

NATIONAL FUEL GAS CO  
Form 10-Q/A  
September 14, 2006

---

United States  
Securities and Exchange Commission  
Washington, D.C. 20549

**Form 10-Q/A**

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

For the quarterly period ended June 30, 2006

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 1-3880

**National Fuel Gas Company**

(Exact name of registrant as specified in its charter)

New Jersey  
(State or other jurisdiction of  
incorporation or organization)

13-1086010  
(I.R.S. Employer  
Identification No.)

6363 Main Street  
Williamsville, New York  
(Address of principal executive offices)

14221  
(Zip Code)

(716) 857-7000  
(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 and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):  
Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common stock, \$1 par value, outstanding at July 31, 2006: **83,400,866** shares.

1

#### Explanatory Note

National Fuel Gas Company (the Company) inadvertently omitted a digit from a number in the Consolidated Statement of Cash Flows for the nine months ended June 30, 2005 when it filed a Form 10-Q for the quarterly period ended June 30, 2006 on August 4, 2006. The Change in Accounts Payable on the Consolidated Statement of Cash Flows for the nine months ended June 30, 2005 was erroneously reported as \$3,886 instead of the correct amount of \$23,886 (both amounts are in thousands of dollars). All other amounts on the Consolidated Statement of Cash Flows were correct as originally reported. This amendment includes Part I Item 1, Part II Item 6 and Exhibits 31.1, 31.2 and 32. This amendment is accurate as of the date of the Company's originally filed Form 10-Q and has not been updated to reflect any events that occurred subsequent to August 4, 2006. The Company is including currently dated certifications as listed in revised Item 6 of Part II of this Form 10-Q/A.

2

### **Part I. Financial Information**

#### **Item 1. Financial Statements**

National Fuel Gas Company  
Consolidated Statements of Income and Earnings  
Reinvested in the Business  
(Unaudited)

(Thousands of Dollars, Except Per Common Share Amounts)	Three Months June 2006
INCOME	
<b>Operating Revenues</b>	\$415,452
<b>Operating Expenses</b>	
Purchased Gas	184,635
Operation and Maintenance	96,117
Property, Franchise and Other Taxes	16,845
Depreciation, Depletion and Amortization	46,943
Impairment of Oil and Gas Producing Properties	62,371
	406,911
<b>Operating Income</b>	8,541
<b>Other Income (Expense):</b>	
Income from Unconsolidated Subsidiaries	215
Interest Income	2,203
Other Income	546
Interest Expense on Long-Term Debt	(18,135)
Other Interest Expense	(1,026)

Edgar Filing: NATIONAL FUEL GAS CO - Form 10-Q/A

<b>Income (Loss) from Continuing Operations Before</b>	
<b>Income Taxes</b>	(7,656)
Income Tax Expense (Benefit)	(7,767)
-----	
<b>Income from Continuing Operations</b>	111
-----	
<b>Loss from Discontinued Operations, Net of Tax</b>	-
-----	
<b>Net Income Available for Common Stock</b>	111
-----	
EARNINGS REINVESTED IN THE BUSINESS	
Balance at April 1	877,599
-----	
Share Repurchases	877,710
Dividends on Common Stock	44,766
(2006 - \$0.30 per share; 2005 - \$0.29 per share)	24,993
-----	
<b>Balance at June 30</b>	\$807,951
=====	
<b>Earnings Per Common Share:</b>	
Basic:	
Income from Continuing Operations	\$ -
Loss from Discontinued Operations	-
-----	
<b>Net Income Available for Common Stock</b>	\$ -
=====	
Diluted:	
Income from Continuing Operations	\$ -
Loss from Discontinued Operations	-
-----	
<b>Net Income Available for Common Stock</b>	\$ -
=====	
<b>Weighted Average Common Shares Outstanding:</b>	
Used in Basic Calculation	84,013,556
-----	
Used in Diluted Calculation	86,016,131
=====	

See Notes to Condensed Consolidated Financial Statements

**Item 1. Financial Statements (Cont.)**

National Fuel Gas Company  
Consolidated Statements of Income and Earnings  
Reinvested in the Business  
(Unaudited)

(Thousands of Dollars, Except Per Common Share Amounts)

Nine Mon  
Jun  
2006

Edgar Filing: NATIONAL FUEL GAS CO - Form 10-Q/A

INCOME

<b>Operating Revenues</b>	\$2,017,189
<hr/>	
<b>Operating Expenses</b>	
Purchased Gas	1,187,952
Operation and Maintenance	320,821
Property, Franchise and Other Taxes	54,147
Depreciation, Depletion and Amortization	134,267
Impairment of Oil and Gas Producing Properties	62,371
	<hr/> 1,759,558 <hr/>
<b>Operating Income</b>	257,631
<b>Other Income (Expense):</b>	
Income from Unconsolidated Subsidiaries	2,199
Interest Income	4,301
Other Income	1,535
Interest Expense on Long-Term Debt	(54,502)
Other Interest Expense	(4,266)
	<hr/>
<b>Income from Continuing Operations Before Income Taxes</b>	206,898
Income Tax Expense	70,775
	<hr/>
<b>Income from Continuing Operations</b>	136,123
	<hr/>
<b>Income from Discontinued Operations, Net of Tax</b>	-
	<hr/>
<b>Net Income Available for Common Stock</b>	136,123
	<hr/>
EARNINGS REINVESTED IN THE BUSINESS	
Balance at October 1	813,020
	<hr/>
Share Repurchases	949,143
Dividends on Common Stock (2006 - \$0.88; 2005 - \$0.85)	67,384
	<hr/> 73,808 <hr/>
<b>Balance at June 30</b>	\$807,951
	<hr/> <hr/>
<b>Earnings Per Common Share:</b>	
Basic:	
Income from Continuing Operations	\$1.62
Income from Discontinued Operations	-
	<hr/>
<b>Net Income Available for Common Stock</b>	\$1.62
	<hr/> <hr/>
Diluted:	
Income from Continuing Operations	\$1.58
Income from Discontinued Operations	-
	<hr/>
<b>Net Income Available for Common Stock</b>	\$1.58
	<hr/> <hr/>
<b>Weighted Average Common Shares Outstanding:</b>	
Used in Basic Calculation	84,231,490
	<hr/>
Used in Diluted Calculation	86,150,927

See Notes to Condensed Consolidated Financial Statements

4

**Item 1. Financial Statements (Cont.)**

National Fuel Gas Company  
Consolidated Balance Sheets  
(Unaudited)

June 30,  
2006

(Thousands of Dollars)

## ASSETS

**Property, Plant and Equipment**

\$4,638,247

Less - Accumulated Depreciation, Depletion  
and Amortization

1,753,147

-----  
2,885,100

**Current Assets**

Cash and Temporary Cash Investments

121,626

Hedging Collateral Deposits

14,684

Receivables - Net of Allowance for Uncollectible Accounts of  
\$34,097 and \$26,940, Respectively

233,150

Unbilled Utility Revenue

15,529

Gas Stored Underground

40,803

Materials and Supplies - at average cost

35,925

Unrecovered Purchased Gas Costs

-

Prepayments and Other Current Assets

43,681

Deferred Income Taxes

51,239

-----  
556,637

**Other Assets**

Recoverable Future Taxes

84,667

Unamortized Debt Expense

16,000

Other Regulatory Assets

60,134

Deferred Charges

5,715

Other Investments

87,291

Investments in Unconsolidated Subsidiaries

10,206

Goodwill

5,476

Intangible Assets

40,305

Fair Value of Derivative Financial Instruments

8,266

Other

5,728

-----  
323,788

**Total Assets****\$3,765,525**

See Notes to Condensed Consolidated Financial Statements

5

**Item 1. Financial Statements (Cont.)**

National Fuel Gas Company  
Consolidated Balance Sheets  
(Unaudited)

June 30,  
2006

(Thousands of Dollars)

## CAPITALIZATION AND LIABILITIES

**Capitalization:****Comprehensive Shareholders' Equity**

Common Stock, \$1 Par Value	
Authorized - 200,000,000 Shares; Issued and Outstanding - 83,309,093 Shares and 84,356,748 Shares, Respectively	\$ 83,309
Paid in Capital	553,081
Earnings Reinvested in the Business	807,951

Total Common Shareholder Equity Before Items of Other Comprehensive Loss	1,444,341
Accumulated Other Comprehensive Loss	(102,611)

<b>Total Comprehensive Shareholders' Equity</b>	<b>1,341,730</b>
<b>Long-Term Debt, Net of Current Portion</b>	<b>1,111,746</b>

<b>Total Capitalization</b>	<b>2,453,476</b>
-----------------------------	------------------

**Current and Accrued Liabilities**

Notes Payable to Banks and Commercial Paper	-
Current Portion of Long-Term Debt	9,502
Accounts Payable	131,540
Amounts Payable to Customers	31,576
Dividends Payable	24,978
Other Accruals and Current Liabilities	104,350
Fair Value of Derivative Financial Instruments	75,239

377,185

**Deferred Credits**

Deferred Income Taxes	494,957
Taxes Refundable to Customers	11,073
Unamortized Investment Tax Credit	6,270
Cost of Removal Regulatory Liability	94,166
Other Regulatory Liabilities	58,376
Pension and Other Post-Retirement Liabilities	155,579

Edgar Filing: NATIONAL FUEL GAS CO - Form 10-Q/A

Asset Retirement Obligation	42,940
Other Deferred Credits	71,503
-----	
	934,864
-----	
<b>Commitments and Contingencies</b>	-
-----	
<b>Total Capitalization and Liabilities</b>	<b>\$3,765,525</b>
=====	

See Notes to Condensed Consolidated Financial Statements

6

**Item 1. Financial Statements (Cont.)**

National Fuel Gas Company  
Consolidated Statements of Cash Flows  
Unaudited

	Nine M J
(Thousands of Dollars)	2006
-----	
<b>OPERATING ACTIVITIES</b>	
Net Income Available for Common Stock	\$136,123
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:	
Impairment of Oil and Gas Producing Properties	62,371
Depreciation, Depletion and Amortization	134,267
Deferred Income Taxes	(17,430)
Income from Unconsolidated Subsidiaries, Net of Cash Distributions	2,452
Minority Interest in Foreign Subsidiaries	-
Excess Tax Benefits Associated with Stock-Based Compensation Awards	(6,515)
Other	(6,493)
Change in:	
Hedging Collateral Deposits	63,100
Receivables and Unbilled Utility Revenue	(72,496)
Gas Stored Underground and Materials and Supplies	21,098
Unrecovered Purchased Gas Costs	14,817
Prepayments and Other Current Assets	21,800
Accounts Payable	(24,650)
Amounts Payable to Customers	30,418
Other Accruals and Current Liabilities	49,950
Other Assets	(15,753)
Other Liabilities	16,855
-----	
<b>Net Cash Provided by Operating Activities</b>	<b>409,914</b>
-----	
<b>INVESTING ACTIVITIES</b>	
Capital Expenditures	(218,658)
Net Proceeds from Sale of Oil and Gas Producing Properties	4

Edgar Filing: NATIONAL FUEL GAS CO - Form 10-Q/A

Other	(1,578)
<b>Net Cash Used in Investing Activities</b>	<b>(220,232)</b>
<b>FINANCING ACTIVITIES</b>	
Change in Notes Payable to Banks and Commercial Paper	-
Excess Tax Benefits Associated with Stock-Based Compensation Awards	6,515
Shares Repurchased under Repurchase Plan	(76,540)
Reduction of Long-Term Debt	(7,157)
Dividends Paid on Common Stock	(73,275)
Dividends Paid to Minority Interest	-
Proceeds from Issuance of Common Stock	23,399
<b>Net Cash Used in Financing Activities</b>	<b>(127,058)</b>
<b>Effect of Exchange Rates on Cash</b>	<b>1,395</b>
<b>Net Increase (Decrease) in Cash and Temporary Cash Investments</b>	<b>64,019</b>
<b>Cash and Temporary Cash Investments at October 1</b>	<b>57,607</b>
<b>Cash and Temporary Cash Investments at June 30</b>	<b>\$121,626</b>

See Notes to Condensed Consolidated Financial Statements

7

**Item 1. Financial Statements (Cont.)**

National Fuel Gas Company  
Consolidated Statements of Comprehensive Income  
(Unaudited)

(Thousands of Dollars)	Three Months Ended June 30, 2006
Net Income Available for Common Stock	\$111
Other Comprehensive Income (Loss), Before Tax:	
Foreign Currency Translation Adjustment	8,292
Unrealized Gain on Securities Available for Sale Arising During the Period	1,126
Unrealized Loss on Derivative Financial Instruments Arising During the Period	(2,340)
Reclassification Adjustment for Realized Losses on Derivative Financial Instruments in Net Income	14,687
Other Comprehensive Income (Loss) Before Tax	21,765
Income Tax Benefit Related to Cumulative Translation	

Edgar Filing: NATIONAL FUEL GAS CO - Form 10-Q/A

Adjustment	-
Income Tax Expense (Benefit) Related to Unrealized Gain on Securities Available for Sale Arising During the Period	391
Income Tax Benefit Related to Unrealized Loss on Derivative Financial Instruments Arising During the Period	(931)
Reclassification Adjustment for Income Tax Benefit on Realized Losses on Derivative Financial Instruments In Net Income	5,668
<hr/>	
Income Taxes - Net	5,128
<hr/>	
Other Comprehensive Income (Loss)	16,637
<hr/>	
Comprehensive Income	\$16,748
<hr/>	
	Nine Months E
	June 30,
(Thousands of Dollars)	2006
<hr/>	
Net Income Available for Common Stock	\$136,123
<hr/>	
Other Comprehensive Income (Loss), Before Tax:	
Foreign Currency Translation Adjustment	7,556
Unrealized Gain on Securities Available for Sale Arising During the Period	3,388
Unrealized Gain (Loss) on Derivative Financial Instruments Arising During the Period	60,275
Reclassification Adjustment for Realized Gains on Securities Available for Sale in Net Income	-
Reclassification Adjustment for Realized Losses on Derivative Financial Instruments in Net Income	78,412
<hr/>	
Other Comprehensive Income (Loss) Before Tax	149,631
<hr/>	
Income Tax Expense Related to Cumulative Translation Adjustment	-
Income Tax Expense Related to Unrealized Gain on Securities Available for Sale Arising During the Period	1,183
Income Tax Expense (Benefit) Related to Unrealized Gain (Loss) On Derivative Financial Instruments Arising During the Period	23,178
Reclassification Adjustment for Income Tax Expense on Realized Gains from Securities Available for Sale in Net Income	-
Reclassification Adjustment for Income Tax Benefit on Realized Losses on Derivative Financial Instruments In Net Income	30,253
<hr/>	
Income Taxes - Net	54,614
<hr/>	
Other Comprehensive Income (Loss)	95,017
<hr/>	
Comprehensive Income	\$231,140
<hr/>	

See Notes to Condensed Consolidated Financial Statements

**Item 1. Financial Statements (Cont.)**

National Fuel Gas Company

Notes to Condensed Consolidated Financial Statements

(Unaudited)

**Note 1 Summary of Significant Accounting Policies**

**Principles of Consolidation.** The Company consolidates its majority owned entities. The equity method is used to account for minority owned entities. All significant intercompany balances and transactions are eliminated.

The preparation of the consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Earnings for Interim Periods.** The Company, in its opinion, has included all adjustments that are necessary for a fair statement of the results of operations for the reported periods. The consolidated financial statements and notes thereto, included herein, should be read in conjunction with the financial statements and notes for the years ended September 30, 2005, 2004 and 2003 that are included in the 2005 Form 10-K. The consolidated financial statements for the year ended September 30, 2006 will be audited by the Company's independent registered public accounting firm after the end of the fiscal year.

The earnings for the nine months ended June 30, 2006 should not be taken as a prediction of earnings for the entire fiscal year ending September 30, 2006. Most of the business of the Utility and Energy Marketing segments is seasonal in nature and is influenced by weather conditions. Due to the seasonal nature of the heating business in the Utility and Energy Marketing segments, earnings during the winter months normally represent a substantial part of the earnings that those segments are expected to achieve for the entire fiscal year.

**Consolidated Statement of Cash Flows.** For purposes of the Consolidated Statement of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity of generally three months or less to be cash equivalents.

**Hedging Collateral Deposits.** Cash held in margin accounts serve as collateral for open positions on exchange-traded futures contracts, exchange-traded options and over-the-counter swaps and collars.

**Gas Stored Underground Current.** In the Utility segment, gas stored underground current is carried at lower of cost or market, on a LIFO method. Gas stored underground current normally declines during the first and second quarters of the year and is replenished during the third and fourth quarters. In the Utility segment, the current cost of replacing gas withdrawn from storage is recorded in the Consolidated Statements of Income and a reserve for gas replacement is recorded in the Consolidated Balance Sheets under the caption Other Accruals and Current Liabilities. Such reserve, which amounted to \$50.0 million at June 30, 2006, is reduced to zero by September 30 as the inventory is replenished.

**Property, Plant and Equipment.** Oil and gas property acquisition, exploration and development costs are capitalized under the full-cost method of accounting. All costs directly associated with property acquisition, exploration and development activities are capitalized, up to certain specified limits. If capitalized costs exceed these limits at the end of any quarter, a permanent impairment is required to be charged to earnings in that quarter. The Company's capitalized costs exceeded the full-cost ceiling for the Company's Canadian properties at June 30, 2006. As such, the

Company recognized an impairment of \$62.4 million at June 30, 2006.

**Accumulated Other Comprehensive Income (Loss).** The components of Accumulated Other Comprehensive Income (Loss), net of related tax effect, are as follows (in thousands):

9

---

**Item 1. Financial Statements (Cont.)**

	At June 30, 2006	At Se
	-----	-----
Minimum Pension Liability Adjustment	\$ (107,844)	
Cumulative Foreign Currency Translation Adjustment	35,565	
Net Unrealized Loss on Derivative Financial Instruments	(38,083)	
Net Unrealized Gain on Securities Available for Sale	7,751	
	-----	
Accumulated Other Comprehensive Loss	\$ (102,611)	
	=====	

**Earnings Per Common Share.** Basic earnings per common share is computed by dividing income available for common stock by the weighted average number of common shares outstanding for the period. Diluted earnings per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock. For purposes of determining earnings per common share, the only potentially dilutive securities the Company has outstanding are stock options. The diluted weighted average shares outstanding shown on the Consolidated Statements of Income reflects the potential dilution as a result of these stock options as determined using the Treasury Stock Method. Stock options that are antidilutive are excluded from the calculation of diluted earnings per common share. For the quarters ended June 30, 2006 and 2005, 171,429 and 657,769 stock options, respectively, were excluded as being antidilutive. For the nine months ended June 30, 2006 and 2005, 57,143 and 226,322 stock options, respectively, were excluded as being antidilutive.

**Share Repurchases.** The Company considers all shares repurchased as cancelled shares restored to the status of authorized but unissued shares, in accordance with New Jersey law. The repurchases are accounted for on the date the share repurchase is settled as an adjustment to common stock (at par value) with the excess repurchase price allocated between paid in capital and retained earnings. Refer to Note 3 Capitalization for further discussion of the share repurchase program.

**Stock-Based Compensation.** The Company has various stock option and stock award plans which provide or provided for the issuance of one or more of the following to key employees: incentive stock options, nonqualified stock options, restricted stock, performance units or performance shares. Stock options under all plans have exercise prices equal to the average market price of Company common stock on the date of grant, and generally no option is exercisable less than one year or more than ten years after the date of each grant. Restricted stock is subject to restrictions on vesting and transferability. Restricted stock awards entitle the participants to full dividend and voting rights. Certificates for shares of restricted stock awarded under the Company's stock option and stock award plans are held by the Company during the periods in which the restrictions on vesting are effective. Restrictions on restricted stock awards generally lapse ratably over a period of not more than ten years after the date of each grant.

Prior to October 1, 2005, the Company accounted for its stock-based compensation under the recognition and measurement principles of APB 25 and related interpretations. Under that method, no compensation expense was recognized for options granted under the Company's stock option and stock award plans. The Company did record, in accordance with APB 25, compensation expense for the market value of restricted stock on the date of the award over the periods during which the vesting restrictions existed.

Effective October 1, 2005, the Company adopted SFAS 123R, which requires the measurement and recognition of compensation cost at fair value for all share-based payments, including stock options. The Company has chosen to use the modified version of prospective application, as allowed by SFAS 123R. Using the modified prospective application, the Company is recording compensation cost for the portion of awards granted prior to October 1, 2005 for which the requisite service had not been rendered and is recognizing such compensation cost as the requisite service is rendered on or after October 1, 2005. Such compensation expense is based on the grant-date fair value of the awards as calculated for the Company's disclosure using a Binomial option-pricing model under SFAS 123. Any new awards, modifications to awards, repurchases of awards, or cancellations of awards subsequent to September 30, 2005 will follow the provisions of SFAS 123R, with compensation expense being calculated using the

---

### **Item 1. Financial Statements (Cont.)**

Black-Scholes-Merton closed form model. The Company has chosen the Black-Scholes-Merton closed form model since it is easier to administer than the Binomial option-pricing model. Furthermore, since the Company does not have complex stock-based compensation awards, it does not believe that compensation expense would be materially different under either model. There were 300,000 stock-based compensation awards granted during the quarter and nine months ended June 30, 2006. There were 57,000 and 700,000 stock options granted during the quarter and nine months ended June 30, 2005, respectively. Stock-based compensation expense for the quarters ended June 30, 2006 and June 30, 2005 totaled approximately \$978,000 (\$572,000 of which relates to the application of the non-substantive vesting period approach discussed below) and \$101,000, respectively. Stock-based compensation expense for the nine months ended June 30, 2006 and June 30, 2005 was approximately \$1,261,000 (\$572,000 of which relates to the application of the non-substantive vesting period approach discussed below) and \$416,000, respectively. Stock-based compensation expense is included in operation and maintenance expenses in the consolidated statement of income. The total income tax benefit related to stock-based compensation expense during the quarters ended June 30, 2006 and June 30, 2005 was approximately \$362,000 and \$40,000, respectively. The total income tax benefit related to stock-based compensation expense during the nine months ended June 30, 2006 and June 30, 2005 was approximately \$474,000 and \$166,000, respectively. There were no capitalized stock-based compensation costs during the quarters ended June 30, 2006 and June 30, 2005.

Prior to the adoption of SFAS 123R, the Company followed the nominal vesting period approach under the disclosure requirements of SFAS 123 for determining the vesting period for awards with retirement eligible provisions, which recognized stock-based compensation expense over the nominal vesting period. As a result of the adoption of SFAS 123R, the Company currently applies the non-substantive vesting period approach for determining the vesting period of such awards. Under this approach, the retention of the award is not contingent on providing subsequent service and the vesting period would begin at the grant date and end at the retirement-eligible date. For the quarter and nine months ended June 30, 2006, the Company recognized an additional \$572,000 (\$372,000 net of tax) of stock-based compensation expense by applying the non-substantive vesting approach for awards granted in the quarter ended June 30, 2006. For the quarter ended June 30, 2005, stock-based compensation expense would have been \$2,449,000 (\$1,592,000 net of tax) for pro forma recognition purposes had the non-substantive vesting period approach been used. The pro forma stock-based compensation expense would remain unchanged under the non-substantive vesting period approach for the nine months ended June 30, 2005. Pro forma stock-based compensation expense following the nominal vesting period approach is shown in the table below.

The following table illustrates the effect on net income and earnings per share of the Company had the Company applied the fair value recognition provisions of SFAS 123 relating to stock-based employee compensation for the three and nine months ended June 30, 2005:

11

**Item 1. Financial Statements (Cont.)**

(Thousands of Dollars, Except Per Common Share Amounts)	Three Months Ended June 30, 2005	Nine Mo Jun 2
	-----	-----
Net Income, Available for Common Stock, as Reported	\$19,156	
Add:		
Stock-Based Employee Compensation Expense Included in Reported Net Income, Net of Tax (1)	66	
Deduct:		
Total Stock-Based Employee Compensation Expense Determined Under Fair Value Based Method for all Awards, Net of Related Tax Effects	(2,073)	
	-----	
Pro Forma Net Income Available For Common Stock	\$17,149	
	=====	
Earnings Per Common Share:		
Basic - As Reported	\$0.23	
Basic - Pro Forma	\$0.21	
Diluted - As Reported	\$0.23	
Diluted - Pro Forma	\$0.20	

- (1) Stock-based compensation expense in 2005 represented compensation expense related to restricted stock awards. The pre-tax expense was \$101,000 and \$416,000, respectively, for the quarter and nine months ended June 30, 2005.

**Stock Options**

Transactions during the nine months ended June 30, 2006 were as follows (in thousands, except option prices and years):

	Number of Options	Weighted Average Exercise Price
	-----	-----
Options Outstanding at September 30, 2005	10,997	\$ 23.78
Granted	-	-
Exercised	(178)	21.24
Forfeited	-	-
	-----	-----

Edgar Filing: NATIONAL FUEL GAS CO - Form 10-Q/A

Options Outstanding at December 31, 2005	10,819	23.82
Granted	-	-
Exercised	(330)	22.34
Forfeited	(3)	25.89
	-----	-----
Options Outstanding at March 31, 2006	10,486	23.87
Granted	300	35.11
Exercised	(1,037)	22.68
Forfeited	-	-
	-----	-----
Options Outstanding at June 30, 2006	9,749	\$ 24.34
	=====	=====
Options Exercisable at June 30, 2006	9,353	\$ 24.01
	=====	=====

12

**Item 1. Financial Statements (Cont.)**

The total intrinsic value of stock options exercised during the quarters ended June 30, 2006 and June 30, 2005 totaled approximately \$13.2 million and \$4.9 million, respectively. The amount of cash received by the Company from the exercise of such stock options was approximately \$17.7 million during the quarter ended June 30, 2006 and approximately \$7.3 million during the quarter ended June 30, 2005. The total intrinsic value of stock options exercised during the nine months ended June 30, 2006 and June 30, 2005 totaled approximately \$18.3 million and \$13.4 million, respectively. For the nine months ended June 30, 2006 and June 30, 2005, the amount of cash received by the Company from the exercise of stock options was approximately \$25.8 million and \$15.5 million, respectively. The Company realizes tax benefits related to the exercise of stock options on a calendar basis as opposed to a fiscal year basis. As such, for stock options exercised during the quarters ended December 31, 2005 and December 31, 2004, the Company realized a tax benefit of \$0.9 million and \$1.1 million, respectively. For stock options exercised during the period of January 1, 2006 through June 30, 2006, the Company will realize a tax benefit of approximately \$6.5 million in the quarter ended December 31, 2006. For stock options exercised during the period of January 1, 2005 through June 30, 2005, the Company realized a tax benefit of approximately \$3.8 million in the quarter ended December 31, 2005. The weighted average grant date fair value of options granted during the quarters ended June 30, 2006 and June 30, 2005 is \$6.67 per share and \$4.28 per share, respectively. For the nine months ended June 30, 2006, 150,664 stock options became fully vested. The total fair value of these stock options was approximately \$887,000. For the nine months ended June 30, 2005, 1,281,008 stock options became fully vested. The total fair value of these stock options was approximately \$5.8 million. As of June 30, 2006, unrecognized compensation expense related to stock options totaled approximately \$1.2 million, which will be recognized over a weighted average period of one year.

The fair value of options at the date of grant was estimated using a Binomial option-pricing model for options granted prior to October 1, 2005 and the Black-Scholes-Merton closed form model for options granted after September 30, 2005. The following weighted average assumptions were used in estimating the fair value of options at the date of grant:

	June 30,	
	-----	-----
	2006	2005
	----	----
Risk Free Interest Rate	4.79%	4.04%
Expected Life (years)	6.8	6.6
Expected Volatility	19.29%	21.16%
Expected Dividend Yield (Quarterly)	0.97%	1.10%

The risk-free interest rate is based on the yield of a Treasury Note with a remaining term commensurate with the expected term of the option. The expected life and expected volatility are based on historical experience.

For grants prior to October 1, 2005, the Company used a forfeiture rate of 13.6% for calculating stock-based compensation expense related to stock options and this rate is based on the Company's historical experience of forfeitures on unvested stock option grants. For the grant during the quarter ended June 30, 2006, it was assumed that there would be no forfeitures, based on the vesting term and the number of grantees.

### Restricted Share Awards

Transactions during the nine months ended June 30, 2006 were as follows (in thousands, except fair values):

13

### Item 1. Financial Statements (Cont.)

	Number of Restricted Share Awards -----
Restricted Share Awards Outstanding at September 30, 2005	65
Granted	-
Vested	(8)
Forfeited	-
	-----
Restricted Share Awards Outstanding at December 31, 2005	57
Granted	-
Vested	(25)
Forfeited	-
	-----
Restricted Share Awards Outstanding at March 31, 2006	32
Granted	16
Vested	-
Forfeited	-
	-----
Restricted Share Awards Outstanding at June 30, 2006	48 =====

As of June 30, 2006, unrecognized compensation expense related to restricted share awards totaled approximately \$650,000, which will be recognized over a weighted average period of 2.1 years.

On June 20, 2006, a modification was made to a restricted share award involving one employee. The modification accelerated the vesting date of 4,000 shares from December 7, 2006 to July 1, 2006. The incremental compensation expense, totaling approximately \$32,000, was included with the total stock-based compensation expense for the quarter and nine months ended June 30, 2006, as stated above.

**New Accounting Pronouncements.** In March 2005, the FASB issued FIN 47, an interpretation of SFAS 143. FIN 47 provides clarification of the term "conditional asset retirement obligation" as used in SFAS 143, defined as a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the Company. Under this standard, a company must record a liability for a conditional asset retirement obligation if the fair value of the obligation can be reasonably estimated. FIN 47 also serves to clarify when a company would have sufficient information to reasonably estimate the fair value of a conditional asset retirement obligation. FIN 47 becomes effective no later than the end of fiscal 2006. The Company is currently evaluating the impact of FIN 47 on its consolidated financial statements.

In May 2005, the FASB issued SFAS 154. SFAS 154 replaces APB 20 and SFAS 3 and changes the requirements for the accounting for and reporting of a change in accounting principle. The Company is required to adopt SFAS 154 for accounting changes and corrections of errors that occur in fiscal 2007. Early adoption is permitted. The Company's financial condition and results of operations will only be impacted by SFAS 154 if there are any accounting changes or corrections of errors in the future.

In June 2006, the FASB issued FIN 48, an interpretation of SFAS 109. FIN 48 clarifies the accounting for uncertainty in income taxes and reduces the diversity in current practice associated with the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return by defining a "more-likely-than-not" threshold regarding the sustainability of the position. The Company is required to adopt FIN 48 by the first quarter of fiscal 2008. The Company is currently evaluating the impact of FIN 48 on its consolidated financial statements.

---

## **Item 1. Financial Statements (Cont.)**

### **Note 2 Income Taxes**

The components of federal, state and foreign income taxes included in the Consolidated Statements of Income are as follows (in thousands):

	Nine Months June 2006
	-----
Operating Expenses:	
Current Income Taxes	
Federal	\$68,914
State	17,079
Foreign	2,212
Deferred Income Taxes	
Federal	2,427
State	1,519
Foreign	(21,376)
	-----
	70,775
Other Income:	
Deferred Investment Tax Credit	(523)
Discontinued Operations	-
	-----
Total Income Taxes	\$70,252
	=====

Edgar Filing: NATIONAL FUEL GAS CO - Form 10-Q/A

The U.S. and foreign components of income (loss) before income taxes are as follows (in thousands):

	Nine Month June 2006
U.S.	\$248,226
Foreign	(41,851)
	-----
	\$206,375
	=====

Total income taxes as reported differ from the amounts that were computed by applying the federal income tax rate to income before income taxes. The following is a reconciliation of this difference (in thousands):

	Nine Month June 2006
Income Tax Expense, Computed at Statutory Rate of 35%	\$72,231
Increase (Reduction) in Taxes Resulting From:	
State Income Taxes	12,089
Dividend from Foreign Subsidiary	-
Foreign Tax Differential	(5,211) (1)
Tax on Unremitted Earnings	-
Reversal of Capital Loss Valuation Allowance	(2,877)
Miscellaneous	(5,980) (2)
	-----
Total Income Taxes	\$70,252
	=====

- (1) Includes a \$5.1 million deferred tax benefit relating to additional future tax deductions forecasted in the Exploration and Production segment's Canadian division.
- (2) Includes a net reversal of \$3.2 million relating to a tax contingency reserve.

**Item 1. Financial Statements (Cont.)**

Significant components of the Company's deferred tax liabilities (assets) were as follows (in thousands):

	At June 30, 2006	At Sep 30, 2006
Deferred Tax Liabilities:		
Property, Plant and Equipment	\$577,695	577,695
Other	39,459	39,459
	-----	-----
Total Deferred Tax Liabilities	617,154	617,154
	-----	-----

Edgar Filing: NATIONAL FUEL GAS CO - Form 10-Q/A

Deferred Tax Assets:	
Minimum Pension Liability Adjustment	(58,070)
Capital Loss Carryover	(9,812)
Unrealized Hedging Losses	(21,042)
Other	(84,512)
	-----
	(173,436)
Valuation Allowance	-
	-----
Total Deferred Tax Assets	(173,436)
	-----
Total Net Deferred Income Taxes	\$443,718
	-----
Presented as Follows:	
Net Deferred Tax Asset - Current	\$ (51,239)
Net Deferred Tax Liability - Non-Current	494,957
	-----
Total Net Deferred Income Taxes	\$443,718
	=====

Regulatory liabilities representing the reduction of previously recorded deferred income taxes with rate-regulated activities that are expected to be refundable to customers amounted to \$11.1 million and \$11.0 million at June 30, 2006 and September 30, 2005, respectively. Also, regulatory assets representing future amounts collectible from customers, corresponding to additional deferred income taxes not previously recorded because of prior ratemaking practices, amounted to \$84.7 million and \$85.0 million at June 30, 2006 and September 30, 2005, respectively.

The American Jobs Creation Act of 2004 was signed into law on October 22, 2004. This legislation included a provision which provided a substantially reduced tax rate of 5.25% on certain dividends received from foreign affiliates. In the quarter ended June 30, 2005, the Company received a dividend of \$72.8 million from a foreign affiliate and recorded a tax of \$3.8 million on such dividend.

A capital loss carryover of \$28.0 million existed at June 30, 2006, which expires if not utilized by September 30, 2008. Although realization is not assured, management determined during this quarter that it is more likely than not that the entire deferred tax asset associated with this carryover will be realized during the carryover period. As such, the valuation allowance of \$2.877 million was reversed during the quarter.

### Note 3 Capitalization

**Common Stock.** During the nine months ended June 30, 2006, the Company issued 1,544,606 shares of common stock as a result of stock option exercises and 16,000 shares for restricted stock awards (non-vested stock as defined in SFAS 123R). The Company also issued 6,300 shares of common stock to the non-employee directors of the Company as partial consideration for the directors' services during the nine months ended June 30, 2006. Holders of stock options or restricted stock will often tender shares of common stock to the Company for payment of option exercise prices and/or applicable withholding taxes. During the nine months ended June 30, 2006, 330,211 shares of common stock were tendered to the Company for such purposes. The Company considers all shares tendered as cancelled shares restored to the status of authorized but unissued shares, in accordance with New Jersey law.

On December 8, 2005, the Company's board of directors authorized the Company to implement a share repurchase program, whereby the Company may repurchase outstanding shares of common stock, up to an aggregate amount of 8 million shares in the open market or through privately negotiated transactions. During the nine months ended June 30, 2006, the Company repurchased 2,284,350 shares

---

**Item 1. Financial Statements (Cont.)**

under this program, funded with cash provided by operating activities. At June 30, 2006, the Company had made commitments to repurchase an additional 49,000 shares of common stock. These commitments were settled and recorded as a reduction of the Company's outstanding shares of common stock in July 2006.

**Note 4 Commitments and Contingencies**

**Environmental Matters.** The Company is subject to various federal, state and local laws and regulations relating to the protection of the environment. The Company has established procedures for the ongoing evaluation of its operations to identify potential environmental exposures and comply with regulatory policies and procedures. It is the Company's policy to accrue estimated environmental clean-up costs (investigation and remediation) when such amounts can reasonably be estimated and it is probable that the Company will be required to incur such costs. At June 30, 2006, the Company has estimated its remaining clean-up costs related to former manufactured gas plant sites and third party waste disposal sites will be \$3.8 million. This liability has been recorded on the Consolidated Balance Sheet at June 30, 2006. The Company expects to recover its environmental clean-up costs from a combination of insurance proceeds and rate recovery. Other than as discussed in Note G of the Company's 2005 Form 10-K (referred to below), the Company is currently not aware of any material additional exposure to environmental liabilities. However, adverse changes in environmental regulations or other factors could impact the Company.

**Other.** The Company is involved in other litigation and regulatory matters arising in the normal course of business. These other matters may include, for example, negligence claims and tax, regulatory or other governmental audits, inspections, investigations or other proceedings. These matters may involve state and federal taxes, safety, compliance with regulations, rate base, cost of service, and purchased gas cost issues, among other things. While these normal-course matters could have a material effect on earnings and cash flows in the quarterly and annual period in which they are resolved, they are not expected to change materially the Company's present liquidity position, nor to have a material adverse effect on the financial condition of the Company.

**Note 5 Discontinued Operations**

On July 18, 2005, the Company completed the sale of its entire 85.16 percent interest in U.E., a district heating and electric generation business in the Bohemia region of the Czech Republic, to Czech Energy Holdings, a.s. for sales proceeds of approximately \$116.3 million. The sale resulted in the recognition of a gain of approximately \$25.8 million, net of tax, at September 30, 2005. Market conditions during 2005, including the increasing value of the Czech currency as compared to the U.S. dollar, caused the value of the assets of U.E. to increase, providing an opportunity to sell the U.E. operations at a profit for the Company. As a result of the decision to sell its majority interest in U.E., the Company began presenting the Czech Republic operations, which are primarily comprised of U.E., as discontinued operations in June 2005. U.E. was the major component of the Company's International segment. With this change in presentation, the Company discontinued all reporting for an International segment.

The following is selected financial information of the discontinued operations for U.E.:

**Item 1. Financial Statements (Cont.)**

(Thousands)	Three Months Ended	Nine Months Ended
	June 30, 2005	June 30, 2005
Operating Revenues	\$22,626	\$122,08
Operating Expenses	25,626	99,27
Operating Income (Loss)	(3,000)	22,81
Other Income	918	2,05
Interest Expense	(186)	(50)
Income (Loss) before Income Taxes and Minority Interest	(2,268)	24,36
Income Tax Expense	5,412	16,39
Minority Interest, Net of Taxes	(443)	2,89
Income (Loss) from Discontinued Operations	\$ (7,237)	\$5,07

**Note 6 Business Segment Information**

The Company has five reportable segments: Utility, Pipeline and Storage, Exploration and Production, Energy Marketing, and Timber. The division of the Company's operations into the reportable segments is based upon a combination of factors including differences in products and services, regulatory environment and geographic factors.

The data presented in the tables below reflect the reportable segments and reconciliations to consolidated amounts. As stated in the 2005 Form 10-K, the Company evaluates segment performance based on income before discontinued operations, extraordinary items and cumulative effects of changes in accounting (where applicable). When these items are not applicable, the Company evaluates performance based on net income. There have been no changes in the basis of segmentation nor in the basis of measuring segment profit or loss from those used in the Company's 2005 Form 10-K. There have been no material changes in the amount of assets for any operating segment from the amounts disclosed in the 2005 Form 10-K.

**Item 1. Financial Statements (Cont.)**

Quarter Ended June 30, 2006 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Other
Revenue from External Customers	\$186,661	\$30,750	\$86,600	\$94,747	\$15,311	\$414,069	\$1,1
Intersegment Revenues	\$2,514	\$20,298	\$-	\$-	\$4	\$22,816	\$1,3
Segment Profit (Loss):							

Edgar Filing: NATIONAL FUEL GAS CO - Form 10-Q/A

Net Income (Loss)           \$     827   \$12,642       \$(15,127)     \$ 1,045   \$ 1,529       \$     916     \$ (2

Nine Months Ended June 30, 2006 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Oth
Revenue from External Customers	\$1,154,375	\$104,835	\$257,406	\$446,367	\$51,377	\$2,014,360	\$2,
Intersegment Revenues	\$ 12,317	\$ 61,304	\$ -	\$ -	\$ 4	\$ 73,625	\$7,
Segment Profit (Loss):							
Net Income (Loss)	\$ 51,234	\$ 45,384	\$ 28,152	\$ 5,909	\$ 5,235	\$ 135,914	\$

Quarter Ended June 30, 2005 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Oth
Revenue from External Customers	\$189,175	\$29,642	\$77,370	\$88,048	\$15,028	\$399,263	\$1,0
Intersegment Revenues	\$ 2,734	\$20,956	\$ -	\$ -	\$ -	\$ 23,690	\$1,7
Segment Profit (Loss):							
Income (Loss) from Continuing Operations	\$ (1,684)	\$10,843	\$13,830	\$ 1,548	\$ 555	\$ 25,092	\$ 2

Nine Months Ended June 30, 2005 (Thousands)

	Utility	Pipeline and Storage	Exploration and Production	Energy Marketing	Timber	Total Reportable Segments	All Oth
Revenue from External Customers	\$991,651	\$98,117	\$219,527	\$276,106	\$46,994	\$1,632,395	\$4,
Intersegment Revenues	\$ 12,732	\$63,071	\$ -	\$ -	\$ 1	\$ 75,804	\$6,
Segment Profit (Loss):							
Income (Loss) from Continuing Operations	\$ 45,269	\$41,577	\$ 38,984	\$ 4,909	\$ 4,201	\$ 134,940	\$1,

**Item 1. Financial Statements (Cont.)****Note 7 Intangible Assets**

The components of the Company's intangible assets were as follows (in thousands):

	At June 30, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible Assets Subject to Amortization			
Long-Term Transportation Contracts	\$8,580	\$ (3,653)	\$4,927
Long-Term Gas Purchase Contracts	31,864	(4,628)	27,236
Intangible Assets Not Subject to Amortization			
Retirement Plan Intangible Asset	8,142	-	8,142
	<u>\$48,586</u>	<u>\$ (8,281)</u>	<u>\$40,305</u>
Aggregate Amortization Expense (Thousands)			
Three Months Ended June 30, 2006	\$666		
Three Months Ended June 30, 2005	\$666		
Nine Months Ended June 30, 2006	\$1,997		
Nine Months Ended June 30, 2005	\$1,997		

Amortization expense for the long-term transportation contracts is estimated to be \$0.3 million for the remainder of 2006 and \$1.1 million annually for 2007 and 2008. Amortization expense is estimated to be \$0.5 million and \$0.4 million for 2009 and 2010, respectively.

Amortization expense for the long-term gas purchase contracts is estimated to be \$0.4 million for the remainder of 2006 and \$1.6 million annually for 2007, 2008, 2009 and 2010.

**Note 8 Retirement Plan and Other Post-Retirement Benefits**

Components of Net Periodic Benefit Cost (in thousands):

Three months ended June 30,

	Retirement Plan		Other Post-R
	2006	2005	2006
Service Cost	\$4,104	\$3,429	\$2,007
Interest Cost	10,049	10,520	6,701
Expected Return on Plan Assets	(12,486)	(12,386)	(5,576)
Amortization of Prior Service Cost	239	257	1
Amortization of Transition Amount	-	-	1,782
Amortization of Losses	5,777	2,618	5,850
Net Amortization and Deferral			
For Regulatory Purposes (Including			

Edgar Filing: NATIONAL FUEL GAS CO - Form 10-Q/A

Volumetric Adjustments) (1)	(2,232)	1,500	(3,726)
	-----	-----	-----
Net Periodic Benefit Cost	\$5,451	\$5,938	\$7,039
	=====	=====	=====

20

**Item 1. Financial Statements (Cont.)**

Nine months ended June 30,

	Retirement Plan		Other Post-Ret
	2006	2005	2006
	----	----	----
Service Cost	\$12,312	\$10,285	\$6,022
Interest Cost	30,147	31,559	20,103
Expected Return on Plan Assets	(37,457)	(37,159)	(16,727)
Amortization of Prior Service Cost	718	772	3
Amortization of Transition Amount	-	-	5,345
Amortization of Losses	17,331	7,855	17,552
Net Amortization and Deferral For Regulatory Purposes (Including Volumetric Adjustments) (1)	(1,853)	5,060	(3,777)
	-----	-----	-----
Net Periodic Benefit Cost	\$21,198	\$18,372	\$28,521
	=====	=====	=====

(1) The Company's policy is to record retirement plan and other post-retirement benefit costs in the Utility segment on a volumetric basis to reflect the fact that the Utility segment experiences higher throughput of natural gas in the winter months and lower throughput of natural gas in the summer months.

**Employer Contributions.** During the nine months ended June 30, 2006, the Company contributed \$20.9 million to its retirement plan and \$36.8 million to its other post-retirement benefit plan. The Company does not expect to make any contributions to the retirement plan during the remainder of the fiscal year. In the remainder of 2006, the Company expects to contribute \$2.2 million to its other post-retirement benefit plan.

21

**Item 6. Exhibits**

(a)	Exhibits	
	Exhibit Number	Description of Exhibit
	-----	-----
	10.1*	Description of assignment of interests in certain life insura
	10.2*	Description of long-term performance incentives under the Nat Gas Company Performance Incentive Program.

Item 6. Exhibits

23

Edgar Filing: NATIONAL FUEL GAS CO - Form 10-Q/A

10.3*	Description of agreement between the Company and P. C. Ackerm regarding death benefit.
10.4*	Retirement Agreement between the Company and J. A. Beck.
10.5*	Contract for Consulting Services between the Company and J. A.
12*	Statements regarding Computation of Ratios:  Ratio of Earnings to Fixed Charges for the Twelve Months En Ended September 30, 2001 through 2005.
31.1	Written statements of Chief Executive Officer pursuant to the Securities Exchange Act of 1934.
31.2	Written statements of Principal Financial Officer pursuant under the Securities Exchange Act of 1934.
32	Certification Pursuant to Section 906 of the Sarbanes-Oxley A
99*	National Fuel Gas Company Consolidated Statement of Income 2006 and 2005.

\* These exhibits did not change from the originally filed Form 10-Q; therefore, they are no

22

---

SIGNATURES

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.

NATIONAL FUEL GAS COMPANY  
(Registrant)

/s/R. J. Tanski  
R. J. Tanski  
Treasurer and Principal Financial Offic

/s/K. M. Camiolo  
K. M. Camiolo  
Controller and Principal Accounting Off

Date: September 14, 2006

23

EXHIBIT INDEX  
(Form 10-Q/A)

Exhibit 31.1	Written statements of Chief Executive Officer pursuant to Rule 13a-14 (Rule 15d-14(a) under the Securities Exchange Act of 1934.
Exhibit 31.2	Written statements of Principal Financial Officer pursuant to Rule 13a-14 (Rule 15d-14(a) under the Securities Exchange Act of 1934.
Exhibit 32	Certification Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.