EQT Corp
Form 10-Q
October 29, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009

or

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-3551

EQT CORPORATION

(Exact name of registrant as specified in its charter)

PENNSYLVANIA	**25-0464690**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

625 Liberty Avenue, Suite 1700, Pittsburgh, Pennsylvania	**15222**

(Address of principal executive offices) (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 ý No o

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 ý No o

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 ý	Accelerated Filer o
Non-Accelerated Filer o	Smaller reporting company o

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

As of September 30, 2009, 130,919,247 shares of common stock, no par value, of the registrant were outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

EQT CORPORATION AND SUBSIDIARIES

Statements of Consolidated Income (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Thousands, except per share amounts)			
Operating revenues	$ 218,357	$ 297,827	$ 925,800	$ 1,167,610
Operating expenses:				
Purchased gas costs	13,573	82,114	257,171	471,644
Operation and maintenance	34,561	30,333	101,042	84,537
Production	16,153	23,076	46,033	59,965
Exploration	4,526	3,508	12,252	4,901
Selling, general and administrative	59,906	(38,199)	125,237	66,196
Depreciation, depletion and amortization	49,706	34,269	140,483	97,085
Total operating expenses	178,425	135,101	682,218	784,328
Operating income	39,932	162,726	243,582	383,282
Other income	511	611	1,799	5,709
Equity in earnings of nonconsolidated investments	1,950	1,557	4,682	4,548
Interest expense	32,393	13,012	78,096	40,992
Income before income taxes	10,000	151,882	171,967	352,547
Income taxes	7,091	55,684	70,420	130,438
Net income	$ 2,909	$ 96,198	$ 101,547	$ 222,109
Earnings per share of common stock:				
Basic:				
Weighted average common shares outstanding	130,850	130,540	130,806	126,223
Net income	$ 0.02	$ 0.74	$ 0.78	$ 1.76
Diluted:				
Weighted average common shares outstanding	131,505	131,558	131,450	127,288
Net income	$ 0.02	$ 0.73	$ 0.77	$ 1.74
Dividends declared per common share	$ 0.22	$ 0.22	$ 0.66	$ 0.66

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

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EQT CORPORATION AND SUBSIDIARIES

Statements of Condensed Consolidated Cash Flows (Unaudited)

	Nine Months Ended September 30,	
	2009	2008
	(Thousands)	
Cash flows from operating activities:		
Net income	$ 101,547	$ 222,109
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for losses on accounts receivable	(2,110)	8,591
Depreciation, depletion, and amortization	140,483	97,085
Other income	(1,799)	(5,709)
Equity in earnings of nonconsolidated investments	(4,682)	(4,548)
Deferred income taxes	94,799	195,381
Restricted stock and stock option expenses	5,208	4,152
Excess tax benefits from share-based payment arrangements	(400)	(1,129)
Decrease (increase) in inventory	60,484	(57,450)
Decrease in accounts receivable and unbilled revenues	176,121	66,551
Decrease (increase) in margin deposits	7,442	(24,742)
Decrease in accounts payable	(213,206)	(10,565)
Change in derivative instruments at fair value, net	51,658	(56,958)
Changes in other assets and liabilities	137,040	(105,897)
Net cash provided by operating activities	552,585	326,871
Cash flows from investing activities:		
Capital expenditures	(636,066)	(959,962)
Capital contributions to Nora Gathering, LLC	(6,400)	(22,800)
Investment in available-for-sale securities	(3,000)	(3,000)
Net cash used in investing activities	(645,466)	(985,762)
Cash flows from financing activities:		
Dividends paid	(86,517)	(82,589)
Proceeds from issuance of common stock		560,739
Proceeds from issuance of long-term debt	700,000	500,000
Debt issuance costs	(6,874)	(6,645)
Repayments and retirements of long term debt	(2,000)	
Decrease short-term loans	(319,917)	(356,333)
Decrease note payable to Nora Gathering, LLC		(29,329)
Proceeds from exercises under employee compensation plans	293	842
Excess tax benefits from share-based payment arrangements	400	1,129
Net cash provided by financing activities	285,385	587,814
Net increase (decrease) in cash and cash equivalents	192,504	(71,077)
Cash and cash equivalents at beginning of period		81,711
Cash and cash equivalents at end of period	$ 192,504	$ 10,634
Cash paid during the period for:		
Interest, net of amount capitalized	$ 50,668	$ 25,616
Income taxes, net of refunds	$ (103,229)	$ 6,855

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

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EQT CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

	September 30, 2009	December 31, 2008
	(Thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 192,504	$ -
Accounts receivable (less accumulated provision for doubtful accounts: September 30, 2009, $ 16,270; December 31, 2008, $26,636)	76,452	209,008
Unbilled revenues	8,475	49,930
Margin deposits with financial institutions	-	4,434
Inventory	195,654	288,182
Derivative instruments, at fair value	162,901	192,191
Prepaid expenses and other	94,170	183,437
Total current assets	730,156	927,182
Equity in nonconsolidated investments	180,083	169,241
Property, plant and equipment	6,160,969	5,503,921
Less: accumulated depreciation and depletion	1,527,121	1,406,402
Net property, plant and equipment	4,633,848	4,097,519
Investments, available-for-sale	34,798	25,880
Regulatory assets	79,723	83,525
Other assets	31,025	26,315
Total assets	$ 5,689,633	$ 5,329,662

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

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EQT CORPORATION AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

	September 30, 2009	December 31, 2008
	(Thousands)	
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 2,300	$ 4,300
Short-term loans	-	319,917
Accounts payable	143,526	356,732
Margin deposits from financial institutions	3,008	-
Derivative instruments, at fair value	135,737	175,889
Other current liabilities	210,004	185,770
Total current liabilities	494,575	1,042,608
Long-term debt	1,949,200	1,249,200
Deferred income taxes and investment tax credits	901,553	781,520
Unrecognized tax benefits	64,470	47,553
Pension and other post-retirement benefits	57,137	69,409
Other credits	110,666	89,279
Total liabilities	3,577,601	3,279,569
Common stockholders equity:		
Common stock, no par value, authorized 320,000 shares; shares issued: September 30, 2009 and December 31, 2008, 157,630	950,827	948,497
Treasury stock, shares at cost: September 30, 2009, 26,711; December 31, 2008, 26,764 (net of shares at cost held in trust for deferred compensation of 160, $2,720 and 163, $2,784)	(482,315)	(483,464)
Retained earnings	1,668,826	1,653,797
Accumulated other comprehensive loss	(25,306)	(68,737)
Total common stockholders equity	2,112,032	2,050,093
Total liabilities and stockholders equity	$ 5,689,633	$ 5,329,662

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

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EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

A. Financial Statements

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with United States generally accepted accounting principles for interim financial information and with the requirements of Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements. In this Form 10-Q, references to we, us, our, EQT, EQT Corporation, and the Company refer collectively t Corporation and its consolidated subsidiaries. In the opinion of management, these statements include all adjustments (consisting of only normal recurring accruals, unless otherwise disclosed in this Form 10-Q) necessary for a fair presentation of the financial position of EQT Corporation and its subsidiaries as of September 30, 2009, and the results of its operations and cash flows for the three and nine month periods ended September 30, 2009 and 2008. Certain previously reported amounts have been reclassified to conform to the current year presentation.

The balance sheet at December 31, 2008 has been derived from the audited financial statements at that date, but does not include all of the information and footnotes required by United States generally accepted accounting principles for complete financial statements.

Due to the seasonal nature of the Company s natural gas distribution and storage businesses and the volatility of commodity prices, the interim statements for the three and nine month periods ended September 30, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009.

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, 2008, as well as Management s Discussion and Analysis of Financial Condition and Results of Operations on page 20 of this document.

B. Segment Information

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

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

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

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EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial States (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Revenues from external customers:				
EQT Production	$ 91,922	$ 122,083	$ 279,570	$ 352,109
EQT Midstream	124,065	186,114	366,939	561,216
Distribution	54,599	88,789	425,865	459,482
Less: intersegment revenues (a)	(52,229)	(99,159)	(146,574)	(205,197)
Total	$ 218,357	$ 297,827	$ 925,800	$ 1,167,610
Operating income:				
EQT Production	$ 31,522	$ 67,296	$ 109,587	$ 201,805
EQT Midstream	37,878	29,772	119,660	114,254
Distribution	3,230	(1,772)	56,435	38,207
Unallocated (expense) income (b)	(32,698)	67,430	(42,100)	29,016
Total	$ 39,932	$ 162,726	$ 243,582	$ 383,282
Reconciliation of operating income to net income:				
Other income:				
EQT Midstream	$ 342	$ 460	$ 1,247	$ 5,307
Distribution	169	151	552	402
Total	$ 511	$ 611	$ 1,799	$ 5,709
Equity in earnings of nonconsolidated investments:				
EQT Production	$ 3	$ 129	$ 50	$ 373
EQT Midstream	1,946	1,363	4,608	3,989
Unallocated	1	65	24	186
Total	$ 1,950	$ 1,557	$ 4,682	$ 4,548
Interest expense	32,393	13,012	78,096	40,992
Income taxes	7,091	55,684	70,420	130,438
Net income	$ 2,909	$ 96,198	$ 101,547	$ 222,109

	September 30, 2009	December 31, 2008
	(Thousands)	
Segment Assets:		
EQT Production	$ 2,656,014	$ 2,338,695
EQT Midstream	1,932,602	1,897,872
Distribution	812,677	951,179
Total operating segments	5,401,293	5,187,746
Headquarters assets, including cash and short-term investments	288,340	141,916
Total assets	$ 5,689,633	$ 5,329,662

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EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Thousands)			
Depreciation, depletion and amortization:				
EQT Production	$ 29,856	$ 20,015	$ 83,724	$ 56,757
EQT Midstream	13,477	8,607	38,502	23,668
Distribution	5,525	5,207	16,449	15,415
Other	848	440	1,808	1,245
Total	$ 49,706	$ 34,269	$ 140,483	$ 97,085
Expenditures for segment assets:				
EQT Production	$ 144,497	$ 250,058	$ 446,813	$ 492,934
EQT Midstream	39,817	184,854	155,334	432,518
Distribution	9,844	12,179	25,337	32,162
Other	2,560	1,735	8,582	2,348
Total	$ 196,718	$ 448,826	$ 636,066	$ 959,962

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

(b) Unallocated (expense) income primarily consists of incentive compensation and administrative costs in excess of budget that are not allocated to the operating segments.

C. Derivative Instruments

Natural Gas Hedging Instruments

The Company s primary market risk exposure is the volatility of future prices for natural gas and natural gas liquids, which can affect the operating results of the Company primarily through the EQT Production and EQT Midstream segments. The Company s overall objective in its commodity hedging program is to ensure an adequate level of return for the well development and infrastructure investments at these segments.

The Company uses non-leveraged derivative commodity instruments that are placed with major financial institutions whose creditworthiness is continually monitored to reduce the effect of this volatility. Futures contracts obligate the Company to buy or sell a designated commodity at a future date for a specified price and quantity at a specified location. Swap agreements involve payments to or receipts from counterparties based on the differential between a fixed and variable price for the commodity. Collar agreements require the counterparty to pay the Company if the index price falls below the floor price and the Company to pay the counterparty if the index price rises above the cap price. Put option contracts provide protection from dropping prices and require the counterparty to pay the Company if the index price falls below the contract price. The Company also engages in a limited number of basis swaps to protect earnings from undue exposure to the risk of geographic disparities in

commodity prices and interest rate swaps to hedge exposure to interest rate fluctuations on short or long-term debt.

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

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

The various derivative commodity instruments used by the Company to hedge its exposure to variability in expected future cash flows associated with the fluctuations in the price of natural gas related to the Company s forecasted sale

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EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

of equity production and forecasted natural gas purchases and sales have been designated and qualify as cash flow hedges.

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

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

During 2008, the Company effectively settled certain derivative commodity hedges scheduled to mature during the period 2010 through 2013 by de-designating the hedges and entering into directly counteractive economic hedges. As of the date of de-designation of these hedges, the Company had recorded a loss, net of tax, in accumulated other comprehensive loss of approximately $11.4 million which will be recognized as part of the realized sales price in the Statements of Consolidated Income when the underlying physical transactions occur. The fair value of the offsetting positions not designated as hedges as of September 30, 2009 was a $49.7 million derivative liability and a $30.7 million derivative asset. During the first quarter of 2009, the Company terminated certain collar agreements scheduled to mature during the period 2010 through 2012. As of the date of termination of these hedges the Company had recorded a gain, net of tax, in accumulated other comprehensive income of approximately $5.1 million which will be recognized as part of the realized sales price in the Statements of Consolidated Income when the underlying physical transactions occur.

The current hedge position extends through 2015 and provides price protection for approximately 60% of expected natural gas production sales volumes in 2009 and greater than 40% of expected natural gas production sales volumes through 2011. See Commodity Risk Management in Management s Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-Q for further details of the Company s hedged position.

All derivatives recognized in the balance sheet and used in cash flow hedging relationships are commodity contracts. All gains (losses) recognized in income or reclassified from accumulated other comprehensive income (OCI) into income are reported in operating revenues. All derivative instrument assets and liabilities are reported in the balance sheet as derivative instruments, at fair value.

	Three Months Ended September 30,		Nine months ended September 30,	
	2009	**2008**	**2009**	**2008**
		(Thousands)		
Derivatives designated as hedging instruments				

Amount of gain (loss) recognized in OCI (effective portion), net of tax	$	4,392	$	467,117	$	146,402	$	(2,644)
Amount of gain (loss) reclassified from accumulated OCI into income (effective portion), net of tax (a)		26,769		(59,734)		107,725		(151,728)
Amount of gain (loss) recognized in income (ineffective portion) (b)		2,262		358		(3,076)		1,032
Derivatives not designated as hedging instruments:								
Amount of gain (loss) recognized in income	$		$	(478)	$	(27)	$	(200)

	September 30, 2009		December 31, 2008	
	(Thousands)			
Asset derivatives				
Derivatives designated as hedging instruments	$	127,116	$	188,247
Derivatives not designated as hedging instruments		35,785		3,944
Total asset derivatives	$	162,901	$	192,191

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EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

	September 30, 2009	December 31, 2008
Liability derivatives	(Thousands)	
Derivatives designated as hedging instruments	$ 79,777	$ 154,605
Derivatives not designated as hedging instruments	55,960	21,284
Total liability derivatives	$ 135,737	$ 175,889

(a) Includes $0.3 million and $9.1 million for the three and nine month periods ended September 30, 2009, respectively, of unrealized hedge gains reclassified into earnings to offset lower of cost or market adjustments on hedged items. Includes $47.2 million for the three and nine month periods ended September 30, 2008 of unrealized hedge gains reclassified into earnings to offset lower of cost or market adjustments on hedged items. The Company also had an immaterial amount of OCI reclassified to interest expense related to an interest rate swap on long-term debt.

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

The net fair value of derivative instruments changed during the first nine months of 2009 primarily as a result of the settlement of hedged transactions and a decrease in natural gas prices. The absolute quantities of the Company s derivative commodity instruments that have been designated and qualify as cash flow hedges totaled 191 Bcf and 243 Bcf as of September 30, 2009 and December 31, 2008, respectively, and are primarily related to natural gas swaps and collars.

The Company deferred net gains (losses) of $9.8 million and ($28.8) million in accumulated other comprehensive income (loss), net of tax, as of September 30, 2009 and December 31, 2008, respectively, associated with the effective portion of the change in fair value of its derivative instruments designated as cash flow hedges. Assuming no change in price or new transactions, the Company estimates that approximately $15.2 million of net unrealized gains on its derivative commodity instruments reflected in accumulated other comprehensive income, net of tax, as of September 30, 2009 will be recognized in earnings during the next twelve months due to the settlement of hedged transactions. This recognition occurs through an increase in the Company s net operating revenues resulting in the average hedged price becoming the realized sales price.

The Company is exposed to credit loss in the event of nonperformance by counterparties to derivative contracts. This credit exposure is limited to derivative contracts with a positive fair value. The Company believes that NYMEX-traded futures contracts have minimal credit risk because Commodity Futures Trading Commission regulations are in place to protect exchange participants, including the Company, from potential financial instability of the exchange members. The Company monitors counterparty credit quality by reviewing counterparty credit spreads, credit ratings, credit default swap rates and market activity.

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

When the net fair value of any of the Company s swap agreements represents a liability to the Company which is in excess of the agreed-upon threshold between the Company and the financial institution acting as counterparty, the counterparty requires the Company to remit funds to the

counterparty as a margin deposit for the derivative liability which is in excess of the threshold amount. The Company records these deposits as a receivable in the consolidated balance sheet. 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 September 30, 2009 and December 31, 2008.

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

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Notes to Condensed Consolidated Financial Statements (Unaudited)

discretion. The Company recorded a current liability of $3.0 million as of September 30, 2009 and a current asset of $4.4 million at December 31, 2008 for such deposits with brokers in its Condensed Consolidated Balance Sheets as of September 30, 2009 and December 31, 2008, respectively.

Certain of the Company s derivative instrument contracts provide that if the Company s credit ratings are lowered below investment grade, additional collateral must be deposited with the counterparty. This additional collateral can be up to 100% of the derivative liability. As of September 30, 2009, the aggregate fair value of all derivative instruments with credit-risk-related contingent features that were in a net liability position was $61.8 million, for which the Company had no collateral posted on September 30, 2009. If the Company s credit rating had been downgraded below investment grade on September 30, 2009, the Company would have been required to post additional collateral of $29.2 million in respect of the liability position. Investment grade refers to the quality of the Company s credit as assessed by one or more credit rating agencies. In order to be considered investment grade, the Company must be rated BBB- or higher by S&P and Fitch and Baa3 or higher by Moody s. Anything below these ratings is considered non-investment grade.

D. Investments, Available-For-Sale

As of September 30, 2009, the investments classified by the Company as available-for-sale consist of $34.8 million of equity and bond funds intended to fund plugging and abandonment and other liabilities for which the Company self-insures. Unrealized gains or losses with respect to temporarily impaired investments classified as available-for-sale are recognized within the Condensed Consolidated Balance Sheets as a component of equity, accumulated other comprehensive loss. The Company evaluates these investments quarterly and if the Company subsequently determines that a loss is other-than-temporary, any unrealized losses stemming from such impaired investments will be recognized in earnings.

	September 30, 2009			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Thousands)			
Equity funds	$ 21,942	$ 4,747	$	$ 26,689
Bond funds	7,468	641		8,109
Total investments	$ 29,410	$ 5,388	$	$ 34,798

	December 31, 2008			
	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Thousands)			
Equity funds	$ 20,219	$	$	$ 20,219
Bond funds	5,661			5,661

Total investments	$ 25,880	$	$	$ 25,880

During the nine month periods ended September 30, 2009 and 2008, the Company purchased additional securities with a cost basis totaling $3.0 million and $3.0 million.

E. Fair Value Measurements

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

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

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

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

		Fair value measurements at reporting date using		
Description	**September 30, 2009**	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**
		(Thousands)		
Assets				
Investments, available-for-sale	$ 34,798	$ 34,798	$	$
Derivative instruments, at fair value	162,901	16,273	59,855	86,773
Total assets	$ 197,699	$ 51,071	$ 59,855	$ 86,773
Liabilities				
Derivative instruments, at fair value	$ (135,737)	$ (7,480)	$ (126,938)	$ (1,319)
Total liabilities	$ (135,737)	$ (7,480)	$ (126,938)	$ (1,319)

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	Fair value measurements using significant unobservable inputs (Level 3)	
	Derivative instruments, at fair value, net (Thousands)	
Balance at January 1, 2009	$	87,605
Total gains or losses:		
Included in earnings		86
Included in other comprehensive income		43,993
Purchases, issuances, and settlements		(46,230)
Transfers in and/or out of Level 3		
Balance at September 30, 2009	$	85,454
The amount of total gains or losses for the period included in earnings attributable to the change in unrealized gains or losses relating to assets and liabilities still held as of September 30, 2009		21

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

F. Comprehensive (Loss) Income

Total comprehensive (loss) income, net of tax, was as follows:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2009		2008		2009		2008	
	(Thousands)							
Net income	$	2,909	$	96,198	$	101,547	$	222,109
Other comprehensive (loss) income:								
Net change in cash flow hedges		(22,348)		479,727		38,765		94,195
Unrealized gain (loss) on investments, available-for-sale		2,651		(2,413)		3,502		(5,007)
Pension and other post-retirement benefit plans:								
Prior service cost		(86)		(70)		(258)		(212)
Net loss		371		395		1,113		1,184
Settlement loss		103		76		309		228
Total comprehensive (loss) income	$	(16,400)	$	573,913	$	144,978	$	312,497

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

	September 30, 2009	December 31, 2008
	(Thousands)	
Net unrealized gain (loss) from hedging transactions	$ 9,546	$ (29,219)
Unrealized gain on available-for-sale securities	3,502	
Pension and other post-retirement benefits adjustment	(38,354)	(39,518)
Accumulated other comprehensive loss	$ (25,306)	$ (68,737)

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G. Share-Based Compensation

Share-based compensation expense (income) recorded by the Company was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Thousands)			
2005 Executive Performance Incentive Program	$	$(84,231)	$	$ (41,684)
2008 Executive Performance Incentive Program	211	248	559	248
2009 Shareholder Value Plan	24,299		30,614	
2007 Supply Long-Term Incentive Program	1,367	(520)	4,166	391
Restricted stock awards	872	1,771	2,858	3,630
Non-qualified stock options	783	522	2,350	522
Non-employee directors share-based awards	670	(3,101)	366	(821)
Total share-based compensation expense (income)	$ 28,202	$(85,311)	$ 40,913	$ (37,714)

Executive Performance Incentive Programs

The vesting of the stock units granted under the 2005 Executive Performance Incentive Program (2005 Program) occurred on December 31, 2008, after the ordinary close of the performance period, and payment was made on that day. The Company accounted for these awards as liability awards and as such recorded compensation expense for the remeasurement of the fair value of the awards at the end of each reporting period. During the three months ended September 30, 2008, the Company decreased its assumptions for both the ultimate share price and the payout multiple at the end of the performance period to approximately $37 per share and 175%, respectively.

The settlement of the units granted under the 2008 Executive Performance Incentive Program (2008 Program) will occur after the performance period, December 31, 2011, at a payout multiple between zero and 300%, which is dependent upon the level of total shareholder return relative to a predefined peer group s total shareholder return during the 3.5 year performance period and production sales revenues (at a fixed price) for approximately the same period. Payment of awards is expected to be in cash based on the price of the Company s common stock at the end of the performance period. Participants have no rights with respect to awards under the 2008 Program prior to payment. The Company accounts for these awards as liability awards and as such records compensation expense for the remeasurement of the fair value of the awards at the end of each reporting period. The Company continually monitors its stock price and performance in order to assess the affect on the ultimate payout under the 2008 Program. The Company s current assumptions for the ultimate share price and payout multiple are $50 and 100% of the units awarded, respectively. As of September 30, 2009, approximately 59,000 units were outstanding under the 2008 Program.

2009 Shareholder Value Plan

The settlement of the units granted under the 2009 Shareholder Value Plan (2009 SVP) will occur after the performance period utilizing a payout factor of between zero and 250%, dependent upon a combination of the level of total shareholder return relative to a predefined peer group and the Company s average absolute return on total capital during the performance period of January 1, 2005 to December 31, 2009. To determine the actual payment per unit, the payout factor will be multiplied by the period-end stock price and such product will be reduced by $63.82 (referred to as the threshold value). The threshold value approximates the Company s total shareholder return relative to the predefined peer group through December 31, 2008 at a 175% multiple. Payment of awards is expected to be in cash based on the price of the Company s common stock at the end of the performance period, December 31, 2009. Participants have no rights with respect to awards under the 2009 SVP prior to payment. The Company accounts for these awards as liability awards and as such records compensation expense for the remeasurement of the fair value of the awards at the end of each reporting period. The Company continually monitors its stock price and performance in order to assess the affect on the ultimate payout under the 2009 SVP. The Company s current assumptions for the period-end stock and payout multiple are approximately $43 and 225% of the units awarded, respectively. As of September 30, 2009, approximately 963,000 units were outstanding under the 2009 SVP. If the Company achieves a performance level increasing the payout factor to 250% at the current assumed period-end stock multiple of approximately $43, then the Company would recognize an additional $11.4 million of compensation expense.

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2007 Supply Long-Term Incentive Program

On July 1, 2007, the Company established the 2007 Supply Long-Term Incentive Program (2007 Supply Program) to provide a long-term incentive compensation opportunity to key employees in the EQT Production and EQT Midstream segments and awards were granted at that time. During the first quarter of 2009, the Compensation Committee of the Board of Directors approved the grant of approximately 116,000 additional awards under the 2007 Supply Program. Awards granted may be earned by achieving pre-determined total sales volumes targets, achieving certain efficiency metrics and satisfying certain applicable employment requirements. The awards earned may be increased to a maximum of three times the initial award or reduced to zero based upon achievement of the predetermined performance levels. The settlement of the units granted under the 2007 Supply Program will occur after the end of the performance period, December 31, 2010. Payment of awards will be made in cash based on the price of the Company s common stock at the end of the performance period. Participants have no rights with respect to awards under the 2007 Supply Program prior to payment. The Company accounts for these awards as liability awards and as such records compensation expense for the remeasurement of the fair value of the awards at the end of each reporting period. The Company continually monitors its stock price and performance in order to assess the affect on the ultimate payout under the 2007 Supply Program. The Company s current assumptions for the ultimate share price and payout multiple are approximately $45 and 200% of the units awarded, respectively. As of September 30, 2009, approximately 271,000 units were outstanding under the 2007 Supply Program.

Restricted Stock Awards

The Company granted 7,800 and 137,730 restricted stock awards during the three months ended September 30, 2009 and 2008, respectively, to key employees of the Company. The shares granted will be fully vested at the end of the three-year period commencing with the date of grant. The weighted average fair value of these restricted stock grants, based on the grant date fair value of the Company s stock, was approximately $39 and $63, for the three months ended September 30, 2009 and 2008, respectively.

As of September 30, 2009, the Company had $4.8 million of total unrecognized compensation cost related to non-vested restricted stock awards. That cost is expected to be recognized over a weighted average period of approximately 22 months.

Non-Qualified Stock Options

No stock options were granted during the nine month period ended September 30, 2009. A total of 906,000 stock options were granted during the nine month period ended September 30, 2008. As of September 30, 2009, the Company had $5.4 million of total unrecognized compensation cost related to outstanding non-vested stock options. Options to purchase approximately 937,800 and 974,200 shares of common stock were outstanding for the three and nine months ended September 30, 2009, respectively, but were not included in the computation of dilutive earnings per share because the effect would be antidilutive.

Non-employee Directors Share-Based Awards

As of September 30, 2009, 83,500 options were outstanding under the 1999 Nonemployee Directors Stock Incentive Plan. No options were granted to non-employee directors during the nine month periods ended September 30, 2009 and 2008.

The Company has historically granted to non-employee directors share-based awards which vested upon award. The value of the share-based awards will be paid in cash on the earlier of the director s death or retirement from the Company s Board of Directors. The Company accounts for these share-based awards as liability awards and as such records compensation expense for the remeasurement of the fair value of the awards at the end of each reporting period. A total of 84,958 non-employee director share-based awards were outstanding as of September 30, 2009. No share-based awards were granted to non-employee directors during the nine month period ended September 30, 2009. A total of 12,800 share-based awards were granted to non-employee directors, at a weighted average fair value of $68.22 per share, during the nine month period ended September 30, 2008.

H. Income Taxes

The Company estimates an annual effective income tax rate based on projected results for the year and applies this rate to income before taxes to calculate income tax expense. Any refinements made due to subsequent information that affects the estimated annual effective income tax rate are reflected as adjustments in the current period. Separate

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effective income tax rates are calculated for net income from continuing operations and any other separately reported net income items, such as discontinued operations.

The Company s effective income tax rate for the nine months ending September 30, 2009 was 40.9%. The Company currently estimates the annual effective income tax rate to be approximately 40.9%. The estimated annual effective income tax rate as of September 30, 2008 was 37.3%. The 2009 increase in the expected annual effective tax rate is primarily the result of nondeductible compensation expense and a West Virginia law change in 2008 that created a discrete benefit. The Company has a method change request pending with the Internal Revenue Service (IRS) which, if approved, will reduce the estimated annual effective income tax rate by approximately 1.9% for 2009.

On March 31, 2008, West Virginia enacted legislation, effective for the Company s tax year beginning January 1, 2009, that contemplates a reduction of West Virginia s corporate net income tax rate over the next nine years. As a result of this law change, the Company recorded a tax benefit of $4.6 million to reflect an overall decrease in the Company s expected deferred tax liability as of the effective date of each respective income tax rate reduction. This benefit was included in the first quarter 2008 income tax expense.

There were no material changes to the Company s methodology for unrecognized tax benefits during the nine months ended September 30, 2009. Increases to the unrecognized tax benefit balance during the nine months ended September 30, 2009 were primarily attributable to certain pending changes in the Company s accounting for repairs expenditures for tax purposes.

The consolidated federal income tax liability of the Company has been settled with the IRS through 2000. In December 2008, the Joint Committee on Taxation (JCT) approved the settlement of all issues related to the 1998 through 2000 audit. The Company received a final net tax refund of $3.8 million, including interest, for these years.

As of September 30, 2009, the IRS has completed its audit and review of the Company s federal income tax filings for the 2001 through 2005 years and the Company has received approximately $3.0 million of the total expected $3.4 million refund relating to the agreed upon audit adjustments for these years. In September of 2009, the JCT approved the settlement of all issues related to the 2001 through 2005 audit excluding the Company s research and experimentation (R&E) tax credits claimed for such years. The R&E credits have been referred to the Appeals Division of the IRS. The Company also is the subject of various state income tax examinations. The Company believes that it is appropriately reserved for any uncertain tax positions claimed during these periods.

During the second quarter of 2009 EQT received a refund of $99.5 million from the IRS relating to the 2008 net operating loss carryback claim that was filed with the IRS on March 3, 2009. This net operating loss was primarily a result of intangible drilling costs incurred as a result of the Company s drilling program that are deducted currently for tax purposes and accelerated tax deprecation for expansion of the gathering infrastructure. During the third quarter of 2009, the Company filed a superseding tax return for the 2008 tax year in which the Company has requested an additional refund of $15.5 million relating to the carryback of its 2008 net operating tax loss. The Company expects to receive the refund in 2009.

I. Long-Term Debt

	September 30, 2009	December 31, 2008
	(Thousands)	
5.15% notes, due March 1, 2018	$ 200,000	$ 200,000
5.15% notes, due November 15, 2012	200,000	200,000
5.00% notes, due October 1, 2015	150,000	150,000
6.50% notes, due April 1, 2018	500,000	500,000
8.13% notes, due April 1, 2019	700,000	
7.75% debentures, due July 15, 2026	115,000	115,000
Medium-term notes:		
8.5% to 9.0% Series A, due 2009 thru 2021	48,500	50,500
7.3% to 7.6% Series B, due 2013 thru 2023	30,000	30,000
7.6% Series C, due 2018	8,000	8,000
	1,951,500	1,253,500
Less debt payable within one year	2,300	4,300
Total long-term debt	$ 1,949,200	$ 1,249,200

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

Aggregate maturities of long-term debt are $2.3 million in 2009, $0 in 2010, $6.0 million in 2011, $200.0 million in 2012 and $10.0 million in 2013.

J. Pension and Other Postretirement Benefit Plans

The Company s costs related to its defined benefit pension and other postretirement benefit plans for the three and nine months ended September 30, 2009 and 2008 were as follows:

	Pension Benefits		Other Benefits	
	Three Months Ended September 30,			
	2009	2008	2009	2008
	(Thousands)			
Components of net periodic benefit cost				
Service cost	$ 109	$ 44	$ 144	$ 110
Interest cost	906	1,080	537	610
Expected return on plan assets	(1,145)	(1,333)		
Amortization of prior service cost	4	29	(226)	(226)
Recognized net actuarial loss	298	312	437	511
Settlement loss	173	237		
Net periodic benefit cost				