

EQT Corp
Form 10-Q
April 24, 2014
Table of Contents

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, 2014

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.)

Edgar Filing: EQT Corp - Form 10-Q

625 Liberty Avenue, Suite 1700, Pittsburgh, Pennsylvania
(Address of principal executive offices)

15222
(Zip code)

(412) 553-5700

(Registrant's telephone number, including area code)

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 Accelerated Filer
Non-Accelerated Filer Smaller reporting company

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

As of March 31, 2014, 151,751 (in thousands) shares of common stock, no par value, of the registrant were outstanding.

Table of Contents

EQT CORPORATION AND SUBSIDIARIES

Index

	<u>Page No.</u>
<u>Part I. Financial Information:</u>	
<u>Item 1.</u>	
	<u>Financial Statements (Unaudited):</u>
	<u>Statements of Consolidated Income for the Three Months Ended March 31, 2014 and 2013</u>
	3
	<u>Statements of Consolidated Comprehensive Income for the Three Months Ended March 31, 2014 and 2013</u>
	4
	<u>Statements of Condensed Consolidated Cash Flows for the Three Months Ended March 31, 2014 and 2013</u>
	5
	<u>Condensed Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013</u>
	6 7
	<u>Statements of Condensed Consolidated Equity for the Three Months Ended March 31, 2014 and 2013</u>
	8
	<u>Notes to Condensed Consolidated Financial Statements</u>
	9 19
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	20 30
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	31 33
<u>Item 4.</u>	<u>Controls and Procedures</u>
	33
<u>Part II. Other Information:</u>	
<u>Item 1.</u>	<u>Legal Proceedings</u>
	34
<u>Item 1A.</u>	<u>Risk Factors</u>
	34
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	34
<u>Item 6.</u>	<u>Exhibits</u>
	35
<u>Signature</u>	36
<u>Index to Exhibits</u>	37

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements****EQT CORPORATION AND SUBSIDIARIES****Statements of Consolidated Income (Unaudited)**

	Three Months Ended		
	March 31,		
	2014		2013
	(Thousands, except per share amounts)		
Operating revenues	\$	661,625	\$ 415,883
Operating expenses:			
Purchased gas costs		45,175	36,731
Operation and maintenance		25,221	23,233
Production		31,940	24,889
Exploration		1,419	3,730
Selling, general and administrative		48,968	39,785
Depreciation, depletion and amortization		152,111	143,036
Total operating expenses		304,834	271,404
Operating income		356,791	144,479
Other income		2,551	2,281
Interest expense		31,968	37,752
Income before income taxes		327,374	109,008
Income taxes		116,335	34,768
Income from continuing operations		211,039	74,240
(Loss) income from discontinued operations, net of tax		(104)	35,041
Net income		210,935	109,281
Less: Net income attributable to noncontrolling interests		18,742	9,026
Net income attributable to EQT Corporation	\$	192,193	\$ 100,255
Amounts attributable to EQT Corporation:			
Income from continuing operations	\$	192,297	\$ 65,214
(Loss) income from discontinued operations		(104)	35,041
Net income	\$	192,193	\$ 100,255
Earnings per share of common stock attributable to EQT Corporation:			
Basic:			
Weighted average common shares outstanding		151,371	150,327
Income from continuing operations	\$	1.27	\$ 0.44
(Loss) income from discontinued operations			0.23
Net income	\$	1.27	\$ 0.67
Diluted:			
Weighted average common shares outstanding		152,759	150,949
Income from continuing operations	\$	1.26	\$ 0.43
(Loss) income from discontinued operations			0.23

Edgar Filing: EQT Corp - Form 10-Q

Net income	\$	1.26	\$	0.66
Dividends declared per common share	\$	0.03	\$	0.03

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

Table of Contents

EQT CORPORATION AND SUBSIDIARIES

Statements of Consolidated Comprehensive Income (Unaudited)



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

Table of Contents

EQT CORPORATION AND SUBSIDIARIES

Statements of Condensed Consolidated Cash Flows (Unaudited)

	Three Months Ended March 31,	
	2014	2013
	(Thousands)	
Cash flows from operating activities:		
Net income	\$ 210,935	\$ 109,281
Adjustments to reconcile net income to net cash provided by operating activities:		
Deferred income taxes	85,878	34,347
Depreciation, depletion, and amortization	152,111	149,116
Provision for losses on accounts receivable	1,686	1,962
Other income	(2,551)	(2,330)
Stock-based compensation expense	11,317	10,334
Loss recognized in operating revenues for hedging ineffectiveness	22,260	481
Lease impairment	275	2,980
Changes in other assets and liabilities:		
Dividend from Nora Gathering, LLC	7,000	
Accounts receivable and unbilled revenues	(95,282)	(8,825)
Inventory	9,728	37,789
Accounts payable	89,693	(18,025)
Other items, net	(31,489)	(17,855)
Net cash provided by operating activities	461,561	299,255
Cash flows from investing activities:		
Capital expenditures from continuing operations	(492,104)	(292,667)
Capital expenditures from discontinued operations		(5,605)
Net cash used in investing activities	(492,104)	(298,272)
Cash flows from financing activities:		
Increase in short-term loans	110,000	
Dividends paid	(4,542)	(4,516)
Distributions to noncontrolling interests	(12,432)	(5,031)
Repayments and retirements of long-term debt	(3,169)	(20,161)
Proceeds and tax benefits from exercises under employee compensation plans	9,824	6,995
Revolving credit facility origination fees	(4,975)	
Net cash provided by (used in) financing activities	94,706	(22,713)
Net change in cash and cash equivalents	64,163	(21,730)
Cash and cash equivalents at beginning of period	845,641	182,055
Cash and cash equivalents at end of period	\$ 909,804	\$ 160,325
Cash paid during the period for:		
Interest, net of amount capitalized	\$ 3,995	\$ 10,446
Income taxes, net	\$ 4,000	\$ 3,661

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

Table of Contents

EQT CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

Assets	March 31, 2014	December 31, 2013
	(Thousands)	
Current assets:		
Cash and cash equivalents	\$ 909,804	\$ 845,641
Accounts receivable (less accumulated provision for doubtful accounts: \$6,865 at March 31, 2014 and \$5,171 at December 31, 2013)	329,377	235,781
Inventory	9,928	19,656
Derivative instruments, at fair value	79,821	107,647
Prepaid expenses and other	41,243	46,700
Total current assets	1,370,173	1,255,425
Equity in nonconsolidated investments	123,740	128,983
Property, plant and equipment	11,552,676	11,062,136
Less: accumulated depreciation and depletion	2,876,431	2,728,374
Net property, plant and equipment	8,676,245	8,333,762
Other assets	76,148	73,883
Total assets	\$ 10,246,306	\$ 9,792,053

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

Table of Contents

EQT CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

	March 31, 2014	December 31, 2013
	(Thousands)	
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$ 11,086	\$ 11,162
Short-term loans	110,000	
Accounts payable	420,022	330,329
Derivative instruments, at fair value	59,333	29,651
Other current liabilities	157,940	152,268
Total current liabilities	758,381	523,410
Long-term debt	2,486,897	2,490,354
Deferred income taxes	1,726,660	1,655,765
Other liabilities and credits	259,862	258,396
Total liabilities	5,231,800	4,927,925
Equity:		
Stockholders' equity:		
Common stock, no par value, authorized 320,000 shares, shares issued: 175,684 at March 31, 2014 and December 31, 2013	1,831,731	1,869,843
Treasury stock, shares at cost: 23,933 at March 31, 2014 and 24,800 at December 31, 2013	(432,076)	(447,738)
Retained earnings	2,755,631	2,567,980
Accumulated other comprehensive income	22,984	44,703
Total common stockholders' equity	4,178,270	4,034,788
Noncontrolling interests in consolidated subsidiaries	836,236	829,340
Total equity	5,014,506	4,864,128
Total liabilities and equity	\$ 10,246,306	\$ 9,792,053

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

Table of Contents

EQT CORPORATION AND SUBSIDIARIES

Statements of Condensed Consolidated Equity (Unaudited)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income	Noncontrolling Interests in Consolidated Subsidiaries	Total Equity
	Shares Outstanding	No Par Value				
Balance, January 1, 2013	150,109	\$ 1,308,771	\$ 2,195,502	\$ 99,547	\$ 284,982	\$ 3,888,802
Net income			100,255		9,026	109,281
Other comprehensive loss				(77,965)		(77,965)
Dividends (\$0.03 per share)			(4,516)			(4,516)
Stock-based compensation plans, net	326	16,323			142	16,465
Distributions to noncontrolling interests (\$0.35 per common unit)					(5,031)	(5,031)
Balance, March 31, 2013	150,435	\$ 1,325,094	\$ 2,291,241	\$ 21,582	\$ 289,119	\$ 3,927,036
Balance, January 1, 2014	150,884	\$ 1,422,105	\$ 2,567,980	\$ 44,703	\$ 829,340	\$ 4,864,128
Net income			192,193		18,742	210,935
Other comprehensive loss				(21,719)		(21,719)
Dividends (\$0.03 per share)			(4,542)			(4,542)
Stock-based compensation plans, net	867	(22,450)			586	(21,864)
Distributions to noncontrolling interests (\$0.46 per common unit)					(12,432)	(12,432)
Balance, March 31, 2014	151,751	\$ 1,399,655	\$ 2,755,631	\$ 22,984	\$ 836,236	\$ 5,014,506

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

Table of Contents

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 (GAAP) 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 GAAP for complete financial statements. In the opinion of management, these financial 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, 2014 and December 31, 2013 and the results of its operations and cash flows for the three month periods ended March 31, 2014 and 2013. In this Quarterly Report on Form 10-Q, references to we, us, our, EQT, EQT Corporation, and the Company refer collectively to EQT Corporation and its consolidated subsidiaries.

Certain previously reported amounts have been reclassified to conform to the current year presentation. Additionally, financial statements and notes to the financial statements previously reported in prior periods have been recast to reflect the presentation of discontinued operations as a result of the Equitable Gas Transaction. Refer to Note B for additional information regarding discontinued operations.

The balance sheet at December 31, 2013 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 GAAP for complete financial statements.

Due to the volatility of commodity prices and the seasonal nature of the Company's storage business, the interim financial statements for the three month period ended March 31, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014.

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, 2013 as well as Management's Discussion and Analysis of Financial Condition and Results of Operations on page 20 of this Quarterly Report on Form 10-Q.

B. Discontinued Operations

On December 17, 2013, the Company and its wholly-owned subsidiary Distribution Holdco, LLC (Holdco) completed the disposition of their ownership interests in Equitable Gas Company, LLC (Equitable Gas) and Equitable Homeworks, LLC (Homeworks) to PNG Companies LLC (the Equitable Gas Transaction). The transaction remains subject to certain post-closing adjustments. Equitable Gas and Homeworks comprised substantially all of the Company's previously reported Distribution segment. The financial information of Equitable Gas and Homeworks is

Edgar Filing: EQT Corp - Form 10-Q

reflected as discontinued operations for all periods presented in these financial statements. Prior periods have been recast to reflect this presentation.

The following table summarizes the components of discontinued operations activity:

		Three Months Ended		
		2014	March 31,	2013
			(Thousands)	
Operating revenues	\$		\$	154,046
(Loss) income from discontinued operations before income taxes			(181)	54,206
Income tax (benefit) expense			(77)	19,165
(Loss) income from discontinued operations, net of tax	\$		(104)	\$ 35,041

The Company incurred \$2.1 million of transaction costs related to the Equitable Gas Transaction during the three months ended March 31, 2013, which are included in the results of discontinued operations.

Table of Contents

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

C. EQT Midstream Partners, LP

In 2012, the Company formed EQT Midstream Partners, LP (the Partnership) (NYSE: EQM) to own, operate, acquire and develop midstream assets in the Appalachian Basin. The Partnership provides midstream services to the Company and other third parties. As of March 31, 2014, the Company held a 2.0% general partner interest, all incentive distribution rights and a 42.6% limited partner interest in the Partnership. The Company's interest in the Partnership includes 3,443,902 common units and 17,339,718 subordinated units. The Partnership is consolidated in the Company's consolidated financial statements. The Company records the noncontrolling interest of the public limited partners in its financial statements.

D. Financial Information by Business Segment

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

The Company reports its operations in two segments, which reflect its lines of business. The EQT Production segment includes the Company's exploration for, and development and production of, natural gas, natural gas liquids (NGLs) and a limited amount of crude oil in the Appalachian Basin. EQT Midstream's operations include the natural gas gathering, transportation, storage and marketing activities of the Company, including ownership and operation of the Partnership.

Operating segments are evaluated on their contribution to the Company's consolidated results based on operating income. Other income, interest and income taxes are managed on a consolidated basis. Headquarters' costs are billed to the operating segments based upon an allocation of the headquarters' annual operating budget. Differences between budget and actual headquarters' expenses are not allocated to the operating segments.

The Company's management reviews and reports the EQT Production segment results with third-party transportation costs reflected as a deduction from operating revenues. Third-party transportation costs are recorded as a portion of purchased gas costs in the Statements of Consolidated Income.

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

	Three Months Ended		
	March 31,		
	2014		2013
	(Thousands)		
Revenues from external customers:			
EQT Production	\$	467,745	\$ 250,511
EQT Midstream		166,226	146,688
Third-party transportation costs (a)		44,629	35,741
Less intersegment revenues, net (b)		(16,975)	(17,057)
Total	\$	661,625	\$ 415,883
Operating income:			
EQT Production	\$	277,205	\$ 74,097
EQT Midstream		83,069	74,214
Unallocated expenses (c)		(3,483)	(3,832)
Total operating income	\$	356,791	\$ 144,479

Table of Contents**EQT Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Unaudited)****Reconciliation of operating income to income from continuing operations:**

Other income	\$	2,551	\$	2,281
Interest expense		31,968		37,752
Income taxes		116,335		34,768
Income from continuing operations	\$	211,039	\$	74,240

		As of March 31, 2014		As of December 31, 2013
		(Thousands)		
Segment assets:				
EQT Production	\$	6,706,590	\$	6,359,065
EQT Midstream		2,532,559		2,514,429
Total operating segments		9,239,149		8,873,494
Headquarters assets, including cash and short-term investments		1,007,157		918,559
Total assets	\$	10,246,306	\$	9,792,053

(a) This amount reflects the reclassification of third-party transportation costs from operating revenues to purchased gas costs at the consolidated level.

(b) Includes entries to eliminate intercompany natural gas sales from EQT Production to EQT Midstream. The Company also had \$10.9 million for the three months ended March 31, 2013 of intercompany eliminations for transmission and storage services between EQT Midstream and the Company's previously reported Distribution segment that were recast to discontinued operations as a result of the Equitable Gas Transaction. These recast adjustments had no impact on the Company's net income for the three months ended March 31, 2013.

(c) Unallocated expenses consist primarily of incentive compensation expense, administrative costs and, for the three months ended March 31, 2013, corporate overhead charges previously allocated to the Distribution segment that were reclassified to Headquarters as part of the recast of the 2013 financial information in this Quarterly Report on Form 10-Q.

		Three Months Ended March 31,		
		2014		2013
		(Thousands)		
Depreciation, depletion and amortization:				
EQT Production	\$	131,239	\$	124,909
EQT Midstream		21,009		18,219
Other		(137)		(92)
Total	\$	152,111	\$	143,036

Edgar Filing: EQT Corp - Form 10-Q

Expenditures for segment assets (d):

EQT Production (e)	\$	408,331	\$	243,175
EQT Midstream		83,213		49,144
Other		560		348
Total	\$	492,104	\$	292,667

(d) Excludes non-cash capital expenditures of \$4.5 million and \$6.0 million for the three months ended March 31, 2014 and 2013, respectively. The Company capitalizes certain labor overhead costs including a portion of non-cash stock-based compensation expense.

(e) Expenditures for segment assets in the EQT Production segment include \$59.2 million and \$12.7 million for property acquisitions during the three months ended March 31, 2014 and 2013, respectively.

Table of Contents

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

E. Derivative Instruments

The Company's primary market risk exposure is the volatility of future prices for natural gas and NGLs, which can affect the operating results of the Company primarily at EQT Production and the storage, marketing and other activities at EQT Midstream. The Company's overall objective in its hedging program is to protect cash flows from undue exposure to the risk of changing commodity prices.

The Company uses over the counter (OTC) derivative commodity instruments that are primarily placed with financial institutions, and the creditworthiness of these institutions is regularly monitored. The Company also uses exchange traded futures contracts that 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 two prices 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. The Company may also engage 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 potential debt issuances.

The Company recognizes all derivative instruments as either assets or liabilities at fair value on a gross basis. These assets and liabilities are reported in the Condensed Consolidated Balance Sheets as 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.

The accounting for the changes in fair value of the Company's derivative instruments depends on the use of the derivative instruments. 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 OCI, net of tax, and is subsequently reclassified into the Statements of Consolidated Income in the same period or periods during which the forecasted transaction affects earnings.

For a derivative instrument designated and qualified as a fair value hedge, the change in the fair value of the instrument is recognized as a portion of operating revenues in the Statements of Consolidated Income each period. In addition, the change in the fair value of the hedged item (natural gas inventory) was recognized as a portion of operating revenues in the Statements of Consolidated Income. The Company elected to exclude the spot/forward differential for the assessment of effectiveness of the fair value hedges.

Most of the 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. Historically, some of the derivative commodity instruments used by the Company to hedge its exposure to adverse changes in the market price of natural gas stored in the ground were designated and qualified as fair value hedges. These positions were de-designated effective October 1, 2013. Any hedging ineffectiveness and any change in fair value of derivative instruments that have not been designated as hedges are recognized in the Statements of Consolidated Income each period.

The Company also enters into fixed price natural gas sales agreements that are satisfied by physical delivery. These physical commodity contracts qualify for the normal purchases and sales exception and are not subject to derivative instrument accounting.

Exchange-traded instruments are generally settled with offsetting positions. 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.

Table of Contents

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

	Three Months Ended March 31,	
	2014	2013
	(Thousands)	
Commodity derivatives designated as cash flow hedges		
Amount of loss recognized in OCI (effective portion), net of tax	\$ (39,194)	\$ (52,601)
Amount of (loss) gain reclassified from accumulated OCI into operating revenues (effective portion), net of tax	(17,263)	25,833
Amount of loss recognized in operating revenues (ineffective portion) (a)	(22,260)	(481)
Interest rate derivatives designated as cash flow hedges		
Amount of gain recognized in OCI (effective portion), net of tax	\$	\$
Amount of loss reclassified from accumulated OCI, net of tax, into interest expense (effective portion)	(36)	(36)
Commodity derivatives designated as fair value hedges (b)		
Amount of loss recognized in operating revenues for fair value commodity contracts	\$	\$ (3,539)
Fair value gain recognized in operating revenues for inventory designated as hedged item		4,537
Derivatives not designated as hedging instruments		
Amount of loss recognized in operating revenues	\$ (9,354)	\$ (262)

(a) No amounts have been excluded from effectiveness testing of cash flow hedges.

(b) For the three months ended March 31, 2013, the net impact on operating revenues consisted of a \$1.3 million gain due to the exclusion the spot/forward differential from the assessment of effectiveness of fair value hedges and a \$0.3 million loss due to changes in basis.

	As of March 31, 2014	As of December 31, 2013
	(Thousands)	
Asset derivatives		
Commodity derivatives designated as hedging instruments	\$ 74,953	\$ 104,430
Commodity derivatives not designated as hedging instruments	4,868	3,217
Total asset derivatives	\$ 79,821	\$ 107,647
Liability derivatives		
Commodity derivatives designated as hedging instruments	\$ 57,426	\$ 27,618
Commodity derivatives not designated as hedging instruments	1,907	2,033
Total liability derivatives	\$ 59,333	\$ 29,651

The net fair value of derivative commodity instruments changed during the three months ended March 31, 2014 primarily as a result of increased New York Mercantile Exchange (NYMEX) forward prices and settlements. The absolute quantities of the Company's derivative commodity instruments that have been designated and qualify as cash flow hedges totaled 352 Bcf and 398 Bcf as of March 31, 2014 and December 31, 2013, respectively, and are primarily related to natural gas swaps and collars. The open positions at March 31, 2014 and December 31, 2013 had maturities extending through December 2017.

The Company deferred net gains of \$39.8 million and \$61.7 million in accumulated OCI, net of tax, as of March 31, 2014 and December 31, 2013, 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 \$11.1 million of net unrealized gains on its derivative

Table of Contents

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

commodity instruments reflected in accumulated OCI, net of tax, as of March 31, 2014 will be recognized in earnings during the next twelve months due to the settlement of hedged transactions.

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, which may change as market prices change. The Company believes that NYMEX traded futures contracts have limited credit risk because Commodity Futures Trading Commission regulations are in place to protect exchange participants, including the Company, from potential financial instability of the exchange members. The Company's OTC swap and collar derivative instruments are primarily placed 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 analyses to monitor and evaluate its credit risk exposures. These include closely monitoring current market conditions, counterparty credit fundamentals and credit default swap rates. Credit exposure is controlled through credit approvals and limits based on counterparty credit fundamentals. To manage the level of credit risk, the Company enters into transactions 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. 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 deposits 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, 2014 or December 31, 2013.

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. The Company 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. The Company records these deposits as a current asset in the Condensed Consolidated Balance Sheets. 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. The margin requirements are subject to change at the exchanges' discretion. The Company recorded current assets of \$0.1 million and \$0.3 million as of March 31, 2014 and December 31, 2013, respectively, for such deposits in its Condensed Consolidated Balance Sheets.

The Company recognizes all derivative instruments as either assets or liabilities at fair value on a gross basis. Margin deposits remitted to financial counterparties or received from financial counterparties related to OTC natural gas swap agreements and options and any funds remitted to or deposits received from the Company's brokers are recorded on a gross basis. The Company has netting agreements with financial

Edgar Filing: EQT Corp - Form 10-Q

institutions and its brokers that permit net settlement of gross commodity derivative assets against gross commodity derivative liabilities. The table below reflects the impact of netting agreements and margin deposits on gross derivative assets and liabilities as of March 31, 2014 and December 31, 2013.

Table of Contents

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

As of March 31, 2014	Derivative instruments, recorded in the Condensed Consolidated Balance Sheet, gross	Derivative instruments subject to master netting agreements	Margin deposits remitted to counterparties	Derivative instruments, net
	(Thousands)			
Asset derivatives:				
Derivative instruments, at fair value	\$ 79,821	\$ (26,095)	\$	\$ 53,726
Liability derivatives:				
Derivative instruments, at fair value	\$ 59,333	\$ (26,095)	\$ (53)	\$ 33,185
As of December 31, 2013	Derivative instruments, recorded in the Condensed Consolidated Balance Sheet, gross	Derivative instruments subject to master netting agreements	Margin deposits remitted to counterparties	Derivative instruments, net
	(Thousands)			
Asset derivatives:				
Derivative instruments, at fair value	\$ 107,647	\$ (20,843)	\$	\$ 86,804
Liability derivatives:				
Derivative instruments, at fair value	\$ 29,651	\$ (20,843)	\$ (266)	\$ 8,542

Certain of the Company's derivative instrument contracts provide that if the Company's credit ratings by Standard & Poor's Rating Services (S&P) or Moody's Investor Services (Moody's) are lowered below investment grade, additional collateral must be deposited with the counterparty. The additional collateral can be up to 100% of the derivative liability. As of March 31, 2014, the aggregate fair value of all derivative instruments with credit risk-related contingent features that were in a net liability position was \$33.5 million, for which the Company had no collateral posted on March 31, 2014. If the Company's credit rating by S&P or Moody's had been downgraded below investment grade on March 31, 2014, the Company would not have been required to post additional collateral under the agreements with the respective counterparties. Investment grade refers to the quality of the Company's credit as assessed by one or more credit rating agencies. The Company's senior unsecured debt was rated BBB by S&P and Baa3 by Moody's at March 31, 2014. In order to be considered investment grade, the Company must be rated BBB- or higher by S&P and Baa3 or higher by Moody's. Anything below these ratings is considered non-investment grade.

F. Fair Value Measurements

The Company records its financial instruments, principally derivative instruments, at fair value in its Condensed Consolidated Balance Sheets. The Company has an established process for determining fair value which 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, volatilities and nonperformance risk. Nonperformance risk considers the effect of the Company's credit standing on the fair value

Edgar Filing: EQT Corp - Form 10-Q

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 assets and liabilities recorded at fair value 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). Assets and liabilities included in Level 1 include the Company's futures contracts. Assets and

Table of Contents**EQT Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Unaudited)**

liabilities in Level 2 include the Company's swap and collar agreements. As of December 31, 2013, the Company transferred \$54.4 million of derivative instruments, primarily its collars, from Level 3 into Level 2.

The fair value of the assets and liabilities included in Level 2 is based on standard industry income approach models that use significant observable inputs, including NYMEX forward curves and LIBOR-based discount rates. The Company's collars are valued using standard industry income approach models and were historically classified in Level 3 because the volatility assumption in the option pricing model was not observable over the full duration of the collars. Effective December 31, 2013, the volatility assumption in the option pricing model is observable for the duration of the term of the collars outstanding. This change did not have a significant impact on the fair value of the derivative instruments previously included in Level 3. The significant observable inputs utilized by the option pricing model include NYMEX forward curves, natural gas volatilities and LIBOR-based discount rates.

The Company uses NYMEX forward curves to value futures, commodity swaps and collars. The NYMEX forward curves and LIBOR-based discount rates are validated to external sources at least monthly.

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

Description	As of March 31, 2014	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				
Derivative instruments, at fair value	\$ 79,821	\$ 246	\$ 79,575	\$
Liabilities				
Derivative instruments, at fair value	\$ 59,333	\$	\$ 59,333	\$

Description	As of December 31, 2013	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)				

Edgar Filing: EQT Corp - Form 10-Q

Assets

Derivative instruments, at fair value	\$	107,647	\$	240	\$	107,407	\$
---------------------------------------	----	---------	----	-----	----	---------	----

Liabilities

Derivative instruments, at fair value	\$	29,651	\$	315	\$	29,336	\$
---------------------------------------	----	--------	----	-----	----	--------	----

Table of Contents**EQT Corporation and Subsidiaries****Notes to Condensed Consolidated Financial Statements (Unaudited)**

	Fair value measurements using significant unobservable inputs (Level 3) Derivative instruments, at fair value, net Three Months Ended March 31,		
	2014	(Thousands)	2013
Balance as of January 1	\$		\$ 90,714
Total gains or losses:			
Included in earnings			423
Included in OCI			(11,733)
Purchases			72
Settlements			(9,611)
Transfers in and/or out of Level 3			
Balance as of March 31	\$		\$ 69,865

Gains of \$0.5 million were included in earnings for the three months ended March 31, 2013 in the table above attributable to the change in unrealized gains or losses relating to assets held as of March 31, 2013.

The carrying value of cash equivalents approximates fair value due to the short-term maturity of the instruments; these are considered Level 1 fair values.

The Company estimates the fair value of its debt using its established fair value methodology. Because not all of the Company's debt is actively traded, the fair value of the debt is a Level 2 fair value measurement. Fair value for non-traded debt obligations is estimated using a standard industry income approach model which utilizes a discount rate based on market rates for debt with similar remaining time to maturity and credit risk. The estimated fair value of long-term debt on the Condensed Consolidated Balance Sheets at March 31, 2014 and December 31, 2013 was approximately \$2.8 billion.

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. However, while all of the Partnership's earnings are included in the Company's net income, the Company is not required to record income tax expense with respect to the portion of the Partnership's earnings allocated to its noncontrolling public limited partners, which reduces the Company's effective tax rate. Any refinements made due to subsequent information that affects the estimated annual effective income tax rate are reflected as adjustments in the current period.

Edgar Filing: EQT Corp - Form 10-Q

The Company's effective income tax rate for the three months ended March 31, 2014 was 35.5%, compared to 31.9% for the three months ended March 31, 2013. The increase in the effective income tax rate from the first quarter of 2013 is primarily attributable to an increase in state tax expense due to increased earnings in states with higher tax rates as well as an increase in tax reserves recorded in certain states as a result of changes in the corporate organization.

There were no material changes to the Company's methodology for determining unrecognized tax benefits during the three months ended March 31, 2014. The Company believes that it is appropriately reserved for uncertain tax positions.

H. Revolving Credit Facilities

On February 18, 2014, the Company amended and restated its \$1.5 billion revolving credit facility by extending the term to February 18, 2019. As of March 31, 2014 and December 31, 2013, the Company had no loans or letters of credit outstanding under its revolving credit facility. The Company did not have any short-term loans outstanding at any time during the three months ended March 31, 2014 and 2013 under its revolving credit facility.

Table of Contents

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

On February 18, 2014, the Partnership amended and restated its revolving credit facility by, among other things, increasing the borrowing capacity under the facility from \$350 million to \$750 million and extending the term to February 18, 2019. As of March 31, 2014, the Partnership had \$110 million of loans and no letters of credit outstanding under its revolving credit facility. As of December 31, 2013, the Partnership had no loans or letters of credit outstanding under its revolving credit facility. The maximum amount of outstanding short-term loans at any time under the Partnership's credit facility was \$110 million during the three months ended March 31, 2014. The average daily balance of short-term loans outstanding for the Partnership was approximately \$92.9 million at a weighted average annual interest rate of 1.72% during the three months ended March 31, 2014. The Partnership had no short-term loans outstanding at any time during the three months ended March 31, 2013.

The Company incurred commitment fees averaging approximately 6 basis points and 5 basis points for the three months ended March 31, 2014 and 2013, respectively, to maintain credit availability under its revolving credit facility. The Partnership incurred commitment fees averaging approximately 6 basis points for the three months ended March 31, 2014 and 2013 to maintain credit availability under its revolving credit facility.

I. Earnings Per Share

Potentially dilutive securities, consisting of options and restricted stock awards, which were included in the calculation of diluted earnings per share, totaled 1,387,667 and 622,006 for the three months ended March 31, 2014 and 2013, respectively. There were no options to purchase common stock which were excluded from potentially dilutive securities because they were anti-dilutive for the three months ended March 31, 2014 and 2013. The impact of the Partnership's dilutive units did not have a material impact on the Company's earnings per share calculations for either of the periods presented.

J. Changes in Accumulated Other Comprehensive Income by Component

The following tables explain the changes in accumulated OCI by component during the applicable period:

	Three Months Ended March 31, 2014			
			Pension and other post- retirement benefits liability adjustment, net of tax	
Natural gas cash flow hedges, net of tax	Interest rate cash flow hedges, net of tax			Accumulated OCI (loss), net of tax
			(Thousands)	

Edgar Filing: EQT Corp - Form 10-Q

Accumulated OCI (loss), net of tax, as of January 1, 2014	\$	61,699	\$	(1,132)	\$	(15,864)	\$	44,703
Losses recognized in accumulated OCI, net of tax		(39,194)	(a)					(39,194)
Amounts reclassified from accumulated OCI into realized expense, net of tax		17,263	(a)	36	(a)	176	(b)	17,475
Change in accumulated other comprehensive (loss) income, net of tax		(21,931)		36		176		(21,719)
Accumulated OCI (loss), net of tax, as of March 31, 2014	\$	39,768	\$	(1,096)	\$	(15,688)	\$	22,984

Table of Contents

EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

	Three Months Ended March 31, 2013			
	Natural gas cash flow hedges, net of tax	Interest rate cash flow hedges, net of tax	Pension and other post- retirement benefits liability adjustment, net of tax	Accumulated OCI (loss), net of tax
	(Thousands)			
Accumulated OCI (loss), net of tax, as of January 1, 2013	\$ 138,188	\$ (1,276)	\$ (37,365)	\$ 99,547
Losses recognized in accumulated OCI, net of tax	(52,601)(a)			(52,601)
Amounts reclassified from accumulated OCI into realized (income) expense, net of tax	(25,833)(a)	36(a)	433(b)	(25,364)
Change in accumulated other comprehensive (loss) income, net of tax	(78,434)	36	433	(77,965)
Accumulated OCI (loss), net of tax, as of March 31, 2013	\$ 59,754	\$ (1,240)	\$ (36,932)	\$ 21,582

(a) See Note E for additional information.

(b) This accumulated OCI reclassification is attributable to the net actuarial loss and net prior service cost related to the Company's defined benefit pension plans and other post-retirement benefit plans. See Note 13 to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2013 for additional information.

Table of Contents

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, could, would, will, forecast, approximate, expect, project, intend, plan, believe and other words of similar meaning in connection with any discussion of operating or financial matters. Without limiting the generality of the foregoing, forward-looking statements contained in this Quarterly Report on Form 10-Q include the matters discussed in the section captioned Outlook in Item 2, 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 strategy to develop its Marcellus and other reserves; drilling plans and programs (including the number, type, feet of pay and location of wells to be drilled and the availability of capital to complete these plans and programs); production sales volumes (including liquids volumes) and growth rates; gathering and transmission volumes; infrastructure programs (including the timing, cost and capacity of the transmission and gathering expansion projects); technology (including drilling techniques); monetization transactions, including midstream asset sales (dropdowns) to EQT Midstream Partners, LP (the Partnership) and other asset sales, joint ventures or other transactions involving the Company's assets; natural gas prices and changes in basis; reserves; projected capital expenditures; liquidity and financing requirements, including funding sources and availability; hedging strategy; the effects of government regulation and litigation; and tax position. The forward-looking statements included in this Quarterly Report on Form 10-Q 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 in the Company's Annual Report on Form 10-K for the year ended December 31, 2013.

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

In reviewing any agreements incorporated by reference in or filed with this Quarterly Report on Form 10-Q, please remember such agreements are included to provide 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 to such agreements 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 of the Company or its affiliates as of the date they were made or at any other time.

CORPORATE OVERVIEW

Three Months Ended March 31, 2014 vs. Three Months Ended March 31, 2013

Income from continuing operations attributable to EQT Corporation for the three months ended March 31, 2014 was \$192.3 million, \$1.26 per diluted share, compared with \$65.2 million, \$0.43 per diluted share, for the three months ended March 31, 2013. The \$127.1 million increase in income from continuing operations attributable to EQT Corporation between periods was primarily attributable to a 28% higher average effective sales price for natural gas and natural gas liquids (NGLs), a 30% increase in natural gas and NGL volumes sold, increases in gathered volumes and contracted transmission capacity and lower interest expense. These factors were partially offset by higher income tax expense, higher selling, general and administrative (SG&A) expenses and higher depreciation, depletion and amortization (DD&A) expense.

Table of Contents

EQT Corporation and Subsidiaries

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

The average effective sales price to EQT Corporation for production sales volumes was \$5.34 per Mcfe for the three months ended March 31, 2014 compared to \$4.16 per Mcfe for the three months ended March 31, 2013. The average New York Mercantile Exchange (NYMEX) natural gas index price averaged \$4.94 per MMBtu during the first quarter of 2014, 48% higher than the average index price of \$3.34 per MMBtu during the first quarter of 2013. The Company's average effective sales price varies from NYMEX due to revenue deductions for the net cost of gathering, transporting and processing its gas, regional basis and hedging. In addition, during the first quarter of 2014, EQT utilized its firm capacity to move gas to sales points where demand was high due to the unusually cold winter. The sale of gas at these sales points at high prices resulted in gains that more than offset the cost of third-party gathering and transmission in the first quarter of 2014, resulting in a positive \$0.64 per Mcfe for net third-party gathering and transmission. This is a significant improvement compared to the first quarter of 2013 when the Company realized a net cost of \$0.26 per Mcfe for third-party gathering and transmission. The favorable impact of net third-party gathering and transmission charges was partially offset by an unfavorable hedge impact and lower Appalachian Basin basis in the first quarter of 2014 compared to the first quarter of 2013.

Interest expense decreased \$5.8 million in the three months ended March 31, 2014 compared to the three months ended March 31, 2013 primarily as a result of higher capitalized interest of \$10.1 million on increased Marcellus well development in the first quarter of 2014 compared to \$4.9 million in the first quarter of 2013.

Income tax expense increased \$81.6 million in the three months ended March 31, 2014 compared to the three months ended March 31, 2013 primarily as a result of higher pre-tax income as well as a higher effective tax rate. The Company's effective income tax rate increased to 35.5% from 31.9%. The increase in the effective income tax rate from the first quarter of 2013 is primarily attributable to an increase in state tax due to increased earnings in states with higher tax rates as well as increased tax reserves recorded in certain states in 2014. The overall rate was lower for both periods as the Company consolidates 100% of the pre-tax income related to the noncontrolling public limited partners' share of partnership earnings, but does not record an income tax provision with respect to the portion of the Partnership's earnings allocated to its noncontrolling public limited partners.

Loss from discontinued operations, net of tax, was \$0.1 million for the three months ended March 31, 2014 compared to income from discontinued operations, net of tax, of \$35.0 million for the three months ended March 31, 2013. On December 17, 2013, the Company and its wholly-owned subsidiary, Distribution Holdco, LLC, transferred 100% of their ownership interests in Equitable Gas Company, LLC and Equitable Homeworks, LLC to PNG Companies LLC.

Net income attributable to noncontrolling interests of the Partnership was \$18.7 million for the three months ended March 31, 2014 compared to \$9.0 million for the three months ended March 31, 2013. The \$9.7 million increase was primarily a result of higher capacity reservation revenues in the Partnership and increased noncontrolling interests as a result of the underwritten public offering of additional common units representing limited partner interests in the Partnership in July 2013.

See **Investing Activities** under the caption **Capital Resources and Liquidity** for a discussion of capital expenditures.

Consolidated Operational Data

Revenues earned by the Company at the wellhead from the sale of natural gas are split between EQT Production and EQT Midstream. The split is reflected in the calculation of EQT Production's average effective sales price. The following operational information presents detailed gross liquid and natural gas operational information as well as midstream deductions to assist in the understanding of the Company's consolidated operations.

Table of Contents**EQT Corporation and Subsidiaries****Management's Discussion and Analysis of Financial Condition and Results of Operations**

<i>in thousands (unless noted)</i>	2014	Three Months Ended March 31, 2013	%
LIQUIDS			
NGLs:			
Sales Volume (MMcfe) (a)	7,767	6,692	16.1
Sales Volume (Mbbbls)	1,295	1,115	16.1
Gross Price (\$/Bbl)	\$ 55.71	\$ 46.11	20.8
Gross NGL Revenue	\$ 72,114	\$ 51,423	40.2
Oil:			
Sales Volume (MMcfe) (a)	304	368	(17.4)
Sales Volume (Mbbbls)	51	61	(16.4)
Net Price (\$/Bbl)	\$ 83.11	\$ 81.74	1.7
Net Oil Revenue	\$ 4,214	\$ 4,986	(15.5)
 Total Liquids Revenue	 \$ 76,328	 \$ 56,409	 35.3
GAS			
Sales Volume Natural Gas (MMBtu)	98,052	74,654	31.3
Sales Volume Ethane sold as natural gas (MMBtu)	6,931	6,417	8.0
Sales Volume (MMBtu)	104,983	81,071	29.5
NYMEX Price (\$/MMBtu) (b)	\$ 4.92	\$ 3.34	47.3
Gas Revenue	\$ 516,636	\$ 270,427	91.0
Basis	(23,669)	(193)	12,163.7
Gross Gas Revenue (unhedged)	\$ 492,967	\$ 270,234	82.4
Sales Volume (MMcf)	98,052	74,654	31.3
Gas Price (\$/Mcf) (unhedged)	\$ 5.03	\$ 3.62	39.0
 Total Gross Gas & Liquids Revenue (unhedged)	 \$ 569,295	 \$ 326,643	 74.3
Hedge impact (c)	(59,220)	43,498	(236.1)
Total Gross Gas & Liquids Revenue	\$ 510,075	\$ 370,141	37.8
Total Sales Volume (MMcfe)	106,123	81,714	29.9
Average hedge adjusted price (\$/Mcf)	\$ 4.81	\$ 4.53	6.2
Midstream Revenue Deductions (\$ / Mcfe)			
Gathering to EQT Midstream	\$ (0.73)	\$ (0.88)	(17.0)
Transmission to EQT Midstream	(0.21)	(0.23)	(8.7)
Net third-party gathering and transmission	0.64	(0.26)	(346.2)
Third-party processing	(0.11)	(0.11)	
Total midstream revenue deductions	(0.41)	(1.48)	(72.3)
Average effective sales price to EQT Production	\$ 4.40	\$ 3.05	44.3
EQT Revenue (\$ / Mcfe)			
Revenues to EQT Midstream	\$ 0.94	\$ 1.11	(15.3)
Revenues to EQT Production	4.40	3.05	44.3
Average effective sales price to EQT Corporation	\$ 5.34	\$ 4.16	28.4

(a) NGLs and crude oil were converted to Mcfe at the rate of six Mcfe per barrel for all periods. Information for the three months ended March 31, 2013 has been recast to reflect this conversion rate.

Edgar Filing: EQT Corp - Form 10-Q

(b) The Company's volume weighted NYMEX natural gas price (actual average NYMEX natural gas price (\$/MMBtu) was \$4.94 and \$3.34 for the three months ended March 31, 2014 and 2013, respectively).

(c) Includes gains or losses related to the sale of fixed price natural gas. The hedge impact also included a loss for hedging ineffectiveness of \$22.4 million, \$0.21 per Mcfe, and \$0.5 million, \$0.01 per Mcfe, for the three months ended March 31, 2014 and 2013, respectively.

Table of Contents

EQT Corporation and Subsidiaries

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

Business Segment Results of Operations

The Company has reported the components of each segment's operating income from continuing operations and various operational measures in the sections below and, where appropriate, has provided information describing how a measure was derived. EQT's management believes that presentation of this information provides useful information to management and investors regarding the financial condition, operations and trends of each of EQT's business segments without being obscured by the financial condition, operations and trends for the other segments or by the effects of corporate allocations of interest, income taxes and other income. In addition, management uses these measures for budget planning purposes. The Company's management reviews and reports the EQT Production segment results for operating revenues and purchased gas costs with transportation costs reflected as a deduction from operating revenues as management believes this presentation provides a more useful view of net effective sales price and is consistent with industry practices. Third-party transportation costs are reported as a component of purchased gas costs in the consolidated results. The Company has reconciled each segment's operating income to the Company's consolidated operating income and net income in Note D to the Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Table of Contents**EQT Corporation and Subsidiaries****Management's Discussion and Analysis of Financial Condition and Results of Operations****EQT PRODUCTION****RESULTS OF OPERATIONS**

	2014	Three Months Ended March 31, 2013	%
OPERATIONAL DATA			
Sales volume detail (MMcfe):			
Horizontal Marcellus Play (a)	83,126	55,452	49.9
Horizontal Huron Play	7,119	9,413	(24.4)
CBM Play	2,914	3,116	(6.5)
Other	12,964	13,733	(5.6)
Total production sales volumes (b)	106,123	81,714	29.9
Average daily sales volumes (MMcfe/d)	1,179	908	29.8
Average effective sales price to EQT Production (\$/Mcf)	\$ 4.40	\$ 3.05	44.3
Lease operating expenses (LOE), excluding production taxes (\$/Mcf)	\$ 0.14	\$ 0.16	(12.5)
Production taxes (\$/Mcf)	\$ 0.16	\$ 0.15	6.7
Production depletion (\$/Mcf)	\$ 1.21	\$ 1.50	(19.3)
DD&A (thousands):			
Production depletion	\$ 128,557	\$ 122,491	5.0
Other DD&A	2,682	2,418	10.9
Total DD&A (thousands)	\$ 131,239	\$ 124,909	5.1
Capital expenditures (thousands)	\$ 408,331	\$ 243,175	67.9
FINANCIAL DATA (thousands)			
Total net operating revenues	\$ 467,745	\$ 250,511	86.7
Operating expenses:			
LOE, excluding production taxes	14,847	13,039	13.9
Production taxes	17,093	11,851	44.2
Exploration expense	1,412	3,730	(62.1)
SG&A	25,949	22,885	13.4
DD&A	131,239	124,909	5.1
Total operating expenses	190,540	176,414	8.0
Operating income	\$ 277,205	\$ 74,097	274.1

(a) Includes Upper Devonian wells.

(b) NGLs and crude oil were converted to Mcfe at the rate of six Mcfe per barrel for all periods. Information for the three months ended March 31, 2013 has been recast to reflect this conversion rate.

Three Months Ended March 31, 2014 vs. Three Months Ended March 31, 2013

EQT Production's operating income totaled \$277.2 million for the three months ended March 31, 2014 compared to \$74.1 million for the three months ended March 31, 2013. The \$203.1 million increase in operating income was primarily due to a higher average effective sale price and increased sales of produced natural gas and NGLs partially offset by an increase in operating expenses.

Total operating revenues were \$467.7 million for the three months ended March 31, 2014 compared to \$250.5 million for the three months ended March 31, 2013. The \$217.2 million increase in operating revenues was

Table of Contents

EQT Corporation and Subsidiaries

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

primarily due to a 44% increase in the average effective sales price to EQT Production and a 30% increase in production sales volumes. The increase in production sales volumes was the result of increased production from the 2012 and 2013 drilling programs, primarily in the Marcellus play. This increase was partially offset by the normal production decline in the Company's producing wells.

The \$1.35 per Mcfe increase in the average effective sales price to EQT Production was the net result of a \$0.90 per Mcfe benefit from the utilization of existing and new third-party transportation capacity to reach higher priced markets during the unusually cold winter, combined with a 48% increase in the average NYMEX natural gas price, partly offset by an unfavorable hedge impact and lower Appalachian Basin basis compared to the first quarter of 2013. The net impact of third-party gathering and transmission was a positive \$0.64 per Mcfe for the three months ended March 31, 2014 compared to a cost of \$0.26 per Mcfe for the same period in 2013. Net third-party gathering and transportation charges represent the net cost of third-party gathering and transportation after deducting capacity releases and differences in natural gas prices between the Appalachian Basin and the sales points of other markets reached by utilizing this capacity. As a result of the unusually cold weather in the first quarter of 2014, market prices in the United States Northeast region were significantly higher than Appalachian Basin prices, and the Company realized approximately \$96 million of higher revenues compared to the same period in 2013 by using capacity to sell gas in these higher priced markets. Much of these higher revenues resulted from sales off of the Company's Texas Eastern Transmission (TETCO) and Tennessee Gas Pipeline capacity, including additional TETCO capacity which the Company acquired effective February 2014. This new capacity of 245,000 MMBtu per day enables the Company to reach markets in eastern Pennsylvania. The average effective sales price was impacted unfavorably in the first quarter of 2014 by \$0.21 per Mcfe as a result of a loss on ineffectiveness of financial hedges of \$22.4 million. This ineffectiveness was caused by the change in Appalachian basis since inception of the hedges and is included in the hedge impact for the first quarter of 2014.

Operating expenses totaled \$190.5 million for the three months ended March 31, 2014 compared to \$176.4 million for the three months ended March 31, 2013. The increase in operating expenses was the result of increases in DD&A, production taxes, SG&A and LOE partially offset by a decrease in exploration expense. DD&A expense increased as a result of higher produced volumes in the current year partially offset by a lower overall depletion rate. Production taxes increased in the first quarter of 2014 compared to the first quarter of 2013, primarily due to a \$3.7 million increase in severance taxes due to higher market sales prices and higher production sales volumes in certain jurisdictions subject to these taxes. Production taxes also increased in the first quarter of 2014 compared to the first quarter of 2013 due to a \$1.1 million increase in the Pennsylvania impact fee, primarily as a result of an increase in the number of wells drilled in Pennsylvania. The increase in SG&A expense was primarily a result of higher personnel costs of \$3.0 million, including incentive compensation expenses, and a higher allowance for doubtful accounts of \$1.5 million, partially offset by lower environmental reserves for remediation. The increase in LOE was mainly due to increased Marcellus activity. The decrease in exploration expense was due to decreased impairments of unproved lease acreage of \$2.7 million resulting from fewer lease expirations during the first quarter of 2014 compared to the first quarter of 2013.

Table of Contents**EQT Corporation and Subsidiaries****Management's Discussion and Analysis of Financial Condition and Results of Operations****EQT MIDSTREAM****RESULTS OF OPERATIONS**

	2014	Three Months Ended March 31, 2013	%
OPERATIONAL DATA			
Gathered volumes (BBtu)	126,164	101,231	24.6
Average gathering fee (\$/MMBtu)	\$ 0.71	\$ 0.81	(12.3)
Gathering and compression expense (\$/MMBtu)	\$ 0.16	\$ 0.19	(15.8)
Transmission pipeline throughput (BBtu)	144,362	80,971	78.3
Net operating revenues (thousands):			
Gathering	\$ 89,376	\$ 81,814	9.2
Transmission	52,109	37,307	39.7
Storage, marketing and other	7,220	9,759	(26.0)
Total net operating revenues	\$ 148,705	\$ 128,880	15.4
Capital expenditures (thousands)	\$ 83,213	\$ 49,144	69.3
FINANCIAL DATA (thousands)			
Total operating revenues	\$ 166,226	\$ 146,688	13.3
Purchased gas costs	17,521	17,808	(1.6)
Total net operating revenues	148,705	128,880	15.4
Operating expenses:			
Operating and maintenance (O&M)	25,154	22,673	10.9
SG&A	19,473	13,774	41.4
DD&A	21,009	18,219	15.3
Total operating expenses	65,636	54,666	20.1
Operating income	\$ 83,069	\$ 74,214	11.9

Three Months Ended March 31, 2014 vs. Three Months Ended March 31, 2013

EQT Midstream's operating income totaled \$83.1 million for the three months ended March 31, 2014 compared to \$74.2 million for the three months ended March 31, 2013. The increase in operating income was primarily the result of increased transmission and gathering net operating revenues partially offset by increased operating expenses.

Edgar Filing: EQT Corp - Form 10-Q

Transmission net operating revenues increased in the first quarter of 2014 compared to the first quarter of 2013 primarily as a result of \$18.2 million of additional firm capacity reservation revenues and usage charges, including \$5.2 million as a result of the Allegheny Valley Connector (AVC), partially offset by a decrease of \$3.4 million of fees associated with transported volumes in excess of firm capacity.

Gathering net operating revenues increased due to a 25% increase in gathered volumes, partially offset by a 12% decrease in the average gathering fee. The gathered volume increase was driven by higher volumes gathered for EQT Production in the Marcellus play. The average gathering fee decreased due to the mix of gathered volumes as Marcellus volumes increased at a lower average fee while Huron and other volumes, which have a higher gathering fee, decreased.

Storage, marketing and other net operating revenues decreased from the prior year primarily as a result of the sale of certain energy marketing contracts on December 31, 2013 and lower revenues on NGLs marketed for non-affiliated producers primarily as the result of lower liquids volumes, partially offset by increased storage revenues from midstream assets acquired in the Equitable Gas Transaction (as defined and described in Note B to the Company's Condensed Consolidated Financial Statements).

Table of Contents

EQT Corporation and Subsidiaries

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

Operating expenses totaled \$65.6 million for the three months ended March 31, 2014 compared to \$54.7 million for the three months ended March 31, 2013. SG&A expense increased \$5.7 million, primarily as a result of increased personnel costs of \$3.3 million and \$1.0 million of expenses relating to professional services. DD&A increased \$2.8 million as a result of additional assets placed in-service, including the AVC. O&M increased \$2.5 million as a result of increased compressor operating expenses related to increased Marcellus activity and additional compressors on the AVC and increased personnel costs of \$1.2 million.

OUTLOOK

The Company is committed to profitably developing its natural gas, NGL and oil reserves through environmentally responsible, cost-effective and technologically advanced horizontal drilling. The market price for natural gas can be volatile and these fluctuations can impact the Company's revenues, earnings and liquidity. Due to the increased supply of natural gas in the Appalachian Basin, prices at regional sales points in the basin have been negative relative to Henry Hub since mid-2013. While the Company is unable to predict future movements in the market price for natural gas, the Company expects this trend in Appalachian basin to continue.

Total capital investment, excluding acquisitions, is expected to be approximately \$2.5 billion in 2014. Capital investment for well development (primarily drilling) in 2014 is expected to be approximately \$1.9 billion to support the drilling of approximately 357 gross wells, including 194 Marcellus wells, 120 Huron wells and 43 Upper Devonian wells. The Company will complete and evaluate 5 Utica wells drilled in 2013, but has decided to delay further drilling on its Ohio Utica acreage until after this year. The Company will drill 8 additional Marcellus wells and 13 additional Upper Devonian wells than originally planned. This change will have no net impact on the Company's total capital investment in 2014. Estimated sales volumes are expected to be 465–480 Bcfe for an anticipated production sales volume growth of approximately 25% in 2014, while NGL volumes are expected to be 6,800–6,900 Mbbls. To support continued growth in production, the Company plans to invest approximately \$0.6 billion on midstream infrastructure in 2014, and expects to add approximately 440 MMcf per day of incremental gathering capacity and approximately 750 MMcf per day of transmission capacity. The 2014 capital spending plan is expected to be funded by cash on hand, cash flow generated from operations and proceeds from midstream asset sales (dropdowns) to the Partnership.

The Company continues to focus on creating and maximizing shareholder value through the implementation of a strategy that economically accelerates the monetization of its asset base and prudently pursues investment opportunities, all while maintaining a strong balance sheet with solid cash flow. While the tactics continue to evolve based on market conditions, the Company is considering arrangements, including asset sales and joint ventures, to monetize the value of certain mature assets for re-deployment into its highest value development opportunities.

CAPITAL RESOURCES AND LIQUIDITY

Overview

Edgar Filing: EQT Corp - Form 10-Q

The Company's primary source of cash for the three months ended March 31, 2014 was cash flows from operating activities, while the primary use of cash was for capital expenditures.

Operating Activities

Net cash flows provided by operating activities totaled \$461.6 million for the three months ended March 31, 2014 compared to \$299.3 million for the three months ended March 31, 2013. The \$162.3 million increase in operating activities was primarily the result of a 28% higher average effective sales price to EQT, a 30% increase in natural gas and NGL volumes sold, increases in contracted transmission capacity and gathered volumes, partially offset by higher operating expenses.

Investing Activities

Net cash flows used in investing activities totaled \$492.1 million for the first quarter of 2014 compared to \$298.3 million for the first quarter of 2013. The \$193.8 million increase was attributable to higher capital expenditures in the first quarter of 2014 compared to 2013.

Table of Contents

EQT Corporation and Subsidiaries

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

Capital expenditures for EQT Production totaled \$408.3 million for the first quarter of 2014 compared to \$243.2 million for the first quarter of 2013. The \$165.1 million increase in capital expenditures was primarily the result of an increase in well development and property acquisitions. The increase in well development was driven by an increase in completed frac stages, an increase in wells spud and higher spending in the Huron play. The Company spud 64 gross wells in the first quarter of 2014, including 50 horizontal Marcellus and Upper Devonian wells and 14 horizontal Huron wells. The Company spud 41 gross wells in the first quarter of 2013, including 39 Marcellus and Upper Devonian wells and 2 horizontal Utica wells.

Capital expenditures for EQT Midstream totaled \$83.2 million for the first quarter of 2014 compared to \$49.1 million for the first quarter of 2013. The \$34.1 million increase was primarily due to an increase in expenditures relating to gathering compression projects and land acquisition.

Financing Activities

Cash flows provided by financing activities totaled \$94.7 million for the first quarter of 2014 compared to cash flows used in financing activities of \$22.7 million for the first quarter of 2013, an increase of \$117.4 million between periods. The Company had net proceeds from short-term loans of \$110 million, paid distributions to noncontrolling interests of \$12.4 million and repaid maturing long-term debt of \$3.2 million during the three months ended March 31, 2014. The Company repaid maturing long-term debt of \$20.2 million and paid distributions to noncontrolling interests of \$5.0 million during the three months ended March 31, 2013.

On February 18, 2014, the Company amended and restated its \$1.5 billion revolving credit agreement. The amended and restated revolving credit agreement expires on February 18, 2019. The other terms and conditions are substantially similar to the prior credit agreement.

On February 18, 2014, the Partnership amended its credit facility to increase the borrowing capacity to \$750 million. The amended credit facility expires on February 18, 2019. The credit facility is available to fund working capital requirements and capital expenditures, to purchase assets, to pay distributions and to repurchase units and for general partnership purposes. Subject to certain terms and conditions, the credit facility has an accordion feature that allows the Partnership to increase the available revolving borrowings under the facility by up to an additional \$250 million. In addition, the credit facility includes a sublimit up to \$75 million for same-day swing line advances and a sublimit up to \$150 million for letters of credit. The Partnership has the right to request that one or more lenders make term loans to it under the credit facility subject to the satisfaction of certain conditions, which term loans will be secured by cash and qualifying investment grade securities. The Partnership's obligations under the revolving portion of the credit facility are unsecured.

Security Ratings and Financing Triggers

Edgar Filing: EQT Corp - Form 10-Q

The table below reflects the credit ratings for debt instruments of the Company at March 31, 2014. Changes in credit ratings may affect the Company's cost of short-term and long-term debt (including interest rates and fees under its lines of credit), collateral requirements under derivative instruments and access to the credit markets.

Rating Service	Senior Notes	Outlook
Moody's Investors Service	Baa3	Stable
Standard & Poor's Ratings Services	BBB	Stable
Fitch Ratings Service	BBB-	Stable

The Company's credit ratings may be subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be evaluated independently of any other rating. The Company cannot ensure that a rating will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a credit rating agency if, in its judgment, circumstances so warrant. If the credit rating agencies downgrade the Company's ratings, particularly below investment grade, the Company's access to the capital markets may be limited, borrowing costs and margin deposits on derivative contracts would increase, counterparties may request additional assurances and the potential pool of investors and funding sources may decrease. The required margin on derivative instruments is also subject to significant change as a result of factors other than credit

Table of Contents

EQT Corporation and Subsidiaries

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

rating, such as gas prices and credit thresholds set forth in agreements between the hedging counterparties and the Company.

The Company's debt agreements and other financial obligations contain various provisions that, if not complied with, could result in termination of the agreements, require early payment of amounts outstanding or similar actions. The most significant covenants and events of default under the debt agreements relate to maintenance of a debt-to-total capitalization ratio, limitations on transactions with affiliates, insolvency events, nonpayment of scheduled principal or interest payments, acceleration of other financial obligations and change of control provisions. The Company's credit facility contains financial covenants that require a total debt-to-total capitalization ratio of no greater than 65%. The calculation of this ratio excludes the effects of accumulated other comprehensive income. As of March 31, 2014, the Company was in compliance with all debt provisions and covenants.

The Partnership's credit facility contains various provisions that, if not complied with, could result in termination of the credit facility, require early payment of amounts outstanding or similar actions. The most significant covenants and events of default under the credit facility relate to maintenance of permitted leverage ratio, limitations on transactions with affiliates, insolvency events, nonpayment of scheduled principal or interest payments, acceleration of other financial obligations and change of control provisions. Under the credit facility, the Partnership is required to maintain a consolidated leverage ratio of not more than 5.00 to 1.00 (or, after the Partnership obtains an investment grade rating, not more than 5.50 to 1.00 for certain measurement periods following the consummation of certain acquisitions). As of March 31, 2014, the Partnership was in compliance with all credit facility provisions and covenants.

Commodity Risk Management

The substantial majority of the Company's commodity risk management program is related to hedging sales of the Company's produced natural gas. The Company's overall objective in this hedging program is to protect cash flow from undue exposure to the risk of changing commodity prices. The Company's risk management program may include the use of exchange-traded natural gas futures contracts and options and over the counter (OTC) natural gas swap agreements and options (collectively, derivative commodity instruments) to hedge exposures to fluctuations in natural gas prices. The derivative commodity instruments currently utilized by the Company are primarily NYMEX swaps, collars and futures. The Company also enters into fixed price natural gas sales agreements that are satisfied by physical delivery. The Company's fixed price natural gas sales agreements include contracts that fix only the NYMEX portion of the price and contracts that fix NYMEX and basis.

As of April 23, 2014, the approximate volumes and prices of the Company's total hedge position through December 2016 production were:

	2014 (b)	2015	2016 (c)
NYMEX swaps and fixed price sales			
Total Volume (Bcf)	171	132	60
Average Price per Mcf (a)	\$ 4.36	\$ 4.37	\$ 4.45

Edgar Filing: EQT Corp - Form 10-Q

Collars

Total Volume (Bcf)		18		23	
Average Floor Price per Mcf (NYMEX) (a)	\$	5.05	\$	5.03	\$
Average Cap Price per Mcf (NYMEX) (a)	\$	8.85	\$	8.97	\$

- (a) The average price is based on a conversion rate of 1.05 MMBtu/Mcf.
- (b) April through December
- (c) For 2016, the Company also executed a natural gas sales agreement for approximately 35 Bcf that includes a NYMEX ceiling price of \$4.88 per Mcf.

See Item 3, Quantitative and Qualitative Disclosures About Market Risk, and Note E to the Company's Condensed Consolidated Financial Statements for further discussion of the Company's hedging program.

Table of Contents

EQT Corporation and Subsidiaries

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

Commitments and Contingencies

In the ordinary course of business, various legal and regulatory claims and proceedings are pending or threatened against the Company. While the amounts claimed may be substantial, the Company is unable to predict with certainty the ultimate outcome of such claims and proceedings. The Company accrues legal and other direct costs related to loss contingencies when actually incurred. The Company has established reserves it believes to be appropriate for pending matters and, after consultation with counsel and giving appropriate consideration to available insurance, the Company believes that the ultimate outcome of any matter currently pending against the Company will not materially affect the financial position, results of operations or liquidity of the Company.

Dividend

On April 22, 2014, the Board of Directors of the Partnership's general partner declared a cash distribution to the Partnership's common and subordinated unitholders of \$0.49 per unit for the first quarter of 2014, together with the corresponding distribution to the general partner of \$0.5 million related to its 2% general partner interest and \$1.0 million related to its incentive distribution rights. The cash distribution is payable on May 15, 2014, to unitholders of record at the close of business on May 6, 2014, and to the general partner.

Critical Accounting Policies

The Company's critical accounting policies are described in Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations for the year ended December 31, 2013 contained in the Company's Annual Report on Form 10-K. Any new accounting policies or updates to existing accounting policies as a result of new accounting pronouncements have been included in the notes to the Company's Condensed Consolidated Financial Statements contained in this Quarterly Report on Form 10-Q for the three month period ended March 31, 2014. The application of the Company's critical accounting policies may require management to make judgments and estimates about the amounts reflected in the Condensed Consolidated Financial Statements. Management uses historical experience and all available information to make these estimates and judgments. Different amounts could be reported using different assumptions and estimates.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Derivative Instruments

The Company's primary market risk exposure is the volatility of future prices for natural gas and NGLs, which can affect the operating results of the Company primarily at EQT Production and the storage, marketing and other activities at EQT Midstream. The Company's use of derivatives to reduce the effect of this volatility is described in Note E to the Condensed Consolidated Financial Statements and under the caption

Commodity Risk Management in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations of this Quarterly Report on Form 10-Q. The Company uses derivative commodity instruments that are placed primarily with financial institutions, and the creditworthiness of these institutions is regularly monitored. The Company also enters into derivative instruments to hedge other forecasted natural gas purchases and sales, to hedge natural gas inventory and to hedge exposure to fluctuations in interest rates. The Company's use of derivative instruments is implemented under a set of policies approved by the Company's Corporate Risk Committee and reviewed by the Audit Committee of the Board of Directors.

Commodity Price Risk

For the derivative commodity instruments used to hedge the Company's forecasted production, the Company sets policy limits relative to the expected production and sales levels which are exposed to price risk. For the derivative commodity instruments used to hedge forecasted natural gas purchases and sales which are exposed to price risk and to hedge natural gas inventory which is exposed to changes in fair value, most of which are hedged at NYMEX natural gas prices, the Company sets limits related to acceptable exposure levels. The Company does not enter into natural gas derivative commodity instruments for trading purposes.

The financial instruments currently utilized by the Company are primarily fixed price futures contracts, swap agreements and collar agreements which may require payments to or receipt of payments from counterparties based on the differential between two prices for the commodity. The Company also considers other contractual agreements in implementing its commodity hedging strategy.

The Company monitors price and production levels on a continuous basis and makes adjustments to quantities hedged as warranted. The Company's overall objective in its hedging program is to protect cash flows from undue exposure to the risk of changing commodity prices.

With respect to the derivative commodity instruments held by the Company as of March 31, 2014 and December 31, 2013, the Company hedged portions of expected equity production, portions of forecasted purchases and sales and portions of natural gas inventory by utilizing futures contracts, swap agreements and collar agreements covering approximately 331 Bcf and 388 Bcf of natural gas, respectively. See the Commodity Risk Management section in the Capital Resources and Liquidity section of Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations of this Quarterly Report on Form 10-Q for further discussion.

A hypothetical decrease of 10% in the market price of natural gas from the March 31, 2014 and December 31, 2013 levels would increase the fair value of natural gas derivative instruments by approximately \$139.9 million and \$151.7 million, respectively. A hypothetical increase of

Edgar Filing: EQT Corp - Form 10-Q

10% in the market price of natural gas from the March 31, 2014 and December 31, 2013 levels would decrease the fair value of natural gas derivative instruments by approximately \$140.0 million and \$151.6 million, respectively.

The Company determined the change in the fair value of the derivative commodity instruments using a method similar to its normal determination of fair value as described in Note E to the Condensed Consolidated Financial Statements. The Company assumed a 10% change in the price of natural gas from its levels at March 31, 2014 and December 31, 2013. The price change was then applied to the natural gas derivative commodity instruments recorded on the Company's Condensed Consolidated Balance Sheets, resulting in the change in fair value.

The above analysis of the derivative commodity instruments held by the Company does not include the offsetting impact that the same hypothetical price movement may have on the Company's physical sales of natural gas. The portfolio of derivative commodity instruments held to hedge the Company's forecasted production approximates a portion of the Company's expected physical sales of natural gas. Therefore, an adverse impact to the fair value of the portfolio of derivative commodity instruments held to hedge the Company's forecasted production associated with the hypothetical changes in commodity prices referenced above should be offset by a favorable impact on the

Table of Contents

Company's physical sales of natural gas, assuming the derivative commodity instruments are not closed out in advance of their expected term, the derivative commodity instruments continue to function effectively as hedges of the underlying risk, the anticipated transactions occur as expected and basis does not significantly change.

If the underlying physical transactions or positions are liquidated prior to the maturity of the derivative commodity instruments, a loss on the financial instruments may occur or the derivative commodity instruments might be worthless as determined by the prevailing market value on their termination or maturity date, whichever comes first.

Interest Rate Risk

Changes in interest rates affect the amount of interest the Company and the Partnership earn on cash, cash equivalents and short-term investments and the interest rates the Company and the Partnership pay on borrowings under their respective revolving credit facilities. All of the Company's long-term borrowings are fixed rate and thus do not expose the Company to fluctuations in its results of operations or liquidity from changes in market interest rates. Changes in interest rates do affect the fair value of the Company's fixed rate debt. See Note H to the Condensed Consolidated Financial Statements for further discussion of the Company's borrowings and Note F to the Condensed Consolidated Financial Statements for a discussion of fair value measurements, including the fair value of long-term debt.

Other Market Risks

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, which may change as market prices change. The Company believes that NYMEX-traded futures contracts have limited credit risk because Commodity Futures Trading Commission regulations are in place to protect exchange participants, including the Company, from potential financial instability of the exchange members. The Company's OTC swap and collar 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 analyses to monitor and evaluate its credit risk exposures. These include closely monitoring current market conditions, counterparty credit fundamentals and credit default swap rates. Credit exposure is controlled through credit approvals and limits based on counterparty credit fundamentals. To manage the level of credit risk, the Company enters into transactions with financial counterparties that are of investment grade or better, enters into netting agreements whenever possible and may obtain collateral or other security.

Approximately 57%, or \$79.6 million, of the Company's OTC derivative contracts at March 31, 2014 had a positive fair value. Approximately 79%, or \$107.4 million, of the Company's OTC derivative contracts at December 31, 2013 had a positive fair value.

As of March 31, 2014, the Company was not in default under any derivative contracts and had no knowledge of default by any counterparty to derivative contracts. The Company made no adjustments to the fair value of derivative contracts due to credit related concerns outside of the

Edgar Filing: EQT Corp - Form 10-Q

normal non-performance risk adjustment included in the Company's established fair value procedure. The Company monitors market conditions that may impact the fair value of derivative contracts reported in the Condensed Consolidated Balance Sheets.

The Company is also exposed to the risk of nonperformance by credit customers on physical sales of natural gas. A significant amount of revenues and related accounts receivable from EQT Production are generated from the sale of produced natural gas, NGLs and crude oil to certain marketers, utility and industrial customers located mainly in the Appalachian Basin and a gas processor in Kentucky and West Virginia. Additionally, a significant amount of revenues and related accounts receivable from EQT Midstream are generated from the gathering and transporting of natural gas in Kentucky, Virginia, Pennsylvania and West Virginia.

The Company has a \$1.5 billion revolving credit facility that expires on February 18, 2019. The credit facility is underwritten by a syndicate of financial institutions, each of which is obligated to fund its pro-rata portion of any borrowings by the Company. As of March 31, 2014, the Company had no loans or letters of credit outstanding under the facility. No one lender of the large group of financial institutions in the syndicate holds more than 10% of the facility. The Company's large syndicate group and relatively low percentage of participation by each lender is expected to limit the Company's exposure to problems or consolidation in the banking industry.

Table of Contents

The Partnership has a \$750 million revolving credit facility that matures on February 18, 2019. The credit facility is underwritten by a syndicate of financial institutions, each of which is obligated to fund its pro-rata portion of any borrowings by the Partnership. As of March 31, 2014, the Partnership had \$110 million of loans outstanding and no letters of credit outstanding under its credit facility. No one lender of the large group of financial institutions in the syndicate holds more than 10% of the facility. The Partnership's large syndicate group and relatively low percentage of participation by each lender is expected to limit the Partnership's exposure to problems or consolidation in the banking industry. The Company is not a guarantor of the Partnership's obligations under the credit facility.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of management, including the Company's Principal Executive Officer and Principal Financial Officer, an evaluation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act)), was conducted as of the end of the period covered by this report. Based on that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control over Financial Reporting

There were no changes in internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) that occurred during the first quarter of 2014 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

In the ordinary course of business, various legal and regulatory claims and proceedings are pending or threatened against the Company. While the amounts claimed may be substantial, the Company is unable to predict with certainty the ultimate outcome of such claims and proceedings. The Company accrues legal and other direct costs related to loss contingencies when actually incurred. The Company has established reserves it believes to be appropriate for pending matters and, after consultation with counsel and giving appropriate consideration to available insurance, the Company believes that the ultimate outcome of any matter currently pending against the Company will not materially affect the financial position, results of operations or liquidity of the Company.

Environmental Proceedings

In June and August 2012, the Company received three Notices of Violation (NOVs) from the Pennsylvania Department of Environmental Protection (the PADEP). The NOVs allege violations of the Pennsylvania Oil and Gas Act and Clean Streams Law in connection with the unintentional release in May 2012, by a Company vendor, of impaired water from an impaired water pit at a Company well location in Tioga County, Pennsylvania. Since confirming the release, the Company has cooperated with the PADEP in remediating the affected areas. The Company began settlement discussions with the PADEP regarding the NOVs during the first quarter of 2014, and resolution of the NOVs may result in monetary sanctions of \$100,000 or more.

Item 1A. Risk Factors

Information regarding risk factors is discussed in Item 1A, Risk Factors of the Company's Annual Report on Form 10-K for the year ended December 31, 2013. There have been no material changes from the risk factors previously disclosed in the Company's Form 10-K.

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

The following table sets forth the Company's repurchases of equity securities registered under Section 12 of the Exchange Act that have occurred during the three months ended March 31, 2014:

Period	Total number of shares (or units) purchased (a)	Average price paid per share (or unit)	Total number of shares (or units) purchased as part of publicly announced plans or	Maximum number (or approximate dollar value) of shares (or units) that may yet to be purchased under
---------------	--	---	---	---

Edgar Filing: EQT Corp - Form 10-Q

	programs	the plans or programs
January 2014 (January 1 - January 31)		
February 2014 (February 1 - February 28)	4,046 \$	90.63
March 2014 (March 1 - March 31)		
Total	4,046 \$	90.63

(a) Reflects shares withheld by the Company to pay taxes upon vesting of restricted stock.

Table of Contents

Item 6. Exhibits

31.01	Rule 13(a)-14(a) Certification of Principal Executive Officer
31.02	Rule 13(a)-14(a) Certification of Principal Financial Officer
32	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer
101	Interactive Data File

Table of Contents

Signature

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EQT CORPORATION
(Registrant)

By:

/s/ Philip P. Conti
Philip P. Conti
Senior Vice President and Chief Financial
Officer

Date: April 24, 2014

Table of Contents

INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Description</u>	<u>Method of Filing</u>
31.01	Rule 13(a)-14(a) Certification of Principal Executive Officer	Filed herewith as Exhibit 31.01
31.02	Rule 13(a)-14(a) Certification of Principal Financial Officer	Filed herewith as Exhibit 31.02
32	Section 1350 Certification of Principal Executive Officer and Principal Financial Officer	Filed herewith as Exhibit 32
101	Interactive Data File	Filed herewith as Exhibit 101