

EQT Corp
Form 10-Q
October 24, 2013
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**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 SEPTEMBER 30, 2013

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.)

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

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

As of September 30, 2013, 150,716,288 shares of common stock, no par value, of the registrant were outstanding.

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EQT CORPORATION AND SUBSIDIARIES

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Table of Contents**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, | |
|---|---------------------------------------|------------|------------------------------------|--------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Thousands, except per share amounts) | | | |
| Operating revenues | \$ 506,598 | \$ 364,057 | \$ 1,585,350 | \$ 1,151,821 |
| Operating expenses: | | | | |
| Purchased gas costs | 37,265 | 34,394 | 188,199 | 158,127 |
| Operation and maintenance | 36,861 | 36,259 | 105,124 | 105,464 |
| Production | 28,076 | 23,201 | 80,712 | 72,796 |
| Exploration | 5,256 | 1,163 | 15,124 | 4,878 |
| Selling, general and administrative | 52,944 | 51,481 | 162,372 | 136,201 |
| Depreciation, depletion and amortization | 175,648 | 131,611 | 493,341 | 354,817 |
| Total operating expenses | 336,050 | 278,109 | 1,044,872 | 832,283 |
| Operating income | 170,548 | 85,948 | 540,478 | 319,538 |
| Other income | 2,405 | 2,801 | 6,846 | 13,841 |
| Interest expense | 35,554 | 40,460 | 110,690 | 122,341 |
| Income before income taxes | 137,399 | 48,289 | 436,634 | 211,038 |
| Income taxes | 34,789 | 11,585 | 130,625 | 70,853 |
| Net income | 102,610 | 36,704 | 306,009 | 140,185 |
| Less: Net income attributable to noncontrolling interests | 14,354 | 4,831 | 30,642 | 4,831 |
| Net income attributable to EQT Corporation | \$ 88,256 | \$ 31,873 | \$ 275,367 | \$ 135,354 |
| Earnings per share of common stock attributable to EQT Corporation: | | | | |
| Basic: | | | | |
| Weighted average common shares outstanding | 150,679 | 149,604 | 150,509 | 149,555 |
| Net income | \$ 0.59 | \$ 0.21 | \$ 1.83 | \$ 0.91 |
| Diluted: | | | | |
| Weighted average common shares outstanding | 151,663 | 150,388 | 151,365 | 150,270 |
| Net income | \$ 0.58 | \$ 0.21 | \$ 1.82 | \$ 0.90 |
| Dividends declared per common share | \$ 0.03 | \$ 0.22 | \$ 0.09 | \$ 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 Consolidated Comprehensive Income (Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|-------------|------------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Thousands) | | | |
| Net income | \$ 102,610 | \$ 36,704 | \$ 306,009 | \$ 140,185 |
| Other comprehensive income (loss), net of tax: | | | | |
| Net change in cash flow hedges: | | | | |
| Natural gas, net of tax benefit of (\$5,448), \$(62,383), \$(15,595) and \$(65,488) | (8,287) | (96,680) | (23,782) | (101,394) |
| Interest rate, net of tax expense (benefit) of \$25, (\$1,322), \$75 and (\$4,487) | 36 | (1,734) | 108 | (5,902) |
| Pension and other post-retirement benefits liability adjustment, net of tax expense of \$307, \$369, \$920 and \$583 | 433 | 455 | 1,302 | 1,891 |
| Other comprehensive loss | (7,818) | (97,959) | (22,372) | (105,405) |
| Comprehensive income (loss) | 94,792 | (61,255) | 283,637 | 34,780 |
| Less: Comprehensive income attributable to noncontrolling interests | 14,354 | 4,831 | 30,642 | 4,831 |
| Comprehensive income (loss) attributable to EQT Corporation | \$ 80,438 | \$ (66,086) | \$ 252,995 | \$ 29,949 |

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, | |
|---|------------------------------------|-------------|
| | 2013 | 2012 |
| | (Thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 306,009 | \$ 140,185 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Deferred income taxes | 14,869 | 45,473 |
| Depreciation, depletion, and amortization | 493,341 | 354,817 |
| Provision for (recovery of) losses on accounts receivable | 986 | (3,187) |
| Other income | (6,846) | (13,841) |
| Stock-based compensation expense | 37,108 | 28,752 |
| Unrealized (gains) losses on derivatives and inventory | (2,310) | 3,140 |
| Lease impairment | 12,132 | 1,159 |
| Noncash financial instrument put premiums | | 8,227 |
| Changes in other assets and liabilities: | | |
| Dividend from Nora Gathering, LLC | 9,000 | 7,750 |
| Accounts receivable and unbilled revenues | 37,826 | 50,870 |
| Inventory | 13,014 | 35,981 |
| Prepaid expenses and other | 12,473 | (6,479) |
| Accounts payable | 17,168 | (10,001) |
| Accrued interest | 27,030 | 28,285 |
| Other items, net | 35,300 | (1,161) |
| Net cash provided by operating activities | 1,007,100 | 669,970 |
| Cash flows from investing activities: | | |
| Capital expenditures | (1,259,634) | (1,023,503) |
| Proceeds from sale of assets | | 4,842 |
| Net cash used in investing activities | (1,259,634) | (1,018,661) |
| Cash flows from financing activities: | | |
| Proceeds from the issuance of common units of EQT Midstream Partners, LP, net of issuance costs | 529,442 | 276,780 |
| Dividends paid | (13,565) | (98,840) |
| Distributions to noncontrolling interests | (21,160) | |
| Repayments and retirements of long-term debt | (23,204) | (19,315) |
| Proceeds and tax benefits from exercises under employee compensation plans | 22,863 | 1,831 |
| Revolving credit facility origination fees | | (4,022) |
| Net cash provided by financing activities | 494,376 | 156,434 |
| Net change in cash and cash equivalents | 241,842 | (192,257) |
| Cash and cash equivalents at beginning of period | 182,055 | 831,251 |
| Cash and cash equivalents at end of period | \$ 423,897 | \$ 638,994 |
| Cash paid during the period for: | | |
| Interest, net of amount capitalized | \$ 83,660 | \$ 93,872 |
| Income taxes, net | \$ 76,669 | \$ 17,193 |

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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, 2013 | December 31, 2012 |
|--|-----------------------|----------------------|
| | (Thousands) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 423,897 | \$ 182,055 |
| Accounts receivable (less accumulated provision for doubtful accounts of \$10,104 at September 30, 2013 and \$12,586 at December 31, 2012) | 186,061 | 205,479 |
| Unbilled revenues | 8,305 | 27,699 |
| Inventory | 67,911 | 76,787 |
| Derivative instruments, at fair value | 203,002 | 304,237 |
| Prepaid expenses and other | 44,115 | 56,588 |
| Total current assets | 933,291 | 852,845 |
| Equity in nonconsolidated investments | 127,185 | 130,368 |
| Property, plant and equipment | 11,374,145 | 10,139,903 |
| Less: accumulated depreciation and depletion | 2,897,981 | 2,424,605 |
| Net property, plant and equipment | 8,476,164 | 7,715,298 |
| Regulatory assets | 113,475 | 111,915 |
| Other assets | 32,137 | 39,436 |
| Total assets | \$ 9,682,252 | \$ 8,849,862 |

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)**

| | September 30, 2013 | December 31, 2012 |
|--|-------------------------------|------------------------------|
| | (Thousands) | |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 6,162 | \$ 23,204 |
| Accounts payable | 306,200 | 289,032 |
| Derivative instruments, at fair value | 18,353 | 75,562 |
| Other current liabilities | 209,967 | 182,667 |
| Total current liabilities | 540,682 | 570,465 |
| Long-term debt | 2,495,717 | 2,502,969 |
| Deferred income taxes and investment tax credits | 1,670,562 | 1,666,029 |
| Other credits | 239,968 | 221,597 |
| Total liabilities | 4,946,929 | 4,961,060 |
| Equity: | | |
| Stockholders equity: | | |
| Common stock, no par value, authorized 320,000 shares, shares issued: 175,684 at September 30, 2013 and December 31, 2012 | 1,827,413 | 1,770,545 |
| Treasury stock, shares at cost: 24,968 at September 30, 2013 and 25,575 at December 31, 2012 | (450,786) | (461,774) |
| Retained earnings | 2,457,304 | 2,195,502 |
| Accumulated other comprehensive income | 77,175 | 99,547 |
| Total common stockholders equity | 3,911,106 | 3,603,820 |
| Noncontrolling interests in consolidated subsidiaries | 824,217 | 284,982 |
| Total equity | 4,735,323 | 3,888,802 |
| Total liabilities and equity | \$ 9,682,252 | \$ 8,849,862 |

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 Shares Outstanding | No Par Value | Retained Earnings | Accumulated Other Comprehensive Income (Thousands) | Noncontrolling Interests in Consolidated Subsidiaries | Total Equity |
|---|---------------------------------------|-----------------|----------------------|--|--|-----------------|
| Balance, January 1, 2012 | 149,477 | \$ 1,261,779 | \$ 2,143,910 | \$ 188,141 | \$ | \$ 3,593,830 |
| Net income | | | 135,354 | | 4,831 | 140,185 |
| Other comprehensive loss | | | | (105,405) | | (105,405) |
| Dividends on common stock (\$0.66 per share) | | | (98,840) | | | (98,840) |
| Stock-based compensation plans, net | 136 | 35,688 | | | 162 | 35,850 |
| Issuance of common units of EQT Midstream Partners, LP | | | | | 276,780 | 276,780 |
| Deferred taxes related to initial public offering of EQT Midstream Partners, LP | | 5,371 | | | | 5,371 |
| Balance, September 30, 2012 | 149,613 | \$ 1,302,838 | \$ 2,180,424 | \$ 82,736 | \$ 281,773 | \$ 3,847,771 |
| Balance, January 1, 2013 | 150,109 | \$ 1,308,771 | \$ 2,195,502 | \$ 99,547 | \$ 284,982 | \$ 3,888,802 |
| Net income | | | 275,367 | | 30,642 | 306,009 |
| Other comprehensive loss | | | | (22,372) | | (22,372) |
| Dividends on common stock (\$0.09 per share) | | | (13,565) | | | (13,565) |
| Stock-based compensation plans, net | 607 | 69,497 | | | 311 | 69,808 |
| Distributions to noncontrolling interests (\$1.12 per common unit) | | | | | (21,160) | (21,160) |
| Issuance of common units of EQT Midstream Partners, LP | | | | | 529,442 | 529,442 |
| Deferred taxes related to public offering of common units of EQT Midstream Partners, LP | | (1,641) | | | | (1,641) |
| Balance, September 30, 2013 | 150,716 | \$ 1,376,627 | \$ 2,457,304 | \$ 77,175 | \$ 824,217 | \$ 4,735,323 |

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 (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 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 September 30, 2013 and December 31, 2012, the results of its operations for the three and nine month periods ended September 30, 2013 and 2012 and its cash flows for the nine month periods ended September 30, 2013 and 2012. In this Form 10-Q, references to we, us, our, EQT, EQT Corporation, and the Company refer collectively to EQT Corporation and its consolidated subsidiaries.

The balance sheet at December 31, 2012 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 seasonal nature of the Company's natural gas distribution and storage businesses and the volatility of commodity prices, the interim financial statements for the three and nine month periods ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

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, 2012 as well as Management's Discussion and Analysis of Financial Condition and Results of Operations of this Form 10-Q.

B. EQT Midstream Partners, LP

On July 2, 2012, EQT Midstream Partners, LP (the Partnership), a subsidiary of the Company, completed an underwritten initial public offering (IPO) of 14,375,000 common units representing limited partner interests in the Partnership, which represented 40.6% of the Partnership's outstanding equity. The Company retained a 59.4% equity interest in the Partnership, including 2,964,718 common units, 17,339,718 subordinated units and a 2% general partner interest. Prior to the IPO, the Company contributed to the Partnership 100% of Equitrans, L.P. (Equitrans, the Company's Federal Energy Regulatory Commission regulated transmission, storage and gathering subsidiary). An indirect wholly-owned subsidiary of the Company serves as the general partner of the Partnership, and the Company continues to operate the Equitrans business pursuant to contractual arrangements entered into in connection with the closing of the IPO. The Company continues to consolidate the results of the Partnership but records an income tax provision only as to the Company's ownership percentage. The Company records the noncontrolling interest of the public limited partners in the Company's financial statements.

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On July 15, 2013, the Company and Sunrise Pipeline, LLC (Sunrise), a subsidiary of the Company, entered into an Agreement and Plan of Merger with the Partnership and Equitrans. Effective July 22, 2013, Sunrise merged with and into Equitrans, with Equitrans continuing as the surviving company. The Company received consideration consisting of a \$507.5 million cash payment, 479,184 common units of the Partnership and 267,942 general partner units of the Partnership. Prior to the merger, Sunrise entered into a precedent agreement with a third party for firm transportation service over a twenty-year term. If a transportation agreement pursuant to this precedent agreement becomes effective on its current terms by December 31, 2014, the Partnership will make an additional payment of approximately \$110 million to the Company. The transportation agreement is subject to review by regulatory authorities, which is expected to be completed by the end of 2013. The Partnership will also pay the Company additional consideration in the event certain other transportation agreements on the Sunrise system become effective prior to December 31, 2014. While the Company did not record a gain for accounting purposes as a result of the Sunrise transaction, the Company recognized a taxable gain for federal income tax purposes of approximately \$475 million in 2013. After offsetting the federal income tax gain with intangible drilling cost deductions and accelerated tax depreciation from 2013 and net operating losses from prior years, the Company's cash taxes will increase by approximately \$57 million in 2013 as a result of the transaction.

On July 22, 2013, the Partnership completed an underwritten public offering of 12,650,000 common units representing limited partner interests in the Partnership. Following the offering and the closing of the merger, the

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EQT Corporation and Subsidiaries

Notes to Condensed Consolidated Financial Statements (Unaudited)

Company retained a 44.6% equity interest in the Partnership, which includes 3,443,902 common units, 17,339,718 subordinated units and a 2% general partner interest. The Partnership received net proceeds of \$529.4 million from the offering, after deducting the underwriters' discount and offering expenses of approximately \$21 million.

Net income to noncontrolling interests, (i.e. the limited partnership units not owned by the Company) was \$14.4 million and \$30.6 million for the three and nine month periods ended September 30, 2013, respectively, and \$4.8 million for the three and nine month periods ended September 30, 2012. The Partnership paid distributions of \$10.8 million to noncontrolling interests of \$0.40 per common unit and \$21.2 million to noncontrolling interests of \$1.12 per common unit during the three and nine month periods ended September 30, 2013, respectively.

C. Segment Information

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 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, 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. Distribution's operations primarily comprise 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. Other income, interest and income taxes are managed on a consolidated basis. Headquarters' costs are billed to the operating segments based on a fixed allocation of the headquarters' annual operating budget. Differences between budget and actual headquarter expenses are not allocated to the operating segments.

As described in Note I, the Company and its direct wholly-owned subsidiary, Distribution Holdco, LLC (Holdco), executed a definitive agreement (the Master Purchase Agreement) with PNG Companies LLC (PNG Companies), the parent company of Peoples Natural Gas Company LLC (Peoples), pursuant to which the Company and Holdco will transfer 100% of their ownership interests of Equitable Gas Company, LLC (Equitable Gas) and Equitable Homeworks, LLC (Homeworks) to PNG Companies in exchange for cash and other assets of, and new commercial arrangements with, PNG Companies and its affiliates. Homeworks and Equitable Gas are direct wholly-owned subsidiaries of Holdco and comprise substantially all of the Distribution segment. The transaction is subject to approval by a number of federal and state regulatory agencies. Once the Company makes satisfactory progress in the regulatory process, the Distribution operating segment is expected to be classified as a discontinued operation in the Company's financial statements.

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2013 | 2012 | 2013 | 2012 |
| | (Thousands) | | | |
| Revenues from external customers: | | | | |
| EQT Production | \$ 304,231 | \$ 195,289 | \$ 860,874 | \$ 549,334 |
| EQT Midstream | 155,677 | 120,484 | 452,731 | 362,630 |
| Distribution | 36,118 | 35,649 | 246,281 | 219,343 |
| Third-party transportation costs (a) | 34,316 | 33,947 | 104,884 | 91,624 |
| Less intersegment revenues, net (b) | (23,744) | (21,312) | (79,420) | (71,110) |
| Total | \$ 506,598 | \$ 364,057 | \$ 1,5 | |