CONSOL Energy Inc
Form 10-Q
April 27, 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 March 31, 2009 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: 001-14901

CONSOL Energy Inc.

(Exact name of registrant as specified in its charter)

Delaware **(State or Other Jurisdiction of** **Incorporation or Organization)**	**51-0337383** **(IRS Employer** **Identification No.)**
1000 CONSOL Drive **Canonsburg, Pennsylvania** **(Address of Principal Executive Offices)**	**15317-6506** **(Zip Code)**

(724) 485-4000

(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 x 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. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨ Smaller Reporting Company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

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

Class	**Shares outstanding as of April 17, 2009**
Common stock, $0.01 par value	180,638,248

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PART I

FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

CONSOL ENERGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended March 31, 2009	2008
Sales Outside	$ 1,150,244	$ 886,325
Sales Gas Royalty Interests	12,632	16,504
Sales Purchased Gas	1,465	3,539
Freight Outside	30,916	44,744
Other Income	23,494	74,619
Total Revenue and Other Income	1,218,751	1,025,731
Cost of Goods Sold and Other Operating Charges (exclusive of depreciation, depletion and amortization shown below)	667,974	636,728
Gas Royalty Interests Costs	10,591	16,074
Purchased Gas Costs	1,530	3,421
Freight Expense	30,916	44,744
Selling, General and Administrative Expense	30,816	30,470
Depreciation, Depletion and Amortization	106,219	92,728
Interest Expense	8,512	10,176
Taxes Other Than Income	77,839	71,606
Black Lung Excise Tax Refund	(352)	
Total Costs	934,045	905,947
Earnings Before Income Taxes	284,706	119,784
Income Taxes	79,735	35,553
Net Income	204,971	84,231
Less: Net Income Attributable to Noncontrolling Interest	(9,152)	(9,149)
Net Income Attributable to CONSOL Energy Inc. Shareholders	$ 195,819	$ 75,082
Basic Earnings Per Share	$ 1.08	$ 0.41
Diluted Earnings Per Share	$ 1.08	$ 0.41
Weighted Average Number of Common Shares Outstanding:		
Basic	180,576,479	182,572,985

Dilutive		182,150,090		185,192,551
Dividends Paid Per Share	$	0.10	$	0.10

The accompanying notes are an integral part of these financial statements.

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CONSOL ENERGY INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	(Unaudited) March 31, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 71,555	$ 138,512
Accounts and Notes Receivable:		
Trade	259,879	221,729
Other Receivables	71,985	79,552
Inventories	277,676	227,810
Deferred Income Taxes	48,811	60,599
Recoverable Income Taxes		33,862
Prepaid Expenses	269,092	221,750
Total Current Assets	998,998	983,814
Property, Plant and Equipment:		
Property, Plant and Equipment	10,110,603	9,980,288
Less Accumulated Depreciation, Depletion and Amortization	4,269,952	4,214,316
Total Property, Plant and Equipment Net	5,840,651	5,765,972
Other Assets:		
Deferred Income Taxes	310,590	333,543
Investment in Affiliates	75,637	72,996
Other	181,411	214,133
Total Other Assets	567,638	620,672
TOTAL ASSETS	$ 7,407,287	$ 7,370,458

The accompanying notes are an integral part of these financial statements.

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CONSOL ENERGY INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	(Unaudited) March 31, 2009	December 31, 2008
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts Payable	$ 274,730	$ 385,197
Short-Term Notes Payable	520,400	557,700
Current Portion of Long-Term Debt	22,045	22,401
Accrued Income Taxes	28,913	
Other Accrued Liabilities	511,812	546,442
Total Current Liabilities	1,357,900	1,511,740
Long-Term Debt:		
Long-Term Debt	393,019	393,312
Capital Lease Obligations	70,988	75,039
Total Long-Term Debt	464,007	468,351
Deferred Credits and Other Liabilities:		
Postretirement Benefits Other Than Pensions	2,494,558	2,493,344
Pneumoconiosis Benefits	193,009	190,261
Mine Closing	418,827	404,629
Workers Compensation	130,345	128,477
Salary Retirement	188,638	194,567
Reclamation	19,867	38,193
Other	240,516	266,550
Total Deferred Credits and Other Liabilities	3,685,760	3,716,021
Total Liabilities	5,507,667	5,696,112
Stockholders Equity:		
Common Stock, $.01 par value; 500,000,000 Shares Authorized, 183,014,426 Issued and 180,603,707 Outstanding at March 31, 2009; 183,014,426 Issued and 180,549,851 Outstanding at December 31, 2008	1,830	1,830
Preferred Stock, 15,000,000 Shares Authorized; None Issued and Outstanding		
Capital in Excess of Par Value	1,002,682	993,478
Retained Earnings	1,186,324	1,010,902
Other Comprehensive Loss	(436,503)	(461,900)
Common Stock in Treasury, at Cost 2,410,719 Shares at March 31, 2009 and 2,464,575 Shares at December 31, 2008	(80,203)	(82,123)
Total CONSOL Energy Inc. Stockholders Equity	1,674,130	1,462,187
Noncontrolling Interest	225,490	212,159
Total Equity	1,899,620	1,674,346
TOTAL LIABILITIES AND EQUITY	$ 7,407,287	$ 7,370,458

The accompanying notes are an integral part of these financial statements.

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CONSOL ENERGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Dollars in thousands, except per share data)

	Common Stock	Capital in Excess of Par Value	Retained Earnings (Deficit)	Other Compre-hensive Income (Loss)	Treasury Stock	Total CONSOL Energy, Inc. Stockholders Equity	Noncont-rolling Interest	Total Equity
Balance December 31, 2008	$ 1,830	$ 993,478	$ 1,010,902	$ (461,900)	$ (82,123)	$ 1,462,187	$ 212,159	$ 1,674,346
(Unaudited)								
Net Income			195,819			195,819	9,152	204,971
Treasury Rate Lock (Net of ($12) tax)				(20)		(20)		(20)
FASB 158 Long-Term Liability Adjustment (Net of $915 tax)				1,497		1,497	(4)	1,493
Gas Cash Flow Hedge (Net of $18,295 tax)				23,920		23,920	4,785	28,705
Comprehensive Income			195,819	25,397		221,216	13,933	235,149
Issuance of Treasury Stock			(2,337)		1,920	(417)		(417)
Tax Benefit from Stock-Based Compensation		140				140		140
Amortization of Stock-Based Compensation Awards		8,786				8,786	1,120	9,906
Stock-Based Compensation Awards to CNX Gas		278				278	(278)	
Net Change in Crown Drilling Noncontrolling Interest							(1,444)	(1,444)
Dividends ($0.10 per share)			(18,060)			(18,060)		(18,060)
Balance March 31, 2009	$ 1,830	$ 1,002,682	$ 1,186,324	$ (436,503)	$ (80,203)	$ 1,674,130	$ 225,490	$ 1,899,620

The accompanying notes are an integral part of these financial statements.

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CONSOL ENERGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31, 2009	2008
Operating Activities:		
Net Income	$ 204,971	$ 84,231
Adjustments to Reconcile Net Income Attributable to CONSOL Energy Inc. to Net Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	106,219	92,728
Stock-based Compensation	9,906	5,657
Gain on the Sale of Assets	(1,871)	(7,286)
Amortization of Mineral Leases	1,671	2,087
Deferred Income Taxes	16,452	14,428
Equity in Earnings of Affiliates	(3,361)	(1,355)
Changes in Operating Assets:		
Accounts Receivable Securitization		11,400
Accounts and Notes Receivable	(30,459)	(81,648)
Inventories	(49,866)	(21,167)
Prepaid Expenses	2,320	3,091
Changes in Other Assets	5,327	13,341
Changes in Operating Liabilities:		
Accounts Payable	(43,690)	(13,816)
Other Operating Liabilities	26,250	3,487
Changes in Other Liabilities	2,938	38,837
Other	2,973	2,078
Net Cash Provided by Operating Activities	249,780	146,093
Investing Activities:		
Capital Expenditures	(299,560)	(176,342)
Net Investment in Equity Affiliates	720	1,536
Proceeds from Sales of Assets	43,827	15,803
Net Cash Used in Investing Activities	(255,013)	(159,003)
Financing Activities:		
(Payments on) Proceeds from Miscellaneous Borrowings	(6,425)	5,001
(Payments on) Proceeds from Short-Term Borrowings	(37,300)	32,500
Tax Benefit from Stock-Based Compensation	140	9,521
Dividends Paid	(18,060)	(18,255)
Issuance of Treasury Stock	121	5,270
Purchases of Treasury Stock		(3)
Noncontrolling Interest Member Distribution	(200)	
Net Cash Provided by (Used in) Financing Activities	(61,724)	34,034
Net Increase (Decrease) in Cash and Cash Equivalents	(66,957)	21,124

Cash and Cash Equivalents at Beginning of Period	138,512	41,651
Cash and Cash Equivalents at End of Period	$ 71,555	$ 62,775

The accompanying notes are an integral part of these financial statements.

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CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

March 31, 2009

(Dollars in thousands, except per share data)

NOTE 1 BASIS OF PRESENTATION:

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2009 are not necessarily indicative of the results that may be expected for future periods.

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

For further information, refer to the consolidated financial statements and related notes for the year ended December 31, 2008 included in CONSOL Energy s Form 10-K.

Effective January 1, 2009, CONSOL Energy adopted the provisions of Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51 (SFAS 160). This adoption resulted in modifications to the reporting of noncontrolling interests in the Consolidated Financial Statements. Additionally, certain reclassifications of prior period data have been made to conform to the three months ended March 31, 2009 classifications required by SFAS 160.

Basic earnings per share are computed by dividing net income attributable to CONSOL Energy by the weighted average shares outstanding during the reporting period. Dilutive earnings per share are computed similarly to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the effect of dilutive potential common shares outstanding during the period as calculated in accordance with Statement of Financial Accounting Standard No. 123R (SFAS 123R). The number of additional shares is calculated by assuming that restricted stock units and performance share units were converted and outstanding stock options were exercised and that the proceeds from such activity were used to acquire shares of common stock at the average market price during the reporting period. Options to purchase 2,404,604 shares and 385,653 shares of common stock were outstanding for the three month period ended March 31, 2009 and 2008, respectively, but were not included in the computation of dilutive earnings per share because the effect would be antidilutive. Unvested restricted stock units and unvested performance share units of 284 and 106,540, respectively, were outstanding for the three month period ended March 31, 2009, but were not included in the computation of dilutive earnings per share because the effect would be antidilutive. Additionally, unvested restricted stock units and unvested performance share units of 61,246 and 41,581, respectively, were outstanding for the three month period March 31, 2008, but were not included in the computation of dilutive earnings per share because the effect would be antidilutive. Options exercised during the three months ended March 31, 2009 and 2008 were 18,674 shares and 392,637 shares, respectively. The weighted average exercise price per share of the options exercised during the three months ended March 31, 2009 and 2008 was $8.12 and $14.58, respectively. Additionally, during the three months ended March 31, 2009 and 2008, respectively, 56,004 and 48,538 fully vested restricted stock awards were released.

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The computations for basic and dilutive earnings per share from continuing operations are as follows:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Net Income Attributable to CONSOL Energy Inc. Shareholders	$ 195,819	$ 75,082
Average shares of common stock outstanding:		
Basic	180,576,479	182,572,985
Effect of share based payments	1,573,611	2,619,566
Dilutive	182,150,090	185,192,551
Earnings per share:		
Basic	$ 1.08	$ 0.41
Dilutive	$ 1.08	$ 0.41

NOTE 2 ACQUISITIONS AND DISPOSITIONS:

In February 2009, CONSOL Energy completed a sale/lease-back of longwall shields for Bailey Mine. Cash proceeds from the sale were $42,282, which was the same as our basis in the equipment. Accordingly, no gain or loss was recognized on the transaction. The lease has been accounted for as an operating lease. The lease term is five years.

In December 2008, CONSOL Energy, through a subsidiary, completed the acquisition of the outstanding 51% interest in Southern West Virginia Energy, LLC (SWVE) for a cash payment of $11,521. This amount is included in capital expenditures in cash used in investing activities on the Consolidated Statement of Cash Flows. The purchase price was principally allocated to property, plant and equipment. SWVE wholly-owns Southern West Virginia Resources, LLC and Minway Contracting, LLC, and had previously been a 49% subsidiary of CONSOL Energy. Prior to the acquisition of the outstanding interest, SWVE had been fully consolidated in accordance with Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities by CONSOL Energy. The proforma results for this acquisition are not material to CONSOL Energy s financial results.

In November 2008, CONSOL Energy, through a subsidiary, completed the acquisition of North Penn Pipe & Supply, Inc. for a cash payment, net of cash acquired, of $22,550. This amount is included in capital expenditures in cash used in investing activities on the Consolidated Statements of Cash Flows. North Penn Pipe & Supply, Inc. is a distributor of oil and gas field equipment, primarily tubular goods, to the northern Appalachian Basin, a region stretching from the state of New York to southwestern Pennsylvania and northern West Virginia. The fair value of merchandise for resale acquired in this acquisition is $10,623 and is included in inventory on the Consolidated Balance Sheets. The proforma results for this acquisition are not significant to CONSOL Energy s financial results.

In October 2008, CONSOL Energy s Board of Directors authorized a purchase program for shares of CNX Gas Corporation common stock for an aggregate purchase price of up to $150 million. The authorization, which is not intended to take CNX Gas private, was effective as of October 21, 2008 for a twenty-four month period. During the year ended December 31, 2008, CONSOL Energy completed the purchase of $67,259 of CNX Gas stock on the open market at an average price of $26.53 per share. The purchase price was allocated to property, plant and equipment. The purchase of these 2,531,400 shares changed CONSOL Energy s ownership percentage in CNX Gas from 81.7% to 83.3% at December 31, 2008. CONSOL Energy did not purchase any additional shares of CNX Gas stock during the three months ended March 31, 2009.

In July 2008, our 83.3% subsidiary, CNX Gas, completed the acquisition of several leases and gas wells from KIS Oil & Gas Inc. for a cash payment of $19,324. The purchase price was principally allocated to property, plant and equipment. The sales agreement called for the transfer of 30 oil and gas wells and approximately 5,600 leased acres. This acquisition enhanced our acreage position in Northern Appalachia. The pro forma results for this acquisition were not significant to CONSOL Energy s financial results.

In June 2008, CNX Gas completed the acquisition of the remaining 50% interest in Knox Energy, LLC and Coalfield Pipeline Company not already owned by CNX Gas for a cash payment of $36,000 which was principally allocated to property, plant and equipment. Prior to the acquisition of the outstanding interest, Knox Energy, LLC had been proportionately consolidated into CONSOL Energy s financial statements during 2008. During 2006 and 2007, the equity method was used to account for these entities. Knox Energy, LLC is a natural gas production company and Coalfield Pipeline Company is a gathering and transportation company with operations in Tennessee. The pro forma results for this acquisition were not significant to CONSOL Energy s financial results. The acquisition was not material to the CONSOL Energy s consolidated financial statements.

In February 2008, CONSOL Energy, through a subsidiary, completed a sale of the Mill Creek Mining Complex located in Kentucky. The sales agreement called for the transfer of all of the assets comprising the complex. Cash proceeds from the sale were $14,649, with our basis in the assets being $9,934. Accordingly, a gain of $4,715 was recorded on the transaction.

NOTE 3 COMPONENTS OF PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS NET PERIODIC BENEFIT COSTS:

Components of net periodic costs for the three months ended March 31 are as follows:

	Pension Benefits Three Months Ended March 31,		Other Benefits Three Months Ended March 31,	
	2009	2008	2009	2008
Service cost	$ 2,867	$ 2,438	$ 3,378	$ 2,639
Interest cost	8,659	8,257	39,735	39,959
Expected return on plan assets	(9,070)	(8,418)		
Amortization of prior service costs (credit)	(277)	(278)	(11,604)	(12,156)
Recognized net actuarial loss	5,440	4,182	14,970	15,376
Net periodic benefit cost	$ 7,619	$ 6,181	$ 46,479	$ 45,818

For the three months ended March 31, 2009, $8,393 of contributions to the pension trusts and pension benefits have been paid from operating cash flows. CONSOL Energy presently anticipates contributing a total of approximately $65,600 to the pension trust in 2009.

We do not expect to contribute to the other post employment benefit plan in 2009. We intend to pay benefit claims as they become due. For the three months ended March 31, 2009, $40,033 of other post employment benefits have been paid.

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NOTE 4 COMPONENTS OF COAL WORKERS PNEUMOCONIOSIS (CWP) AND WORKERS COMPENSATION NET PERIODIC BENEFIT COSTS:

Components of net periodic costs (benefits) for the three months ended March 31 are as follows:

	CWP Three Months Ended March 31,		Workers Compensation Three Months Ended March 31,	
	2009	2008	2009	2008
Service cost	$ 1,769	$ 1,259	$ 7,099	$ 7,257
Interest cost	3,014	2,937	2,191	2,082
Amortization of actuarial gain	(5,080)	(6,027)	(1,050)	(1,235)
State administrative fees and insurance bond premiums			1,759	1,293
Legal and administrative costs	675	675	850	806
Net periodic (benefit) cost	$ 378	$ (1,156)	$ 10,849	$ 10,203

CONSOL Energy does not expect to contribute to the CWP plan in 2009. We intend to pay benefit claims as they become due. For the three months ended March 31, 2009, $2,588 of CWP benefit claims have been paid.

CONSOL Energy does not expect to contribute to the workers compensation plan in 2009. We intend to pay benefit claims as they become due. For the three months ended March 31, 2009, $9,584 of workers compensation benefits, state administrative fees and surety bond premiums have been paid.

NOTE 5 INCOME TAXES:

The following is a reconciliation, stated in dollars as a percentage of pretax income, of the U.S. statutory federal income tax rate to CONSOL Energy s effective tax rate:

	For the Three Months Ended March 31, 2009		2008	
	Amount	Percent	Amount	Percent
Statutory U.S. federal income tax rate	$ 99,647	35.0%	$ 41,924	35.0%
Excess tax depletion	(27,816)	(9.8)	(10,409)	(8.7)
Effect of Domestic Production Activities Deduction	(4,328)	(1.5)	(1,377)	(1.2)
Effect of Medicare Prescription Drug, Improvement and Modernization Act of 2003	712	0.3	299	0.3
Net Effect of state tax	10,904	3.8	4,264	3.6
Other	616	0.2	852	0.7
Income Tax Expense / Effective Rate	$ 79,735	28.0%	$ 35,553	29.7%

The effective tax rate for the three months ended March 31, 2009 was calculated using the annual effective rate projection on recurring earnings and includes tax liabilities related to certain discrete transactions. The effective tax rate for the three months ended March 31, 2008 was calculated using the annual effective rate projection on recurring earnings.

The total amounts of unrecognized tax benefits as of March 31, 2009 and March 31, 2008 were approximately $60,691 and $63,521, respectively. If these unrecognized tax benefits were recognized approximately $14,657 and $12,900, respectively, would affect CONSOL Energy s effective tax rate. There were no additions to the liability for unrecognized tax benefits during the three months ended March 31, 2009 and March 31, 2008.

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CONSOL Energy Inc. and its subsidiaries file income tax returns in the U.S. federal, various states, and Canadian tax jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2002. The Internal Revenue Service has issued its audit report relating to the examination of CONSOL Energy s 2004 and 2005 U.S. income tax returns. The estimated Federal and state income tax deficiencies payable as a result of the changes to taxable incomes for the audit years are $12,806 and $3,008, respectively. Payment of these income tax deficiencies will have no impact on net income attributable to CONSOL Energy since the 2004 and 2005 deficiencies are the result of changes in the timing of tax deductible expenses. During the three months ended March 31, 2009, CONSOL Energy classified Federal and state unrecognized tax benefits of $12,883 and $3,008, respectively, as current liabilities relating to the 2004 and 2005 audit periods in its financial statements. The Company also classified interest expense relating to the two-year audit period of $4,206 as a current liability.

The IRS examination of the Company s 2002 and 2003 tax returns has been completed. During the three months ended March 31, 2009, CONSOL Energy paid interest of approximately $1,421 relating to the tax deficiencies for this audit period.

CONSOL Energy recognizes interest accrued related to unrecognized tax benefits in its interest expense. As of March 31, 2009 and March 31, 2008, the Company reported an accrued interest liability relating to uncertain tax positions of $9,724 and $9,297, respectively. The accrued interest liability includes $627 and $792 of interest expense that is reflected in the Company s consolidated income statements for the three months ended March 31, 2009 and March 31, 2008, respectively.

CONSOL Energy recognizes penalties accrued related to unrecognized tax benefits in its income tax expense. As of March 31, 2009, CONSOL Energy had no accrued liability for tax penalties. As of March 31, 2008, CONSOL Energy had an accrued liability of approximately $1,200 for tax penalties.

NOTE 6 INVENTORIES:

Inventory components consist of the following:

	March 31, 2009	December 31, 2008
Coal	$ 127,646	$ 93,875
Merchandise for resale	59,234	43,074
Supplies	90,796	90,861
Total Inventories	$ 277,676	$ 227,810

Merchandise for resale is valued using the Last in First Out (LIFO) cost method. The excess of replacement cost of merchandise for resale inventories over carrying LIFO value was $10,547 and $14,716 at March 31, 2009 and December 31, 2008, respectively.

NOTE 7 ACCOUNTS RECEIVABLE SECURITIZATION:

CONSOL Energy and certain of our U.S. subsidiaries are party to a trade accounts receivable facility with financial institutions for the sale on a continuous basis of eligible trade accounts receivable. The facility allows CONSOL Energy to receive on a revolving basis, up to $165,000. The facility also allows for the issuance of letters of credit against the $165,000 capacity. At March 31, 2009, there were no letters of credit outstanding against the facility.

CONSOL Energy formed CNX Funding Corporation, a wholly owned, special purpose, bankruptcy-remote subsidiary for the sole purpose of buying and selling eligible trade receivables generated by certain subsidiaries of CONSOL Energy. Under the receivables facility, CONSOL Energy and certain subsidiaries, irrevocably and

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without recourse, sell all of their eligible trade accounts receivable to financial institutions and their affiliates, while maintaining a subordinated interest in a portion of the pool of trade receivables. This retained interest, which is included in Accounts and Notes Receivable Trade in the Consolidated Balance Sheets, is recorded at fair value. Due to a short average collection cycle for such receivables, our collection experience history and the composition of the designated pool of trade accounts receivable that are part of this program, the fair value of our retained interest approximates the total amount of the designated pool of accounts receivable reduced by the amount of accounts receivables sold to the third-party financial institutions under the program. CONSOL Energy will continue to service the sold trade receivables for the financial institutions for a fee based upon market rates for similar services.

The cost of funds under this facility is based upon commercial paper rates, plus a charge for administrative services paid to the financial institutions. Costs associated with the receivables facility totaled $935 and $1,577 for the three months ended March 31, 2009 and 2008, respectively. These costs have been recorded as financing fees which are included in Cost of Goods Sold and Other Operating Charges in the Consolidated Statements of Income. No servicing asset or liability has been recorded. The receivables facility expires in April 2012 with the underlying liquidity agreement renewing annually each April.

At March 31, 2009 and 2008, eligible accounts receivable totaled approximately $165,000 and $144,300, respectively. There was no subordinated retained interest at March 31, 2009. The subordinated retained interest approximated $7,500 at March 31, 2008. Accounts receivable totaling $165,000 and $136,800 were removed from the Consolidated Balance Sheet at March 31, 2009 and 2008, respectively. CONSOL Energy s $11,400 increase in the accounts receivable securitization program for the quarter ended March 31, 2008 is reflected in cash flows from operating activities in the Consolidated Statement of Cash Flows. There was no change in the facility usage in the three months ended March 31, 2009.

NOTE 8 PROPERTY, PLANT AND EQUIPMENT:

The components of property, plant and equipment are as follows:

	March 31, 2009	December 31, 2008
Coal & other plant and equipment	$ 4,544,827	$ 4,533,793
Coal properties and surface lands	1,306,115	1,313,496
Gas properties and related development	1,468,899	1,379,012
Gas gathering equipment	765,064	740,396
Airshafts	604,235	615,512
Leased coal lands	510,865	502,521
Mine development	538,126	527,991
Coal advance mining royalties	370,131	365,380
Gas advance royalties	2,341	2,187
Total property, plant and equipment	10,110,603	9,980,288
Less Accumulated depreciation, depletion and amortization	4,269,952	4,214,316
Total Net Property, Plant and Equipment	$ 5,840,651	$ 5,765,972

NOTE 9 SHORT-TERM NOTES PAYABLE:

CONSOL Energy has a five-year $1,000,000 senior secured credit facility, which extends through June 2012. The facility is secured by substantially all of the assets of CONSOL Energy and certain of its subsidiaries and collateral is shared equally and ratably with the holders of CONSOL Energy Inc. 7.875% bonds maturing in 2012. The Agreement does provide for the release of collateral at the request of CONSOL Energy upon achievement of certain credit ratings. Fees and interest rate spreads are based on a ratio of financial covenant debt to twelve-month trailing earnings before interest, taxes, depreciation, depletion and amortization (EBITDA), measured quarterly. The facility includes a minimum interest coverage ratio covenant of no less than 4.50 to 1.00, measured quarterly. The interest coverage ratio was 21.95 to 1.00 at March 31, 2009. The facility also includes a maximum leverage ratio covenant of not more than 3.25 to 1.00, measured quarterly. The leverage ratio was 1.10 to 1.00 at March 31, 2009. Affirmative and negative covenants in the facility limit our ability to dispose of assets, make investments, purchase or redeem CONSOL Energy common stock, pay dividends and merge with another corporation. At March 31, 2009, the $1,000,000 facility had $440,000 of borrowings outstanding and $267,136 of letters of credit outstanding, leaving $292,864 of capacity available for borrowings and the issuance of letters of credit. The facility bore a weighted average interest rate of 1.2% for the three months ended March 31, 2009.

CNX Gas has a five-year $200,000 unsecured credit agreement which extends through October 2010. The agreement contains a negative pledge provision, whereas CNX Gas assets cannot be used to secure other obligations. Fees and interest rate spreads are based on the percentage of facility utilization, measured quarterly. Covenants in the facility limit CNX Gas ability to dispose of assets, make investments, purchase or redeem CNX Gas stock, pay dividends and merge with another corporation. The facility includes a maximum leverage ratio covenant of not more than 3.00 to 1.00, measured quarterly. The leverage ratio was 0.32 to 1.00 at March 31, 2009. The facility also includes a minimum interest coverage ratio covenant of no less than 3.00 to 1.00, measured quarterly. This ratio was 76.68 to 1.00 at March 31, 2009. At March 31, 2009, the CNX Gas credit agreement had $80,400 of borrowings outstanding and $14,933 of letters of credit outstanding, leaving $104,667 of capacity available for borrowings and the issuance of letters of credit. The facility bore a weighted average interest rate of 1.5% for the three months ended March 31, 2009.

NOTE 10 COMMITMENTS AND CONTINGENCIES:

CONSOL Energy and its subsidiaries are subject to various lawsuits and claims with respect to such matters as personal injury, wrongful death, damage to property, exposure to hazardous substances, governmental regulations including environmental remediation, employment and contract disputes and other claims and actions arising out of the normal course of business. Our current estimates related to these pending claims, individually and in the aggregate, are immaterial to the financial position, results of operations or cash flows of CONSOL Energy. However, it is reasonably possible that the ultimate liabilities in the future with respect to these lawsuits and claims may be material to the financial position, results of operations or cash flows of CONSOL Energy.

On January 30, 2008, the Pennsylvania Department of Conservation and Natural Resources filed a six-count Complaint in the Court of Common Pleas of Allegheny County, Pennsylvania, asserting claims in both tort and contract against the Company for alleged damage to park property owned by the Commonwealth allegedly due to the Company s underground mining activities. The Commonwealth claims that the Company s underground longwall mining activities in the summer of 2005 in Greene County, Pennsylvania, caused cracks and seepage damage to the nearby Ryerson Park Dam. The Commonwealth demolished the Ryerson Dam s spillway allegedly under its role of Parens Patrie to protect persons and property, thereby eliminating the Ryerson Park lake. The Commonwealth claims that the Company is liable for dam reconstruction costs, lake restoration costs and natural resources damages totaling $58,000. The theories of liability include general allegations of negligence, breach of contract, strict liability, nuisance, an administrative remedy claim under the Bituminous Mine Subsidence Act and a claim of fraud; the last claim seeking punitive damages. The Court, in ruling on the Company s Preliminary Objections to the Complaint, stayed the current proceedings in the state court, holding that the Commonwealth should pursue administrative agency review of the claim because full compensatory relief, if warranted, could be provided by the particular administrative agency and then the Environmental Hearing Board, if further relief was sought. Furthermore, the Court found that the Commonwealth could not recover natural resources damages under applicable law. The remainder of the Company s objections was preserved pending the outcome of the administrative proceedings. The matter is in the early stages of review by the Department of Environmental Protection (DEP). The DEP has set specific dates for the submission of materials regarding the issue of causation with August 14, 2009 being the prospective date or target date for its causation decision. The

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Company has submitted extensive material including comments from its mining expert indicating and showing that longwall mining activity did not cause damage to the dam. If the DEP determines that there is causation, a second phase will be set to determine the remedy. As to the underlying claim, the Company believes it is not responsible for the damage to the dam, that there exist numerous grounds upon which to attack the propriety of the claims, and it will vigorously defend the case. However, it is reasonably possible that the ultimate liability in the future with respect to these claims may be material to the financial position, results of operations, or cash flows of CONSOL Energy.

One of our subsidiaries, Fairmont Supply Company (Fairmont), which distributes industrial supplies, currently is named as a defendant in approximately 25,000 asbestos claims in state courts in Pennsylvania, Ohio, West Virginia, Maryland, Mississippi, New Jersey and Illinois. Because a very small percentage of products manufactured by third parties and supplied by Fairmont in the past may have contained asbestos and many of the pending claims are part of mass complaints filed by hundreds of plaintiffs against a hundred or more defendants, it has been difficult for Fairmont to determine how many of the cases actually involve valid claims or plaintiffs who were actually exposed to asbestos-containing products supplied by Fairmont. In addition, while Fairmont may be entitled to indemnity or contribution in certain jurisdictions from manufacturers of identified products, the availability of such indemnity or contribution is unclear at this time, and in recent years, some of the manufacturers named as defendants in these actions have sought protection from these claims under bankruptcy laws. Fairmont has no insurance coverage with respect to these asbestos cases. For the three months ended March 31, 2009 and 2008, payments by Fairmont with respect to asbestos cases have not been material. Our current estimates related to these asbestos claims, individually and in the aggregate, are immaterial to the financial position, results of operations and cash flows of CONSOL Energy. However, it is reasonably possible that payments in the future with respect to pending or future asbestos cases may be material to the financial position, results of operations or cash flows of CONSOL Energy.

Another of our subsidiaries, Island Creek Coal Company, is named in one single-plaintiff asbestos case in West Virginia in which the plaintiff claims to have been exposed to asbestos products while working at a coal mine operated by Island Creek. Discovery has been stayed until the case is set for trial. CONSOL Energy has also been sued in a single plaintiff FELA case in Pennsylvania. The Company has filed a Motion to Dismiss in that case in which it maintains that the plaintiff has failed to plead facts sufficient to satisfy jurisdictional requirements. The Company believes that it is not responsible for these claims, and it will vigorously defend these cases. However, it is reasonably possible that the ultimate liability with respect to these claims in the future may be material to the financial position, results of operations or cash flows of CONSOL Energy.

CONSOL Energy was notified in November 2004 by the United States Environmental Protection Agency (EPA) that it is a potentially responsible party (PRP) under Superfund legislation with respect to the Ward Transformer site in Wake County, North Carolina. At that time, the EPA also identified 38 other PRPs for the Ward Transformer site. On September 16, 2005, the EPA, CONSOL Energy and two other PRPs entered into an administrative Settlement Agreement and Order of Consent, requiring those PRPs to undertake and complete a PCB soil removal action, at and in the vicinity of the Ward Transformer property. In December 2005, the EPA approved the PRPs work plan, and field work began the first week of January 2006. On March 12, 2007, another party joined the participating PRPs and reduced CONSOL Energy s interim allocation share from 46% to 32%. Accordingly, CONSOL Energy recognized a reduction in the previously recognized liability related to this matter. In June 2008, while conducting the PCB soil excavation on the Ward property, it was determined that PCBs may have migrated onto two adjacent properties. Also, in September 2008, the EPA notified CONSOL Energy and 60 other PRPs that there were additional areas of potential contamination allegedly related to the Ward Transformer Site. Current estimates of the cost or potential range of cost for this area is not yet available.

The current estimated cost of remedial action for the area CONSOL Energy was originally named a PRP, including payment of the EPA s past and future cost, is approximately $51,500. The current estimated cost of the most likely remediation plan for the additional areas discovered is approximately $6,800, although the removal action plan is not yet approved by the EPA. There was $2,336 of expense recognized in Cost of Goods Sold and

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Other Charges for the three months ended March 31, 2009. No expense was recognized in the three months ended March 31, 2008. CONSOL Energy funded $2,000 in the three months ended March 31, 2009, to an independent trust established for this remediation. The remaining liability of $7,330 is reflected in Other Accrued Liabilities at March 31, 2009. CONSOL Energy and the other participating PRPs are investigating contribution claims against other, non-participating PRPs, and such claims will be brought to recover a share of the costs incurred. CONSOL Energy s portion of probable recoveries are estimated to be $3,420. Accordingly, an asset has been included in Other Assets for these claims. CONSOL Energy expects the majority of payments related to this liability to be made over the next year. There may be some delay in negotiating settlements with other PRPs who may want settlement of all Ward-related claims. We cannot predict the ultimate outcome of this Superfund site; however, it is reasonably possible that payments in the future with respect to this lawsuit may be material to the financial position, results of operations or cash flows of CONSOL Energy.

As part of conducting mining activities at the Buchanan Mine, our subsidiary, Consolidation Coal Company (CCC), has to remove water from the mine. Several actions have arisen with respect to the removal of naturally accumulating and pumped water from the Buchanan Mine:

Yukon Pocahontas Coal Company, Buchanan Coal Company and Sayers-Pocahontas Coal Company filed an action on March 22, 2004 against CCC which is presently pending in the Circuit Court of Buchanan County, Virginia (the Yukon Action). The action is related to CCC s depositing of untreated water from its Buchanan Mine into the void spaces of nearby mines of one of our other subsidiaries, Island Creek Coal Company (ICCC). The plaintiffs are seeking to stop CCC from depositing any additional water in these areas, to require CCC to remove the water that is stored there along with any remaining impurities, to recover $300,000 of compensatory and trebled damages and to recover punitive damages. Plaintiffs have twice amended the original complaint to assert additional claims for compensatory damages to the coal and gas estates of up to $3,252,000, punitive damages in the amount of $350,000, as well as interest, costs, and attorneys fees, against CCC. Plaintiffs have also added CONSOL Energy, CNX Gas Company, LLC and ICCC as additional defendants asserting additional damage claims of $150,000 against those defendants. The Yukon group has recently filed a demand for arbitration (the 2008 Arbitration) against ICCC which makes similar claims relating to breach of the lease for water deposits and lost coal claims.

Levisa Coal Company filed an action on July 10, 2006 against CCC in the Buchanan County Circuit Court (the Levisa Action). The action is for injunctive relief and declaratory judgment and sought a court order prohibiting CCC from depositing water from its Buchanan Mine into the void spaces of ICCC s VP3 mine, part of which is under lease from Levisa Coal Company. The Plaintiff also has noted its intent to also seek an injunction requiring CCC to remove the water already deposited in the VP3 Mine. The plaintiff claims the water adversely affects its remaining coal reserves and coalbed methane production, thereby impacting the plaintiff s future royalties. In mid-November 2006, Levisa Coal Company petitioned the Circuit Court for a temporary injunction prohibiting the further depositing of water into the void spaces which, after a two-day hearing, the Buchanan County Circuit Court denied. Subsequently, the Circuit Court entered an order holding that CCC has the right to store water in the VP3 mine void based upon provisions in this lease and dismissed the action. The Supreme Court of Virginia, on appeal, disagreed with the Circuit Court s interpretation of the lease, held that CCC has no right to store water in VP3 under the lease, reversed the dismissal, and remanded the case to the Circuit Court to determine whether under equitable principles a permanent injunction should be issued. On September 18, 2008, the Virginia Supreme Court denied CCC s request for a rehearing of its June 6, 2008 decision and CCC subsequently filed a petition of certiorari with the United States Supreme Court requesting the United States Supreme Court to review and overturn the decision of the Virginia Supreme Court (CCC s Petition) . The Supreme Court of the United States directed Levisa to file a response to CCC s Petition, which response was filed on April 2, 2009. In January 2009, Levisa moved for summary judgment, requesting the issuance of a permanent injunction preventing further water storage and contending that the Supreme Court of Virginia s opinion directed CCC to cease pumping. On February 10, 2009, the Circuit Court granted Levisa s motion and permanently enjoined CCC from any further storage of water in VP3, which injunction was later dissolved on March 17, 2009 by the Supreme Court of Virginia on CCC s Petition. In addition, Levisa Coal Company has filed an additional motion in the original action with the Circuit Court seeking as additional relief that CCC disgorge profits and other monetary benefits including avoided losses generated by the operation of the Buchanan Mine from the date of the decision of the Virginia Supreme Court or alternatively since the date of its denial of CCC s rehearing request until such time as all depositing and/or storage of water in the VP3 Mine from the Buchanan Mine ceases.

On June 13, 2008 Levisa Coal Company filed a second action against CCC in the Circuit Court of Buchanan County, Virginia relating to the deposit of water by CCC into the void spaces of the VP3 mine which seeks damages of approximately $300,000, plus interest, costs and attorneys fees, which second action CCC moved to consolidate with the Levisa Action. This action was voluntarily dismissed by Levisa on or about February 10, 2009 without prejudice.

Meredith Ellis Jennings and several other individuals and entities filed an action on July 8, 2008 against CCC and CNX Gas in the Circuit Court of Buchanan County, Virginia (the Pobst/Combs Action). The plaintiffs alleged that they hold real property interests and royalty interests in gas including coalbed methane gas in and around the VP3 mine. The action, which has been voluntarily dismissed, was for injunctive relief and a court order prohibiting CCC from depositing water from its Buchanan Mine into the void spaces of the VP3 mine and requiring CCC to remove water from the void spaces of the VP3 mine.

CCC has obtained revision to its environmental permit from the Division of Mined Land Reclamation (DMLR) of the Virginia Department of Mines, Minerals and Energy (DMME) to deposit water from its Buchanan Mine into void spaces of VP3, and to permit the discharge of water into the nearby Levisa River under controlled conditions. Plaintiffs in the Yukon Action and the Levisa Action along with the Town of Grundy, Virginia, Buchanan County Board of Supervisors, and others have requested the DMME to reconsider the permit revisions issued by DMLR. Requests for temporary relief to prevent CCC from constructing and operating pursuant to the permit revisions pending a final hearing before the DMME have been rejected by the Director of the DMME. The hearing to be conducted by the Director of the DMME through a Hearing Officer appointed by the Supreme Court of Virginia has not yet been scheduled. The plaintiffs in the Yukon Action on June 13, 2006 also filed an action against the DMME in the Circuit Court of Buchanan County, Virginia seeking to enjoin DMLR and DMME from issuing the permit revisions, which were ultimately issued in September 2006 and are the subject of the administrative appeal to the Director of DMME described above. The Levisa Action plaintiff filed a nearly identical action. DMME filed demurrers, but no hearing has been conducted since the DMME issued the permit in September 2006. On December 4, 2006, both the plaintiffs in the Yukon Action and Levisa nonsuited their respective Citizen Suits.

We also believe DMME properly issued environmental permits to CCC authorizing it to deposit naturally accumulating water from the Buchanan Mine into VP3 as well as discharging water into the Levisa River under the controlled conditions established by the permits. CCC and the other named CONSOL Energy defendants in the Yukon Action, the Levisa Action and the Pobst/Combs Action deny all liability and intend to vigorously defend the actions filed against them in connection with the removal and deposit of water from the Buchanan Mine. CCC also intends to vigorously defend the environmental permits issued to it. Consequently, we have not recognized any liability related to these actions. However, if a temporary or permanent injunction were to be issued against CCC, if the environmental permits were temporarily suspended or revoked, or if damages were awarded to plaintiffs, the result may be material to the financial position, results of operations or cash flows of CONSOL Energy.

On October 24, 2006, CONSOL Energy and CCC were served with a summons in the name of the Commonwealth of Virginia with the Circuit Court of Buchanan County, Virginia regarding a special grand jury presentment in response to citizens complaints that noise resulting from the ventilation fan at the Buchanan Mine constitutes a public nuisance. CONSOL Energy and CCC deny that the operation of the ventilation fan is a public nuisance and intend to vigorously defend this proceeding. However, if the operation of the ventilation fan is ordered to be stopped, the result may be material to the financial position, results of operations or cash flows of CONSOL Energy.

On February 14, 2007, GeoMet, Inc. and certain of its affiliates filed a lawsuit against CNX Gas Company LLC and Island Creek Coal Company, a subsidiary of CONSOL Energy, in the Circuit Court for the County of Tazewell, Virginia (Case No. CL07000065-00). The lawsuit alleged that CNX Gas conspired with Island Creek and has violated the Virginia Antitrust Act and tortuously interfered with GeoMet s contractual relations, prospective contracts and business expectancies. CNX Gas and Island Creek filed motions to dismiss all counts of the complaint. On December 19, 2007, the court granted CNX Gas and Island Creek s motions to dismiss all counts, with leave for GeoMet to file an amended complaint. On March 31, 2008, GeoMet filed an amended complaint. The amended complaint is again against CNX Gas and Island Creek, but it added CONSOL Energy and Cardinal States Gathering Company as additional defendants. The amended complaint restates allegations that CNX Gas, Island Creek and now CONSOL Energy and Cardinal States Gathering Company violated the Virginia Antitrust Act and tortuously interfered with GeoMet s contractual relations, prospective contracts and business expectancies. The amended complaint seeks injunctive relief, compensatory damages of $385,600 and treble damages. CNX Gas continues to believe this lawsuit to be without merit and intends to vigorously defend it. CNX Gas action seeking to dismiss GeoMet s complaint is pending. We cannot predict the ultimate outcome of this litigation; however, it is reasonably possible that the ultimate liabilities in the future with respect to these lawsuits and claims may be material to the financial position, results of operations, or cash flows of CNX Gas.

On January 7, 2009, CNX Gas received a civil investigative demand for information and documents from the Attorney General of the Commonwealth of Virginia regarding the company s exploration, production, transportation and sale of coalbed methane gas in Virginia. According to the request, the Attorney General is investigating whether the company may have violated the Virginia Antitrust Act. The request for information does not constitute the commencement of legal proceedings and does not make any specific allegations against the company. CNX Gas does not believe that it has violated the Virginia Antitrust Act and the company intends to cooperate with the Attorney General s investigation.

The Company is a party to a case captioned Earl Kennedy et. al v. CNX Gas and CONSOL Energy in the Court of Common Pleas of Greene County, Pennsylvania (Case No. 225 of 2007). The lawsuit alleges that CNX Gas and CONSOL Energy conspired and were unjustly enriched, trespassed, converted, and committed fraud relating to gas and other minerals allegedly belonging to Mr. Kennedy. The suit also seeks to overturn existing law as to the ownership of coalbed methane in Pennsylvania. The complaint, as amended, seeks injunctive relief, including having us be removed from the property, quiet title and compensatory damages of $20,000. CNX Gas believes this lawsuit to be without merit and intends to vigorously defend it. We cannot predict the ultimate outcome of this litigation; however, it is reasonably possible that the ultimate liabilities in the future with respect to these lawsuits and claims may be material to the financial position, results of operations, or cash flows of CNX Gas.

In April 2005, Buchanan County, Virginia (through its Board of Supervisors and Commissioner of Revenue) filed a Motion for Judgment Pursuant to the Declaratory Judgment Act Virginia Code § 8.01-184 against CNX Gas Company LLC in the Circuit Court of the County of Buchanan (Case No. CL05000149-00) for the year 2002; the county has since filed and served two substantially similar cases for years 2003, 2004 and 2005. These cases have been consolidated. The complaint alleges that our calculation of the license tax on the basis of the wellhead value (sales price less post production costs) rather than the sales price is improper. For the period from 1999 through mid 2002, we paid the tax on the basis of the sales price, but we have filed a claim for a refund for these years. Since 2002, we have continued to pay Buchanan County taxes based on our method of calculating the taxes. However, we have been accruing an additional liability reflected in Other Liabilities on our balance sheet in an amount based on the difference between our calculation of the tax and Buchanan County s calculation. We believe that this litigation will settle on terms that will not have a material adverse impact on the financial position or the results of operations of CNX Gas.

In 1999, CNX Gas was named in a suit brought by a group of royalty owners that lease gas development rights to CNX Gas in southwest Virginia. The suit alleged the underpayment of royalties to the group of royalty owners. The claim of underpayment of royalties related to the interpretation of permissible deductions from production revenues upon which royalties are calculated. The deductions at issue relate to post-production

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expenses of gathering, compression and transportation. CNX Gas was ordered to pay, and subsequently paid, damages to the group of royalty owners that brought the suit. A final payment was subsequently made to the plaintiffs to adjust all royalties owed to the plaintiffs for subsequent periods, which effectively settled this case. CNX Gas recognized an estimated liability for other similarly situated plaintiffs who could bring similar claims. This amount is included in Other Liabilities on the balance sheet and is evaluated quarterly. CNX Gas believes that the final resolution of this matter will not have a material effect on our financial position, results of operations or cash flows.

In July 2007, production at the Buchanan Mine was suspended after several roof falls in previously mined areas damaged some of the ventilation controls inside the mine, requiring a general evacuation of the mine by employees. The mine atmosphere was continually monitored to determine the impact of the roof falls on the mine s ventilation system and the overall mine atmosphere. On March 17, 2008, Buchanan Mine resumed production. This incident was covered under our property and business interruption insurance policy, subject to certain deductibles. Business interruption recoveries of $50,000 were recognized as Other Income in the three months ended March 31, 2008, $42,000 in the coal segment and $8,000 in the gas segment. The total recoveries for this incident under our insurance policy were $75,000. No other insurance recoveries for this incident will be received.

On October 3, 2008 the Emergency Economic Stabilization Act of 2008 (the EESA Act) was signed into law. The EESA Act contains a section that authorizes certain coal producers and exporters who have filed a Black Lung Excise Tax (BLET) return on or after October 1, 1990, to request a refund of the BLET paid on export sales during these years. The EESA Act requires that the U.S. Treasury refund a coal producer or exporter an amount equal to the BLET erroneously paid on export sales in prior years along with interest computed at the statutory rates applicable to overpayments.

In the quarter ended December 31, 2008, CONSOL Energy filed timely claims for refunds of the BLET with the Internal Revenue Service in the amount of $26,539. In addition, the estimated interest related to the BLET refunds expected to be received was $32,444. In relation to this receivable, CONSOL Energy also recognized $3,187 of expense in the quarter ended December 31, 2008 that will be owed to third parties upon collection of the refunds. CONSOL Energy recognized an additional $352 of interest income related to these claims in the three months ended March 31, 2009. CONSOL Energy believes that it will receive refunds of BLET erroneously paid on export sales in the amounts requested in its filing with the Internal Revenue Service plus interest as required by the EESA Act prior to December 31, 2009.

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At March 31, 2009, CONSOL Energy has provided the following financial guarantees, unconditional purchase obligations and letters of credit to certain third parties, as described by major category in the following table. These amounts represent the maximum potential total of future payments that we could be required to make under these instruments. These amounts have not been reduced for potential recoveries under recourse or collateralization provisions. Generally, recoveries under reclamation bonds would be limited to the extent of the work performed at the time of the default. No amounts related to these financial guarantees and letters of credits are recorded as liabilities on the financial statements. CONSOL Energy management believes that these guarantees will expire without being funded, and therefore the commitments will not have a material adverse effect on financial condition.

	Total Amounts Committed	Amount and Duration of Commitment			
		Less Than 1 Year	1-3 Years	3-5 Years	Beyond 5 Years
Letters of Credit:					
Employee-Related	$ 191,685	$ 191,685	$	$	$
Environmental	63,502	63,502			
Gas	14,933	14,781	152		
Other	11,949	11,949			
Total Letters of Credit	282,069	281,917	152		
Surety Bonds:					
Employee-Related	192,151	173,151	19,000		
Environmental	336,245	324,666	11,579		
Gas	4,711	4,697	14		
Other	9,975	9,954	21		
Total Surety Bonds	543,082	512,468	30,614		
Guarantees:					
Coal	360,661	218,735	136,451	2,222	3,253
Gas	32,808	29,708			3,100
Other	252,235	32,488	59,265	47,535	112,947
Total Guarantees	645,704	280,931	195,716	49,757	119,300
Total Commitments	$ 1,470,855	$ 1,075,316	$ 226,482	$ 49,757	$ 119,300

Employee-related financial guarantees have primarily been provided to support the United Mine Workers of America s 1992 Benefit Plan and various state workers compensation self-insurance programs. Environmental financial guarantees have primarily been provided to support various performance bonds related to reclamation and other environmental issues. Gas financial guarantees have primarily been provided to support various performance bonds related to land usage and restorative issues. Other guarantees have been extended to support insurance policies, legal matters and various other items necessary in the normal course of business. Other guarantees have also been provided to promise the full and timely payments to lessors of mining equipment and support various other items necessary in the normal course of business. Surety bonds are typically renewed each year. However, the majority of the surety bonds are non-cancelable by the issuer, most notably for employee-related and environmental obligations.

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CONSOL Energy and CNX Gas enter into long-term unconditional purchase obligations to procure major equipment purchases, natural gas firm transportation, gas drilling services and other operating goods and services. These purchase obligations are not recorded on the Consolidated Balance Sheet. As of March 31, 2009, the purchase obligations for each of the next five years were as follows:

Obligations Due	Amount
Less than 1 year	$ 50,737
1-3 years	43,948
3-5 years	31,977
More than 5 years	234,480
Total purchase obligations	$ 361,142

NOTE 11 DERIVATIVES

CONSOL Energy enters into financial derivative instruments to manage our exposure to natural gas price volatility. Our derivatives are accounted for under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), as amended. We measure every derivative instrument at fair value and record them on the balance sheet as either an asset or liability. Changes in fair value of derivatives are recorded currently in earnings unless special hedge accounting criteria are met. For derivatives designated as fair value hedges, the changes in fair value of both the derivative instrument and the hedged item are recorded in earnings. For derivatives designated as cash flow hedges, the effective portions of changes in fair value of the derivative are reported in other comprehensive income or loss and reclassified into earnings in the same period or periods which the forecasted transaction affects earnings. The ineffective portions of hedges are recognized in earnings in the current year. CONSOL Energy currently utilizes only cash flow hedges that are considered highly effective.

CONSOL Energy formally assesses, both at inception of the hedge and on an ongoing basis, whether each derivative is highly effective in offsetting changes in fair values or cash flows of the hedge item. If it is determined that a derivative is not highly effective as a hedge or if a derivative ceases to be a highly effective hedge, CONSOL Energy will discontinue hedge accounting prospectively.

CONSOL Energy is exposed to credit risk in the event of nonperformance by counterparties. The creditworthiness of counterparties is subject to continuing review. All of the counterparties to CONSOL Energy s natural gas derivative instruments also participate in CONSOL Energy s revolving credit facility. The Company has not experienced any issues of non-performance by derivative counterparties.

CONSOL Energy has entered into forward and option contracts on various commodities to manage the price risk associated with forecasted revenues of those commodities. The objective of the hedges is to reduce the variability of cash flows associated with the forecasted revenues of those commodities.

As of March 31, 2009, the total notional amount of the Company s outstanding natural gas forward contracts that were entered into to hedge forecasted revenues was 56.3 Bcf. The forward contracts are forecasted to settle through December 31, 2010. Over the next twelve months, $120,177 of gain is expected to be reclassified out of Other Comprehensive Income and into Earnings. No gains or losses were reclassified into earnings as a result of the discontinuance of cash flow hedges.

As of March 31, 2009, the total notional amount of the Company s outstanding coal sales options was 250 tons. These coal sales options do not qualify for hedge accounting under SFAS 133. The options are expected to settle or expire over the next nine months.

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The fair value of CONSOL Energy s derivative instruments at March 31, 2009 are as follows:

As of March 31	Asset Derivatives 2009		Liability Derivatives 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments under Statement 133				
Natural Gas Price Swaps	Prepaid Expense	$ 199,909		$
Natural Gas Price Swaps	Other assets	53,225		
Total derivatives designated as hedging instruments under Statement 133		$ 253,134		$
Derivative not designated as hedging instruments under Statement 133				
Coal Sales Options		$	Other Liabilities	$ 83
Total derivatives not designated as hedging instruments under Statement 133		$		$ 83
Total Derivatives		$ 253,134		$ 83

Derivative in Statement 133 Cash Flow Hedging Relationship	Amount of Gain (Loss) Recognized in OCI on Derivative 2009	Location of Gain (Loss) Reclassified from Accumulated OCI into Income	Amount of Gain (Loss) Reclassified from Accumulated OCI into Income 2009	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative 2009
Natural Gas Price Swaps	$ 78,948	Outside Sales	$ 50,618	Outside Sales	$ (375)
Total	$ 78,948		$ 50,618		$ (375)

Derivatives not Designated as Hedging Instruments under Statement 133	Location of Gain (Loss) Recognized in Income on Derivative	Amount of Gain (Loss) Recognized in Income on Derivative 2009
Coal Sales Options	Other Income	$ 2,135
Total		$ 2,135

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NOTE 12 OTHER COMPREHENSIVE INCOME:

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

	Treasury Rate Lock	Change in Fair Value of Cash Flow Hedges	Minimum Pension Liability	Adjustments for FASB Statement No. 158	Accumulated Other Comprehensive Loss
Balance at December 31, 2008	$ 263	$ 102,625	$	$ (564,788)	$ (461,900)
Net increase in value of cash flow hedges		65,788			65,788
Reclassification of cash flow hedges from other comprehensive income to earnings		(41,868)			(41,868)
Current period change	(20)			1,497	1,477
Comprehensive Income	243	126,545		(563,291)	(436,503)
Comprehensive income attributable to Noncontrolling Interest		4,785		(4)	4,781
Balance at March 31, 2009	$ 243	$ 131,330	$	$ (563,295)	$ (431,722)

NOTE 13 FAIR VALUE OF FINANCIAL INSTRUMENTS:

The financial assets (liabilities) measured at fair value on a recurring basis are summarized below:

	Fair Value Measurements at March 31, 2009		
Description	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Gas Cash Flow Hedges	$	$ 253,134	$
Coal Sales Options	$	$ (83)	$

Statement of Financial Accounting Standards No. 107, Disclosures About Fair Value of Financial Instruments (SFAS 107) requires the disclosure of the estimated fair value of financial instruments including those financial instruments for which the SFAS 159 fair value option was not elected. The following methods and assumptions were used to estimate the fair value of those financial instruments:

Cash and cash equivalents: The carrying amount reported in the balance sheets for cash and cash equivalents approximates its fair value due to the short maturity of these instruments.

Short-term notes payable: The carrying amount reported in the balance sheets for short-term notes payable approximates its fair value due to the short-term maturity of these instruments.

Long-term debt: The fair values of long-term debt are estimated using discounted cash flow analyses, based on CONSOL Energy s current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of financial instruments for which SFAS 159 was not elected are as follows:

	March 31, 2009		December 31, 2008	
		Fair Value		Fair Value

	Carrying Amount		Carrying Amount	
Cash and cash equivalents	$ 71,555	$ 71,555	$ 138,512	$ 138,512
Short-term notes payable	$ (520,400)	$ (520,400)	$ (557,700)	$ (557,700)
Long-term debt	$ (401,250)	$ (403,940)	$ (402,287)	$ (390,278)

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NOTE 14 SEGMENT INFORMATION:

CONSOL Energy has two principal business units: Coal and Gas. The principal activities of the Coal unit are mining, preparation and marketing of steam coal, sold primarily to power generators, and metallurgical coal, sold to metal and coke producers. The Coal unit includes four reportable segments. These reportable segments are Northern Appalachian, Central Appalachian, Metallurgical and Other Coal. Each of these reportable segments includes a number of operating segments (mines). For the three months ended March 31, 2009, the Northern Appalachian aggregated segment includes the following mines: Blacksville #2, Robinson Run, McElroy, Loveridge, Bailey, Enlow Fork, Shoemaker and Mine 84. For the three months ended March 31, 2009, the Central Appalachian aggregated segment includes the following mines: Jones Fork, the Fola Complex and the Terry Eagle Complex. For the three months ended March 31, 2009, the Metallurgical aggregated segment includes the Buchanan and Amonate mines. The Other Coal segment includes our purchased coal activities, idled mine cost, coal segment business units not meeting aggregation criteria, as well as various other activities assigned to the coal segment but not allocated to each individual mine. The principal activity of the Gas unit is to produce pipeline quality methane gas for sale primarily to gas wholesalers. CONSOL Energy s All Other classification is made up of the Company s terminal services, river and dock services, industrial supply services and other business activities, including rentals of buildings and flight operations. Intersegment sales have been recorded at amounts approximating market. Operating profit for each segment is based on sales less identifiable operating and non-operating expenses. Certain reclassifications of 2008 segment information have been made to conform to the 2009 presentation.

Industry segment results for the three months ended March 31, 2009:

	Northern Appalachian	Central Appalachian	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate, Adjustments & Eliminations	Consolidated
Sales Outside	$ 684,322	$ 74,639	$ 70,952	$ 88,323	$ 918,236	$ 161,905	$ 70,103	$	$ 1,150,244
Sales Gas Royalty Interests									