

EQT Corp
Form 10-Q
April 28, 2010

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

or

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-3551

EQT CORPORATION

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

(State or other jurisdiction of incorporation or organization)

25-0464690

(IRS Employer Identification No.)

625 Liberty Avenue, Pittsburgh, Pennsylvania

(Address of principal executive offices)

15222

(Zip code)

(412) 553-5700

(Registrant's telephone number, including area code)

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

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

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

Large Accelerated Filer	<input checked="" type="checkbox"/>	Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

As of March 31, 2010, 143,573,133 shares of common stock, no par value, of the registrant were outstanding.

EQT CORPORATION AND SUBSIDIARIES

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EQT CORPORATION AND SUBSIDIARIES

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Statements of Consolidated Income (Unaudited)

Three Months Ended

March 31,

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Operating revenues	\$	436,640	\$	469,403
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Operating expenses:

Operating expenses:

Purchased gas costs

113,962

209,007

Operation and maintenance

34,339

31,590

Production

16,800

15,020

Exploration

1,335

3,311

Selling, general and administrative

39,212

29,750

Depreciation, depletion and amortization

61,879

44,589

Total operating expenses

267,527

333,267

Operating income

169,113

136,136

Other income

527

590

Equity in earnings of nonconsolidated investments

2,527

1,122

Interest expense

34,134

19,243

Income before income taxes

138,033

118,605

Income taxes

49,968

46,612

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Net income

\$ 88,065

\$ 71,993

Earnings per share of common stock:

Basic:

Weighted average common shares outstanding

134,084

130,743

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Net income

\$ 0.66

\$ 0.55

Diluted:

Diluted:

Weighted average common shares outstanding

135,009

131,400

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Net income

\$ 0.65

\$ 0.55

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Dividends declared per common share	\$	0.22	\$	0.22
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The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

EQT CORPORATION AND SUBSIDIARIES

Statements of Condensed Consolidated Cash Flows (Unaudited)

	2010	Three Months Ended March 31, (Thousands)	2009
Cash flows from operating activities:			
Net income	\$	88,065	\$ 71,993
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for losses on accounts receivable		4,000	1,140
Depreciation, depletion, and amortization		61,879	44,589
Other income		(34)	(590)
Equity in earnings of nonconsolidated investments		(2,527)	(1,122)
Equity award expense		3,244	1,935
Deferred income taxes		50,150	56,417
Excess tax benefits from share-based payment arrangements			(127)
Decrease in inventory		69,926	141,100
(Increase) decrease in accounts receivable and unbilled revenues		(5,374)	51,285
Increase in margin deposits		(10,542)	(1,253)
Decrease in accounts payable		(62,154)	(157,951)
Change in derivative instruments at fair value, net		1,619	41,953
Changes in other assets and liabilities		77,161	(36,723)
Net cash provided by operating activities		275,413	212,646
Cash flows from investing activities:			
Capital expenditures		(217,527)	(207,715)
Capital contribution to Nora Gathering, LLC			(4,500)
Investment in available-for-sale securities		(750)	(3,000)
Net cash used in investing activities		(218,277)	(215,215)
Cash flows from financing activities:			
Dividends paid		(28,818)	(28,833)
Proceeds from issuance of common stock, net		527,735	
(Decrease) increase in short-term loans		(5,000)	31,050
Proceeds from exercises under employee compensation plans		1,973	225
Excess tax benefits from share-based payment arrangements			127
Net cash provided by financing activities		495,890	2,569
Net increase in cash and cash equivalents		553,026	
Cash and cash equivalents at beginning of period			
Cash and cash equivalents at end of period	\$	553,026	\$
Cash paid during the period for:			
Interest, net of amount capitalized	\$	12,762	\$ 12,130
Net income tax refunds received	\$	124,142	\$ 3,981

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

EQT CORPORATION AND SUBSIDIARIES

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Condensed Consolidated Balance Sheets (Unaudited)

	March 31, 2010	December 31, 2009
	(Thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 553,026	\$
Accounts receivable (less accumulated provision for doubtful accounts: March 31, 2010, \$21,205; December 31, 2009, \$16,792)	172,727	155,574
Unbilled revenues	22,521	38,300
Inventory	113,031	182,957
Derivative instruments, at fair value	244,193	163,879
Prepaid expenses and other	12,438	154,456
Total current assets	1,117,936	695,166
Equity in nonconsolidated investments	184,321	181,866
Property, plant and equipment	6,694,452	6,478,486
Less: accumulated depreciation and depletion	1,619,619	1,563,755
Net property, plant and equipment	5,074,833	4,914,731
Investments, available-for-sale	38,334	36,156
Regulatory assets	98,688	99,144
Other assets	45,721	30,194
Total assets	\$6,559,833	\$ 5,957,257

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

EQT CORPORATION AND SUBSIDIARIES

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Condensed Consolidated Balance Sheets (Unaudited)

	March 31, 2010	December 31, 2009
	(Thousands)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term loans	\$	\$ 5,000
Accounts payable	186,833	248,987
Derivative instruments, at fair value	112,426	132,518
Other current liabilities	172,576	226,169
Total current liabilities	471,835	612,674
Long-term debt	1,949,200	1,949,200
Deferred income taxes and investment tax credits	1,131,010	1,039,473
Unrecognized tax benefits	54,501	56,621
Pension and other post-retirement benefits	47,125	47,615
Other credits	107,649	100,644
Total liabilities	3,761,320	3,806,227
Common stockholders' equity:		
Common stock, no par value, authorized 320,000 shares; shares issued: March 31, 2010 and December 31, 2009, 170,130 and 157,630, respectively	1,473,179	952,237
Treasury stock, shares at cost: March 31, 2010, 26,557; December 31, 2009, 26,699	(479,532)	(482,125)
Retained earnings	1,754,605	1,695,358
Accumulated other comprehensive income (loss)	50,261	(14,440)
Total common stockholders' equity	2,798,513	2,151,030
Total liabilities and stockholders' equity	\$ 6,559,833	\$ 5,957,257

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements.

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

A. Financial Statements

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the requirements of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements. In this Form 10-Q, references to we, us, our, EQT, EQT Corporation, and the Company refer collectively to EQT Corporation and its consolidated subsidiaries. In the opinion of management, these statements include all adjustments (consisting of only normal recurring accruals, unless otherwise disclosed in this Form 10-Q) necessary for a fair presentation of the financial position of EQT Corporation and subsidiaries as of March 31, 2010, and the results of its operations and cash flows for the three month periods ended March 31, 2010 and 2009. Certain previously reported amounts have been reclassified to conform to the current year presentation.

The balance sheet at December 31, 2009 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements.

Due to the seasonal nature of the Company's natural gas distribution and storage businesses and the volatility of commodity prices, the interim statements for the three month period ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010.

For further information, refer to the consolidated financial statements and footnotes thereto included in EQT Corporation's Annual Report on Form 10-K for the year ended December 31, 2009 as well as Management's Discussion and Analysis of Financial Condition and Results of Operations on page 21 of this document.

B. Segment Information

Operating segments are revenue-producing components of the enterprise for which separate financial information is produced internally and are subject to evaluation by the Company's chief operating decision maker in deciding how to allocate resources.

The Company reports its operations in three segments, which reflect its lines of business. The EQT Production segment includes the Company's exploration for, and development and production of, natural gas, and a limited amount of crude oil, in the Appalachian Basin. EQT Midstream's operations include the natural gas gathering, processing, transportation and storage activities of the Company as well as sales of natural gas liquids (NGL). Distribution's operations primarily comprise the state-regulated natural gas distribution activities of the Company.

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Operating segments are evaluated on their contribution to the Company's consolidated results based on operating income, equity in earnings of nonconsolidated investments and other income. Interest expense and income taxes are managed on a consolidated basis. Headquarters' costs are billed to the operating segments based upon a fixed allocation of the headquarters' annual operating budget. Actual headquarters' expenses in excess of budget, which are primarily related to certain incentive compensation and administrative costs, are not allocated to the operating segments.

Substantially all of the Company's operating revenues, income from operations and assets are generated or located in the United States.

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

	Three Months Ended	
	March 31,	
	2010	2009
	(Thousands)	
Revenues from external customers:		
EQT Production	\$ 128,990	\$ 97,763
EQT Midstream	185,465	123,374
Distribution	222,255	293,172
Less: intersegment revenues (a)	(100,070)	(44,906)
Total	\$ 436,640	\$ 469,403
Operating income:		
EQT Production	\$ 58,493	\$ 44,417
EQT Midstream	67,315	48,980
Distribution	47,419	43,852
Unallocated expenses (b)	(4,114)	(1,113)
Total	\$ 169,113	\$ 136,136
Reconciliation of operating income to net income:		
Equity in earnings of nonconsolidated investments:		
EQT Production	\$ 42	\$ 36
EQT Midstream	2,464	1,067
Unallocated	21	19
Total	\$ 2,527	\$ 1,122
Other income:		
EQT Midstream	\$ 195	\$ 550
Distribution	332	40
Total	\$ 527	\$ 590
Interest expense	34,134	19,243
Income taxes	49,968	46,612
Net income	\$ 88,065	\$ 71,993
	March 31,	December 31,
	2010	2009
	(Thousands)	
Segment Assets:		
EQT Production	\$ 3,161,725	\$ 2,931,053
EQT Midstream	1,969,251	1,984,525
Distribution	812,241	860,222
Total operating segments	5,943,217	5,775,800
Headquarters assets, including cash and short-term investments	616,616	181,457
Total assets	\$ 6,559,833	\$ 5,957,257

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

	Three Months Ended	
	2010	2009
	March 31, (Thousands)	
Depreciation, depletion and amortization:		
EQT Production	\$ 40,910	\$ 26,433
EQT Midstream	14,924	12,238
Distribution	5,994	5,438
Other	51	480
Total	\$ 61,879	\$ 44,589
Expenditures for segment assets:		
EQT Production	\$ 178,415	\$ 137,436
EQT Midstream	34,687	62,173
Distribution	3,975	6,776
Other	450	1,330
Total	\$ 217,527	\$ 207,715

(a) Intersegment revenues primarily represent natural gas sales from EQT Production to EQT Midstream and transportation activities between EQT Midstream and Distribution.

(b) Unallocated expenses primarily consist of certain incentive compensation and administrative costs in excess of budget that are not allocated to the operating segments.

C. Derivative Instruments

Natural Gas Hedging Instruments

The Company's primary market risk exposure is the volatility of future prices for natural gas and natural gas liquids, which can affect the operating results of the Company primarily through the EQT Production and EQT Midstream segments. The Company's overall objective in its commodity hedging program is to ensure an adequate level of return for the well development and infrastructure investments at these segments. The Company uses non-leveraged derivative commodity instruments to reduce the effect of this commodity price volatility. These instruments are placed with major financial institutions whose creditworthiness is continually monitored. Futures contracts obligate the Company to buy or sell a designated commodity at a future date for a specified price and quantity at a specified location. Swap agreements involve payments to or receipts from counterparties based on the differential between a fixed and variable price for the commodity. Collar agreements require the counterparty to pay the Company if the index price falls below the floor price and the Company to pay the counterparty if the index price rises above the cap price. Put option contracts provide protection from dropping prices and require the counterparty to pay the Company if the index price falls below the contract price. The Company also engages in a limited number of basis swaps to protect earnings from undue exposure to the risk of geographic disparities in commodity prices and interest rate swaps to hedge exposure to interest rate fluctuations on short or long-term debt.

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The Company recognizes all derivative instruments as either assets or liabilities at fair value. The accounting for the changes in fair value of the Company's derivative instruments depends on the use of the derivative instruments. At contract inception, the Company designates its derivative instruments as hedging or trading activities. To the extent that a derivative instrument has been designated and qualifies as a cash flow hedge, the effective portion of the change in fair value of the derivative instrument is reported as a component of accumulated other comprehensive income (loss), net of tax, and is subsequently reclassified into earnings, in the same caption associated with the forecasted transaction and in the same period or periods during which the hedged forecasted transaction affects earnings. For derivative instruments that have not been designated as cash flow hedges, the change in fair value for the instrument is recognized in the Statements of Consolidated Income as operating revenues each period.

Exchange-traded instruments are generally settled with offsetting positions. Over the counter (OTC) arrangements require settlement in cash. Settlements of derivative commodity instruments are reported as a component of cash flows from operations in the accompanying statements of Condensed Consolidated Cash Flows.

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

The various derivative commodity instruments used by the Company to hedge its exposure to variability in expected future cash flows associated with the fluctuations in the price of natural gas related to the Company's forecasted sale of equity production and forecasted natural gas purchases and sales have been designated and qualify as cash flow hedges under Accounting Standards Codification Topic 815, Derivatives and Hedging.

The Company assesses the effectiveness of hedging relationships, the degree that the gain (loss) for the hedging instrument offsets the loss (gain) on the hedged item, both at the inception of the hedge and on an on-going basis. If the gain (loss) for the hedging instrument is greater than the loss (gain) on the hedged item, the ineffective portion of the cash flow hedge is immediately recognized in operating revenues in the Statements of Consolidated Income.

The Company also enters into a limited amount of energy trading contracts to leverage its assets and limit its exposure to shifts in market prices and has a limited amount of other derivative instruments not designated as hedges.

The current hedge position extends through 2015 and provides price protection for approximately 34%, 20% and 6% of expected natural gas production sales volumes in 2010, 2011 and 2012, respectively. See *Commodity Risk Management* in *Management's Discussion and Analysis of Financial Condition and Results of Operations* of this Form 10-Q for further details of the Company's hedged position.

All derivatives recognized in the balance sheet and used in cash flow hedging relationships are commodity contracts. All gains (losses) recognized in income or reclassified from accumulated other comprehensive income into income are reported in operating revenues. All derivative instrument assets and liabilities are reported in the balance sheet captions derivative instruments, at fair value. These derivative instruments are reported as either current assets or current liabilities due to their highly liquid nature. The Company can net settle its derivative instruments at any time.

	2010	2009
	Three Months Ended March 31, (Thousands)	
Derivatives designated as hedging instruments		
Amount of gain recognized in other comprehensive income (OCI) (effective portion), net of tax	\$ 77,519	\$ 143,542
Amount of gain reclassified from accumulated OCI into income (effective portion), net of tax (a)	14,107	57,734
Amount of gain (loss) recognized in income (ineffective portion) (b)	1,801	(6,058)
Derivatives not designated as hedging instruments		
Amount of loss recognized in income	(123)	(153)
	March 31,	December 31,

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	2010	(Thousands)	2009
Asset derivatives			
Derivatives designated as hedging instruments	\$ 160,879		\$ 111,375
Derivatives not designated as hedging instruments	83,314		52,504
Total asset derivatives	\$ 244,193		\$ 163,879
Liability derivatives			
Derivatives designated as hedging instruments	\$ 11,829		\$ 61,179
Derivatives not designated as hedging instruments	100,597		71,339
Total liability derivatives	\$ 112,426		\$ 132,518

(a) Includes \$2.6 million and \$8.7 million for the three months ended March 31, 2010 and 2009, respectively, of unrealized hedge gains reclassified into earnings to offset lower of cost or market adjustments on hedged items. The Company also had an immaterial amount of OCI reclassified to interest expense related to an interest rate swap on long-term debt.

(b) No amounts have been excluded from effectiveness testing.

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

The net fair value of derivative instruments changed during the first quarter of 2010 primarily as a result of a decrease in natural gas prices. The absolute quantities of the Company's derivative commodity instruments that have been designated and qualify as cash flow hedges totaled 148 Bcf and 172 Bcf as of March 31, 2010 and December 31, 2009, respectively, and are primarily related to natural gas swaps and collars. The open positions at March 31, 2010 had maturities extending through December 2015.

The Company had deferred net gains of \$79.0 million and \$15.6 million in accumulated other comprehensive income (loss), net of tax, as of March 31, 2010 and December 31, 2009, respectively, associated with the effective portion of the change in fair value of its derivative commodity instruments designated as cash flow hedges. Assuming no change in price or new transactions, the Company estimates that approximately \$39.5 million of net unrealized gains on its derivative commodity instruments reflected in accumulated other comprehensive income, net of tax, as of March 31, 2010 will be recognized in earnings during the next twelve months due to the settlement of hedged transactions. This recognition occurs through an increase in the Company's net operating revenues resulting in the average hedged price becoming the realized sales price.

The Company is exposed to credit loss in the event of nonperformance by counterparties to derivative contracts. This credit exposure is limited to derivative contracts with a positive fair value. The Company believes that New York Mercantile Exchange (NYMEX) traded futures contracts have minimal credit risk because Commodity Futures Trading Commission regulations are in place to protect exchange participants, including the Company, from any potential financial instability of the exchange members. The Company's swap, collar and option derivative instruments are primarily with financial institutions and thus are subject to events that would impact those companies individually as well as that industry as a whole.

The Company utilizes various processes and analysis to monitor and evaluate its credit risk exposures. This includes closely monitoring current market conditions, counterparty credit spreads and credit default swap rates. Credit exposure is controlled through credit approvals and limits. To manage the level of credit risk, the Company deals with financial counterparties that are of investment grade or better, enters into netting agreements whenever possible and may obtain collateral or other security.

When the net fair value of any of the Company's swap agreements represents a liability to the Company which is in excess of the agreed-upon threshold between the Company and the financial institution acting as counterparty, the counterparty requires the Company to remit funds to the counterparty as a margin deposit for the derivative liability which is in excess of the threshold amount. The Company records these deposits as a current asset in the Condensed Consolidated Balance Sheets. When the net fair value of any of the Company's swap agreements represents an asset to the Company which is in excess of the agreed-upon threshold between the Company and the financial institution acting as counterparty, the Company requires the counterparty to remit funds as margin deposit in an amount equal to the portion of the derivative asset which is in excess of the threshold amount. The Company records a current liability for such amounts received. The Company had no such deposits in its Condensed Consolidated Balance Sheets as of March 31, 2010 and December 31, 2009.

When the Company enters into exchange-traded natural gas contracts, exchanges may require the Company to remit funds to the corresponding broker as good-faith deposits to guard against the risks associated with changing market conditions. Participants must make such deposits based on an established initial margin requirement as well as the net liability position, if any, of the fair value of the associated contracts. In the case where the fair value of such contracts is in a net asset position, the broker may remit funds to the Company, in which case the Company records a current liability for such amounts received. The initial margin requirements are established by the exchanges based on the price, volatility and the time to expiration of the related contract and are subject to change at the exchanges' discretion. The Company recorded a current asset of

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\$3.6 million as of March 31, 2010 and a current liability of \$6.9 million as of December 31, 2009 for such deposits in its Condensed Consolidated Balance Sheets.

Certain of the Company's derivative instrument contracts provide that if the Company's credit ratings are lowered below investment grade, additional collateral must be deposited with the counterparty. This additional collateral can be up to 100% of the derivative liability. As of March 31, 2010, the aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position is \$13.4 million, for which the Company had no collateral posted on March 31, 2010. If the Company's credit rating had been downgraded below investment grade on March 31, 2010, the Company would have been required to post additional collateral of \$12.6 million of the liability position. Investment grade refers to the quality of the Company's credit as assessed by one or more

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

credit rating agencies. The Company's unsecured medium-term debt was rated BBB by Standard & Poor's Rating Services (S&P), Baa1 by Moody's Investor Services (Moody's) and BBB+ by Fitch Ratings Service (Fitch) at March 31, 2010. In order to be considered investment grade, the Company must be rated BBB- or higher by S&P and Fitch and Baa3 or higher by Moody's. Anything below these ratings is considered non-investment grade.

D. Investments, Available-For-Sale

As of March 31, 2010, the investments classified by the Company as available-for-sale consist of approximately \$38.3 million of equity and bond funds intended to fund plugging and abandonment and other liabilities for which the Company self-insures.

	March 31, 2010			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Thousands)			
Equity funds	\$ 23,021	\$ 6,914	\$	\$ 29,935
Bond funds	7,705	694		8,399
Total investments	\$ 30,726	\$ 7,608	\$	\$ 38,334

Unrealized gains or losses with respect to temporarily impaired investments classified as available-for-sale are recognized within the Condensed Consolidated Balance Sheets as a component of equity, accumulated other comprehensive income (loss). The Company evaluates these investments quarterly and if the Company subsequently determines that a loss is other-than-temporary, any unrealized losses stemming from such impaired investments will be recognized in earnings.

During the three month periods ended March 31, 2010 and 2009, the Company purchased additional securities with a cost basis totaling \$0.8 million and \$3.0 million, respectively. The Company uses the average cost method to determine the cost of securities sold.

E. Fair Value Measurements

The Company has an established process for determining fair value for its financial instruments, principally derivative commodity instruments and available-for-sale investments. Fair value is based on quoted market prices, where available. If quoted market prices are not available, fair value is based upon models that use as inputs market-based parameters, including but not limited to forward curves, discount rates, broker quotes, volatilities and nonperformance risk. Nonperformance risk considers the effect of the Company's credit standing on the fair value of liabilities and the effect of the counterparty's credit standing on the fair value of assets. The Company estimates nonperformance risk by analyzing publicly available market information, including a comparison of the yield on debt instruments with credit ratings similar to the Company's or counterparty's credit rating and the yield of a risk free instrument. The Company also considers credit default swaps rates where

applicable.

The Company has categorized its financial instruments into a three-level fair value hierarchy, based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Financial instruments included in Level 1 include the Company's futures contracts and available-for-sale investments, while instruments included in Level 2 include the majority of the Company's swap agreements, and instruments included in Level 3 include the Company's collar and option agreements and an insignificant portion of the Company's swap agreements. Since the adoption of fair value accounting, the Company has not made any changes to its classification of financial instruments in each category.

The fair value of financial instruments included in Level 2 is based on industry models that use significant observable inputs, including NYMEX forward curves and LIBOR-based discount rates. Swaps included in Level 3 are valued using internal models that use significant unobservable inputs; these internal models are validated each period with non-binding broker price quotes. The Company has not experienced significant differences between internally calculated values and broker price quotes. Collars and options included in Level 3 are valued using internal models calculated with market derived volatilities. The Company uses NYMEX forward curves to value

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

futures, NYMEX swaps, collars and options. The NYMEX forward curves are validated to external sources at least monthly.

The following assets and liabilities were measured at fair value on a recurring basis during the period:

Description	March 31, 2010	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
(Thousands)				
Assets				
Investments, available-for-sale	\$ 38,334	\$ 38,334	\$	\$
Derivative instruments, at fair value	244,193	8,729	101,574	133,890
Total assets	\$ 282,527	\$ 43,063	\$ 101,574	\$ 133,890
Liabilities				
Derivative instruments, at fair value	\$ 112,426	\$ 11,438	\$ 100,356	\$ 632
Total liabilities	\$ 112,426	\$ 11,438	\$ 100,356	\$ 632

**Fair value measurements using
significant unobservable inputs
(Level 3)**

**Derivative instruments, at fair
value, net
(Thousands)**

Balance at January 1, 2010	\$	88,570
Total gains or losses:		
Included in earnings		(9)
Included in other comprehensive income		52,670
Purchases, issuances, and settlements		(7,973)
Transfers in and/or out of Level 3		
Balance at March 31, 2010		133,258

The amount of total (losses) or gains for the period included in earnings attributable to the change in unrealized gains or losses relating to assets and liabilities still held as of March 31, 2010

Gains and losses related to derivative commodity instruments included in earnings for the period are reported in operating revenues in the Statements of Consolidated Income. All gains or losses included in earnings related to available-for-sale securities are included in other income.

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

F. Comprehensive Income

Total comprehensive income, net of tax, was as follows:

	Three Months Ended March 31,	
	2010	2009
	(Thousands)	
Net income	\$ 88,065	\$ 71,993
Other comprehensive income:		
Net change in cash flow hedges	63,443	85,837
Unrealized gain (loss) on investments, available-for-sale	855	(1,603)
Pension and other post-retirement benefit plans	403	388
Total comprehensive income	\$ 152,766	\$ 156,615

The components of accumulated other comprehensive income (loss), net of tax, are as follows:

	March 31,	December 31,
	2010	2009
	(Thousands)	
Net unrealized gain from hedging transactions	\$ 78,740	\$ 15,297
Unrealized gain on available-for-sale securities	4,945	4,090
Pension and other post-retirement benefits adjustment	(33,424)	(33,827)
Accumulated other comprehensive income (loss)	\$ 50,261	\$ (14,440)

G. Income Taxes

The Company estimates an annual effective income tax rate based on projected results for the year and applies this rate to income before taxes to calculate income tax expense. Any refinements made due to subsequent information that affects the estimated annual effective income tax rate are reflected as adjustments in the current period. Separate effective income tax rates are calculated for net income from continuing operations and any other separately reported net income items, such as discontinued operations.

The Company's effective income tax rate for the three months ending March 31, 2010 is 36.2%. The estimated annual effective income tax rate as of March 31, 2009 was 39.3%. The Company currently estimates the 2010 annual effective income tax rate to be approximately 36.2%. The decrease in the expected annual effective tax rate from 2009 is primarily the result of a decrease in limitations imposed on certain state tax losses. In addition, carrying 2009 losses back to receive a cash refund of taxes paid in prior years resulted in the loss of certain deductions, thereby increasing the overall 2009 rate.

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There were no material changes to the Company's methodology or to the balance recorded for unrecognized tax benefits during the three months ended March 31, 2010.

The Internal Revenue Service (IRS) has completed its audit and review of the Company's federal income tax filings through 2005. The only unresolved issue relates to the research and experimentation tax credits of \$3.8 million claimed by the Company for years 2001 through 2005 which is currently at the Appeals Division of the IRS. The IRS is scheduled to begin its audit and review of the Company's federal income tax filings for the 2006 through 2009 years during the second quarter of 2010. The Company also is the subject of various state income tax examinations. The Company believes that it is appropriately reserved for any uncertain tax positions claimed during the periods to be reviewed.

The Worker, Homeownership and Business Assistance Act of 2009 extended the applicability of the tax net operating loss carryback provision from 2 years to 5 years for either the 2008 or 2009 tax year. The Company elected to carryback its 2009 tax operating loss under this new law and received a refund of \$121.5 million from the IRS during the first quarter of 2010. EQT also received a refund of \$115.2 million primarily in the second quarter of 2009 from the IRS relating to the 2008 net operating loss carryback. These net operating losses were primarily generated from intangible drilling costs (IDC) for the Company's drilling program that are deducted currently for tax purposes and from accelerated tax depreciation for expansion of the Company's midstream business.

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

The Reconciliation Act and the Health Care Act passed in March of 2010 eliminated the deduction allowed in regard to companies receiving Medicare Part D subsidies. The Company does not receive any such subsidies and was not impacted by this law change.

H. Short-Term Loans

On October 27, 2006, the Company entered into a \$1.5 billion, five-year revolving credit agreement, which replaced the Company's previous \$1 billion, five-year revolving credit agreement. On December 15, 2006, the maturity date was extended to October 26, 2011. Additionally, the Company may request two one-year extensions of the stated maturity date; however, these extensions require the approval of 51% of the lenders underwriting the credit facility. The revolving credit agreement may be used for working capital, capital expenditures, share repurchases and other purposes including support of a commercial paper program. Subject to certain terms and conditions, the Company may, on a one time basis, request that the lenders' commitments be increased to an aggregate amount of up to \$2.0 billion. Each lender in the facility may decide if it will increase its commitment.

The credit facility is underwritten by a syndicate of 15 financial institutions each of which is obligated to fund its pro-rata portion of any borrowings by the Company. Lehman Brothers Bank, FSB (Lehman) is one of the 15 financial institutions in the syndicate and had committed to make loans not exceeding \$95 million under the facility. Lehman failed to fund its portion of all recent borrowings by the Company which effectively reduces the total amount available under the facility to \$1,405 million.

The Company is not required to maintain compensating bank balances. The Company's debt issuer credit ratings, as determined by S&P, Moody's or Fitch, on the Company's non-credit-enhanced, senior unsecured long-term debt, determine the level of fees associated with its lines of credit in addition to the interest rate charged by the counterparties on any amounts borrowed against the lines of credit; the lower the Company's debt credit rating, the higher the level of fees and borrowing rate.

As of March 31, 2010, the Company had no loans outstanding under the revolving credit facility. An irrevocable standby letter of credit of \$23.9 million was outstanding at March 31, 2010. As of December 31, 2009, the Company had outstanding short-term loans under the revolving credit facility of \$5.0 million and an irrevocable standby letter of credit of \$24.4 million. Commitment fees averaging approximately one-twelfth of one percent in 2010 and 2009 were paid to maintain credit availability under the revolving credit facility.

The weighted average interest rate for short-term loans outstanding as of December 31, 2009 was 0.51% per annum. The maximum amount of outstanding short-term loans at any time during the three months ended March 31, 2010 and 2009 was \$139.7 million and \$491.7 million, respectively. The average daily balance of short-term loans outstanding during the three months ended March 31, 2010 and 2009 was approximately \$86.1 million and \$384.0 million at weighted average annual interest rates of 0.47% and 0.72%, respectively.

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

I. Long-Term Debt

	March 31, 2010	December 31, 2009
	(Thousands)	
5.15% notes, due November 15, 2012	\$ 200,000	\$ 200,000
5.00% notes, due October 1, 2015	150,000	150,000
5.15% notes, due March 1, 2018	200,000	200,000
6.50% notes, due April 1, 2018	500,000	500,000
8.13% notes, due June 1, 2019	700,000	700,000
7.75% debentures, due July 15, 2026	115,000	115,000
Medium-term notes:		
8.5% to 9.0% Series A, due 2011 thru 2021	46,200	46,200
7.3% to 7.6% Series B, due 2013 thru 2023	30,000	30,000
7.6% Series C, due 2018	8,000	8,000
	1,949,200	1,949,200
Less debt payable within one year		
Total long-term debt	\$ 1,949,200	\$ 1,949,200

The indentures and other agreements governing the Company's indebtedness contain certain restrictive financial and operating covenants including covenants that restrict the Company's ability to incur indebtedness, incur liens, enter into sale and leaseback transactions, complete acquisitions, merge, sell assets and perform certain other corporate actions. The covenants do not contain a rating trigger. Therefore, a change in Company's debt rating would not trigger a default under the indentures and other agreements governing the Company's long-term indebtedness.

Aggregate maturities of long-term debt are \$0 in 2010, \$6.0 million in 2011, \$200.0 million in 2012, \$10.0 million in 2013 and \$5.0 million in 2014.

J. Pension and Other Postretirement Benefit Plans

The Company's costs related to its defined benefit pension and other postretirement benefit plans for the three months ended March 31, 2010 and 2009 were as follows:

	Pension Benefits		Other Benefits	
	Three Months Ended March 31,			
	2010	2009	2010	2009
	(Thousands)			
Components of net periodic benefit cost				

Total liability derivatives

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Service cost	\$ 150	\$ 109	\$ 154	\$ 144
Interest cost	847	906	494	537
Expected return on plan assets	(1,072)	(1,145)		
Amortization of prior service cost		4	(226)	(226)
Recognized net actuarial loss	331	298	399	437
Settlement loss	210	173		
Net periodic benefit cost	\$ 466	\$ 345	\$ 821	\$ 892

K. Fair Value of Financial Instruments

The carrying value of cash equivalents and short-term loans approximates fair value due to the short maturity of the instruments. Available-for-sale securities and derivative instruments are reported in the Condensed Consolidated Balance Sheets at fair value. See Notes C, D and E.

The estimated fair value of long-term debt on the Condensed Consolidated Balance Sheets at March 31, 2010 and December 31, 2009 was approximately \$2 billion. The fair value was estimated using the Company's established fair value methodology. Where quoted market prices are not available, the Company uses an internal model which uses significant observable inputs including market discount rates consistent with the associated risk and term of the Company's long-term debt.

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

L. Recently Issued Accounting Standards

Disclosures about Fair Value Measurements

In January 2010, the Financial Accounting Standards Board (FASB) issued an amendment intended to enhance fair value disclosures, improve the transparency of the inputs and assumptions used to measure the fair value of assets and liabilities reported, and improve comparability with International Financial Reporting Standards. During the three months ended March 31, 2010, the Company adopted certain provisions of this amendment; this did not have a material effect on the Company's financial statements. Other provisions of the amendment are effective for fiscal years beginning after December 15, 2010. The Company is currently evaluating the affect that this amendment will have on its consolidated financial statement disclosures.

M. Acquisitions

On March 2, 2010, the Company announced that it will acquire approximately 58,000 net acres in the Marcellus Shale from a group of private operators and landowners. The acreage is located primarily in Cameron, Clearfield, Elk and Jefferson counties in Pennsylvania. The purchase includes a 200 mile gathering system, with associated rights of way, and approximately 100 producing vertical wells. The Company will pay approximately \$280 million for these assets, 90% in EQT stock and 10% in cash. Following the closing of the acquisition, the Company will hold approximately 500,000 net acres in the high pressure Marcellus Shale fairway.

N. Earnings Per Share

The computation of basic and diluted earnings per common share is shown in the table below:

	Three Months Ended	
	March 31,	
	2010	2009
	(Thousands, except per share amounts)	
Basic earnings per common share:		
Net income	\$ 88,065	\$ 71,993
Average common shares outstanding	134,084	130,743
Basic earnings per common share	\$ 0.66	\$ 0.55
Diluted earnings per common share:		
Net income	\$ 88,065	\$ 71,993

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Average common shares outstanding	134,084	130,743
Potentially dilutive securities		
Stock options and awards (a)	925	657
Total	135,009	131,400
Diluted earnings per common share	\$ 0.65	\$ 0.55

(a) Options to purchase 1,241,566 and 977,127 shares of common stock were not included in the computation of diluted earnings per common share for the three months ended March 31, 2010 and 2009, respectively, because the options' exercise prices were greater than the average market prices of common shares as of the respective dates.

O. Other Events

On March 16, 2010, the Company completed a public offering of 12,500,000 shares of its common stock, no par value (the Common Stock), at an offering price to the public of \$44.00 per share. The proceeds from the offering are being used to accelerate development of the Marcellus Shale and Huron/Berea plays.

The underwriters in this transaction also exercised their over-allotment option to purchase 225,000 additional shares of the Company's Common Stock on April 14, 2010 at an offering price to the public of \$44.00 per share.

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

P. Subsequent Events

The Company has evaluated subsequent events through the date of financial statement issuance.

EQT Corporation and Subsidiaries

Management's Discussion and Analysis of Financial Condition and Results of Operations

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

CAUTIONARY STATEMENTS

Disclosures in this Quarterly Report on Form 10-Q contain certain forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act of 1933, as amended. Statements that do not relate strictly to historical or current facts are forward-looking and usually identified by the use of words such as anticipate, estimate, will, approximate, expect, forecast, project, intend, plan, may, believe and other words of similar meaning in connection with any discussion of future operations or financial matters. Without limiting the generality of the foregoing, forward-looking statements contained in this report include the matters discussed in the sections captioned Outlook in Management's Discussion and Analysis of Financial Condition and Results of Operations, and the expectations of plans, strategies, objectives, and growth and anticipated financial and operational performance of the Company and its subsidiaries, including guidance regarding the Company's drilling and infrastructure programs (including the Equitrans Marcellus Expansion Project) and technology, the estimated number of acres to be held in the high-pressure Marcellus Shale fairway following and the timing of the closing of the previously announced Marcellus Shale acreage acquisition, the timing of construction of public-access natural gas refueling stations, production and sales volumes, reserves, unit costs, capital expenditures, financing requirements, hedging strategy and tax position. These statements involve risks and uncertainties that could cause actual results to differ materially from projected results. Accordingly, investors should not place undue reliance on forward-looking statements as a prediction of actual results. The Company has based these forward-looking statements on current expectations and assumptions about future events. While the Company considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks and uncertainties, most of which are difficult to predict and many of which are beyond the Company's control. The risks and uncertainties that may affect the operations, performance and results of the Company's business and forward-looking statements include, but are not limited to, those set forth under Item 1A, Risk Factors of the Company's Form 10-K for the year ended December 31, 2009.

Any forward-looking statement applies only as of the date on which such statement is made and the Company does not intend to correct or update any forward-looking statements, whether as a result of new information, future events or otherwise.

In reviewing any agreements incorporated by reference in this Form 10-Q, please remember they are included to provide you with information regarding the terms of such agreements and are not intended to provide any other factual or disclosure information about the Company. The agreements may contain representations and warranties by the Company, which should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties should those statements prove to be inaccurate. The representations and warranties were made only as of the date of the relevant agreement or such other date or dates as may be specified in such agreement and are subject to more recent developments. Accordingly, these representations and warranties alone may not describe the actual state of affairs as of the date they were made or at any other time.

CORPORATE OVERVIEW