash equivalents consist principally of highly liquid investments in securities with original maturities of three months or less made through commercial bank accounts that result in available funds the next business day. Restricted cash are funds that are legally or contractually reserved for a specific purpose and therefore not available for immediate or general business use.

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheets to the amounts shown in the Condensed Consolidated Statements of Cash Flows:

	June 30,	
	2018	2017
	(in millions)	
Cash and cash equivalents	$—	$178.8
Restricted cash[1]	26.1	22.4
Total cash, cash equivalents and restricted cash shown in the Condensed Consolidated Statements of Cash Flows	$26.1	$201.2

(1) As of June 30, 2018, the restricted cash balance consisted of $26.1 million included within "Other noncurrent assets" on the Condensed Consolidated Balance Sheet. As of June 30, 2017, the restricted cash balance consisted of $22.4 million included within "Other noncurrent assets" on the Condensed Consolidated Balance Sheet provided within the Quarterly Report on Form 10-Q. QEP's restricted cash is primarily cash deposited into an escrow account related to a title dispute between third parties in the Williston Basin.

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), which seeks to provide a single, comprehensive revenue recognition model for all contracts with customers to improve comparability within industries, across industries and across capital markets. The revenue standard contains principles that an entity will apply to determine the measurement of revenue and timing of when revenue is recognized. The underlying principle is that an entity will recognize revenue to depict the transfer of goods or services to customers at an amount that the entity expects to be entitled to in exchange for those goods or services. In addition, new and enhanced disclosures are required. The amendment was effective prospectively for reporting periods beginning on or after December 15, 2017, and early adoption was permitted for periods beginning on or after December 15, 2016. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. The Company has selected the modified retrospective method and adopted this standard in the first quarter of 2018. Refer to Note 2 – Revenue for more information.

In conjunction with ASU No. 2014-09, in March 2016, the FASB issued ASU No. 2016-08, Revenue from contracts with customers (Topic 606): Principal versus agent considerations (reporting revenue gross versus net), which clarifies the implementation guidance on principal versus agent considerations. In April 2016, the FASB issued ASU No. 2016-10, Revenue from contracts with customers (Topic 606): Identifying performance obligations and licensing, which clarifies guidance related to identifying performance obligations and licensing implementation guidance contained in the new revenue recognition standard. In May 2016, the FASB issued ASU No. 2016-11, Revenue recognition (Topic 605) and Derivatives and hedging (Topic 815): Rescission of SEC guidance because of ASU 2014-09 and 2014-16, which rescinds certain SEC staff observer comments that are codified in Topic 605, Revenue Recognition. In May 2016, the FASB issued ASU No. 2016-12, Revenue from contracts with customers (Topic 606): Narrow-scope improvements and practical expedients, which intends to reduce the cost and complexity of applying the new revenue standard by narrowing the scope of improvements to the guidance on collectability, non-cash consideration, and completed contracts at transition. In December 2016, the FASB issued ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, which intends to make corrections or improvements to the FASB Accounting Standards Codification which includes guidance and reference clarification, simplification and minor improvements. These amendments were effective prospectively for reporting periods beginning on or after December 31, 2017, and early adoption was permitted for periods beginning on or after December 31, 2016. The Company adopted these ASUs in the first quarter of 2018. Refer to Note 2 – Revenue for more information.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which requires lessees to recognize the lease assets and lease liabilities classified as operating leases on the balance sheet and disclosing key quantitative and qualitative information about leasing arrangements. The amendment will be effective for reporting periods beginning on or after December 15, 2018, and early adoption is permitted. QEP does not plan to early adopt this new standard. This standard does not apply to leases to explore for or use minerals, oil or natural gas resources, including the right to explore for those natural resources. QEP believes this new guidance will likely increase the recorded asset and liability balances on the Company's Condensed Consolidated Balance Sheets due to the required recognition of right-of-use assets and corresponding lease liabilities, but has not determined the aggregate amount of change.

In October 2016, the FASB issued ASU No. 2016-16, Accounting for Income Taxes: Intra-Entity Asset Transfers of Assets Other than Inventory, which intends to reduce the complexity in accounting standards related to intra-entity asset transfers by requiring a reporting entity to recognize the tax effects from the sale of assets when a transfer occurs, even though the pre-tax effects of the transaction are eliminated in consolidation. This amendment was effective retrospectively for reporting periods beginning after December 15, 2017, and early adoption was permitted. The Company adopted this standard in the first quarter of 2018 and the adoption did not have a material impact on the Company's Condensed Consolidated Financial Statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted cash, which intends to clarify how entities should present restricted cash and restricted cash equivalents in the statement of cash flows. This amendment was effective retrospectively for reporting periods after December 15, 2017, and early adoption was permitted. The Company adopted this standard in the first quarter of 2018 and the adoption did not have a material impact on the Company's Condensed Consolidated Statements of Cash Flows.

In February 2018, the FASB issued ASU No. 2018-02, Income statement - Reporting comprehensive income (Topic 220) - Reclassification of certain tax effects from accumulated other comprehensive income, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017. The amendment will be effective for reporting periods beginning after December 15, 2018, and early adoption is permitted. The Company is currently assessing the impact of the ASU on the Company's Condensed Consolidated Financial Statements.

In March 2018, the FASB issued ASU No. 2018-05, Income Taxes (Topic 740) - Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 118, which amends guidance on certain investments and income taxes as a result of the Tax Cuts and Jobs Act of 2017. The amendment is effective upon issuance. The adoption did not have a material impact on the Company's Condensed Consolidated Financial Statements.

Note 2 – Revenue

Adoption of ASC Topic 606, Revenue from Contracts with Customers

On January 1, 2018, QEP adopted ASC Topic 606, Revenue from Contracts with Customers, using the modified retrospective approach, which was applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning January 1, 2018, are presented in accordance with ASC Topic 606, while prior period amounts are reported in accordance with ASC Topic 605, Revenue Recognition.

In accordance with ASC Topic 606, QEP now records transportation and processing costs that are incurred after control of its product has transferred to the customer as a reduction of "Oil and condensate, gas and NGL sales" on the Condensed Consolidated Statements of Operations. Prior to the adoption of ASC Topic 606, these transportation and processing costs were recorded as an expense within "Transportation and processing costs" on the Condensed Consolidated Statements of Operations. There was no impact to net income (loss) or opening retained earnings as a result of adopting ASC Topic 606.

The following table presents the impact to the Condensed Consolidated Statements of Operations as a result of adopting ASC Topic 606.

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As Reported	ASC Topic 606 Adjustments	As Adjusted[1]	As Reported	ASC Topic 606 Adjustments	As Adjusted[1]
REVENUES	(in millions, except per share amounts)					
Oil and condensate, gas and NGL sales	$520.3	$ 12.4	$ 532.7	$930.1	$ 25.1	$ 955.2
Other revenue	3.0	—	3.0	8.0	—	8.0
Purchased oil and gas sales	9.1	—	9.1	23.2	—	23.2
Total Revenues	532.4	12.4	544.8	961.3	25.1	986.4
OPERATING EXPENSES						
Purchased oil and gas expense	9.8	—	9.8	25.3	—	25.3
Lease operating expense	66.5	—	66.5	139.0	—	139.0
Transportation and processing costs	31.2	12.4	43.6	65.2	25.1	90.3
Gathering and other expense	3.4	—	3.4	6.2	—	6.2
General and administrative	55.8	—	55.8	115.9	—	115.9
Production and property taxes	37.6	—	37.6	66.5	—	66.5
Depreciation, depletion and amortization	242.2	—	242.2	438.7	—	438.7
Exploration expenses	0.1	—	0.1	0.1	—	0.1
Impairment	403.7	—	403.7	404.4	—	404.4
Total Operating Expenses	850.3	12.4	862.7	1,261.3	25.1	1,286.4
Net gain (loss) from asset sales, inclusive of restructuring costs	(3.9)	—	(3.9)	(0.4)	—	(0.4)
OPERATING INCOME (LOSS)	(321.8)	—	(321.8)	(300.4)	—	(300.4)
Realized and unrealized gains (losses) on derivative contracts (Note 7)	(79.1)	—	(79.1)	(132.3)	—	(132.3)
Interest and other income (expense)	(3.1)	—	(3.1)	(3.8)	—	(3.8)
Interest expense	(38.2)	—	(38.2)	(73.2)	—	(73.2)
INCOME (LOSS) BEFORE INCOME TAXES	(442.2)	—	(442.2)	(509.7)	—	(509.7)
Income tax (provision) benefit	106.2	—	106.2	120.1	—	120.1
NET INCOME (LOSS)	$(336.0)	$ —	$ (336.0)	$(389.6)	$ —	$ (389.6)
Earnings (loss) per common share						
Basic	$(1.42)	$ —	$ (1.42)	$(1.63)	$ —	$ (1.63)
Diluted	$(1.42)	$ —	$ (1.42)	$(1.63)	$ —	$ (1.63)
Weighted-average common shares outstanding						
Used in basic calculation	237.0	—	237.0	238.9	—	238.9
Used in diluted calculation	237.0	—	237.0	238.9	—	238.9
Dividends per common share	$—	$ —	$ —	$—	$ —	$ —

(1) This column excludes the impact of adopting ASC Topic 606 and is consistent with the presentation prior to January 1, 2018.

Revenue Recognition

QEP recognizes revenue from the sales of oil and condensate, gas and NGL in the period that the performance obligations are satisfied. QEP's performance obligations are satisfied when the customer obtains control of product, when we have no further obligations to perform related to the sale, when the transaction price has been determined and when collectability is probable. The sales of oil and condensate, gas and NGL are made under contracts with customers, which typically include consideration that is based on pricing tied to local indices and volumes delivered in the current month. Reported revenues include estimates for the two most recent months using published commodity price indexes and volumes supplied by field operators. Performance obligations under our contracts with customers are typically satisfied at a point in time through monthly delivery of oil and condensate, gas and/or NGL. Our contracts with customers typically require payment for oil and condensate, gas and NGL sales within 30 days following the calendar month of delivery.

QEP's oil is typically sold at specific delivery points under contract terms that are common in our industry. QEP's gas and NGL are also sold under contract types that are common in our industry; however, under these contracts, the gas and its components, including NGL, may be sold to a single purchaser or the residue gas and NGL may be sold to separate purchasers. Regardless of the contract type, the terms of these contracts compensate the Company for the value of the residue gas and NGL constituent components at market prices for each product. QEP also purchases and resells oil and gas primarily to mitigate losses on unutilized capacity related to firm transportation commitments and storage activities. QEP recognizes revenue from these resale activities in the period that the performance obligations are satisfied. A wellhead imbalance liability is recorded to the extent that QEP has sold volumes in excess of its share of remaining reserves in an underlying property.

The following tables present our revenues that are disaggregated by revenue source and by geographic area. Transportation and processing costs in the following tables are not all of the transportation and processing costs that the Company incurs, only the expenses that are netted against revenues pursuant to ASC Topic 606.

	Oil and condensate sales	Gas sales	NGL sales	Transportation and processing costs included in revenue	Oil and condensate, gas and NGL sales, as reported
	(in millions)				
	Three Months Ended June 30, 2018				
Northern Region					
Williston Basin	$207.6	$8.4	$14.7	$ (10.7)	$ 220.0
Uinta Basin	9.5	7.9	1.7	—	19.1
Other Northern	0.9	0.2	0.1	—	1.2
Southern Region					
Permian Basin	190.3	3.2	9.9	(1.7)	201.7
Haynesville/Cotton Valley	0.2	77.9	—	—	78.1
Other Southern	—	0.2	—	—	0.2
Total oil and condensate, gas and NGL sales	$408.5	$97.8	$26.4	$ (12.4)	$ 520.3
	Three Months Ended June 30, 2017[1]				
Northern Region					
Williston Basin	$135.4	$11.0	$9.3	$ —	$ 155.7
Pinedale	6.0	51.2	8.4	—	65.6
Uinta Basin	6.9	12.3	1.1	—	20.3
Other Northern	1.4	4.9	0.1	—	6.4
Southern Region					
Permian Basin	66.0	3.6	3.8	—	73.4
Haynesville/Cotton Valley	0.2	51.0	0.1	—	51.3
Other Southern	0.1	0.2	—	—	0.3
Total oil and condensate, gas and NGL sales	$216.0	$134.2	$22.8	$ —	$ 373.0

[1] Prior period amounts have not been adjusted under the modified retrospective method.

	Oil and condensate sales	Gas sales	NGL sales	Transportation and processing costs included in revenue	Oil and condensate, gas and NGL sales, as reported
	(in millions)				
	Six Months Ended June 30, 2018				
Northern Region					
Williston Basin	$368.1	$18.2	$26.5	$ (20.6)	$ 392.2
Uinta Basin	17.9	18.0	3.4	—	39.3
Other Northern	2.8	1.2	(0.1)	—	3.9
Southern Region					
Permian Basin	320.1	7.8	16.4	(4.5)	339.8
Haynesville/Cotton Valley	0.6	154.3	—	—	154.9
Other Southern	(0.3)	0.3	—	—	—
Total oil and condensate, gas and NGL sales	$709.2	$199.8	$46.2	$ (25.1)	$ 930.1
	Six Months Ended June 30, 2017[1]				
Northern Region					
Williston Basin	$290.8	$23.0	$21.8	$ —	$ 335.6
Pinedale	12.8	111.8	20.0	—	144.6
Uinta Basin	14.3	26.9	2.7	—	43.9
Other Northern	2.8	10.8	0.2	—	13.8
Southern Region					
Permian Basin	116.2	6.8	6.9	—	129.9
Haynesville/Cotton Valley	0.6	89.2	0.2	—	90.0
Other Southern	0.2	0.2	—	—	0.4
Total oil and condensate, gas and NGL sales	$437.7	$268.7	$51.8	$ —	$ 758.2

[1] Prior period amounts have not been adjusted under the modified retrospective method.

Note 3 – Acquisitions and Divestitures

Acquisitions

During the six months ended June 30, 2018, QEP acquired various oil and gas properties, which primarily included proved and unproved leasehold acreage in the Permian Basin for an aggregate purchase price of $45.1 million, subject to post-closing purchase price adjustments. Of the $45.1 million, $37.5 million was related to acquisitions from various persons who owned additional oil and gas interests in certain properties included in the 2017 acquisition of oil and gas properties in the Permian Basin (the 2017 Permian Basin Acquisition) on substantially the same terms and conditions as the 2017 Permian Basin Acquisition in the fourth quarter of 2017.

During the six months ended June 30, 2017, QEP acquired various oil and gas properties, which primarily included proved and unproved leasehold acreage and additional surface acreage in the Permian Basin, for an aggregate purchase price of $76.6 million. In conjunction with these acquisitions, the Company recorded $5.3 million of goodwill, which was subsequently impaired in 2017.

Divestitures

In February 2018, QEP's Board of Directors unanimously approved certain strategic and financial initiatives (Strategic Initiatives) including plans to market its assets in the Williston Basin, the Uinta Basin and Haynesville/Cotton Valley and focus its activities in the Permian Basin. As a part of this process, the Company engaged advisors to assist with the divestitures of its Williston Basin and Uinta Basin assets and provided data for potential buyers to evaluate. The assets will be considered held for sale once it is deemed unlikely that there will be any significant changes to QEP's divestiture plan, which QEP believes is generally upon the execution of purchase and sale agreements.

Uinta Basin Divestiture

On July 5, 2018, the Company's wholly owned subsidiary, QEP Energy Company, entered into a definitive agreement to sell natural gas and oil producing properties, undeveloped acreage and related assets located in the Uinta Basin for proceeds of $155.0 million, subject to customary purchase price adjustments (the Uinta Basin Divestiture). The transaction is expected to close in September 2018. Since the transaction was substantially finalized at June 30, 2018, the assets and liabilities associated with the Uinta Basin Divestiture have been classified as noncurrent assets and liabilities held for sale on the Condensed Consolidated Balance Sheets and the notes accompanying the Condensed Consolidated Financial Statements. Pursuant to signing a purchase and sale agreement for the Uinta Basin Divestiture, QEP recorded $402.8 million of proved and unproved properties impairment during the three and six months ended June 30, 2018 (refer to Note 1 – Basis of Presentation for more information). In addition, QEP recorded $1.9 million of estimated restructuring costs related to this divestiture during the three and six months ended June 30, 2018, included in "Net gain (loss) from asset sales, inclusive of restructuring costs" on the Condensed Consolidated Statements of Operations (refer to Note 8 – Restructuring for more information).

The following table presents the carrying amounts of the major classes of assets and liabilities classified as noncurrent assets and liabilities held for sale on the Condensed Consolidated Balance Sheets:

	June 30, 2018	December 31, 2017
	(in millions)	
Assets		
Current assets, total	$0.4	$ 0.9
Property, Plant and Equipment	192.5	612.6
Other noncurrent assets	18.9	19.3
Noncurrent assets held for sale	$211.8	$ 632.8
Liabilities		
Current liabilities, total	$0.9	$ 0.8
Asset retirement obligations, current	3.5	4.0
Asset retirement obligations, long-term	48.2	47.6
Other long-term liabilities	0.2	0.2
Other long-term liabilities held for sale	$52.8	$ 52.6

Pinedale Divestiture

In September 2017, QEP sold its assets in Pinedale (the Pinedale Divestiture), for net cash proceeds of $718.2 million. For the six months ended June 30, 2018, QEP recorded a pre-tax gain on sale of $0.8 million, due to additional post-closing purchase price adjustments, which were recorded within "Net gain (loss) from asset sales, inclusive of restructuring costs" on the Condensed Consolidated Statements of Operations. For the three and six months ended June 30, 2017, QEP had net income before income taxes related to the divested Pinedale properties of $15.0 million and $43.0 million, respectively.

As a part of the Pinedale Divestiture, QEP agreed to reimburse the buyer for certain deficiency charges it incurs related to gas processing and NGL transportation and fractionation contracts between the effective date of the sale and December 31, 2019, in an aggregate amount not to exceed $45.0 million. As of June 30, 2018, the remaining liability associated with estimated future payments for this commitment was $23.8 million, which is reported on the Condensed Consolidated Balance Sheets within "Accounts payable and accrued expenses".

Other Divestitures

During the six months ended June 30, 2018, QEP received net cash proceeds of $48.8 million and recorded a net pre-tax gain of $0.7 million related to the divestiture of properties outside our main operating areas in the Uinta Basin, Pinedale and Other Northern area, and the sale of an underground gas storage facility.

During the six months ended June 30, 2017, QEP received proceeds of $2.3 million and recorded accounts receivable of $36.7 million, resulting in a pre-tax gain on sale of $19.8 million, primarily related to the divestiture of certain non-core properties in the Other Northern area.

The gains and losses were recorded within "Net gain (loss) from asset sales, inclusive of restructuring costs" on the Condensed Consolidated Statements of Operations.

Note 4 – Earnings Per Share

Basic earnings per share (EPS) are computed by dividing net income (loss) 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 share awards are included in weighted-average basic common shares outstanding because, once the shares are granted, the restricted share awards are considered issued and outstanding, the historical forfeiture rate is minimal and the restricted share awards are eligible to 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 (loss) per share pursuant to the two-class method. The Company's unvested restricted share 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 share awards do 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 (loss) per common share. During the three and six months ended June 30, 2018, 0.1 million shares were not included in diluted common shares outstanding as they were anti-dilutive to QEP's net loss. During the three and six months ended June 30, 2017, there were no anti-dilutive shares.

The following is a reconciliation of the components of basic and diluted shares used in the EPS calculation:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
	(in millions)			

Weighted-average basic common shares outstanding	237.0	240.5	238.9	240.4
Potential number of shares issuable upon exercise of in-the-money stock options under the Long-Term Stock Incentive Plan	—	0.1	—	0.1
Average diluted common shares outstanding	237.0	240.6	238.9	240.5

Note 5 – Asset Retirement Obligations

QEP records asset retirement obligations (ARO) associated with the retirement of tangible, long-lived assets. The Company's ARO liability applies primarily to abandonment costs associated with oil and gas wells 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 the 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. Of the $160.6 million and $162.5 million ARO liability for the periods ended June 30, 2018 and December 31, 2017, respectively, $6.0 million and $3.5 million, respectively, were included as a current liability within "Asset retirement obligations" on the Condensed Consolidated Balance Sheets.

The following is a reconciliation of the changes in the Company's ARO for the period specified below:

	Asset Retirement Obligations (in millions)
ARO liability at December 31, 2017[1]	$ 162.5
Accretion	2.6
Additions	3.5
Revisions	(3.5)
Liabilities settled	(4.5)
ARO liability at June 30, 2018[1]	$ 160.6

[1] Excludes $51.6 million of ARO classified as "Other long-term liabilities held for sale" on the Condensed Consolidated Balance Sheets related to the Uinta Basin Divestiture as of both June 30, 2018 and December 31, 2017.

Note 6 – 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. 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 that its commodity derivative instruments are Level 2. The Level 2 fair value of commodity derivative contracts (refer to Note 7 – Derivative Contracts) is based on market prices posted on the respective commodity exchange 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.

Certain of the Company's 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.

The fair value of financial assets and liabilities at June 30, 2018 and December 31, 2017, is shown in the table below:

	Fair Value Measurements				
	Gross Amounts of Assets and Liabilities			Netting Adjustments[(1)]	Net Amounts Presented on the Condensed Consolidated Balance Sheets
	Level 1	Level 2	Level 3		
	June 30, 2018				
Financial Assets	(in millions)				
Fair value of derivative contracts – short-term	$—	$28.0	$—	$(4.3)	$23.7
Fair value of derivative contracts – long-term	—	7.3	—	(1.9)	5.4
Total financial assets	$—	$35.3	$—	$(6.2)	$29.1
Financial Liabilities					
Fair value of derivative contracts – short-term	$—	$159.5	$—	$(4.3)	$155.2
Fair value of derivative contracts – long-term	—	51.2	—	(1.9)	49.3
Total financial liabilities	$—	$210.7	$—	$(6.2)	$204.5
	December 31, 2017				
Financial Assets					
Fair value of derivative contracts – short-term	$—	$20.6	$—	$(17.2)	$3.4
Fair value of derivative contracts – long-term	—	2.3	—	(2.2)	0.1
Total financial assets	$—	$22.9	$—	$(19.4)	$3.5
Financial Liabilities					
Fair value of derivative contracts – short-term	$—	$120.8	$—	$(17.2)	$103.6
Fair value of derivative contracts – long-term	—	34.0	—	(2.2)	31.8
Total financial liabilities	$—	$154.8	$—	$(19.4)	$135.4

(1) The Company nets its derivative contract assets and liabilities outstanding with the same counterparty on the Condensed Consolidated Balance Sheets, for the contracts that contain netting provisions. Refer to Note 7 – Derivative Contracts for additional information regarding the Company's derivative contracts.

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	Level 1 Fair Value	Carrying Amount	Level 1 Fair Value
	June 30, 2018		December 31, 2017	
Financial Assets	(in millions)			
Cash and cash equivalents	$—	$—	$—	$—
Financial Liabilities				
Checks outstanding in excess of cash balances	$8.5	$8.5	$44.0	$44.0
Long-term debt	$2,649.4	$2,684.2	$2,160.8	$2,256.2

The carrying amounts of cash and 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 fair value of the deficiency charge obligation associated with the Pinedale Divestiture was measured utilizing an internally developed cash flow model discounted at QEP's weighted average cost of debt. Given the unobservable nature of the inputs, the fair value calculation associated with the deficiency charges is considered Level 3 within the fair value hierarchy. Refer to Note 3 – Acquisitions and Divestitures for additional information.

The initial measurement of ARO at fair value is calculated using discounted cash flow techniques and is based on internal estimates of future retirement costs associated with property, plant and equipment. Significant Level 3 inputs used in the calculation of ARO includes plugging costs and reserve lives. A reconciliation of the Company's ARO is presented in Note 5 – Asset Retirement Obligations.

Nonrecurring Fair Value Measurements

The provisions of the fair value measurement standard are also applied to the Company's nonrecurring measurements. The Company utilizes fair value on a periodic basis to review its proved oil and gas properties for potential impairment when events and changes in circumstances indicate that the carrying amount of such property may not be recoverable. The fair value of property is measured utilizing the income approach and utilizing inputs that are primarily based upon internally developed cash flow models discounted at an appropriate weighted average cost of capital. Given the unobservable nature of the inputs, fair value calculations associated with proved oil and gas property impairments are considered Level 3 within the fair value hierarchy. In addition, the signing of a purchase and sale agreement could also trigger an impairment of proved properties. For assets subject to a purchase and sale agreement, the fair value of property is measured pursuant to the terms of the purchase and sale agreement. During the six months ended June 30, 2018, the Company recorded impairments on certain proved oil and gas properties of $397.6 million, resulting in a reduction of the associated carrying amount to fair value. During the six months ended June 30, 2017, the Company recorded no impairments on proved oil and gas properties.

Acquisitions of proved and unproved properties are also measured at fair value on a nonrecurring basis. The Company utilizes a discounted cash flow model to estimate the fair value of acquired property as of the acquisition date which utilizes the following inputs to estimate future net cash flows: (i) estimated quantities of oil and condensate, gas and NGL reserves; (ii) estimates of future commodity prices; and (iii) estimated production rates, future operating and development costs, which are based on the Company's historic experience with similar properties. In some instances, market comparable information of recent transactions is used to estimate fair value of unproved acreage. Due to the unobservable characteristics of the inputs, the fair value of the acquired properties is considered Level 3 within the fair value hierarchy.

Note 7 – 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 price derivative instruments to reduce the impact of potential downward movements in commodity prices on cash flow, returns on capital investment, 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, but generally, QEP enters into commodity derivative contracts for approximately 50% to 75% of its forecasted annual production by the end of the first quarter of each fiscal year. In addition, QEP has historically entered into commodity derivative contracts on a portion of its storage transactions. QEP does not enter into commodity derivative contracts for speculative purposes.

QEP uses commodity derivative instruments known as fixed-price swaps or costless collars to realize a known price or price range for a specific volume of production delivered into a regional sales point. QEP's commodity derivative instruments do not require the physical delivery of oil or gas between the parties at settlement. All 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. Oil price derivative instruments are typically structured as NYMEX fixed-price swaps based at Cushing, Oklahoma. Gas price derivative instruments are typically structured as fixed-price swaps or collars at NYMEX Henry Hub or regional price indices. QEP also enters into oil and gas basis swaps to achieve a fixed-price swap for a portion of its oil and gas sales at prices that reference specific regional index prices.

QEP does not currently have any commodity derivative transactions that have margin requirements or collateral provisions that would require payments prior to the scheduled settlement dates. QEP's commodity derivative contract counterparties are typically 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, actively monitoring counterparties' public credit ratings and avoiding the concentration of credit exposure by transacting with multiple counterparties. The Company has master-netting agreements with some counterparties that allow the offsetting of receivables and payables in a default situation.

Derivative Contracts – Production

The following table presents QEP's volumes and average prices for its commodity derivative swap contracts as of June 30, 2018:

Year	Index	Total Volumes	Average Swap Price per Unit
		(in millions)	
Oil sales		(bbls)	($/bbl)
2018	NYMEX WTI	8.3	$ 52.46
2019	NYMEX WTI	9.5	$ 52.66
2020	NYMEX WTI	1.5	$ 60.47
Gas sales		(MMBtu)	($/MMBtu)
2018	NYMEX HH	53.7	$ 3.00
2019	NYMEX HH	43.8	$ 2.86

QEP uses oil and gas basis swaps, combined with NYMEX WTI and NYMEX HH fixed price swaps, to achieve fixed price swaps for the location at which it sells its physical production. The following table presents details of QEP's oil and gas basis swaps as of June 30, 2018:

Year	Index	Basis	Total Volumes	Weighted-Average Differential
			(in millions)	
Oil sales			(bbls)	($/bbl)
2018	NYMEX WTI	Argus WTI Midland	4.6	$ (0.99)
2018	NYMEX WTI	Argus WTI Houston[1]	0.2	$ 6.30
2019	NYMEX WTI	Argus WTI Midland	4.7	$ (0.77)
2019	NYMEX WTI	Argus WTI Houston[1]	0.4	$ 4.35
2020	NYMEX WTI	Argus WTI Midland	1.5	$ (1.01)
Gas sales			(MMBtu)	($/MMBtu)
2018	NYMEX HH	IFNPCR	3.7	$ (0.16)

(1) Argus WTI Houston is an index price reflecting the weighted average price of WTI at Magellan's East Houston crude oil terminal.

QEP Derivative Financial Statement Presentation

The following table identifies the Condensed Consolidated Balance Sheet location of QEP's outstanding derivative contracts on a gross contract basis as opposed to the net contract basis presentation on 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		Gross liability derivative instruments fair value	
		June 30, 2018	December 31, 2017	June 30, 2018	December 31, 2017
Current:		(in millions)			
Commodity	Fair value of derivative contracts	$28.0	$ 20.6	$159.5	$ 120.8
Long-term:					
Commodity	Fair value of derivative contracts	7.3	2.3	51.2	34.0
Total derivative instruments		$35.3	$ 22.9	$210.7	$ 154.8

The effects of the change in fair value and settlement of QEP's derivative contracts recorded in "Realized and unrealized gains (losses) on derivative contracts" on the Condensed Consolidated Statements of Operations are summarized in the following table:

Derivative contracts	Three Months Ended June 30, 2018	2017	Six Months Ended June 30, 2018	2017
Realized gains (losses) on commodity derivative contracts	(in millions)			
Production				
Oil derivative contracts	$(52.0)	$11.5	$(96.3)	$9.5
Gas derivative contracts	6.4	(5.1)	7.3	(19.3)
Gas Storage				
Gas derivative contracts	0.1	—	0.3	(0.2)
Realized gains (losses) on commodity derivative contracts	(45.5)	6.4	(88.7)	(10.0)
Unrealized gains (losses) on commodity derivative contracts				
Production				
Oil derivative contracts	(20.6)	70.5	(27.5)	174.8
Gas derivative contracts	(13.0)	29.4	(15.8)	100.5
Gas Storage				
Gas derivative contracts	—	0.4	(0.3)	2.3
Unrealized gains (losses) on commodity derivative contracts	(33.6)	100.3	(43.6)	277.6
Total realized and unrealized gains (losses) on commodity derivative contracts	$(79.1)	$106.7	$(132.3)	$267.6

Note 8 – Restructuring

On February 28, 2018, QEP announced its intention to become a pure-play Permian Basin company, which includes plans to market its assets in the Williston Basin, the Uinta Basin and Haynesville/Cotton Valley. As a part of the Strategic Initiatives, QEP has incurred or expects to incur costs associated with contractual termination benefits including severance and accelerated vesting of share-based compensation. These termination benefits will be accounted for under ASC 712, Compensation - Nonretirement Postemployment Benefits and ASC 718, Compensation - Stock Compensation.

Restructuring costs recognized associated with the restructuring are summarized below:

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Total recognized	Recognized in "General and administrative"	Recognized in "Net gain (loss) from asset sales, inclusive of restructuring costs"	Total recognized	Recognized in "General and administrative"	Recognized in "Net gain (loss) from asset sales, inclusive of restructuring costs"
	(in millions)					
Termination benefits	$3.6	$ 1.7	$ 1.9	$7.0	$ 5.1	$ 1.9
Office lease termination costs	0.3	0.3	—	0.3	0.3	—
Accelerated share-based compensation	1.2	1.2	—	4.0	4.0	—
Retention expense	6.3	6.3	—	8.0	8.0	—
Pension curtailment	—	—	—	—	—	—
Total restructuring costs	$11.4	$ 9.5	$ 1.9	$19.3	$ 17.4	$ 1.9

	Costs recognized period from inception to June 30, 2018	Total remaining costs expected to be incurred	
	(in millions)		
Termination benefits	$7.0	$ —	(1)
Office lease termination costs	0.3	—	(1)
Accelerated share-based compensation	4.0	—	(1)
Retention expense	8.0	16.0	(2)
Pension curtailment	—	—	(1)
Total restructuring costs	$19.3	$ 16.0	

(1) Due to the nature of the Strategic Initiatives and uncertain factors such as timing and terms of the potential divestitures, the Company is not able to reasonably estimate the total cost to be incurred as a part of this restructuring.

(2) QEP expects to incur an additional $12.0 million of expense in 2018 and $4.0 million in 2019 related to the retention program.

The following table is a reconciliation of QEP's restructuring liability, which is included within "Accounts payable and accrued expenses" on the Condensed Consolidated Balance Sheets.

	Restructuring liability				
	Termination benefits	Office lease termination costs	Accelerated share-based compensation	Retention expense	Total
	(in millions)				
Balance at December 31, 2017	$—	$ —	$ —	$ —	$—

Costs incurred and charged to expense	7.0	0.3	4.0	8.0	19.3
Costs paid or otherwise settled	(3.7)	(0.3)	(4.0)	—	(8.0)
Balance at June 30, 2018[(1)]	$3.3	$ —	$ —	$ 8.0	$11.3

Note 9 – Debt

As of the indicated dates, the principal amount of QEP's debt consisted of the following:

	June 30, 2018	December 31, 2017
	(in millions)	
Revolving Credit Facility due 2022	$575.0	$ 89.0
6.80% Senior Notes due 2020	51.7	51.7
6.875% Senior Notes due 2021	397.6	397.6
5.375% Senior Notes due 2022	500.0	500.0
5.25% Senior Notes due 2023	650.0	650.0
5.625% Senior Notes due 2026	500.0	500.0
Less: unamortized discount and unamortized debt issuance costs	(24.9)	(27.5)
Total long-term debt outstanding	$2,649.4	$ 2,160.8

Of the total debt outstanding on June 30, 2018, the 6.80% Senior Notes due March 1, 2020, the 6.875% Senior Notes due March 1, 2021, the 5.375% Senior Notes due October 1, 2022 and the 5.25% Senior Notes due May 1, 2023, will mature within the next five years. In addition, the revolving credit facility matures on September 1, 2022.

Credit Facility

QEP's revolving credit facility, which matures, subject to satisfaction of certain conditions, in September 2022, provides for loan commitments of $1.25 billion. The credit facility provides for borrowings at short-term interest rates and contains customary covenants and restrictions. The credit agreement contains financial covenants (that are defined in the credit agreement) that limit the amount of debt the Company can incur and may limit the amount available to be drawn under the credit facility including: (i) a net funded debt to capitalization ratio that may not exceed 60%, (ii) a leverage ratio under which net funded debt may not exceed 4.00 times consolidated EBITDA (as defined in the credit agreement) commencing with the fiscal quarter ending March 31, 2018, through the fiscal quarter ending December 31, 2018, and 3.75 times thereafter, and (iii) during a ratings trigger period (as defined), a present value coverage ratio under which the present value of the Company's proved reserves must exceed net funded debt by 1.25 times at any time prior to January 1, 2019, must exceed net funded debt by 1.40 times commencing on January 1, 2019 through December 31, 2019, and must exceed net funded debt by 1.50 times at any time on or after January 1, 2020. The Company is currently not subject to the present value coverage ratio. At June 30, 2018 and December 31, 2017, QEP was in compliance with the covenants under the credit agreement.

During the six months ended June 30, 2018, QEP's weighted-average interest rates on borrowings from its credit facility were 4.22%. As of June 30, 2018, QEP had $575.0 million of borrowings outstanding and $0.3 million in letters of credit outstanding under the credit facility. As of December 31, 2017, QEP had $89.0 million of borrowings outstanding and $1.0 million in letters of credit outstanding under the credit facility.

Senior Notes

At June 30, 2018, the Company had $2,099.3 million in principal amount of senior notes outstanding with maturities ranging from March 2020 to March 2026 and coupons ranging from 5.25% 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 indentures governing QEP's senior notes contain customary events of default and covenants that may limit QEP's ability to, among other things, place liens on its property or assets.

Note 10 – Commitments and Contingencies

The Company is involved in various commercial and regulatory claims, litigation and other legal proceedings that arise in the ordinary course of its business. In each reporting period, the Company assesses these claims in an effort to determine the degree of probability and range of possible loss for potential accrual in its Condensed Consolidated Financial Statements. In accordance with ASC 450, Contingencies, an accrual is recorded for a material loss contingency when its occurrence is probable and damages are reasonably estimable based on the anticipated most likely outcome or the minimum amount within a range of possible outcomes.

Legal proceedings are inherently unpredictable and unfavorable resolutions can occur. Assessing contingencies is highly subjective and requires judgment about uncertain future events. When evaluating contingencies related to legal proceedings, the Company may be unable to estimate losses due to a number of factors, including potential defenses, the procedural status of the matter in question, the presence of complex legal and/or factual issues, the ongoing discovery and/or development of information important to the matter.

Landowner Litigation – In October, 2017, the owners of certain surface and mineral interests in Martin and Andrews County, Texas filed suit against QEP, alleging QEP improperly used the surface of the properties and failed to correctly pay royalties, and are seeking money damages and a declaratory judgment that portions of the oil and gas leases covering the properties are no longer in effect. The Company continues to evaluate the allegations and its defenses. The Company is unable to make an estimate of the reasonably possible loss at this early stage.

Note 11 – Share-Based Compensation

In 2018, QEP's Board of Directors and QEP's shareholders approved the QEP Resources, Inc. 2018 Long-Term Incentive Plan (LTIP), which replaces the 2010 Long-Term Stock Incentive Plan (LTSIP) and provides for the issuance of up to 10.0 million shares such that the Board of Directors may grant long-term incentive compensation. QEP issues stock options, restricted share awards, and restricted share units under its LTIP and awards performance share units under its Cash Incentive Plan (CIP) to certain officers, employees and non-employee directors. Grants issued prior to May 15, 2018 are under the LTSIP and the grants issued on or after May 15, 2018 are under the LTIP. QEP recognizes the expense over the vesting periods for the stock options, restricted share awards, restricted share units and performance share units. There were 10.0 million shares available for future grants under the LTIP at June 30, 2018.

Share-based compensation expense is recognized within "General and administrative" expense on the Condensed Consolidated Statements of Operations and is summarized in the table below. During the three and six months ended June 30, 2018, the Company recorded an additional $1.2 million and $4.0 million, respectively, of share-based compensation expense related to the acceleration of vesting that occurred as part of the restructuring program and included in share-based compensation expense below (refer to Note 8 – Restructuring for additional information):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)			
Stock options	$0.2	$0.6	$0.7	$1.2
Restricted share awards	6.8	6.0	15.6	13.3
Performance share units	5.1	(4.9)	7.0	(6.8)
Restricted share units	0.1	—	0.1	—
Total share-based compensation expense	$12.2	$1.7	$23.4	$7.7

Stock Options

QEP uses the Black-Scholes-Merton mathematical model to estimate the fair value of stock option awards at the date of grant. 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 calculating the value of stock options not traded on an exchange. The Company utilizes the "simplified" method to estimate the expected term of the stock options granted as there is limited historical exercise data available in estimating the expected term of the stock options. QEP uses a historical volatility method to estimate the fair value of stock options awards and the risk-free interest rate is based on the yield on U.S. Treasury strips with maturities similar to those of the expected term of the stock options. The stock options typically vest in equal installments over a three-year period from the grant date and are exercisable immediately upon vesting through the seventh anniversary of the grant date. To fulfill options exercised, QEP either reissues treasury stock or issues new shares. The Company recognizes forfeitures of stock options as they occur.

In 2018, QEP did not issue stock options to better align our long-term incentive awards with those typical of the industry.

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

	Options Outstanding	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
		(per share)	(in years)	(in millions)
Outstanding at December 31, 2017	2,354,277	$ 23.62		
Exercised	(23,337)	10.12		
Canceled	(202,235)	39.07		
Outstanding at June 30, 2018	2,128,705	$ 22.30	3.32	$ 1.0
Options Exercisable at June 30, 2018	1,734,134	$ 24.07	2.87	$ 0.6
Unvested Options at June 30, 2018	394,571	$ 14.51	5.31	$ 0.3

The total intrinsic value (the difference between the market price at the exercise date and the exercise price) of stock options exercised was $0.1 million during the six months ended June 30, 2018. During the six months ended June 30, 2017, there were no exercises of stock options. As of June 30, 2018, $0.9 million of unrecognized compensation expense related to stock options granted under the LTSIP is expected to be recognized over a weighted-average vesting period of 1.63 years. The weighted-average vesting period may be reduced due to accelerated vestings under the restructuring program (refer to Note 8 – Restructuring for additional information).

Restricted Share Awards

Restricted share award grants typically vest in equal installments over a three-year period from the grant date. The grant date fair value is determined based on the closing bid price of the Company's common stock on the grant date. The Company recognizes restricted share forfeitures as they occur. The total fair value of restricted share awards that vested during the six months ended June 30, 2018 and 2017 was $24.6 million and $20.3 million, respectively. The weighted-average grant date fair value of restricted share awards was $9.55 per share and $16.69 per share for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, $30.2 million of unrecognized compensation expense related to restricted share awards granted under the LTSIP and LTIP is expected to be recognized over a weighted-average vesting period of 2.37 years. The weighted-average vesting period may be reduced due to accelerated vestings under the restructuring program (refer to Note 8 – Restructuring for additional information).

Transactions involving restricted share awards under the terms of the LTSIP and LTIP are summarized below:

	Restricted Share Awards Outstanding	Weighted-Average Grant Date Fair Value
		(per share)
Unvested balance at December 31, 2017	3,721,334	$ 13.23
Granted	2,933,607	9.55
Vested	(1,743,969)	14.12
Forfeited	(127,920)	11.19
Unvested balance at June 30, 2018	4,783,052	$ 10.71

Performance Share Units
The payouts for performance share units 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 and have historically been paid in cash. Beginning with awards granted in 2015, the Company has the option to settle earned awards in cash or shares of common stock under the Company's LTIP; however, as of June 30, 2018, the Company expects to settle all awards in cash under the CIP. These awards are classified as liabilities and are included within "Other long-term liabilities" on the Condensed Consolidated Balance Sheets. As these awards are dependent upon the Company's total shareholder return and stock price, they are remeasured at fair value at the end of each reporting period. The weighted-average grant date fair value of the performance share units was $9.55 per share and $16.98 per share for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, $16.4 million of unrecognized compensation expense, which represents the unvested portion of the fair market value of performance shares granted, is expected to be recognized over a weighted-average vesting period of 2.19 years. The weighted-average vesting period may be reduced due to accelerated vestings under the restructuring program (refer to Note 8 – Restructuring for additional information).

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

	Performance Share Units Outstanding	Weighted-Average Grant Date Fair Value (per share)
Unvested balance at December 31, 2017	1,199,336	$ 14.59
Granted	724,095	9.55
Vested	(277,604)	19.73
Unvested balance at June 30, 2018	1,645,827	$ 11.47

Restricted Share Units
Employees may elect to defer their grants of restricted share awards and these deferred awards are designated as restricted share units. Restricted share units vest over a three-year period and are deferred into the Company's nonqualified, unfunded deferred compensation plan at the time of vesting. These awards are ultimately paid in cash. They are classified as liabilities and are included in "Other long-term liabilities" on the Condensed Consolidated Balance Sheets and are measured at fair value at the end of each reporting period. The weighted-average grant date fair value of the restricted share units was $9.55 and $16.98 per share for the six months ended June 30, 2018 and 2017, respectively. As of June 30, 2018, $0.4 million of unrecognized compensation expense, which represents the unvested portion of the fair market value of restricted share units granted, is expected to be recognized over a weighted-average vesting period of 1.70 years. The weighted-average vesting period may be reduced due to accelerated vestings under the restructuring program (refer to Note 8 – Restructuring for additional information).

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

	Restricted Share Units Outstanding	Weighted-Average Grant Date Fair Value (per share)
Unvested balance at December 31, 2017	21,946	$ 13.22
Granted	31,835	9.55
Vested	(9,320)	12.56
Unvested balance at June 30, 2018	44,461	$ 10.73

Note 12 – Employee Benefits

Pension and Other Postretirement Benefits

The Company provides pension and other postretirement benefits to certain employees through three retiree benefit plans: the QEP Resources, Inc. Retirement Plan (the Pension Plan), the Supplemental Executive Retirement Plan (the SERP), and a postretirement medical plan (the Medical Plan).

The Pension Plan is a closed, qualified, defined-benefit pension plan that is funded and provides pension benefits to certain QEP employees. During the six months ended June 30, 2018, the Company made contributions of $3.0 million to the Pension Plan and expects to make an additional $1.0 million to the Pension Plan during the remainder of 2018. Contributions to the Pension Plan increase plan assets. The Pension Plan was amended in June 2015 and was frozen effective January 1, 2016, such that employees do not earn additional defined benefits for future services. During the six months ended June 30, 2018, the Company has not made discretionary contributions to active participants of the Pension Plan but expects to contribute $0.4 million to eligible participants in the fourth quarter of 2018.

The SERP is a nonqualified retirement plan that is unfunded and provides pension benefits to certain QEP employees. During the six months ended June 30, 2018, the Company made contributions of $0.5 million to its SERP and expects to contribute an additional $0.2 million to its SERP during the remainder of 2018. Contributions to the SERP are used to fund current benefit payments. The SERP was amended and restated in June 2015 and was closed to new participants effective January 1, 2016.

The Medical Plan is a self-insured plan. It is unfunded and provides other postretirement benefits including certain health care and life insurance benefits for certain retired QEP employees. During the six months ended June 30, 2018, the Company made contributions of $0.1 million to its Medical Plan and expects to contribute an additional $0.1 million to its Medical Plan during the remainder of 2018. Contributions to the Medical Plan are used to fund current benefit payments.

In February 2017, the Company changed the eligibility requirements for active employees eligible for the Medical Plan, as well as retirees currently enrolled. Effective July 1, 2017, the Company no longer offers the Medical Plan to retirees and spouses that are both Medicare eligible. In addition, the Company no longer offers life insurance to individuals retiring on or after July 1, 2017.

The Company's Strategic Initiatives may trigger curtailments related to the Pension Plan, SERP and/or Medical Plan at the closing of the various transactions (refer to Note 8 – Restructuring for more information).

The Company recognizes service costs related to SERP and Medical Plan benefits on the Condensed Consolidated Statements of Operations within "General and administrative" expense. All other expenses related to the Pension Plan, SERP and Medical Plan are recognized on the Condensed Consolidated Statements of Operations within "Interest and other income (expense)".

The following table sets forth the Company's net periodic benefit costs related to its Pension Plan, SERP and Medical Plan:

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Pension Plan and SERP benefits	(in millions)			
Service cost	$0.2	$0.1	$0.4	$0.4
Interest cost	1.1	1.2	2.2	2.4
Expected return on plan assets	(1.5)	(1.4)	(2.9)	(2.7)
Amortization of prior service costs(1)	0.2	0.3	0.4	0.6
Amortization of actuarial losses(1)	0.3	(0.1)	0.6	0.2
Periodic expense	$0.3	$0.1	$0.7	$0.9
Medical Plan benefits				
Interest cost	$0.1	$0.1	$0.1	$0.1
Amortization of prior service costs(1)	—	—	(0.1)	(0.1)
Periodic expense	$0.1	$0.1	$—	$—

(1) Amortization of prior service costs and actuarial losses out of accumulated other comprehensive income are recognized on the Condensed Consolidated Statements of Operations within "Interest and other income (expense)".

Employee Investment Plan

QEP employees may participate in the QEP Employee Investment Plan, a defined-contribution plan (the 401(k) Plan). The 401(k) Plan allows eligible employees to make investments, including purchasing shares of QEP common stock, through payroll deduction at the current fair market value on the transaction date. Both employees and QEP make contributions to the 401(k) Plan. During the six months ended June 30, 2018, the Company made contributions of $3.6 million to the 401(k) Plan and expects to contribute an additional $2.4 million to the 401(k) Plan during the remainder of 2018. Due to the Company's Strategic Initiatives, the amount expected to be contributed to the 401(k) Plan is subject to change (refer to Note 8 – Restructuring for more information).

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 the 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 Part I, Item 1 of this Quarterly Report on Form 10-Q.

The following information updates the discussion of QEP's financial condition provided in its Annual Report on Form 10-K for the year ended December 31, 2017 (2017 Form 10-K) and analyzes the changes in the results of operations between the three and six months ended June 30, 2018 and 2017. For definitions of commonly used oil and gas terms found in this Quarterly Report on Form 10-Q, please refer to the "Glossary of Terms" provided in the 2017 Form 10-K.

OVERVIEW

QEP Resources, Inc. is an independent crude oil and natural gas exploration and production company with operations in two regions of the United States: the Southern Region (primarily in Texas and Louisiana) and the Northern Region (primarily in North Dakota and Utah). Unless otherwise specified or the context otherwise requires, all references to "QEP" or the "Company" are to QEP Resources, Inc. and its subsidiaries on a consolidated basis. QEP's corporate headquarters are located in Denver, Colorado and shares of QEP's common stock trade on the New York Stock Exchange (NYSE) under the ticker symbol "QEP".

In February 2018, QEP's Board of Directors unanimously approved certain strategic and financial initiatives (Strategic Initiatives), including plans to market its assets in the Williston Basin, the Uinta Basin and Haynesville/Cotton Valley and focus its activities in the Permian Basin. As a part of this process, the Company engaged advisors to assist with the divestitures of its Williston Basin and Uinta Basin assets and provided data for potential buyers to evaluate. We continue to engage in discussions with several potential buyers regarding the sale of all or a portion of our Williston assets. As a part of the Strategic Initiatives, QEP has incurred or expects to incur costs associated with contractual termination benefits including severance and accelerated vesting of share-based compensation. Refer to Note 3 – Acquisitions and Divestitures and Note 8 – Restructuring, in Item I of Part I of this Quarterly Report on Form 10-Q for additional information.

On July 5, 2018, the Company's wholly owned subsidiary, QEP Energy Company, entered into a definitive agreement to sell natural gas and oil producing properties, undeveloped acreage and related assets located in the Uinta Basin for proceeds of $155.0 million, subject to customary purchase price adjustments (the Uinta Basin Divestiture). The transaction is expected to close in September 2018. Since the transaction was substantially finalized at June 30, 2018, the assets and liabilities associated with the Uinta Basin Divestiture have been classified as noncurrent assets and liabilities held for sale on the Condensed Consolidated Balance Sheets and the notes accompanying the Condensed Consolidated Financial Statements. Pursuant to signing a purchase and sale agreement for the Uinta Basin Divestiture, QEP recorded $402.8 million of proved and unproved properties impairment during the six months ended June 30, 2018. In addition, QEP recorded $1.9 million of estimated restructuring costs related to this divestiture during the six months ended June 30, 2018 included in the "Net gain (loss) from asset sales, inclusive of restructuring costs" on the Condensed Consolidated Statements of Operations. Refer to Note 1 – Basis of Presentation, Note 3 – Acquisitions and Divestitures and Note 8 – Restructuring, in Item I of Part I of this Quarterly Report on Form 10-Q for more information.

Since the beginning of 2014, the Company has made approximately $2.5 billion of acquisitions of properties in the Permian Basin and spent approximately 40% of its capital expenditures (excluding property acquisitions) on its properties in the Permian Basin. In 2018, the Company plans to spend approximately 70% of total planned capital expenditures to develop the Permian Basin.

Outlook

The Company continues to focus on reducing its operating costs and per well drilling costs and managing its liquidity as it executes on its plan to transition from a natural gas weighted company to a pure play Permian Basin company. We believe our balance sheet and sufficient liquidity will allow us to grow oil and condensate production in the Permian Basin and achieve our Strategic Initiatives.

Based on current commodity prices, we expect to be able to fund our planned capital program for the remainder of 2018 with cash flow from operating activities and borrowings under our credit facility. Our total capital expenditures (excluding property acquisitions) for 2018 are expected to be approximately $1,120.0 million, a decrease of approximately 8% from 2017 capital expenditures. We continuously evaluate our level of drilling and completion activity in light of drilling results, commodity prices and changes in our operating and development costs and may adjust our capital investment program based on such evaluations. See "Cash Flow from Investing Activities" for further discussion of our capital expenditures.

Acquisitions and Divestitures

While we believe our extensive inventory of identified drilling locations provides a solid base for growth in production and reserves, the Company continues to evaluate and acquire properties in the Permian Basin to add additional development opportunities and facilitate the drilling of long lateral wells.

Acquisitions

During the six months ended June 30, 2018, QEP acquired various oil and gas properties, which primarily included proved and unproved leasehold acreage in the Permian Basin for an aggregate purchase price of $45.1 million, subject to customary purchase price adjustments. Of the $45.1 million, $37.5 million was related to acquisitions from various persons who owned additional oil and gas interests in certain properties included in the 2017 Permian Basin Acquisition on substantially the same terms and conditions as the 2017 Permian Basin Acquisition.

In the fourth quarter of 2017, QEP acquired additional oil and gas properties in the Permian Basin (the 2017 Permian Basin Acquisition) for an aggregate purchase price of $720.7 million, subject to post-closing purchase price adjustments. The 2017 Permian Basin Acquisition consists of approximately 15,100 acres, mainly in Martin County, Texas, which are held by production from existing vertical wells. QEP structured the transaction as a like-kind exchange under Section 1031 of the Internal Revenue Service Code and funded the purchase price with the proceeds from the sale of QEP's Pinedale assets.

During the six months ended June 30, 2017, QEP acquired various oil and gas properties, which primarily included proved and unproved leasehold acreage and additional surface acreage in the Permian Basin, for an aggregate purchase price of $76.6 million. In conjunction with these acquisitions, the Company recorded $5.3 million of goodwill, which was subsequently impaired in 2017.

Divestitures

During the six months ended June 30, 2018, QEP recorded a pre-tax loss of $1.9 million related to estimated restructuring costs associated with the Uinta Basin Divestiture (refer to Note 8 – Restructuring, in Item I of Part I of this Quarterly Report on Form 10-Q for more information), partially offset by a pre-tax gain of $0.7 million related to the divestiture of properties outside our main operating areas in the Uinta Basin, Pinedale and Other Northern area, and the sale of an underground gas storage facility, in which QEP received aggregate net cash proceeds of $48.8 million. In addition, QEP recorded a pre-tax gain of $0.8 million related to the sale of QEP's assets in Pinedale (the Pinedale Divestiture).

In September 2017, QEP closed on the Pinedale Divestiture for net cash proceeds (after purchase price adjustments) of $718.2 million. For the six months ended June 30, 2018, QEP recorded a pre-tax gain on sale of $0.8 million, due to post-closing purchase price adjustments, which was recorded within "Net gain (loss) from asset sales, inclusive of restructuring costs" on the Condensed Consolidated Statements of Operations. During the year ended December 31, 2017, QEP recorded a pre-tax gain on sale of $180.4 million, which was recorded within "Net gain (loss) from asset sales, inclusive of restructuring costs" on the Consolidated Statements of Operations. In connection with the Pinedale Divestiture, QEP agreed to reimburse the buyer for certain deficiency charges it incurs related to gas processing and NGL transportation and fractionation contracts between the effective date of the sale and December 31, 2019, in an aggregate amount not to exceed $45.0 million. As of June 30, 2018, the remaining liability associated with estimated future payments for this commitment was $23.8 million.

Financial and Operating Highlights

During the three months ended June 30, 2018, QEP:

- Delivered record oil and condensate production of 6.6 MMbbls, a 35% increase over 2017 volumes;
- Increased oil and condensate production by 121% to a record 3.2 MMbbls in the Permian Basin;
- Increased gas production in Haynesville/Cotton Valley to 28.5 Bcf, a 71% increase over 2017 volumes, primarily due to successful refracturing and drilling programs;
- Reported net realized oil prices of $54.30 per bbl, a 16% increase over 2017;
- Repurchased and retired 0.6 million shares of the Company's outstanding shares of common stock for $5.6 million;
- Generated a net loss of $336.0 million or $1.42 per diluted share; and
- Reported Adjusted EBITDA (a non-GAAP financial measure defined and reconciled below) of $282.6 million, a 59% increase over 2017.

During the six months ended June 30, 2018, QEP:

- Delivered oil and condensate production of 11.5 MMbbls, a 21% increase over 2017 volumes;
- Increased oil and condensate production by 119% to a record 5.4 MMbbls in the Permian Basin;
- Increased gas production in Haynesville/Cotton Valley to 54.2 Bcf, an 88% increase over 2017 volumes, primarily due to successful refracturing and drilling programs;
- Reported net realized oil prices of $53.11 per bbl, a 13% increase over 2017;
- Repurchased and retired 6.2 million shares of the Company's outstanding shares of common stock for $58.4 million;
- Generated a net loss of $389.6 million, or $1.63 per diluted share; and
- Reported Adjusted EBITDA (a non-GAAP financial measure defined and reconciled below) of $454.5 million, a 31% increase over 2017.

Factors Affecting Results of Operations

Supply, Demand, Market Risk and their Impact on Oil and Gas Prices
Oil and gas prices are affected by many factors outside of our control, including changes in market supply and demand, which are impacted by weather conditions, pipeline capacity constraints, inventory storage levels, basis differentials, export capacity, strength of the U.S. dollar and other factors. In recent years, oil and gas prices have been affected by supply growth, particularly in U.S. oil and gas production, driven by advances in drilling and completion technologies, and fluctuations in demand driven by a variety of factors.

Changes in the market prices for oil, gas and NGL directly impact many aspects of QEP's business, including its financial condition, revenues, results of operations, planned drilling and completion activity and related capital expenditures, our proved undeveloped (PUD) reserves conversion rate, liquidity, rate of growth, costs of goods and services required to drill, complete and operate wells, and the carrying value of its oil and gas properties. Historically, field-level prices received for QEP's oil and gas production have been volatile. During the past five years, the posted price for WTI crude oil has ranged from a low of $26.19 per barrel in February 2016 to a high of $110.62 per barrel in September 2013. The Henry Hub spot market price of natural gas has ranged from a low of $1.49 per MMBtu in March 2016 to a high of $8.15 per MMBtu in February 2014. If prices of oil, gas or NGL decline to early 2016 levels or further, our operations, financial condition and level of expenditures for the development of our oil and gas reserves may be materially and adversely affected.

Global Geopolitical and Macroeconomic Factors
QEP continues to monitor the global economy, including Europe and China's economic outlook; the Organization of Petroleum Exporting Countries (OPEC) countries oil production and policies regarding production quotas; political unrest and economic issues in South America, Asia, Europe, the Middle East, and Africa; slowing growth in certain emerging market economies; actions taken by the United States Congress and the president of the United States; the U.S. federal budget deficit; changes in regulatory oversight policy; commodity price volatility; tariffs on goods we use in our operations or on the products we sell; the impact of a potential increase in interest rates; volatility in various global currencies; and other factors. 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 oil, gas and NGL supply, demand and prices and the Company's ability to continue its planned drilling programs and could materially impact the Company's financial position, results of operations and cash flow from operations. Disruption to the global oil supply system, political and/or economic instability, fluctuations in currency values, and/or other factors could trigger additional volatility in oil prices.

Due to continued global economic uncertainty and the corresponding volatility of commodity prices, QEP continues to focus on maintaining a sufficient liquidity position to ensure financial flexibility. QEP uses commodity derivatives to reduce the volatility of the prices QEP receives for a portion of its production and to partially 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% to 75% of its forecasted annual production by the end of the first quarter of each fiscal year. At June 30, 2018, QEP forecasted its 2018 annual production to be approximately 51.1 MMboe and had approximately 66% of its forecasted oil production and 69% of its forecasted gas production covered with fixed-price swaps and collars. See Part 1, Item 3 – "Quantitative and Qualitative Disclosures about Market Risk-Commodity Price Risk Management" for further details on QEP's commodity derivatives transactions.

Potential for Future Asset Impairments
The carrying values of the Company's properties are sensitive to declines in oil, gas and NGL prices as well as increases in various development and operating costs and expenses and, therefore, are at risk of impairment. The Company uses a cash flow model to assess its proved properties for impairment. The cash flow model includes numerous assumptions, including estimates of future oil, gas and NGL production, estimates of future prices for

production that are based on the price forecast that management uses to make investment decisions, including estimates of basis differentials, future operating costs, transportation expenses, production taxes, and development costs that management believes are consistent with its price forecast, and discount rates. Management also considers a number of other factors, including the forward curve for future oil and gas prices, and developments in regional transportation infrastructure when developing its estimate of future prices for production. All inputs for the cash flow model are evaluated at each date of estimate.

We base our fair value estimates on projected financial information that we believe to be reasonably likely to occur. An assessment of the sensitivity of our capitalized costs to changes in the assumptions in our cash flow calculations is not practicable, given the numerous assumptions (e.g., future oil, gas and NGL prices; production and reserves; pace and timing of development plans; timing of capital expenditures; operating costs; drilling and development costs; and inflation and discount rates) that can materially affect our estimates. Unfavorable adjustments to some of the above listed assumptions would likely be offset by favorable adjustments in other assumptions. For example, the impact of sustained reduced oil, gas and NGL prices on future undiscounted cash flows would likely be offset by lower drilling and development costs and lower operating costs.

If forward oil and gas prices decline significantly from June 30, 2018 levels or we experience negative changes in estimated reserve quantities or we enter into purchase and sale agreements for less than net book value, we have proved and unproved property with a net book value of approximately $2.7 billion at risk for impairment, associated with the Williston Basin and proved and unproved property and gathering assets with a net book value of approximately $718 million at risk for impairment, associated with Haynesville/Cotton Valley as of June 30, 2018. The actual amount of impairment incurred, if any, for these properties will depend on a variety of factors including, but not limited to, subsequent forward price curve changes, entering into purchase and sale agreements for less than net book value of the assets, the additional risk-adjusted value of probable and possible reserves associated with the properties, weighted-average cost of capital, operating cost estimates and future capital expenditure estimates.

Multi-Well Pad Drilling and Completion
To reduce the costs of well location construction and rig mobilization and demobilization and to obtain other efficiencies, QEP utilizes multi-well pad drilling where practical. For example, in the Permian Basin QEP utilizes "tank-style" development, in which we simultaneously develop multiple subsurface targets by drilling and completing all wells in a given "tank" before any individual well is turned to production. In certain of our producing areas, wells drilled on a pad are not completed and brought into production until all wells on the pad are drilled and the drilling rig is moved from the location. As a result, multi-well pad drilling delays the completion of wells and the commencement of production. In addition, existing wells that offset new wells being completed by QEP or offset operators may need to be temporarily shut-in during the completion process. Such delays and well shut-ins have caused and may continue to cause volatility in QEP's quarterly operating results. In addition, delays in completion of wells may impact planned conversion of PUD reserves to proved developed reserves.

Uncertainties Related to Claims
QEP is currently subject to claims that could adversely impact QEP's liquidity, operating results and/or capital expenditures for a particular reporting period, including, but not limited to those described in Note 10 – Commitments and Contingencies, in Item 1 of Part I of this Quarterly Report on Form 10-Q. Given the uncertainties involved in these matters, QEP is unable to predict the ultimate outcomes.

Critical Accounting Estimates
QEP's significant accounting policies are described in Item 7 of Part II of its 2017 Form 10-K. The Company's Condensed Consolidated Financial Statements are prepared in accordance with 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 oil and gas reserves, successful efforts accounting for oil and gas operations, capitalized exploratory well costs, impairment of long-lived assets, asset retirement obligations, revenue recognition, litigation and other contingencies, environmental obligations, derivative contracts, pension and other postretirement benefits, share-based compensation, income taxes and purchase price allocations, among others, may involve a high degree of complexity and judgment on the part of management.

Drilling, Completion and Production Activities

The following table presents operated and non-operated wells in the process of being drilled or waiting on completion at June 30, 2018:

		Operated				Non-operated			
	Drilling	Drilling		Waiting on completion		Drilling		Waiting on completion	
	Rigs	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Northern Region									
Williston Basin	—	—	—	—	—	1	—	9	0.1
Uinta Basin	—	—	—	—	—	—	—	—	—
Other Northern	—	—	—	—	—	—	—	—	—
Southern Region									
Permian Basin[(1)]	5	25	24.8	27	26.5	—	—	—	—
Haynesville/Cotton Valley	—	—	—	1	1.0	3	0.2	7	0.3
Other Southern	—	—	—	—	—	—	—	—	—

(1) The gross operated drilling well count in the Permian Basin includes 13 wells for which surface casing has been set, but as of June 30, 2018, did not have a rig drilling.

Each gross well completed in more than one producing zone is counted as a single well. Delays and well shut-ins resulting from multi-well pad drilling have caused and may continue to cause volatility in QEP's quarterly operating results. In addition, delays in completion of wells could impact planned conversion of PUD reserves to proved developed reserves. QEP had 28 gross operated wells waiting on completion as of June 30, 2018.

The following table presents the number of operated and non-operated wells completed and turned to sales (put on production) for the three and six months ended June 30, 2018:

	Operated Put on Production				Non-operated Put on Production			
	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018		Three Months Ended June 30, 2018		Six Months Ended June 30, 2018	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Northern Region								
Williston Basin	11	10.1	11	10.1	2	0.1	2	0.1
Uinta Basin	—	—	2	2.0	—	—	—	—
Other Northern	—	—	—	—	—	—	—	—
Southern Region								
Permian Basin	37	36.1	68	67.1	—	—	—	—
Haynesville/Cotton Valley	1	1.0	3	3.0	3	0.1	9	0.5
Other Southern	—	—	—	—	—	—	—	—

The following table presents the number of operated wells in the process of being drilled or waiting on completion at June 30, 2018 and operated wells completed and turned to sales (put on production) for the six months ended June 30, 2018:

	Permian Basin		Williston Basin		Haynesville/Cotton Valley		Uinta Basin	
	As of June 30, 2018							
	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Well Progress								
Drilling	25	24.8	—	—	—	—	—	—
At total depth - under drilling rig	2	2.0	—	—	—	—	—	—
Waiting to be completed	12	11.7	—	—	—	—	—	—
Undergoing completion	5	4.8	—	—	—	—	—	—
Completed, awaiting production	8	8.0	—	—	1	1.0	—	—
Waiting on completion	27	26.5	—	—	1	1.0	—	—
Put on production	68	67.1	11	10.1	3	3.0	2	2.0

RESULTS OF OPERATIONS

Net Income

QEP generated a net loss during the second quarter of 2018 of $336.0 million, or $1.42 per diluted share, compared to net income of $45.4 million, or $0.19 per diluted share, in the second quarter of 2017. QEP's net loss was primarily due to a $403.7 million increase in impairment expense and a $185.8 million increase in unrealized and realized derivative losses. These increases to the net loss were partially offset by a $192.5 million increase in oil and condensate sales due to a 35% increase in oil and condensate production and a 16% increase in average net realized oil prices in the second quarter of 2018 compared to the second quarter of 2017.

QEP generated a net loss during the first half of 2018 of $389.6 million or $1.63 per diluted share, compared to net income of $122.3 million or $0.51 per diluted share, in the first half of 2017. QEP's net loss was primarily due to a $404.3 million increase in impairment expense and a $399.9 million increase in unrealized and realized derivative losses. These increases to the net loss were partially offset by a $271.5 million increase in oil and condensate sales due to a 21% increase in oil and condensate production and a 13% increase in average net realized oil prices in the first half of 2018 compared to the first half of 2017.

Adjusted EBITDA (Non-GAAP)

Management defines Adjusted EBITDA (a non-GAAP measure) as earnings before interest, income taxes, depreciation, depletion and amortization (EBITDA), adjusted to exclude changes in fair value of derivative contracts, exploration expenses, gains and losses from asset sales, impairment and certain other items. Management uses Adjusted EBITDA to evaluate QEP's financial performance and trends, make operating decisions and allocate resources. Management believes the measure is useful supplemental information for investors because it eliminates the impact of certain nonrecurring, non-cash and/or other items that management does not consider as indicative of QEP's performance from period to period. QEP's Adjusted EBITDA may be determined or calculated differently than similarly titled measures of other companies in our industry, which would reduce the usefulness of this non-GAAP financial measure when comparing our performance to that of other companies.

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Below is a reconciliation of net income (loss) (a GAAP measure) to Adjusted EBITDA. This non-GAAP measure should be considered by the reader in addition to, but not instead of, the financial statements prepared in accordance with GAAP.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(in millions)			
Net income (loss)	$(336.0)	$45.4	$(389.6)	$122.3
Interest expense	38.2	34.9	73.2	68.7
Interest and other (income) expense	3.1	(1.8)	3.8	(2.4)
Income tax provision (benefit)	(106.2)	27.3	(120.1)	72.9
Depreciation, depletion and amortization	242.2	191.5	438.7	383.3
Unrealized (gains) losses on derivative contracts	33.6	(100.3)	43.6	(277.6)
Exploration expenses	0.1	—	0.1	0.4
Net (gain) loss from asset sales, inclusive of restructuring costs	3.9	(19.8)	0.4	(19.8)