CONSOL Energy Inc
Form 10-Q
October 31, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from to

Commission file number: 001-14901

CONSOL Energy Inc.
(Exact name of registrant as specified in its charter)

Delaware	51-0337383
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1000 CONSOL Energy Drive
Canonsburg, PA 15317-6506
(724) 485-4000
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller Reporting Company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes o No 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 October 19, 2011

Common stock, $0.01 par value	226,821,506

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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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Sales—Outside	$1,421,689	$1,260,499	$4,293,167	$3,650,129
Sales—Gas Royalty Interests	17,083	18,131	52,191	46,621
Sales—Purchased Gas	1,155	3,524	3,297	8,280
Freight—Outside	59,871	37,269	156,311	96,544
Other Income	21,931	29,870	70,068	77,126
Total Revenue and Other Income	1,521,729	1,349,293	4,575,034	3,878,700
Cost of Goods Sold and Other Operating Charges (exclusive of depreciation, depletion and amortization shown below)	879,268	850,819	2,620,376	2,436,452
Transaction and Financing Fees	14,907	337	14,907	64,415
Loss on Debt Extinguishment	—	—	16,090	—
Gas Royalty Interests Costs	15,409	16,408	46,582	40,133
Purchased Gas Costs	398	3,333	2,850	6,980
Freight Expense	59,871	37,269	156,122	96,544
Selling, General and Administrative Expenses	46,692	38,722	130,311	107,897
Depreciation, Depletion and Amortization	159,750	161,429	466,612	413,379
Abandonment of Long-Lived Assets	338	—	115,817	—
Interest Expense	58,884	66,430	189,963	139,613
Taxes Other Than Income	85,790	83,406	265,121	243,831
Total Costs	1,321,307	1,258,153	4,024,751	3,549,244
Earnings Before Income Taxes	200,422	91,140	550,283	329,456
Income Taxes	33,093	15,757	113,421	75,291
Net Income	167,329	75,383	436,862	254,165
Less: Net Income Attributable to Noncontrolling Interest	—	—	—	(11,845)
Net Income Attributable to CONSOL Energy Inc. Shareholders	$167,329	$75,383	$436,862	$242,320
Earnings Per Share:				
Basic	$0.74	$0.33	$1.93	$1.15
Dilutive	$0.73	$0.33	$1.91	$1.13
Weighted Average Number of Common Shares Outstanding:				
Basic	226,744,011	225,781,539	226,582,226	211,235,893
Dilutive	229,163,537	228,092,299	229,002,863	213,638,176
Dividends Paid Per Share	$0.10	$0.10	$0.30	$0.30

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)

	(Unaudited) September 30, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$472,523	$32,794
Accounts and Notes Receivable:		
Trade	503,076	252,530
Other Receivables	331,614	21,589
Accounts Receivable—Securitized	—	200,000
Inventories	241,691	258,538
Deferred Income Taxes	157,247	174,171
Recoverable Income Taxes	11,504	32,528
Prepaid Expenses	184,263	142,856
Total Current Assets	1,901,918	1,115,006
Property, Plant and Equipment:		
Property, Plant and Equipment	13,837,263	14,951,358
Less—Accumulated Depreciation, Depletion and Amortization	4,766,163	4,822,107
Total Property, Plant and Equipment—Net	9,071,100	10,129,251
Other Assets:		
Deferred Income Taxes	458,858	484,846
Restricted Cash	20,291	20,291
Investment in Affiliates	175,818	93,509
Other	535,063	227,707
Total Other Assets	1,190,030	826,353
TOTAL ASSETS	$12,163,048	$12,070,610

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

CONSOL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	(Unaudited) September 30, 2011	December 31, 2010
LIABILITIES AND EQUITY		
Current Liabilities:		
Accounts Payable	$448,667	$354,011
Short-Term Notes Payable	—	284,000
Current Portion of Long-Term Debt	20,306	24,783
Borrowings Under Securitization Facility	—	200,000
Other Accrued Liabilities	833,939	801,991
Total Current Liabilities	1,302,912	1,664,785
Long-Term Debt:		
Long-Term Debt	3,123,434	3,128,736
Capital Lease Obligations	55,298	57,402
Total Long-Term Debt	3,178,732	3,186,138
Deferred Credits and Other Liabilities:		
Postretirement Benefits Other Than Pensions	3,094,164	3,077,390
Pneumoconiosis Benefits	177,162	173,616
Mine Closing	401,049	393,754
Gas Well Closing	118,525	130,978
Workers' Compensation	149,827	148,314
Salary Retirement	114,543	161,173
Reclamation	39,513	53,839
Other	159,878	144,610
Total Deferred Credits and Other Liabilities	4,254,661	4,283,674
TOTAL LIABILITIES	8,736,305	9,134,597
Stockholders' Equity:		
Common Stock, $.01 Par Value; 500,000,000 Shares Authorized, 227,289,426 Issued and 226,781,351 Outstanding at September 30, 2011; 227,289,426 Issued and 226,162,133 Outstanding at December 31, 2010	2,273	2,273
Capital in Excess of Par Value	2,219,783	2,178,604
Preferred Stock, 15,000,000 shares authorized, None issued and outstanding	—	—
Retained Earnings	2,025,794	1,680,597
Accumulated Other Comprehensive Loss	(800,896)	(874,338)
Common Stock in Treasury, at Cost—508,075 Shares at September 30, 2011 and 1,127,293 Shares at December 31, 2010	(20,211)	(42,659)
Total CONSOL Energy Inc. Stockholders' Equity	3,426,743	2,944,477
Noncontrolling Interest	—	(8,464)
TOTAL EQUITY	3,426,743	2,936,013
TOTAL LIABILITIES AND EQUITY	$12,163,048	$12,070,610

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

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)	Accumulated Other Comprehensive Income (Loss)	Common Stock in Treasury	Total CONSOL Energy Inc. Stockholders' Equity	Non-Controlling Interest	Total Equity
Balance at December 31, 2010	$2,273	$2,178,604	$1,680,597	$(874,338)	$(42,659)	$2,944,477	$(8,464)	$2,936,013
(Unaudited)								
Net Income	—	—	436,862	—	—	436,862	—	436,862
Treasury Rate Lock (Net of $59 Tax)	—	—	—	(96)	—	(96)	—	(96)
Gas Cash Flow Hedge (Net of $22,767 Tax)	—	—	—	35,702	—	35,702	—	35,702
Actuarially Determined Long-Term Liability Adjustments (Net of $23,547 Tax)	—	—	—	37,836	—	37,836	—	37,836
Comprehensive Income (Loss)	—	—	436,862	73,442	—	510,304	—	510,304
Issuance of Treasury Stock	—	—	(23,693)	—	22,448	(1,245)	—	(1,245)
Tax Benefit From Stock-Based Compensation	—	4,096	—	—	—	4,096	—	4,096
Amortization of Stock-Based Compensation Awards	—	37,083	—	—	—	37,083	—	37,083
Net Change in Noncontrolling Interest	—	—	—	—	—	—	8,464	8,464
Dividends ($0.30 per share)	—	—	(67,972)	—	—	(67,972)	—	(67,972)
Balance at September 30, 2011	$2,273	$2,219,783	$2,025,794	$(800,896)	$(20,211)	$3,426,743	$—	$3,426,743

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

CONSOL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30, 2011	2010
Operating Activities:		
Net Income	$436,862	$254,165
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation, Depletion and Amortization	466,612	413,379
Abandonment of Long-Lived Assets	115,817	—
Stock-Based Compensation	37,083	33,580
Loss (Gain) on Sale of Assets	9,993	(8,475)
Loss on Debt Extinguishment	16,090	—
Amortization of Mineral Leases	4,149	3,890
Deferred Income Taxes	120	3,372
Equity in Earnings of Affiliates	(19,989)	(15,595)
Changes in Operating Assets:		
Accounts and Notes Receivable	(50,212)	(66,840)
Inventories	16,264	45,126
Prepaid Expenses	(611)	(26,216)
Changes in Other Assets	16,446	23,764
Changes in Operating Liabilities:		
Accounts Payable	98,320	63,168
Other Operating Liabilities	66,589	109,371
Changes in Other Liabilities	29,432	14,051
Other	9,439	32,190
Net Cash Provided by Operating Activities	1,252,404	878,930
Investing Activities:		
Capital Expenditures	(997,463)	(821,908)
Acquisition of Dominion Exploration and Production Business	—	(3,474,199)
Purchase of CNX Gas Noncontrolling Interest	—	(991,034)
Proceeds from Sales of Assets	695,291	24,944
Distributions from Equity Affiliates	70,860	6,867
Net Cash Used in Investing Activities	(231,312)	(5,255,330)
Financing Activities:		
Payments on Short-Term Borrowings	(284,000)	(258,950)
Payments on Miscellaneous Borrowings	(9,320)	(8,564)
(Payments on) Proceeds from Securitization Facility	(200,000)	150,000
Payments on Long-Term Notes, Including Redemption Premium	(265,785)	—
Proceeds from Issuance of Long-Term Notes	250,000	2,750,000
Tax Benefit from Stock-Based Compensation	5,034	9,926
Dividends Paid	(67,972)	(63,276)
Proceeds from Issuance of Common Stock	—	1,828,862
Issuance of Treasury Stock	6,219	2,601
Debt Issuance and Financing Fees	(15,539)	(84,224)
Net Cash (Used In) Provided By Financing Activities	(581,363)	4,326,375
Net Increase (Decrease) in Cash and Cash Equivalents	439,729	(50,025)

Cash and Cash Equivalents at Beginning of Period	32,794	65,607
Cash and Cash Equivalents at End of Period	$472,523	$15,582

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

CONSOL ENERGY INC. AND SUBSIDIARIES
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
(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 and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for future periods.
The balance sheet at December 31, 2010 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, 2010 included in CONSOL Energy Inc.'s Form 10-K.
Basic earnings per share are computed by dividing net income 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 assumed exercise of stock options and performance stock options and the assumed vesting of restricted and performance stock units, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and performance share options were exercised, that outstanding restricted and performance share units were released, and that the proceeds from such activities were used to acquire shares of common stock at the average market price during the reporting period. CONSOL Energy Inc. (CONSOL Energy or Company) includes the impact of pro forma deferred tax assets in determining potential windfalls and shortfalls for purposes of calculating assumed proceeds under the treasury stock method. The table below sets forth the share-based awards that have been excluded from the computation of the diluted earnings per share because their effect would be anti-dilutive:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Anti-Dilutive Options	1,154,051	819,189	1,154,051	819,189
Anti-Dilutive Restricted Stock Units	—	—	—	1,960
Anti-Dilutive Performance Share Units	21,675	—	—	—
	1,175,726	819,189	1,154,051	821,149

The table below sets forth the share-based awards that have been exercised or released:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Options	72,254	23,562	311,003	146,555
Restricted Stock Units	20,589	35,355	424,958	340,699
Performance Share Units	—	—	40,752	109,955
	92,843	58,917	776,713	597,209

The weighted average exercise price per share of the options exercised during the three months ended September 30, 2011 and 2010 was $16.69 and $16.01, respectively. The weighted average exercise price per share of the options exercised during the nine months ended September 30, 2011 and 2010 was $20.00 and $17.69, respectively.

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

	Three Month Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income attributable to CONSOL Energy Inc. shareholders	$167,329	$75,383	$436,862	$242,320
Weighted average shares of common stock outstanding:				
Basic	226,744,011	225,781,539	226,582,226	211,235,893
Effect of stock-based compensation awards	2,419,526	2,310,760	2,420,637	2,402,283
Dilutive	229,163,537	228,092,299	229,002,863	213,638,176
Earnings per share:				
Basic	$0.74	$0.33	$1.93	$1.15
Dilutive	$0.73	$0.33	$1.91	$1.13

NOTE 2—ACQUISITIONS AND DISPOSITIONS:

On September 30, 2011, CNX Gas Company (CNX Gas) completed a sale to Noble Energy, Inc. (Noble) of 50% of the Company's undivided interest in certain Marcellus Shale oil and gas properties in West Virginia and Pennsylvania covering approximately 628 thousand acres and 50% of the Company's undivided interest in certain of its existing Marcellus Shale wells and related leases. On September 30, 2011, cash proceeds of $519,188 were received from Noble. In addition to the cash proceeds, a one year note receivable due on September 30, 2012 in the amount of $311,754 and a two year note receivable due on September 30, 2013 in the amount of $296,343 have been recorded. These short and long-term notes receivable are included in the Consolidated Balance Sheets as Accounts and Notes Receivables—Other Receivables and Other Assets—Other, respectively. A loss of $64,429 on the transaction was recorded and is included in Other Income on the Consolidated Statements of Income. As part of the transaction, CONSOL Energy also received a commitment from Noble Energy to pay one-third of the Company's working interest share of certain drilling and completion costs, up to approximately $2,100,000 with certain restrictions.

The following unaudited pro forma combined financial statements are based on CONSOL Energy's historical consolidated financial statements and adjusted to give effect to the September 30, 2011 sale of a 50% interest in certain Marcellus Shale assets. The unaudited pro forma results for the periods presented below are prepared as if the transaction occurred as of January 1, 2010.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Total Revenue and Other Income	$1,502,660	$1,341,784	$4,531,696	$3,862,000
Earnings Before Income Taxes	$195,882	$89,936	$538,152	$327,324
Net Income Attributable to CONSOL Energy Inc. Shareholders	$163,822	$74,458	$427,491	$240,683
Basic Earnings Per Share	$0.72	$0.33	$1.89	$1.14
Dilutive Earnings Per Share	$0.71	$0.33	$1.87	$1.12

The pro forma results are not necessarily indicative of what actually would have occurred if the transaction had been completed as of January 1, 2010, nor are they necessarily indicative of future consolidated results.

On September 30 2011, CNX Gas and Noble formed CONE Gathering LLC (CONE), a joint venture established to develop and operate each company's gas gathering system needs in the Marcellus Shale play. CNX Gas' 50% ownership interest in CONE is accounted for under the equity method of accounting. CNX Gas contributed its existing Marcellus Shale gathering infrastructure which had a net book value of $133,181 and Noble contributed cash of approximately $73,492. On September 30, 2011, CONE made a cash distribution to CNX Gas in the amount of

$73,492. The cash proceeds have been recorded as cash inflows of $66,590 and $6,902 in Distributions from Equity Affiliates and Proceeds from the Sale of Assets, respectively, on the Consolidated Statement of Cash Flows. Additionally, a gain of $6,388 has been included in Other Income in the Consolidated Statements of Income.

On September 21, 2011 CONSOL Energy entered into an agreement with Antero Resources Appalachian Corp. (Antero), pursuant to which CONSOL Energy assigned to Antero overriding royalty interests (ORRI) of approximately 7% in 115,647 net acres of Marcellus Shale located in nine counties in southwestern Pennsylvania and north central West Virginia, in exchange for $193,000. The net gain of $41,208 is included in Other Income in the Consolidated Statements of Income.

In September 2010, CONSOL Energy completed a sale-leaseback of longwall shields for Enlow Fork. Cash proceeds from the sale were $14,551, 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 June 2010, CONSOL Energy paid Yukon Pocahontas Coal Company $30,000 cash to acquire certain coal reserves and $20,000 cash in advanced royalty payments recoupable against future production. Both payments were made per a settlement agreement in regards to the depositing of untreated water from the Buchanan Mine, a mine operated by one of our subsidiaries, into the void spaces of the nearby mines of one of our other subsidiaries, Island Creek Coal Company.

On June 1, 2010, CONSOL Energy completed the acquisition of CNX Gas Corporation (CNX Gas) outstanding common stock for a cash payment of $966,811 pursuant to a tender offer followed by a short-form merger in which CNX Gas became a wholly owned subsidiary of CONSOL Energy (CNX Gas Acquisition). All of the shares of CNX Gas that were not already owned by CONSOL Energy were acquired at a price of $38.25 per share. CONSOL Energy previously owned approximately 83.3% of the approximately 151 million shares of CNX Gas common stock outstanding. An additional $24,223 cash payment was made to cancel previously vested but unexercised CNX Gas stock options. CONSOL Energy financed the acquisition of CNX Gas shares by means of internally generated funds, borrowings under its credit facilities and proceeds from its offering of common stock.

On April 30, 2010, CONSOL Energy completed the acquisition of the Appalachian oil and gas exploration and production business of Dominion Resources, Inc. (Dominion Acquisition) for a cash payment as of September 30, 2010 of $3,474,199 which was principally allocated to oil & gas properties, wells and well-related equipment. The acquisition, which was accounted for under the acquisition method of accounting, includes approximately 1 trillion cubic feet equivalents (Tcfe) of net proved reserves and 1.46 million net acres of oil and gas rights within the Appalachian Basin. Included in the acreage holdings are approximately 500 thousand prospective net Marcellus Shale acres located predominantly in southwestern Pennsylvania and northern West Virginia. Dominion is a producer and transporter of natural gas as well as a provider of electricity and related services. The acquisition enhanced CONSOL Energy's position in the strategic Marcellus Shale fairway by increasing its development assets.

The unaudited pro forma results for the three and nine months ended September 30, 2010, assuming the acquisition had occurred at January 1, 2010, are presented below. Pro forma adjustments include estimated operating results, transaction and financing fees incurred, additional interest related to the $2.75 billion of senior unsecured notes and 44,275,000 shares of common stock issued in connection with the transaction.

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Total Revenue and Other Income	$1,349,293	$3,945,687
Earnings Before Income Taxes	$91,140	$275,748
Net Income Attributable to CONSOL Energy Inc. Shareholders	$75,383	$210,299
Basic Earnings Per Share	$0.33	$0.93
Dilutive Earnings Per Share	$0.33	$0.92

The pro forma results are not necessarily indicative of what actually would have occurred if the Dominion Acquisition had been completed as of January 1, 2010, nor are they necessarily indicative of future consolidated results.

CONSOL Energy incurred $337 and $64,415 of acquisition-related costs as a direct result of the Dominion Acquisition and CNX Gas Acquisition for the three and nine months ended September 30, 2010, respectively. These expenses have been included within Transaction and Financing Fees on the Consolidated Statements of Income for the period ended September 30, 2010.

In March 2010, CONSOL Energy completed the sale of the Jones Fork Mining Complex as part of a litigation settlement with Kentucky Fuel Corporation. No cash proceeds were received and $10,482 of litigation settlement expense was recorded in Cost of Goods Sold and Other Operating Charges. The loss recorded was net of $8,700 related to the fair value of estimated amounts to be collected related to an overriding royalty on future mineable and merchantable coal extracted and sold from the property.

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

Components of net periodic costs for the three and nine months ended September 30 are as follows:

	Pension Benefits				Other Postretirement Benefits			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30,		September 30,		September 30,		September 30,	
	2011	2010	2011	2010	2011	2010	2011	2010
Service cost	$4,364	$3,644	$13,093	$10,857	$3,419	$3,303	$10,258	$9,843
Interest cost	9,436	9,311	28,308	27,908	44,935	40,725	134,804	122,091
Expected return on plan assets	(9,631)	(9,262)	(28,892)	(27,786)	—	—	—	—
Amortization of prior service cost (credits)	(167)	(184)	(500)	(551)	(11,599)	(11,604)	(34,798)	(34,811)
Recognized net actuarial loss	9,526	7,968	28,577	23,903	26,341	17,537	79,023	52,609
Net periodic benefit cost	$13,528	$11,477	$40,586	$34,331	$63,096	$49,961	$189,287	$149,732

For the nine months ended September 30, 2011, $57,713 in contributions were paid to the pension trust for pension benefits from operating cash flows. CONSOL Energy expects to contribute to the pension trust using prudent funding methods. Currently, depending on asset values and asset returns held in the trust, we expect to contribute $71,700 to the pension trust in 2011.

CONSOL Energy does not expect to contribute to the other postemployment benefit plan in 2011. We intend to pay benefit claims as they become due. For the nine months ended September 30, 2011, $123,185 of other postemployment benefits have been paid.

For the nine months ended September 30, 2011, $7,781 of proceeds were received under the Patient Protection and Affordable Care Act related to reimbursements from the Federal government for retiree health spending. The proceeds were recorded in Accumulated Other Comprehensive Income in the Consolidated Balance Sheets. There is no guarantee that additional proceeds will be received under this program.

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

Components of net periodic costs (benefits) for the three and nine months ended September 30 are as follows:

	CWP				Workers' Compensation			
	Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30,		September 30,		September 30,		September 30,	
	2011	2010	2011	2010	2011	2010	2011	2010
Service cost	$1,155	$1,040	$3,465	$4,027	$4,468	$6,754	$13,404	$20,262
Interest cost	2,332	2,681	6,997	8,108	2,059	2,289	6,178	6,867
Amortization of actuarial gain	(5,477)	(5,777)	(16,432)	(16,536)	(977)	(768)	(2,930)	(2,304)
State administrative fees and insurance bond premiums	—	—	—	—	1,459	2,020	4,667	6,238
Legal and administrative costs	750	750	2,250	2,250	719	785	2,156	2,354
Net periodic (benefit) cost	$(1,240)	$(1,306)	$(3,720)	$(2,151)	$7,728	$11,080	$23,475	$33,417

CONSOL Energy does not expect to contribute to the CWP plan in 2011. We intend to pay benefit claims as they become due. For the nine months ended September 30, 2011, $8,833 of CWP benefit claims have been paid. CONSOL Energy does not expect to contribute to the workers' compensation plan in 2011. We intend to pay benefit claims as they become due. For the nine months ended September 30, 2011, $23,314 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 and as a percentage of pretax income, of the U.S. statutory federal income tax rate to CONSOL Energy's effective tax rate:

	For the Nine Months Ended September 30,			
	2011		2010	
	Amount	Percent	Amount	Percent
Statutory U.S. federal income tax rate	$192,599	35.0 %	$115,310	35.0 %
Excess tax depletion	(76,561)	(13.9)	(49,852)	(15.1)
Effect of domestic production activities	(10,038)	(1.8)	(4,916)	(1.5)
Effect of federal tax accrual to tax return	(10,249)	(1.9)	3,163	1.0
IRS and state tax examination settlements	(5,187)	(0.9)	—	—
Net effect of state income taxes	16,088	2.9	9,220	2.8
Other	6,769	1.2	2,366	0.7
Income Tax Expense / Effective Rate	$113,421	20.6 %	$75,291	22.9 %

The effective rates for the nine months ended September 30, 2011 and 2010 were calculated using the annual effective rate projection on recurring earnings and include tax liabilities related to certain discrete transactions which are described below.

CONSOL Energy and its subsidiaries file income tax returns in the U.S. federal, various state 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 2008. The Internal Revenue Service has issued its audit report relating to the examination of CONSOL Energy's 2006 and 2007 U.S. income tax returns during the three months ended September 30, 2011. As a result of these findings, CONSOL Energy paid federal and state income tax deficiencies of $10,765 and $1,523, respectively. The federal and state income tax deficiencies paid were related of the IRS' examination of the Company's 2006 and 2007 tax returns and were the result of changes in the timing of certain tax deductions. The change in timing of certain tax deductions increased the tax benefit of percentage depletion by $2,594 and $908 in tax years 2006 and 2007, respectively. The

Company also realized a tax benefit of $981 on state income taxes related to the the federal percentage depletion increases.

For the nine months ended September 30, 2011, CONSOL Energy recognized certain tax benefits as a result of changes in estimates related to a prior-year tax provision. Due to the results of the IRS' audit of tax years 2006 and 2007 resulted in a tax position that increased the deduction for percentage depletion on the 2010 tax return compared to the 2010 tax accrual. The result of these changes was a tax reduction of $7,310. Additionally, the Company concluded, based on subsequent-year developments, that claiming a Foreign Tax Credit was more tax efficient than deducting foreign income taxes paid. This change resulted in a $3,331 reduction in tax expense. The actualization of various other estimates resulted in a tax increase of $392.

CONSOL Energy was advised by the Canadian Revenue Agency and various provinces that its appeal of tax deficiencies paid as a result of the Agency's audit of the Canadian tax returns filed for years 1997 through 2003 had been successfully resolved. As a result of the audit settlement, the Company reflected $3,424 as a discrete reduction to foreign income tax expense in the nine months ended September 30, 2010. As a result of the foreign income tax reduction, the Company reflected an additional $1,445 as discrete federal income tax expense. This discrete transaction was reflected in the Other line of the rate reconciliation in 2010.

As a result of the Dominion Acquisition, CONSOL Energy recognized a discrete state income tax expense of $1,782 due to the impact of the acquisition on existing deferred tax assets and liabilities in the nine months ended September 30, 2010. Accordingly, a discrete reduction to federal income tax expense of $624 was also recognized related to this transaction. This discrete transaction was reflected in the Net effect of state income taxes line of the rate reconciliation in 2010.

CONSOL Energy was notified by the state of Ohio that the state had completed its audit of the Company's net operating loss (NOL) carryovers. In 2010, Ohio completed a transition from an income and franchise tax to a Commercial Activities Tax (CAT). The state's audit concluded that CONSOL Energy is entitled to a credit for unused NOLs against future CAT liabilities. These NOLs were previously fully reserved. In the nine months ended September 30, 2010, CONSOL Energy recognized a discrete reduction to state income tax expense of $2,068 related to the reversal of the previously recognized NOL allowance based on the audit settlement. This discrete transaction was reflected in the Net effect of state income taxes line of the rate reconciliation in 2010.

The total amounts of uncertain tax positions at September 30, 2011 and 2010 were $42,932 and $56,916, respectively. If these uncertain tax positions were recognized, approximately $16,802 and $15,502, respectively, would affect CONSOL Energy’s effective tax rate. There were no additions to the liability for unrecognized tax benefits during the nine months ended September 30, 2011 and 2010. The reduction in unrecognized tax benefits in the nine months ended September 30, 2011, is a result of the completion of the Internal Revenue Service audit of the tax years 2006 and 2007 discussed above.

CONSOL Energy recognizes interest accrued related to uncertain tax positions in its interest expense. As of September 30, 2011 and 2010, the Company reported an accrued interest liability relating to uncertain tax positions of $7,309 and $10,578, respectively. The accrued interest liability includes $1,160 of interest income and $2,240 of interest expense that is reflected in the Company’s Consolidated Statements of Income for the nine months ended September 30, 2011 and 2010, respectively. The reduction in accrued interest related to unrecognized tax benefits in the nine months ended September 30, 2011, was the result of the completion of the Internal Revenue Service audit. During the nine months ended September 30, 2011, CONSOL Energy paid interest of $2,305 on federal income tax deficiencies previously recognized in interest accrued related to unrecognized tax benefits.

CONSOL Energy recognizes penalties accrued related to uncertain tax positions in its income tax expense. As of September 30, 2011 and 2010, CONSOL Energy had no accrued liability for tax penalties.

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NOTE 6—INVENTORIES:
Inventory components consist of the following:

	September 30, 2011	December 31, 2010
Coal	$90,914	$108,694
Merchandise for resale	42,140	50,120
Supplies	108,637	99,724
Total Inventories	$241,691	$258,538

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 $24,094 and $19,624 at September 30, 2011 and December 31, 2010, 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 $200,000. The facility also allows for the issuance of letters of credit against the $200,000 capacity. At September 30, 2011, there were no letters of credit outstanding against the facility. CNX Funding Corporation, a wholly owned, special purpose, bankruptcy-remote subsidiary, buys and sells eligible trade receivables generated by certain subsidiaries of CONSOL Energy. Under the receivables facility, CONSOL Energy and certain subsidiaries, irrevocably and without recourse, sell all of their eligible trade accounts receivable to CNX Funding Corporation, who in turn sells these receivables 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. 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 $386 and $1,683 for the three and nine months ended September 30, 2011, respectively. Costs associated with the receivables facility totaled $863 and $1,868 for the three and nine months ended September 30, 2010, 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.
At September 30, 2011 and December 31, 2010, eligible accounts receivable totaled $200,000. There was subordinated retained interest of $200,000 at September 30, 2011 and there was no subordinated retained interest at December 31, 2010. There was no borrowings under the Securitization Facility recorded on the Consolidated Balance Sheet as of September 30, 2011. At December 31, 2010, $200,000 was recorded as Accounts Receivable – Securitization and Borrowings under the Securitization Facility on the Consolidated Balance Sheet based upon the borrowings outstanding at that date. For the nine months ended September 30, 2011 and 2010, the respective $200,000 decrease and $150,000 increase in the accounts receivable securitization program were reflected in Net Cash (Used in) provided by Financing Activities in the Consolidated Statement of Cash Flows. In accordance with the facility agreement, the Company is able to receive proceeds based upon the eligible accounts receivable at the previous month end.

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NOTE 8—PROPERTY, PLANT AND EQUIPMENT:

	September 30, 2011	December 31, 2010
Coal & other plant and equipment	$5,094,572	$5,100,085
Proven gas properties	1,507,682	1,662,605
Coal properties and surface lands	1,307,829	1,292,701
Unproven gas properties	1,280,354	2,206,399
Intangible drilling cost	1,234,529	1,116,884
Gas gathering equipment	925,668	941,772
Airshafts	660,324	662,315
Leased coal lands	540,051	536,603
Mine development	437,385	587,518
Coal advance mining royalties	395,362	389,379
Gas wells and related equipment	374,571	367,448
Other gas assets	74,981	