

CONSOL Energy Inc
Form 10-Q/A
September 21, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended March 31, 2010

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)

Edgar Filing: CONSOL Energy Inc - Form 10-Q/A

Delaware
(State or other jurisdiction of
incorporation or organization)

51-0337383
(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 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 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

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 July 19, 2010
Common stock, \$0.01 par value	225,793,945

Table of Contents

Explanatory Note

This Amendment No. 1 to the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2010 (the "Quarterly Report") of CONSOL Energy Inc. ("CONSOL Energy") filed with the Securities and Exchange Commission (the "SEC") on May 4, 2010, is filed in order to amend and restate Item 2 of Part I, "Management's Discussion and Analysis of Financial Condition and Results of Operations" by removing reference to the credit ratings given to CONSOL Energy, its 7.875% Notes due March 2012, its 8% senior unsecured notes due in 2017 and its 8.25% senior unsecured notes due in 2020 by various rating agencies. The credit ratings are being removed to insure that the consent of the ratings agencies are not required for future registration statements filed under the Securities Act of 1933 ("Registration Statements") by CONSOL Energy subsequent to the passage of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Except as described above, no other amendments are being made to the Quarterly Report. This Form 10-Q/A does not reflect events occurring after the May 4, 2010 filing of our Quarterly Report or modify or update the disclosure contained in the Quarterly Report in any way other than as discussed above. In connection with future Registration Statements CONSOL Energy also intends, due to CONSOL Energy management changing in the quarter ended June 30, 2010 the way segments of CONSOL Energy were being evaluated, to file a Form 8-K which will provide revised segment information in accordance with Securities and Exchange Commission guidance in order to enable CONSOL Energy to incorporate the financial statements contained in the Quarterly Report into such Registration Statements.

Table of Contents

TABLE OF CONTENTS

Part I. Financial Information

<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	4
--	---

Part II. Other Information

<u>Item 6. Exhibits</u>	21
-------------------------	----

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

General

CONSOL Energy reported net income attributable to CONSOL Energy shareholders of \$100.3 million, or \$0.54 per diluted share, for the three months ended March 31, 2010. Net income attributable to CONSOL Energy shareholders was \$195.8 million, or \$1.08 per diluted share, for the three months ended March 31, 2009. See Results of Operations below for a detailed explanation of the variance incurred in the period-to-period comparison.

Strengthening demand, decreasing coke stocks, and ongoing logistical constraints are setting up 2010 to be a very strong year for metallurgical coal. Steel plant capacity utilization rates in the U.S. and globally continues to improve compared to last year. Domestic steel mills are using approximately 73% of their capacity, while Asian steel mills currently are running at full capacity. Chinese steel demand is again driving world demand and pricing for coking coal. Through its agreement with Xcoal, CONSOL expects to increase its sales to Asian mills throughout 2010.

Going into the fourth quarter of 2009, thermal coal inventories were at historic highs. Because of the much colder than normal weather in December 2009 through February 2010, inventories at coal-fired power generators have been significantly drawn down, but are still somewhat higher than normal. Customers in our major market area (the PJM power pool) had an estimated 55-60 days of inventory on hand as of the end of March. CONSOL Energy believes that thermal coal inventories could return to normal by the end of the year. Despite the outlook for a gradual economic recovery, which would strengthen demand, low gas prices in 2010 could result in power generators continuing to burn gas in place of coal, based on dispatch economics. Just as in 2009, the company anticipates that up to 30 million tons of coal generation could be displaced by natural gas generation in 2010. This could offset some of the benefit from production cuts. With the tightening regulatory environment in Central Appalachia, increased economic activity and its low cost position, however, CONSOL Energy is in a position to increase market share in a flat-to-slightly expanding market. CONSOL's ability to penetrate the Asian high-vol coking coal markets with some of its Northern Appalachian coals is also enabling the company to receive higher prices at its mines, while reducing supply into its traditional thermal markets.

At the close of the winter heating season, natural gas in storage fields was at 1,638 billion cubic feet. This was 160 billion cubic feet above the five-year average, but 16 billion cubic feet below last year's level. Gas prices have weakened to about the \$4.00 per million cubic feet level, as rising rig counts have caused concern that rising production could more than offset rising demand from an economic recovery. CNX Gas will add a second horizontal rig to its Marcellus Shale drilling program on June 1, 2010. CNX Gas, with its low costs and rising production volumes, is expected to outperform its peers during this period of price weakness.

Because of the rapidly changing regulatory environment in which CONSOL Energy operates, several factors may impact the cost of our coal and gas production in the future. The impacts of these changes cannot be determined with certainty at this time. Situations that may impact our costs include the following items:

On April 5, 2010, there was an explosion at Massey Energy Company's Upper Big Branch Mine. Although the cause of the explosion is not known and may not be known for some time, as a result of this incident, it is likely that new legislation and regulations will be enacted seeking to improve the safety of underground coal mining operations. Further, it is likely that regulatory authorities will more strictly enforce existing laws and regulations. New safety requirements and enhanced enforcement efforts typically increase the costs of our coal mining operations, which would impact our margins and results of operations.

Enactment of laws or passage of regulations regarding emissions from combustion of fossil fuels by the U.S., individual states or by other countries could result in decreased consumption of coal and gas and switching to other energy technologies for electricity. It is likely that some form of legislation addressing global climate change will be enacted in the future, however, at this time it is not possible to determine the impact of potential legislation on our operations or financial condition. The level of impact will depend on numerous factors including the specific requirements imposed by legislation, the timing of legislation, time period for compliance, and the timing and commercial development of technologies associated with carbon capture and sequestration. Ultimately, the impact of possible legislation on our business will depend on the degree to which electricity generators are forced to reduce their consumption of coal or gas, install expensive technologies for carbon capture and sequestration, or switch to alternative energy sources. CONSOL Energy believes that if climate change legislation is passed, gas will be impacted to a lesser degree than coal and the Company has made strategic investment decisions to change its portfolio of assets to increase the contribution of gas to the Company's business. In fact, over the short term, the Company expects gas to be the preferred fuel source for new power plants. Over the long term, CONSOL believes that with the development of new technologies for carbon capture and sequestration, both coal and

gas will continue to be used as clean and competitive fuel sources for electric generation.

Table of Contents

On April 1, 2010, the Environmental Protection Agency (EPA) issued detailed guidance to its regional offices to provide clarification of EPA's expectations regarding EPA review of permits necessary for coal mining activities in the states of Kentucky, West Virginia, Pennsylvania, Virginia, Ohio and Tennessee. The guidance pertains to the EPA's review of proposed surface water discharge (NPDES) permits under Section 402 of the Clean Water Act, proposed permits for filling waters of the United States under Section 404 of the Clean Water Act, and the National Environmental Policy Act (NEPA) review of projects covered by NEPA. In the guidance, the EPA creates a number of presumptions and instructs the regional offices to object to permits if the presumptions are implicated. One presumption is that conductivity levels above 500 micromhos per centimeter in streams below coal mining operations are harmful to aquatic insects and therefore violate state water quality standards. The 500 micromhos presumption is at least three times lower than the conductivity level that results from using the EPA's standard protocol for determining toxicity to aquatic life. (Conductivity is a measurement of the concentration of ionized materials in water.) If this presumption is strictly applied, it will take longer to obtain NPDES permits and valley fill permits for mining operations, or permit applications may be denied. The guidance is likely to be challenged by the coal industry. It is too early to determine the impact of this policy if it remains in effect, but it could materially adversely affect our operations and results of operations.

Under existing Mine Health and Safety Administration regulations, the installation of higher strength seals to isolate abandoned areas or previously sealed areas of the mine are required. The increase in strength of seals was required to better protect the active sections of the underground mines from explosions, fires, or other situations that may occur within the sealed areas. CONSOL Energy has been replacing existing seals with the higher strength seals over the past two years. We currently estimate approximately 540 seals remaining that need to be replaced over the next two years. The cost of these seals is expensed as incurred.

As described more fully in Note 10 Commitments and Contingencies in Item I, Condensed Consolidated Financial Statements of this Form 10-Q, Consolidation Coal Company has submitted to the West Virginia Department of Environmental Protection (WVDEP) a plan and schedule which provides for construction of a centralized advanced technology mine water treatment plant by June, 2013 to achieve compliance with chloride effluent limits and in-stream chloride water quality standards in tributaries to the Monongahela River. The cost of the treatment plant may reach or exceed \$100,000. Additionally, CCC is currently negotiating a joint Consent Decree with the EPA and the WVDEP that is likely to include the compliance plan and schedule that was submitted to the WVDEP. The Consent Decree is also likely to include civil penalties to settle alleged past violations related to chlorides without an admission of liability. The parties have not yet discussed the amount of a civil penalty. The Consent Decree will provide CCC with a schedule for orderly construction of the advanced water treatment plant and related facilities.

Health care reform legislation included a revision to coal workers' pneumoconiosis (CWP) regulations which will enable claimants to more easily qualify for a benefit under these regulations. The legislation also allows for a five-year look back on claims to determine if a previously denied claim will now become eligible. The new legislation will impact CONSOL Energy's CWP liability, related expense and cashflows.

Although these items primarily impact CONSOL Energy's coal business, management continues to believe our coal business will be successful in developing economic solutions to address these matters. Our coal business is also expected to continue to generate expanding margins due to:

Our dramatically improving low-volatile business with our Buchanan Coal Mine,

Our new high-volatile business, where we are selling Northern Appalachian coal to Asian and Brazilian steelmakers at expanded margins; and

Our improved thermal business, where the severe winter weather, and our high-volatile sales, have lowered thermal coal stockpiles. We believe that coal will continue to provide the base load of the nation's energy needs. Through our efforts during the last 10 years to improve our operating efficiencies at our major coal production sites we are well positioned to continue to provide our customers with low cost, high-British thermal units (btus) coal that we expect will generate returns to our shareholders.

Edgar Filing: CONSOL Energy Inc - Form 10-Q/A

Also, on April 30, 2010, CONSOL Energy closed on the \$3.475 billion Dominion Acquisition, with the fair value assigned primarily to the proved and unproven gas reserves and acres acquired. The assets include nearly 1 trillion cubic feet of proved reserves and nearly 500 thousand acres of Marcellus Shale. Nearly all of the Marcellus Shale acreage being acquired is held by production. Such acreage has no drilling commitments, and therefore allows capital to be allocated on the basis of economics, not simply to hold expiring leases. The acquired acreage has a 12.5% royalty, except for about 20 thousand acres held in fee (meaning that it has no royalty). These attributes, when combined with their prime location, lead CONSOL Energy to believe that its Marcellus Shale position is the best in the industry. All of the Marcellus Shale acres are in southwestern Pennsylvania or northern West Virginia. The Pennsylvania Marcellus Shale acreage is concentrated in Indiana, Westmoreland, and Armstrong counties, while the West Virginia acreage is concentrated in Barbour, Lewis, and Upshur counties.

Table of Contents

On April 23, 2010, CONSOL Energy amended the accounts receivable securitization facility to allow the Company to receive, on a revolving basis, up to \$200,000. Previously, the facility provided up to \$165,000 of short-term funding or letters of credit. The trade accounts receivable facility supports sales, on a continuous basis to financial institutions, of eligible trade accounts receivable. The facility was expanded to meet the future cash needs of the Company.

On April 28, 2010, CONSOL Energy commenced a tender offer to acquire all of the shares of CNX Gas common stock that it does not currently own at a cash price of \$38.25 per share. CONSOL Energy currently owns approximately 83.3% of the approximately 151 million shares of CNX Gas common stock outstanding. CONSOL Energy's offer is subject to a number of conditions, including the condition, which cannot be waived, that there is tendered into the offer at least a majority of the outstanding CNX Gas shares not currently held by CONSOL Energy. Following the purchase by CONSOL Energy of shares of CNX Gas in the offer, CONSOL Energy intends to merge CNX Gas into a wholly owned subsidiary of CONSOL Energy, with CNX Gas surviving the merger as a wholly owned subsidiary of CONSOL Energy. As a result of the merger, each outstanding CNX Gas share will be converted into the right to receive \$38.25. CONSOL Energy anticipates financing the acquisition of CNX Gas shares by means of internally generated funds, borrowings under its credit facilities and/or proceeds from its recently closed offering of common stock. Previously, on March 21, 2010, CONSOL Energy announced that it had entered into an agreement with T. Rowe Price Associates, Inc., on behalf of its investment advisory clients owning approximately 9.5 million shares of CNX Gas common stock, or approximately 37% of the shares of CNX Gas that CONSOL Energy does not currently own. Under the agreement, CONSOL Energy agreed, subject to certain conditions, to commence this tender offer and T. Rowe Price agreed to tender these shares of CNX Gas common stock subject to the rights of certain clients with respect to those shares which are discretionary account shares.

Results of Operations

Three Months Ended March 31, 2010 Compared with Three Months Ended March 31, 2009

Net Income Attributable to CONSOL Energy

Net income attributable to CONSOL Energy changed primarily due to the following items (table in millions):

	2010 Period	2009 Period	Dollar Variance	Percentage Change
Sales Outside	\$ 1,170	\$ 1,150	\$ 20	1.7%
Sales Purchased Gas	3	1	2	200.0%
Sales Gas Royalty Interest	14	13	1	7.7%
Freight Outside	31	31		
Other Income	22	24	(2)	(8.3)%
Total Revenue and Other Income	1,240	1,219	21	1.7%
Coal Cost of Goods Sold and Other Charges	767	666	101	15.2%
Purchased Gas Costs	2	2		
Gas Royalty Interest Costs	12	11	1	9.1%
Acquisition and Financing Fees	47		47	100.0%
Total Cost of Goods Sold	828	679	149	21.9%
Freight Expense	31	31		
Selling, General and Administrative Expense	30	31	(1)	(3.2)%
Depreciation, Depletion and Amortization	119	106	13	12.3%
Interest Expense	8	9	(1)	(11.1)%
Taxes Other Than Income	82	78	4	5.1%
Total Costs	1,098	934	164	17.6%
Earnings Before Income Taxes	142	285	(143)	(50.2)%
Income Tax Expense	34	80	(46)	(57.5)%

Edgar Filing: CONSOL Energy Inc - Form 10-Q/A

Net Income	108	205	(97)	(47.3)%
Noncontrolling Interest	8	9	(1)	(11.1)%
Net Income Attributable to CONSOL Energy Shareholders	\$ 100	\$ 196	\$ (96)	(49.0)%

Net income attributable to CONSOL Energy Shareholders for the three months ended March 31, 2010 was \$100 million compared to \$196 million in the 2009 period. Net income attributable to CONSOL Energy Shareholders for the 2010 period decreased in comparison to the 2009 period primarily due to:

Acquisition and financing fees incurred in the 2010 period related to the Dominion Acquisition and the related financing transactions that were completed;

Lower overall average coal prices received and lower gas sales prices;

Table of Contents

Higher average cost of goods sold and other charges per ton sold of company coal and gas production in the 2010 period; and

Higher depreciation, depletion and amortization.

Impairments in net income attributable to CONSOL Energy Shareholders were offset, in part, by the following items:

Higher volumes of gas produced; and

Lower income tax expense.

See below for additional explanations.

Revenue

Revenue and other income increased due to the following items:

	2010 Period	2009 Period	Dollar Variance	Percentage Change
Sales:				
Produced Coal-Steam	\$ 717	\$ 835	\$ (118)	(14.1)%
Produced Coal-Low Vol Met	127	70	57	81.4%
Produced Coal-High Vol Met	57		57	100.0%
Purchased Coal	23	14	9	64.3%
Produced Gas	173	162	11	6.8%
Industrial Supplies	50	50		
Other	23	19	4	21.1%
Total Sales Outside	1,170	1,150	20	1.7%
Gas Royalty Interest	14	13	1	7.7%
Purchased Gas	3	1	2	200.0%
Freight Revenue	31	31		
Other Income	22	24	(2)	(8.3)%
Total Revenue and Other Income	\$ 1,240	\$ 1,219	\$ 21	1.7%

The decrease in company produced steam coal sales revenue during the 2010 period was due to lower sales volumes of steam coal sold and lower average sales prices.

	2010 Period	2009 Period	Variance	Percentage Change
Produced Steam Tons (in millions)	13.1	14.8	(1.7)	(11.5)%
Average Sales Price Per Ton-Steam	\$ 54.72	\$ 56.45	\$ (1.73)	(3.1)%

Steam coal sales tons are lower in the period-to-period comparison primarily due to the idling of the Mine 84 and Jones Fork Mines. Lower average sales prices for steam coal reflects the roll-off of higher priced contracts signed in the later half of 2008. Steam coal inventory was 3.8 million tons at March 31, 2010 compared to 2.9 million tons at December 31, 2009.

The increase in company produced low volatile metallurgical coal sales revenue during the 2010 period was due to the higher sales volumes of metallurgical coal sold, offset, in part, by lower average sales prices.

Edgar Filing: CONSOL Energy Inc - Form 10-Q/A

	2010 Period	2009 Period	Variance	Percentage Change
Produced Low Vol Metallurgical Tons (in millions)	1.2	0.5	0.7	140.0%
Average Sales Price Per Ton-Low Vol Metallurgical	\$ 105.56	\$ 148.60	\$ (43.04)	(29.0)%

The increase in sales volumes of low volatile metallurgical coal sold partially related to the Buchanan Mine operating for the entire 2010 period. The Buchanan Mine produced for approximately 2 months in the 2009 period. Low volatile metallurgical coal inventory was 0.1 million tons at March 31, 2010 compared to 0.3 million tons at December 31, 2009.

The company sold high volatile metallurgical coal during the 2010 period from our Pittsburgh No. 8 seam mines into the Asian steel markets as high volatile coking coal.

Table of Contents

	2010 Period	2009 Period	Variance	Percentage Change
Produced High Vol Metallurgical Tons (in millions)	0.8		0.8	100.0%
Average Sales Price Per Ton-High Vol Metallurgical	\$ 75.48	\$	\$ 75.48	100.0%

The high volatile metallurgical coal sales result in a higher average sales price per ton than the historical average sales price in the steam market where this coal was previously sold. The 0.8 million tons includes 50 thousand tons of Emery Mine coal sold as a semi-soft product at \$44.41 per ton. Although the average sales price per ton for the semi-soft product is lower than a pure high volatile metallurgical coal ton due to a wide variation in metallurgical coal properties, the result is a higher sales revenue dollar for the company compared to the steam market where this coal was historically sold.

Purchased coal sales consist of revenues from processing third-party coal in our preparation plants for blending purposes to meet customer coal specifications, coal purchased from third parties and sold directly to our customers and revenues from processing third-party coal in our preparation plants. The increase of \$9 million in company-purchased coal sales revenue was primarily due to higher volumes of purchased coal tons sold, offset, in part, by lower sales prices.

The increase in produced gas sales revenue in the 2010 period compared to the 2009 period was due to higher sales volumes, offset, in part, by lower average sales price per thousand cubic feet sold.

	2010 Period	2009 Period	Variance	Percentage Change
Produced Gas Sales Volumes (in billion cubic feet)	23.9	22.0	1.9	8.6%
Average Sales Price per thousand cubic feet	\$ 7.26	\$ 7.38	\$ (0.12)	(1.6)%

Sales volumes increased as a result of additional wells coming online from our on-going drilling program, offset by approximately 0.6 bcf of production that was deferred due to the loss of power for several days related to a severe winter storm in some of our producing region in the 2010 period. The decrease in average sales price is the result of the general market price decreases in the period-to-period comparison. The general market price decline was offset, in part, by the various gas swap transactions that CNX Gas has entered. These gas swap transactions qualify as financial cash flow hedges that exist parallel to the underlying physical transactions. These financial hedges represented approximately 13.0 Bcf of our produced gas sales volumes for the three months ended March 31, 2010 at an average price of \$8.76 per Mcf. In the prior year, these financial hedges represented approximately 10.7 Bcf at an average price of \$9.85 per Mcf.

Sales of industrial supplies remained consistent at \$50 million in the period-to-period comparison.

The \$4 million increase in other sales was primarily attributable to higher revenues from barge towing and terminal services. The increase is related to higher thru-put tonnage moved through the terminal service facility in the 2010 period compared to the 2009 period.

Royalty interest gas sales represent the revenues related to the portion of production belonging to royalty interest owners sold by CNX Gas. The changes in market prices, contractual differences among leases, and the mix of average and index prices used in calculating royalties contributed to the period-to-period change.

	2010 Period	2009 Period	Variance	Percentage Change
Gas Royalty Interest Sales Volumes (in billion cubic feet)	2.5	2.2	0.3	13.6%
Average Sales Price per thousand cubic feet	\$ 5.82	\$ 5.65	\$ 0.17	3.0%

Purchased gas sales volumes represent volumes of gas we sold at market prices that were purchased from third-party producers.

	2010 Period	2009 Period	Variance	Percentage Change
Purchased Gas Sales Volumes (in billion cubic feet)	0.5	0.3	0.2	66.7%
Average Sales Price Per thousand cubic feet	\$ 5.76	\$ 5.75	\$ 0.01	0.2%

Edgar Filing: CONSOL Energy Inc - Form 10-Q/A

Freight revenue is based on weight of coal shipped, negotiated freight rates and method of transportation (i.e., rail, barge, truck, etc.) used for the customers to which CONSOL Energy contractually provides transportation services. Freight revenue is the amount billed to customers for transportation costs incurred. Freight revenue has remained consistent at \$31 million in the period-to-period comparison.

Table of Contents

Other income consists of interest income, gain or loss on the disposition of assets, equity in earnings of affiliates, service income, royalty income, derivative gains and losses, rental income and miscellaneous income.

	2010 Period	2009 Period	Dollar Variance	Percentage Change
Interest income	\$ 6	\$	\$ 6	100.0%
Equity in earnings of affiliates	4	3	1	33.3%
Contract towing	1	2	(1)	(50.0)%
Reversal/recognition of unrealized losses on options		2	(2)	(100.0)%
(Loss)/gain on Sale of Assets	(1)	2	(3)	(150.0)%
Other miscellaneous	12	15	(3)	(20.0)%
Total other income	\$ 22	\$ 24	\$ (2)	(8.3)%

Interest income increased \$6 million in the 2010 period attributable to the successful resolution of an outstanding tax issue with the Canadian Revenue Authority for the years 1997 through 2003 in which CONSOL Energy will be entitled to interest on the tax refund.

Equity in earnings of affiliates increased \$1 million in the 2010 period due to various transactions entered into by our equity affiliates throughout both periods, none of which were individually material.

Contract towing revenue has decreased approximately \$1 million due to lower volumes of material being shipped via river transportation in the period-to-period comparison.

Mark-to-market adjustments for free standing coal sales options resulted in approximately a \$2 million reversal in the 2009 period of previously recognized unrealized losses. These options expired during the year ended December 31, 2009.

(Loss)/gain on sale of assets decreased \$3 million in the period-to-period comparison. The (loss)/gain on sale of assets changed due to various miscellaneous transactions that occurred throughout both periods, none of which were individually material.

Other miscellaneous income decreased \$3 million in the period-to-period comparison due to various miscellaneous transactions that occurred throughout both periods, none of which were individually material.

Costs

Cost of goods sold and other charges increased due to the following:

	2010 Period	2009 Period	Dollar Variance	Percentage Change
Cost of Goods Sold and Other Charges				
Produced Coal	\$ 517	\$ 482	\$ 35	7.3%
Purchased Coal	24	15	9	60.0%
Produced Gas	53	47	6	12.8%
Industrial Supplies	49	42	7	16.7%
Closed and Idle Mines	52	36	16	44.4%
Other	72	44	28	63.6%
Total Cost of Goods Sold and Other				
Charges Outside	767	666	101	15.2%
Acquisition and financing fees	47		47	100.0%
Gas Royalty Interest	12	11	1	9.1%

Edgar Filing: CONSOL Energy Inc - Form 10-Q/A

Purchased Gas 2 2

Total Cost of Goods Sold	\$ 828	\$ 679	\$ 149	21.9%
--------------------------	--------	--------	--------	-------

Increased cost of goods sold and other charges for company-produced coal was due mainly to a higher average unit cost per ton sold, offset, in part, by lower sales volumes.

	2010 Period	2009 Period	Variance	Percentage Change
Produced Tons Sold (in millions)	15.1	15.3	(0.2)	(1.3)%
Average Cost of Goods Sold and Other Charges Per Ton	\$ 34.34	\$ 31.61	\$ 2.73	8.6%

Table of Contents

Average cost of goods sold and other charges increased in the period-to-period comparison primarily due to an increase in average unit costs related to the following items:

Labor costs have increased \$0.94 per ton sold due to the effects of wage increases at the union mines from the current labor contracts. These contracts call for specified hourly wage increases in each year of the contract. Labor costs also increased due to the effects of wage increases at the non-union mines. Employee counts have also increased approximately 8% at our active mining operations in order to meet our staffing needs.

Expenses related to employee long-term liabilities such as other post employment benefits and salaried pension have increased \$0.54 per ton sold primarily due to changes in the weighted average discount rates. The weighted average discount rate is between 5.55% and 5.87% for these benefits for the 2010 period compared to 5.90% to 6.28% for the 2009 period.

Subsidence costs have increased \$0.52 per ton sold related to additional structures impacted by longwall mining in the 2010 period compared to the 2009 period. These costs vary from period-to-period depending on density and value of structures being impacted by the operation of the mine.

Power costs have increased \$0.27 per ton sold attributable to various rate increases that occurred throughout our operations.

Health and retirement costs related to the active hourly work force have increased \$0.25 per ton sold. The increase is attributable to an increase in the contribution to the multiemployer 1974 pension trust that is required under the National Bituminous Coal Wage Agreement. The contribution rate increased from \$4.25 per hour worked by members of the United Mine Workers Union of America (UMWA) in the 2009 period to \$5.00 per hour in the 2010 period. Contributions to this multiemployer plan are expensed as incurred. These costs have also increased in the period-to-period comparison due to higher medical costs for the active hourly work force.

Other costs have increased an aggregate of, \$1.05 per ton sold due to various transactions that have occurred throughout both periods, none of which are individually material.

These increases in costs per ton sold were offset, in part, by a reduction of \$0.84 per ton sold attributable to contract mining fees. Contract mining fees have decreased due to a reduction in tons produced at contractor locations in the period-to-period comparison.

Purchased coal cost of goods sold consists of costs from processing purchased coal in our preparation plants for blending purposes to meet customer coal specifications, coal purchased and sold directly to the customer and costs for processing third party coal in our preparation plants. The increase of \$9 million in purchased coal cost of goods sold and other charges in the 2010 period was primarily due to higher volumes purchased.

Gas cost of goods sold and other charges increased due primarily to a 8.6% increase in volumes of produced gas sold and a 5.2% increase in unit costs.

	2010 Period	2009 Period	Variance	Percentage Change
Produced Gas Sales Volumes (in billion cubic feet)	23.9	22.0	1.9	8.6%
Average Cost Per thousand cubic feet	\$ 2.24	\$ 2.13	\$ 0.11	5.2%

Average cost per thousand cubic feet increased in the 2010 period as a result of several factors:

Edgar Filing: CONSOL Energy Inc - Form 10-Q/A

Power and fuel costs increased \$0.08 per thousand cubic feet due to higher rates being charged by the power producer, additional compressors and an additional processing plant being placed in service during the 2010 period.

Firm transportation costs have increased \$0.07 per thousand cubic feet due to acquiring additional capacity after the 2009 period.

Idle rig costs have increased \$0.04 per thousand cubic feet due to one additional month of idle rig expense in the 2010 period due to idle charges not beginning until February of 2009. Idle rig expenses have also increased due to higher monthly fees in 2010 compared to 2009 when the rig was initially idled.

Repairs and maintenance costs increased approximately \$0.02 per thousand cubic feet primarily related to additional road maintenance required by the severe winter storm in some of our producing regions.

These increases in costs were offset, in part, by the following items:

Water disposal costs decreased \$0.04 per thousand cubic feet due to recycling salt water produced from our wells. Previously, fees were incurred to dispose of the salt water produced from our wells.

Chemical, fuels and lubricants costs have decreased approximately \$0.02 per thousand cubic feet due to lower volume of products being consumed.

Table of Contents

Other costs decreased \$0.04 per thousand cubic feet for various items that occurred throughout both periods, none of which were individually material.

Industrial supplies cost of goods sold increased \$7 million primarily due to changes in the last-in-first-out inventory reserve attributable to changes in inventory value.

Closed and idle mine cost of goods sold increased approximately \$16 million in the 2010 period compared to the 2009 period. As a result of market conditions, permitting issues, new regulatory requirements and resulting changes in mining plans, the reclamation liability associated with the Fola mining operations in West Virginia is expected to increase. Our initial belief is that as a result of the changes in mine plans and because mining in some areas is anticipated to be curtailed earlier than originally anticipated, the quantity of material required to reclaim the operation in its present state will be increased. As of this time, no detailed reclamation plan has been developed and the definitive costs associated with the increased reclamation are not available, however, our initial estimates indicate the reclamation liability could equal or exceed \$25 million. As a result, \$25 million of expense was recognized in the 2010 period. Detailed reclamation plans and mining plans are being developed to determine the impacts of these revised plans on the associated reclamation liability. This increase was offset, in part, by approximately \$9 million for changes in the operational status of various other mines, between idled and operating, throughout both periods which resulted in lower idled mine costs in the 2010 period. Shoemaker Mine was idled throughout the 2009 period while the track haulage system was converted to a belt haulage system. This mine has been in production throughout most of the 2010 period. Mine 84 and Jones Fork Complex operated throughout most of the 2009 period, but these locations were idled throughout the 2010 period.

Other cost of goods sold increased due to the following items:

	2010 Period	2009 Period	Dollar Variance	Percentage Change
Litigation settlements	\$ 22	\$	\$ 22	100.0%
Stock-based compensation	10	6	4	66.7%
Dry hole and other costs	2	1	1	100.0%
Incentive compensation	14	12	2	16.7%
Terminal/River operations	16	15	1	6.7%
Severance pay		3	(3)	(100.0)%
Miscellaneous other	8	7	1	14.3%
Other cost of goods sold and other charges	\$ 72	\$ 44	\$ 28	63.6%

Litigation settlements represent the loss on the sale of Jones Fork which was sold in relation to an option granted as settlement of litigation. Also, legal settlements include additional expense related to contingencies recognized for various litigation issues as discussed in Note 10 Commitments and Contingencies in Item 1, Condensed Consolidated Financial Statements of this Form 10-Q.

Stock-based compensation expense increased \$4 million in the period-to-period comparison primarily due to the conversion of the CNX Gas long-term incentive compensation plan to CONSOL Energy restricted stock units in the 2009 period. The conversion resulted in a reduction of approximately \$4 million of expense in the 2009 period.

Dry hole and other costs of approximately \$2 million in the 2010 period are primarily related to an exploration well which is no longer economical to pursue. The previously capitalized costs were expensed. Dry hole and other costs in the 2009 period represent various capitalized costs such as permitting and miscellaneous costs for well sites that were no longer economic to pursue. The previously capitalized costs were expensed.

The incentive compensation program is designed to increase compensation to eligible employees when CONSOL Energy reaches predetermined production, safety and cost targets and the employees reach predetermined performance targets. Incentive compensation expense increased \$2 million due to exceeding the predetermined targets in the 2010 period.

Terminal/River operation charges have increased approximately \$1 million in the period-to-period comparison due to higher tonnage moved.

Severance pay of \$3 million relates to the administrative staff reductions in force which occurred in the 2009 period due to the economic environment in which we operated.

Edgar Filing: CONSOL Energy Inc - Form 10-Q/A

Miscellaneous other cost of goods sold and other charges increased \$1 million due to various transactions that occurred throughout both periods, none of which were individually material.

Table of Contents

Acquisition and financing fees of \$47 million are related to the Dominion Acquisition and the corresponding financing arrangements. The fees include \$35 million of bank fees for a bridge loan that was required under the purchase and sale agreement with Dominion, \$8 million of legal fees for the acquisition and the financing agreements, \$2 million for bank fees related to amending the credit facilities to allow the acquisition, and \$2 million for various other fees. The equity offering was completed on March 31, 2010 and resulted in approximately \$1.8 billion of proceeds (44.3 million shares were issued). The debt offering was completed on April 1, 2010 and resulted in the issuance of approximately \$3 billion of bonds and generated net proceeds of \$2.7 billion. The Dominion Acquisition for \$3.475 billion closed on April 30, 2010.

Royalty interest gas costs represent the costs related to the portion of production belonging to royalty interest owners sold by CNX Gas. The changes in market prices, contractual differences among leases, and the mix of average and index prices used in calculating royalties contributed to the period-to-period change.

	2010 Period	2009 Period	Variance	Percentage Change
Gas Royalty Interest Sales Volumes (in billion cubic feet)	2.5	2.2	0.3	13.6%
Average Cost Per thousand cubic feet	\$ 4.95	\$ 4.73	\$ 0.22	4.7%

Purchased gas volumes represent volumes of gas purchased from third-party producers that we sell. Purchased gas volumes also reflect the impact of pipeline imbalances. The higher average cost per thousand cubic feet is due to overall price changes and contractual differences among customers in the period-to-period comparison.

	2010 Period	2009 Period	Variance	Percentage Change
Purchased Gas Volumes (in billion cubic feet)	0.4	0.3	0.1	33.3%
Average Cost Per thousand cubic feet	\$ 6.04	\$ 4.42	\$ 1.62	36.7%

Freight expense is based on weight of coal shipped, negotiated freight rates and method of transportation (i.e., rail, barge, truck, etc.) used for the customers to whom CONSOL Energy contractually provides transportation. Freight expense is billed to customers and the revenue from such billing equals the transportation expense. Freight expense remained consistent at \$31 million in the period-to-period comparison.

Selling, general and administrative costs have decreased \$1 million in the period-to-period comparison.

	2010 Period	2009 Period	Dollar Variance	Percentage Change
Advertising and promotion	\$	\$ 2	\$ (2)	(100.0)%
Professional, consulting and other purchased services	5	7	(2)	(28.6)%
Wages, salaries and related benefits	15	15		
Rentals	2	2		
Association/charitable contributions	3	1	2	200.0%
Other	5	4	1	25.0%
Total Selling, General and Administrative	\$ 30	\$ 31	\$ (1)	(3.2)%

Advertising and promotion expenses decreased \$2 million due to the timing of various advertising campaigns.

Costs of professional, consulting and other purchased services were lower in the 2010 period compared to the 2009 period due to the completion of various projects in prior periods, none of which were individually material.

Wages and salaries have remained consistent in the period-to-period comparison.

Rentals have remained consistent in the period-to-period comparison.

Edgar Filing: CONSOL Energy Inc - Form 10-Q/A

Association assessments and charitable contributions have increased \$2 million in the period-to-period comparison due to the timing of various items throughout both periods, none of which were individually material.

Other selling, general and administrative costs increased \$1 million due to various transactions that occurred throughout both periods, none of which were individually material.

Table of Contents

Depreciation, depletion and amortization increased due to the following items:

	2010 Period	2009 Period	Dollar Variance	Percentage Change
Coal	\$ 81	\$ 77	\$ 4	5.2%
Gas:				
Production	26	18	8	44.4%
Gathering	6	5	1	20.0%
Total Gas	32	23	9	39.1%
Other	6	6		
Total Depreciation, Depletion and Amortization	\$ 119	\$ 106	\$ 13	12.3%

The increase in coal depreciation, depletion and amortization was primarily attributable to assets placed in service after the 2009 period.

The increase in gas production depreciation, depletion and amortization was primarily due to an increase in the units of production rates combined with higher production volumes. Rates increased due to the higher proportion of capital assets placed in service versus the proportion of proved developed reserve additions. These rates are generally calculated using the net book value of assets at the end of the previous year divided by either proved or proved developed reserves.

Gathering depreciation, depletion and amortization is recorded using the straight-line method and increased \$1 million due to additional assets being placed in service after the 2009 period.

Other depreciation remained consistent at \$6 million in the period-to-period comparison.

Interest expense decreased in the 2010 period compared to the 2009 period due to the following items:

	2010 Period	2009 Period	Dollar Variance	Percentage Change
Revolver	\$ 1	\$ 2	\$ (1)	(50.0)%
Capitalized lease	1	1		
Long-term secured notes	7	7		
Other	(1)	(1)		
Total Interest Expense	\$ 8	\$ 9	\$ (1)	(11.1)%

Revolver interest expense is related to the amounts drawn on the credit facility. The decrease is related to lower interest rates on the facility in the 2010 period compared to the 2009 period, offset, in part, by higher average amounts drawn in 2010.

Interest expense related to capitalized leases, long-term secured notes and other items remained consistent in the period-to-period comparison. Interest expense will increase in future periods as a result of the \$2,750,000 of additional indebtedness incurred at higher interest rates than our existing indebtedness in connection with the Dominion Acquisition.

Taxes other than income increased primarily due to the following items:

	2010 Period	2009 Period	Dollar Variance	Percentage Change
--	----------------	----------------	--------------------	----------------------

Edgar Filing: CONSOL Energy Inc - Form 10-Q/A

Production taxes:				
Coal	\$ 47	\$ 49	\$ (2)	(4.1)%
Gas	3	1	2	200.0%
Total Production Taxes	50	50		
Other taxes:				
Coal	27	23	4	17.4%
Gas	2	2		
Other	3	3		
Total Other Taxes	32	28	4	14.3%
Total Taxes Other Than Income	\$ 82	\$ 78	\$ 4	5.1%

Table of Contents

Decreased coal production taxes are primarily due to lower severance taxes, reclamation fee taxes and black lung excise taxes attributable to the decrease in overall average sales price for produced coal. The reduction is also related to lower coal production volumes in the period-to-period comparison.

Gas production taxes increased \$2 million due to higher gas sales volumes, offset, in part by lower average sales prices for gas. Also, severance taxes were reduced in the 2009 period due to an adjustment related to a revised estimate of pending litigation.

Other coal taxes have increased due to additional payroll taxes related to higher wages in the 2010 period compared to the 2009 period and higher unemployment tax rates in certain areas in which we do business.

Other gas taxes and other taxes remained consistent in the period-to-period comparison.

Income Taxes

	2010 Period	2009 Period	Variance	Percentage Change
Earnings Before Income Taxes	\$ 142	\$ 285	\$ (143)	\$ (50.2)%
Tax Expense	\$ 34	\$ 80	\$ (46)	\$ (57.5)%
Effective Income Tax Rate	24.1%	28.0%	(3.9)%	

CONSOL Energy's effective income tax rate is sensitive to changes to the relationship between pre-tax earnings and percentage depletion. The proportion of coal pre-tax earnings and gas pre-tax earnings also impacts the benefit of percentage depletion on the effective tax rate. See Note 5 Income Taxes in Item 1, Condensed Consolidated Financial Statements of this Form 10-Q.

Noncontrolling Interest

Noncontrolling interest represents 16.7% of CNX Gas net income which CONSOL Energy does not own.

Liquidity and Capital Resources

CONSOL Energy generally has satisfied our working capital requirements and funded our capital expenditures and debt service obligations with cash generated from operations and proceeds from borrowings.

We utilize a \$1 billion senior secured credit facility which expires in 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 due March 2012. 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 22.68 to 1.00 at March 31, 2010. The facility also includes a maximum leverage ratio covenant of not more than 3.25 to 1.00, measured quarterly. The leverage ratio was less than zero to 1.00 at March 31, 2010. 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 company. At March 31, 2010, the facility had approximately \$517 million drawn and \$262 million of letters of credit outstanding, leaving \$221 million of unused capacity. From time to time, CONSOL Energy is required to post financial assurances to satisfy contractual and other requirements generated in the normal course of business. Some of these assurances are posted to comply with federal, state or other government agencies statutes and regulations. We sometimes use letters of credit to satisfy these requirements and these letters of credit reduce our borrowing facility capacity.

CONSOL Energy amended the facility in March 2010 to allow for the Dominion Acquisition. The amendment also allowed CONSOL Energy to issue \$1.5 billion of 8% senior unsecured notes due in 2017 and \$1.25 billion of 8.25% senior unsecured notes due in 2020 to finance a portion of the Dominion Acquisition. Certain amended covenants will be effective upon the closing of the Dominion Acquisition, including the maximum leverage ratio covenant will be no more 4.75 to 1.00, measured quarterly, and the minimum interest coverage ratio will be no less than 2.00 to 1.00, measured quarterly. The amended facility also includes a senior secured leverage ratio covenant of no more than 2.50 to 1.00, measured quarterly. The payment of dividends on CONSOL Energy's common stock will be permitted as long as the leverage ratio does not exceed 4.50 to 1.00 and availability is more than \$100 million.

Edgar Filing: CONSOL Energy Inc - Form 10-Q/A

CONSOL Energy is currently in the process of refinancing the existing credit facility to an initial aggregate outstanding principal amount of up to \$1.5 billion, including borrowings and letters of credit, for a term of four years. CONSOL Energy can request an additional \$250 million increase in the aggregate outstanding principal amount. The facility is being expanded to meet the development needs of the company associated with the Dominion Acquisition. The obligations under the credit agreement will continue to be secured by substantially all of the assets of CONSOL Energy and certain of its subsidiaries. Fees and interest rate spreads will be based on a ratio of financial covenant debt to twelve-month trailing earnings before interest, taxes, depreciation,

Table of Contents

depletion and amortization (EBITDA), measured quarterly. The facility is expected to include a minimum interest coverage ratio covenant of no less than 2.00 to 1.00 through 2010, and no less than 2.50 to 1.00 thereafter, measured quarterly. The facility is expected to include a maximum leverage ratio of no more than 4.75 to 1.00 through March 2013, and no more than 4.50 to 1.00 thereafter, measured quarterly. The facility is expected to also include a senior secured leverage ratio of no more than 2.50 to 1.00 through 2010, and no more than 2.00 to 1.00 thereafter, measured quarterly. Covenants in the facility would limit our ability to dispose of assets, make investments, pay dividends and merge with another company. The amended facility is expected to be completed in the quarter ended June 30, 2010. There is no assurance that we will enter into this amended facility.

CONSOL Energy completed an equity offering on March 31, 2010 of 44.3 million shares of common stock, which generated net proceeds of approximately \$1.8 billion. On April 1, 2010, CONSOL Energy issued \$1.5 billion of 8% senior unsecured notes due in 2017 and \$1.25 billion of 8.25% senior unsecured notes due in 2020. Covenants in the Notes Indenture limit CONSOL Energy's ability to incur debt, make investments, sell assets, pay dividends and merge with another company. The equity and bond proceeds were used to complete the Dominion Acquisition for total consideration of approximately \$3.475 billion. The acquisition closed on April 30, 2010.

The Pennsylvania Department of Environmental Protection (PA DEP) and CONSOL Energy have executed a Consent Order and Agreement (the Agreement) that addresses financial assurance required by the State for CONSOL Energy's Pennsylvania mine water treatment facilities for mines closed prior to August 1977. The Agreement requires the company to post approximately \$34 million of financial assurance over a 10-year time frame. CONSOL Energy obtained surety bonds to satisfy the initial obligation related to the Agreement.

CONSOL Energy and certain of our U.S. subsidiaries also participate in a receivables securitization facility for the sale on a continuous basis of eligible trade accounts receivable that will provide, on a revolving basis, up to \$165 million of short-term funding or letters of credit. This facility was expanded to \$200 million from \$165 million on April 23, 2010. 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. CNX Funding Corporation then sells, on a revolving basis, an undivided percentage interest in the pool of eligible trade accounts receivable to financial institutions and their affiliates, while maintaining a subordinated interest in a portion of the trade receivables. CONSOL Energy has agreed to continue servicing the sold receivables for the financial institutions for a fee based upon market rates for similar services. The cost of funds is consistent with commercial paper rates plus a charge for administrative services paid to the financial institutions. At March 31, 2010, eligible accounts receivable totaled approximately \$165 million. There was \$115 million subordinated retained interest at March 31, 2010. Accounts receivable totaling \$50 million were reflected as Accounts Receivable Securitized in Current Assets and Borrowings Under Securitization Facility in Current Liabilities on the consolidated balance sheet at March 31, 2010. There were no letters of credit outstanding against the facility at March 31, 2010.

CNX Gas, an 83.3% consolidated subsidiary of CONSOL Energy, utilizes a revolving credit facility providing an initial aggregate outstanding principal amount of up to \$200 million, including borrowings and letters of credit, which expires in October 2010. CNX Gas can request an additional \$100 million increase in the aggregate outstanding principal amount. The agreement contains a negative pledge provision, pursuant to which 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's ability to dispose of assets, make investments, purchase or redeem CNX Gas stock, pay dividends and merge with another company. This facility includes a minimum interest coverage ratio covenant of no less than 3.00 to 1.00, measured quarterly. The interest coverage ratio was 67.05 to 1.00 at March 31, 2010. The facility also includes a maximum leverage ratio of no more than 3.00 to 1.00, measured quarterly. The leverage ratio covenant was 0.35 to 1.00 at March 31, 2010. At March 31, 2010, the facility had \$49.2 million of borrowings outstanding and \$14.9 million of letters of credit outstanding, leaving \$135.9 million of unused capacity.

As a result of CNX Gas's status as a majority-owned subsidiary of CONSOL Energy and having entered into a credit agreement with third-party commercial lenders, CNX Gas and its subsidiaries are guarantors of CONSOL Energy's 7.875% notes due March 1, 2012 in the principal amount of \$250 million. The Notes Indenture requires all subsidiaries of CONSOL Energy that incur third-party debt to also guarantee the 7.875% notes. In addition, if CNX Gas were to grant certain liens to a lender as part of a future borrowing, the indenture governing the 7.875% notes requires CNX Gas to ratably secure the notes.

CNX Gas is currently in the process of refinancing the existing credit facility to an initial aggregate outstanding principal amount of up to \$500 million, including borrowings and letters of credit, for a term of four years. CNX Gas can request an additional \$200 million increase in the aggregate outstanding principal amount. The facility is being expanded to meet the development needs of the company. The obligations under the credit agreement will be secured by a lien on CNX Gas's assets, which would also require CONSOL Energy's 7.875% notes due March 1, 2012 to be ratably secured. Fees and interest rate spreads would be based on the percentage of facility utilization, measured quarterly. The facility is expected to include a minimum interest coverage ratio covenant of no less than 3.00 to 1.00, measured quarterly. The facility is expected to also include a maximum leverage ratio covenant of no more than 3.50 to 1.00, measured quarterly. Covenants in the facility would limit our ability to

Edgar Filing: CONSOL Energy Inc - Form 10-Q/A

dispose of assets, make investments, pay dividends and merge with another company. The amended facility is expected to be completed in the quarter ended June 30, 2010. There is no assurance that CNX Gas will enter into this amended facility.

Table of Contents

On April 28, 2010, CONSOL Energy commenced a tender offer to acquire all of the shares of CNX Gas common stock that it does not currently own. If CNX Gas becomes a wholly-owned subsidiary of CONSOL Energy, CNX Gas must be designated a restricted subsidiary guarantor under the 2017 and 2020 CONSOL Note Indenture. CNX Gas will then have to comply with the covenants in the Notes Indenture, which limit the company's ability to incur debt, make investments, sell assets, pay dividends and merge with another company.

As described above, on April 28, 2010, CONSOL Energy commenced a tender offer to acquire the 25.2 million shares of CNX Gas common stock that it does not currently own for \$38.25 per share. If the tender offer is successful, the aggregate purchase price of the shares will be approximately \$965 million.

Uncertainty in the financial markets brings additional potential risks to CONSOL Energy. The risks include declines in our stock price, less availability and higher costs of additional credit, potential counterparty defaults, and further commercial bank failures. Financial market disruptions may impact our collection of trade receivables. CONSOL Energy constantly monitors the creditworthiness of our customers. We believe that our current group of customers are sound and represent no abnormal business risk.

CONSOL Energy believes that cash generated from operations and our borrowing capacity will be sufficient to meet our working capital requirements, anticipated capital expenditures (other than major acquisitions), scheduled debt payments, anticipated dividend payments and to provide required letters of credit. Nevertheless, the ability of CONSOL Energy to satisfy our working capital requirements, debt service obligations, to fund planned capital expenditures or pay dividends will depend upon future operating performance, which will be affected by prevailing economic conditions in the coal and gas industries and other financial and business factors, some of which are beyond CONSOL Energy's control.

In order to manage the market risk exposure of volatile natural gas prices in the future, CONSOL Energy enters into various physical gas supply transactions with both gas marketers and end users for terms varying in length. CONSOL Energy has also entered into various gas swap transactions that qualify as financial cash flow hedge, which exist parallel to the underlying physical transactions. The fair value of these contracts was an asset of \$169 million at March 31, 2010. The ineffective portion of these contracts was insignificant to earnings in the three months ended March 31, 2010. Hedge counterparties consists of commercial banks who participate in the revolving credit facility. No issues related to our hedge agreements have been encountered to date.

CONSOL Energy frequently evaluates potential acquisitions. CONSOL Energy has funded acquisitions primarily with cash generated from operations and a variety of other sources, depending on the size of the transaction, including debt financing. There can be no assurance that additional capital resources, including debt financing, will be available to CONSOL Energy on terms which CONSOL Energy finds acceptable, or at all.

Cash Flows (in millions)

	2010 Period	2009 Period	Change
Cash flows from operating activities	\$ 174	\$ 250	\$ (76)
Cash used in investing activities	\$ (266)	\$ (255)	\$ (11)
Cash provided by (used in) financing activities	\$ 1,905	\$ (62)	\$ 1,967

Cash flows from operating activities changed primarily due to the following items:

Operating cash flow decreased in 2010 due to lower net income attributable to CONSOL Energy shareholders in the period-to-period comparison, as well as various other changes in operating assets, operating liabilities, other assets and other liabilities which occurred throughout both years.

Net cash used in investing activities changed primarily due to the following items:

Total capital expenditures decreased \$35 million to \$265 million in 2010 compared to \$300 million in 2009. Capital expenditures for the gas segment decreased \$69 million due to the slow-down in the drilling program as a result of severe weather and continued low

Edgar Filing: CONSOL Energy Inc - Form 10-Q/A

gas prices. Capital expenditures for coal and other activities increased \$34 million due to various projects including the purchase of various coal lands, additional equipment at various mining locations, continued work on face extensions at various locations, and the Buchanan water handling system.

Proceeds from the sale of assets were \$44 million in 2009 related to the sale leaseback of various mining equipment. Proceeds from the sale of assets in the 2010 were not significant.

Table of Contents

Net cash provided by (used in) financing activities changed primarily due to the following items:

Proceeds of \$1.8 billion were received in connection with the issuance of 44.3 million shares of common stock which was completed on March 31, 2010.

In 2010, CONSOL Energy received approximately \$102 million of proceeds from the revolving credit facility. In 2009, CONSOL Energy repaid borrowings of approximately \$45 million from the revolving credit facility. In 2010, CONSOL Energy's 83.3% owned subsidiary, CNX Gas, repaid borrowings of approximately \$9 million from the revolving credit facility. In 2009, CNX Gas received proceeds of approximately \$8 million from its revolving credit facility.

The following is a summary of our significant contractual obligations at March 31, 2010 (in thousands):

	Payments due by Year				Total
	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years	
Short-term Notes Payable	\$ 566,150	\$	\$	\$	\$ 566,150
Borrowings Under Securitization Facility	50,000				50,000
Purchase Order Firm Commitments	30,485	24			30,509
Gas Firm Transportation	29,005	74,863	62,240	333,337	499,445
Long-term Debt	39,070	337,129	5,355	20,162	401,716
Interest on Long-term Debt	27,133	25,211	1,605	24,245	78,194
Capital (Finance) Lease Obligations	6,620	11,013	8,930	38,397	64,960
Interest on Capital (Finance) Lease Obligations	4,515	7,530	6,325	10,147	28,517
Operating Lease Obligations	80,441	128,777	93,693	166,924	469,835
Other Long-term Liabilities (a)	376,839	574,852	581,617	2,475,124	4,008,432
Total Contractual Obligations (b)	\$ 1,210,258	\$ 1,159,399	\$ 759,765	\$ 3,068,336	\$ 6,197,758

- (a) Long-term liabilities include other post-employment benefits, work-related injuries and illnesses, mine reclamation and closure and other long-term liability costs. Estimated salaried retirement contributions required to meet minimum funding standards under ERISA are excluded from the pay-out table due to the uncertainty regarding amounts to be contributed. Estimated 2010 contributions are expected to approximate \$64 million.
- (b) The significant obligation table does not include obligations to taxing authorities due to the uncertainty surrounding the ultimate settlement of amounts and timing of these obligations.

Debt

At March 31, 2010, CONSOL Energy had total long-term debt of \$466 million outstanding, including the current portion of long-term debt of \$46 million. This long-term debt consisted of:

An aggregate principal amount of \$250 million of 7.875% notes due in March 2012. Interest on the notes is payable March 1 and September 1 of each year. Payment of the principal and premium, if any, and interest on the notes are guaranteed by most of CONSOL Energy's subsidiaries. The notes are senior secured obligations and rank equally with all other secured indebtedness of the guarantors;

An aggregate principal amount of \$31 million and \$72 million of industrial revenue bonds which were issued to finance the Baltimore port facility and bear interest at 6.50% per annum and mature in December 2010 and October 2011;

Edgar Filing: CONSOL Energy Inc - Form 10-Q/A

\$35 million in advance royalty commitments with an average interest rate of 7.4% per annum;

An aggregate principal amount of \$13 million on a variable rate note that bears interest at 6.10% at March 31, 2010. This note was incurred by a variable interest entity that is fully consolidated in which CONSOL Energy holds no ownership interest;

An aggregate principal amount of \$65 million of capital leases with a weighted average interest rate of 6.67% per annum;
At March 31, 2010, CONSOL Energy also had \$517 million of aggregate principal amounts of outstanding borrowings and approximately \$262 million of letters of credit outstanding under the \$1 billion senior secured revolving credit facility.

At March 31, 2010, CONSOL Energy had \$50 million of borrowings under the securitization facility.

At March 31, 2010, CNX Gas, an 83.3% owned subsidiary, had \$49 million of aggregate principal amounts of outstanding borrowings and approximately \$15 million of letters of credit outstanding under its \$200 million revolving credit facility.

Table of Contents*Total Equity and Dividends*

CONSOL Energy had total equity of \$3,987 million at March 31, 2010 and \$2,024 million at December 31, 2009. Total equity increased primarily due to the sale of approximately 44.3 million shares of common stock which resulted in net proceeds of approximately \$1.8 billion. Total equity also increased due to net income attributable to CONSOL Energy shareholders for the three months ended March 31, 2010, changes in cash flow hedges and amortization of stock-based compensation. These increases were offset, in part, by the declaration of dividends and the issuance of treasury stock. See Consolidated Statements of Stockholders' Equity.

Dividend information for the current year to date is as follows:

Declaration Date	Amount Per Share	Record Date	Payment Date
April 30, 2010	\$ 0.10	May 10, 2010	May 20, 2010
January 29, 2010	\$ 0.10	February 9, 2010	February 19, 2010

The declaration and payment of dividends by CONSOL Energy is subject to the discretion of CONSOL Energy's Board of Directors, and no assurance can be given that CONSOL Energy will pay dividends in the future. CONSOL Energy's Board of Directors determines whether dividends will be paid quarterly. The determination to pay dividends will depend upon, among other things, general business conditions, CONSOL Energy's financial results, contractual and legal restrictions regarding the payment of dividends by CONSOL Energy, planned investments by CONSOL Energy and such other factors as the Board of Directors deems relevant. Our credit facility limits our ability to pay dividends when our leverage ratio covenant exceeds 4.50 to 1.00 and our availability is less than or equal to \$100 million. The leverage ratio was less than zero to 1.00 and our availability was approximately \$221 million at March 31, 2010. These covenants may change under the new credit facility. The credit facility does not permit dividend payments in the event of default. There were no defaults in the three months ended March 31, 2010.

Off-Balance Sheet Transactions

CONSOL Energy does not maintain off-balance sheet transactions, arrangements, obligations or other relationships with unconsolidated entities or others that are reasonably likely to have a material current or future effect on CONSOL Energy's condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources which are not disclosed in the Notes to the Unaudited Consolidated Financial Statements. CONSOL Energy participates in various multi-employer benefit plans such as the United Mine Workers of America (UMWA) 1974 Pension Plan, the UMWA Combined Benefit Fund and the UMWA 1993 Benefit Plan which generally accepted accounting principles recognize on a pay as you go basis. These benefit arrangements may result in additional liabilities that are not recognized on the balance sheet at March 31, 2010. The various multi-employer benefit plans are discussed in Note 17-Other Employee Benefit Plans of the 2009 Form 10-K. CONSOL Energy also uses a combination of surety bonds, corporate guarantees and letters of credit to secure our financial obligations for employee-related, environmental, deliveries and various other items which are not reflected on the balance sheet at March 31, 2010. Management believes these items will expire without being funded. See Note 10-Commitments and Contingent Liabilities for additional details of the various financial guarantees that have been issued by CONSOL Energy.

Recent Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board issued an update to the Fair Value Measurement and Disclosure Topic of the FASB Accounting Standards Codification which is intended to provide additional application guidance and enhance disclosures regarding fair value measurements. This update also provides amendments that require new disclosures regarding transfers between levels of fair value measurements. This guidance did not have an impact on CONSOL Energy.

In June 2009, the FASB issued authoritative guidance on the consolidation of variable interest entities, which is effective for CONSOL beginning July 1, 2010. The new guidance requires revised evaluations of whether entities represent variable interest entities, ongoing assessments of control over such entities, and additional disclosures for variable interests. We believe adoption of this new guidance will not have a material impact on CONSOL's financial statements.

Forward-Looking Statements

We are including the following cautionary statement in this Quarterly Report on Form 10-Q to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by, or on behalf, of us. With the exception of historical matters, the matters discussed in this Quarterly Report on Form 10-Q are forward-looking statements (as defined in

Edgar Filing: CONSOL Energy Inc - Form 10-Q/A

Section 21E of the Exchange Act) that involve risks and uncertainties that could cause actual results to differ materially from projected results. Accordingly, investors should not place undue reliance on forward-looking statements as a prediction of actual results. The forward-looking statements may include projections and estimates concerning the timing and success of specific projects and our future production, revenues, income and capital spending. When we use the words believe, intend, expect, may, should, anticipate, could, estimate, plan, or their negatives, or

Table of Contents

other similar expressions, the statements which include those words are usually forward-looking statements. When we describe strategy that involves risks or uncertainties, we are making forward-looking statements. The forward-looking statements in this Quarterly Report on Form 10-Q speak only as of the date of this Quarterly Report on Form 10-Q; we disclaim any obligation to update these statements unless required by securities law, and we caution you not to rely on them unduly. We have based these forward-looking statements on our current expectations and assumptions about future events. While our management considers these expectations and assumptions to be reasonable, they are inherently subject to significant business, economic, competitive, regulatory and other risks, contingencies and uncertainties, most of which are difficult to predict and many of which are beyond our control. These risks, contingencies and uncertainties relate to, among other matters, the following:

the continued weakness in global economic conditions, in any industry in which our customers operate, or sustained uncertainty in financial markets cause conditions we cannot predict;

an extended decline in prices we receive for our coal and gas affecting our operating results and cash flows;

reliance on customers honoring existing contracts, extending existing contracts or entering into new long-term contracts for coal;

reliance on major customers;

our inability to collect payments from customers if their creditworthiness declines;

the disruption of rail, barge and other systems that deliver our coal;

a loss of our competitive position because of the competitive nature of the coal and gas industry, or a loss of our competitive position because of overcapacity in these industries impairing our profitability;

our inability to hire qualified people to meet replacement or expansion needs;

our inability to maintain satisfactory labor relations;

coal users switching to other fuels in order to comply with various environmental standards related to coal combustion;

the inability to produce a sufficient amount of coal to fulfill our customers requirements which could result in our customers initiating claims against us;

foreign currency fluctuations could adversely affect the competitiveness of our coal abroad;

the risks inherent in coal mining being subject to unexpected disruptions, including geological conditions, equipment failure, timing of completion of significant construction or repair of equipment, fires, accidents and weather conditions which could impact financial results;

increases in the price of commodities used in our mining operations could impact our cost of production;

obtaining governmental permits and approvals for our operations;

the effects of proposals to regulate greenhouse gas emissions;

the effects of government regulation;

the effects of stringent federal and state employee health and safety regulations;

the effects of mine closing, reclamation and certain other liabilities;

uncertainties in estimating our economically recoverable coal and gas reserves;

the outcomes of various legal proceedings, which are more fully described in our reports filed under the Securities Exchange Act of 1934;

increased exposure to employee related long-term liabilities;

minimum funding requirements by the Pension Protection Act of 2006 (the Pension Act) coupled with the significant investment and plan asset losses suffered during the recent economic decline has exposed us to making additional required cash contributions to fund the pension benefit plans which we sponsor and the multi-employer pension benefit plans in which we participate;

lump sum payments made to retiring salaried employees pursuant to our defined benefit pension plan;

our ability to comply with laws or regulations requiring that we obtain surety bonds for workers compensation and other statutory requirements;

acquisitions that we recently have made or may make in the future including the accuracy of our assessment of the acquired businesses and their risks, achieving any anticipated synergies, integrating the acquisitions and unanticipated changes that could affect assumptions we may have made, including with respect to the Dominion Acquisition;

Table of Contents

the anti-takeover effects of our rights plan could prevent a change of control;

risks in exploring for and producing gas;

new gas development projects and exploration for gas in areas where we have little or no proven gas reserves;

the disruption of pipeline systems which deliver our gas;

the availability of field services, equipment and personnel for drilling and producing gas;

replacing our natural gas reserves which if not replaced will cause our gas reserves and gas production to decline;

costs associated with perfecting title for gas rights in some of our properties;

other persons could have ownership rights in our advanced gas extraction techniques which could force us to cease using those techniques or pay royalties;

our ability to acquire water supplies needed for drilling, or our ability to dispose of water used or removed from strata at a reasonable cost and within applicable environmental rules;

the coalbeds and other strata from which we produce methane gas frequently contain impurities that may hamper production;

the enactment of severance tax on natural gas in states in which we operate may impact results of existing operations and impact the economic viability of exploiting new gas drilling and production opportunities;

location of a vast majority of our gas producing properties in three counties in southwestern Virginia, making us vulnerable to risks associated with having our gas production concentrated in one area;

our hedging activities may prevent us from benefiting from price increases and may expose us to other risks;

other factors discussed in our 2009 Form 10-K under Risk Factors, as updated by any subsequent Form 10-Qs, which are on file at the Securities and Exchange Commission.

Table of Contents

PART II

OTHER INFORMATION

ITEM 6. EXHIBITS

Exhibit Index

Exhibit Index

- 31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: September 21, 2010

By: /s/ WILLIAM J. LYONS
William J. Lyons
Chief Financial Officer and Executive Vice President
(Duly Authorized Officer and Principal Financial and
Accounting Officer)