

CONSOL Energy Inc  
Form 10-Q  
April 30, 2012

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

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FORM 10-Q

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(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, 2012

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

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CONSOL Energy Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

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)

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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 April 18, 2012

Common stock, \$0.01 par value

227,545,200

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PART I  
FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

CONSOL ENERGY INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended	
	March 31,	
	2012	2011
Sales—Outside	\$1,311,471	\$1,385,478
Sales—Gas Royalty Interests	12,206	18,835
Sales—Purchased Gas	839	980
Freight—Outside	49,293	36,868
Other Income	52,961	23,216
Total Revenue and Other Income	1,426,770	1,465,377
Cost of Goods Sold and Other Operating Charges (exclusive of depreciation, depletion and amortization shown below)	904,041	813,709
Gas Royalty Interests Costs	10,249	16,807
Purchased Gas Costs	517	676
Freight Expense	49,293	36,679
Selling, General and Administrative Expenses	38,999	40,196
Depreciation, Depletion and Amortization	155,347	149,062
Interest Expense	58,120	66,482
Taxes Other Than Income	91,627	90,689
Total Costs	1,308,193	1,214,300
Earnings Before Income Taxes	118,577	251,077
Income Taxes	21,381	58,928
Net Income	\$97,196	\$192,149
Earnings Per Share:		
Basic	\$0.43	\$0.85
Dilutive	\$0.42	\$0.84
Weighted Average Number of Common Shares Outstanding:		
Basic	227,269,269	226,350,594
Dilutive	230,124,011	228,814,838
Dividends Paid Per Share	\$0.125	\$0.100

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

CONSOL ENERGY INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(Unaudited)  
(Dollars in thousands)

	Three Months Ended	
	March 31,	
	2012	2011
Net Income	\$97,196	\$ 192,149
Other Comprehensive Income (Loss):		
Treasury Rate Lock (Net of tax: \$-, \$12)	—	(20 )
Actuarially Determined Long-Term Liability Adjustments		
Change in Prior Service Cost (Net of tax: (\$30,295))	50,276	—
Amortization of Prior Service Cost (Net of tax: \$4,552, \$4,583)	(7,554 )	(7,365 )
Amortization of Net Loss (Net of tax: (\$10,154), (\$9,766))	16,851	15,692
Net Increase in the Value of Cash Flow Hedge (Net of tax: (\$49,008), (\$2,814))	76,076	4,371
Reclassification of Cash Flow Hedges from OCI to Earnings (Net of tax: \$31,380, \$12,615)	(47,941 )	(18,840 )
Other Comprehensive Income (Loss):	87,708	(6,162 )
Comprehensive Income	\$ 184,904	\$ 185,987

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)	
	March 31, 2012	December 31, 2011
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$287,313	\$375,736
Accounts and Notes Receivable:		
Trade	463,258	462,812
Notes Receivables	314,514	314,950
Other Receivables	126,931	105,708
Inventories	284,997	258,335
Deferred Income Taxes	128,904	141,083
Prepaid Expenses	260,818	239,353
Total Current Assets	1,866,735	1,897,977
Property, Plant and Equipment:		
Property, Plant and Equipment	14,357,246	14,087,319
Less—Accumulated Depreciation, Depletion and Amortization	4,915,809	4,760,903
Total Property, Plant and Equipment—Net	9,441,437	9,326,416
Other Assets:		
Deferred Income Taxes	467,753	507,724
Restricted Cash	22,158	22,148
Investment in Affiliates	200,221	182,036
Notes Receivable	300,382	300,492
Other	296,925	288,907
Total Other Assets	1,287,439	1,301,307
<b>TOTAL ASSETS</b>	<b>\$12,595,611</b>	<b>\$12,525,700</b>

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

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

	(Unaudited)	
	March 31, 2012	December 31, 2011
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts Payable	\$471,921	\$522,003
Current Portion of Long-Term Debt	20,879	20,691
Accrued Income Taxes	50,313	75,633
Other Accrued Liabilities	856,858	770,070
Total Current Liabilities	1,399,971	1,388,397
Long-Term Debt:		
Long-Term Debt	3,122,234	3,122,234
Capital Lease Obligations	54,484	55,189
Total Long-Term Debt	3,176,718	3,177,423
Deferred Credits and Other Liabilities:		
Postretirement Benefits Other Than Pensions	2,976,181	3,059,671
Pneumoconiosis Benefits	174,559	173,553
Mine Closing	409,778	406,712
Gas Well Closing	125,557	124,051
Workers' Compensation	150,377	151,034
Salary Retirement	242,727	269,069
Reclamation	36,148	39,969
Other	129,483	124,936
Total Deferred Credits and Other Liabilities	4,244,810	4,348,995
<b>TOTAL LIABILITIES</b>	<b>8,821,499</b>	<b>8,914,815</b>
Stockholders' Equity:		
Common Stock, \$.01 Par Value; 500,000,000 Shares Authorized, 227,542,426 Issued and 227,507,671 Outstanding at March 31, 2012; 227,289,426 Issued and 227,056,212 Outstanding at December 31, 2011	2,275	2,273
Capital in Excess of Par Value	2,250,516	2,234,775
Preferred Stock, 15,000,000 shares authorized, None issued and outstanding	—	—
Retained Earnings	2,235,776	2,184,737
Accumulated Other Comprehensive Loss	(713,846	) (801,554 )
Common Stock in Treasury, at Cost—34,755 Shares at March 31, 2012 and 233,214 Shares at December 31, 2011	(609	) (9,346 )
Total Stockholders' Equity	3,774,112	3,610,885
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$12,595,611</b>	<b>\$12,525,700</b>

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 Stockholders' Equity
Balance at December 31, 2011 (Unaudited)	\$2,273	\$2,234,775	\$2,184,737	\$ (801,554 )	\$ (9,346 )	\$3,610,885
Net Income	—	—	97,196	—	—	97,196
Other Comprehensive Income	—	—	—	87,708	—	87,708
Comprehensive Income	—	—	97,196	87,708	—	184,904
Issuance of Common Stock	2	52	—	—	—	54
Issuance of Treasury Stock	—	—	(17,770 )	—	8,737	(9,033 )
Tax Cost From Stock-Based Compensation	—	(563 )	—	—	—	(563 )
Amortization of Stock-Based Compensation Awards	—	16,252	—	—	—	16,252
Dividends (\$0.125 per share)	—	—	(28,387 )	—	—	(28,387 )
Balance at March 31, 2012	\$2,275	\$2,250,516	\$2,235,776	\$ (713,846 )	\$ (609 )	\$3,774,112

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

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

	Three Months Ended March 31,	
	2012	2011
Operating Activities:		
Net Income	\$97,196	\$192,149
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation, Depletion and Amortization	155,347	149,062
Stock-Based Compensation	16,252	13,446
Gain on Sale of Assets	(19,713)	(323)
Amortization of Mineral Leases	1,886	2,468
Deferred Income Taxes	(2,265)	23,099
Equity in Earnings of Affiliates	(7,935)	(5,481)
Changes in Operating Assets:		
Accounts and Notes Receivable	(17,990)	(26,901)
Inventories	(26,662)	(29,435)
Prepaid Expenses	6,231	7,585
Changes in Other Assets	10,837	9,449
Changes in Operating Liabilities:		
Accounts Payable	(39,312)	7,279
Other Operating Liabilities	62,233	75,863
Changes in Other Liabilities	(8,928)	13,521
Other	2,309	3,463
Net Cash Provided by Operating Activities	229,486	435,244
Investing Activities:		
Capital Expenditures	(306,446)	(254,778)
Proceeds from Sales of Assets	28,611	300
Distributions, net of (Investments In), From Equity Affiliates	(10,250)	1,470
Net Cash Used in Investing Activities	(288,085)	(253,008)
Financing Activities:		
Payments on Short-Term Borrowings	—	(113,500)
Payments on Miscellaneous Borrowings	(2,330)	(3,698)
Payments on Securitization Facility	—	(200,000)
Proceeds from Issuance of Long-Term Notes	—	250,000
Tax Benefit from Stock-Based Compensation	750	3,306
Dividends Paid	(28,387)	(22,625)
Issuance of Common Stock	54	—
Issuance of Treasury Stock	109	3,699
Debt Issuance and Financing Fees	(20)	(4,517)
Net Cash Used In Financing Activities	(29,824)	(87,335)
Net (Decrease) Increase in Cash and Cash Equivalents	(88,423)	94,901
Cash and Cash Equivalents at Beginning of Period	375,736	32,794
Cash and Cash Equivalents at End of Period	\$287,313	\$127,695

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

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CONSOL ENERGY INC. AND SUBSIDIARIES  
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS  
 (Dollars in thousands, except per share data)

NOTE 1—BASIS OF PRESENTATION:

The accompanying Unaudited Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2012 are not necessarily indicative of the results that may be expected for future periods.

The balance sheet at December 31, 2011 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, 2011 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 share units, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and performance share units 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 the 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 March 31,	
	2012	2011
Anti-Dilutive Options	1,574,922	1,157,937
Anti-Dilutive Restricted Stock Units	12,203	—
Anti-Dilutive Performance Share Options	100,350	—
	1,687,475	1,157,937

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

	Three Months Ended March 31,	
	2012	2011
Options	11,716	180,396
Restricted Stock Units	458,018	341,141
Performance Share Units	229,730	40,752
	699,464	562,289

The weighted average exercise price per share of the options exercised during the three months ended March 31, 2012 and 2011 was \$13.81 and \$20.51, respectively.

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

	Three Months Ended March 31,	
	2012	2011
Net income attributable to CONSOL Energy Inc. shareholders	\$97,196	\$192,149
Weighted average shares of common stock outstanding:		
Basic	227,269,269	226,350,594
Effect of stock-based compensation awards	2,854,742	2,464,244
Dilutive	230,124,011	228,814,838
Earnings per share:		
Basic	\$0.43	\$0.85
Dilutive	\$0.42	\$0.84

#### NOTE 2—ACQUISITIONS AND DISPOSITIONS:

On February 9, 2012, CONSOL Energy completed the disposition of its Burning Star No. 4 property, which consisted of 4.3 thousand acres of coal lands and surface rights, for proceeds of \$13,023. The gain on the transaction was \$11,261 and is included in Other Income in the Consolidated Statements of Income.

On October 21, 2011, CNX Gas Company LLC (CNX Gas Company), a wholly owned subsidiary of CONSOL Energy, completed a sale to Hess Ohio Developments, LLC (Hess) of 50% of its nearly 200 thousand net Utica Shale acres in Ohio. Cash proceeds related to this transaction were \$54,254, which are net of \$5,719 transaction fees. Additionally, CONSOL Energy and Hess entered into a joint development agreement pursuant to which Hess agreed to pay approximately \$534,000 in the form of a 50% drilling carry of certain CONSOL Energy working interest obligations as the acreage is developed. The net gain on the transaction was \$53,095 and was recognized in the three months ended December 31, 2011.

On September 30, 2011, CNX Gas Company 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 net acres and 50% of the Company's undivided interest in certain of its existing Marcellus Shale wells and related leases. In September 2011, cash proceeds of \$485,464 were received related to this transaction, which were net of \$34,998 transaction fees. Additionally, a note receivable was recognized related to the two additional cash payments to be received on the first and second anniversary of the transaction closing date. The discounted notes receivable of \$311,754 and \$296,344 were recorded in Accounts and Notes Receivables—Notes Receivable and Other Assets—Notes Receivable, respectively. In the three months ended December 31, 2011, an additional receivable of \$16,703 and a payable of \$980 were recorded for closing adjustments and were included in Accounts and Notes Receivable - Other and Accounts Payable, respectively. The net loss on the transaction was \$64,142 and was recognized in the three months ended September 30, 2011. As part of the transaction, CNX Gas Company also received a commitment from Noble 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. These restrictions include the suspension of carry if average Henry Hub natural gas prices are below \$4.00 per million British thermal units (MMBtu) for three consecutive months. The carry will remain suspended until average natural gas prices are above \$4.00/MMBtu for three consecutive months. Restrictions also include a \$400,000 annual maximum on Noble's carried cost obligation.

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 period presented below are prepared as if the transaction occurred as of January 1, 2011 and do not include material, non-recurring charges.





	Three Months Ended March 31, 2011
Total Revenue and Other Income	\$1,455,126
Earnings Before Income Taxes	\$247,418
Net Income	\$189,330
Basic Earnings Per Share	\$0.84
Dilutive Earnings Per Share	\$0.83

The pro forma results are not necessarily indicative of what actually would have occurred if the transaction had been completed as of January 1, 2011, nor are they necessarily indicative of future consolidated results.

On September 30 2011, CNX Gas Company 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 Company's 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 \$119,740 and Noble contributed cash of approximately \$67,545. CONE made a cash distribution to CNX Gas in the amount of \$67,545. The cash proceeds were recognized as cash inflows of \$59,870 and \$7,675 in Distributions from Equity Affiliates and Proceeds from the Sale of Assets, respectively, in CONSOL Energy's 2011 third quarter results. The gain on the transaction was \$7,161 and was recognized in the three months ended September 30, 2011.

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 approximately 116 thousand 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 on the transaction was \$41,057 was recognized in the three months ended September 30, 2011.

**NOTE 3—COMPONENTS OF PENSION AND OTHER POSTRETIREMENT BENEFIT (OPEB) PLANS NET PERIODIC BENEFIT COSTS:**

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

	Pension Benefits		Other Postretirement Benefits	
	Three Months Ended March 31,		Three Months Ended March 31,	
	2012	2011	2012	2011
Service cost	\$5,153	\$4,289	\$5,200	\$3,977
Interest cost	9,378	9,078	35,527	42,204
Expected return on plan assets	(11,627 )	(9,630 )	—	—
Amortization of prior service cost (credits)	(408 )	(167 )	(11,599 )	(11,599 )
Recognized net actuarial loss	12,263	9,146	20,345	22,364
Net periodic benefit cost	\$14,759	\$12,716	\$49,473	\$56,946

For the three months ended March 31, 2012, \$29,746 was 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 \$110,000 to the pension trust in 2012.

On March 31, 2012, the salaried OPEB plan was remeasured to reflect an announced plan amendment that will reduce medical and prescription drug benefits as of January 1, 2014. The plan amendment calls for a fixed annual retiree medical contribution into a Health Reimbursement Account for eligible employees. The amount of contribution is dependent on several

factors. The money in the account can be used to help pay for a commercial medical plan, Medicare Part B or Part D premiums, and other qualified expenses. Employees who work or worked in corporate or operational support positions at retirement and who are age 50 or above at December 31, 2013 will receive the revised benefit in lieu of the current retiree medical and prescription drug benefits. Employees who work or worked in corporate or operational support positions who are under age 50 at December 31, 2013 will receive no medical or prescription drug benefits. The remeasurement reflects the reduction in benefits and the change in discount rate to 4.57% at March 31, 2012 from 4.51% at December 31, 2011. The remeasurement resulted in an \$80,570 reduction in the OPEB liability with a corresponding adjustment of \$50,275 in other comprehensive income, net of \$30,295 in deferred taxes. The change was made to align our corporate and operational support compensation package with our peer group. OPEB expense is expected to be \$9,425 lower than the \$148,419 that was expected to be recognized over the remaining nine months of 2012.

CONSOL Energy does not expect to contribute to the other postemployment benefit plan in 2012. We intend to pay benefit claims as they become due. For the three months ended March 31, 2012, \$42,378 of other postemployment benefits have been paid.

For the three months ended March 31, 2011, CONSOL Energy received proceeds of \$7,781 under the Patient Protection and Affordable Care Act (PPACA) related to reimbursement from the Federal government for retiree health spending. This amount is included as a reduction of benefit and other payments in the reconciliation of changes in benefit obligation. 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 months ended March 31 are as follows:

	CWP Three Months Ended March 31,		Workers’ Compensation Three Months Ended March 31,	
	2012	2011	2012	2011
Service cost	\$1,178	\$1,155	\$3,634	\$4,468
Interest cost	1,991	2,333	1,778	2,060
Amortization of actuarial gain	(4,934	) (5,478	) (986	) (977
State administrative fees and insurance bond premiums	—	—	1,910	1,222
Legal and administrative costs	750	750	648	718
Net periodic (benefit) cost	\$(1,015	) \$(1,240	) \$6,984	\$7,491

CONSOL Energy does not expect to contribute to the CWP plan in 2012. We intend to pay benefit claims as they become due. For the three months ended March 31, 2012, \$2,850 of CWP benefit claims have been paid.

CONSOL Energy does not expect to contribute to the workers’ compensation plan in 2012. We intend to pay benefit claims as they become due. For the three months ended March 31, 2012, \$9,050 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 Three Months Ended March 31,					
	2012		2011			
	Amount	Percent	Amount	Percent		
Statutory U.S. federal income tax rate	\$41,502	35.0	% \$87,877	35.0		%
Excess tax depletion	(26,514)	) (22.4	) (39,169	) (15.6	)	)
Effect of domestic production activities	—	—	(1,916	) (0.8	)	)
Net effect of state income taxes	3,510	3.0	8,818	3.5		
Other	2,883	2.4	3,318	1.4		
Income Tax Expense / Effective Rate	\$21,381	18.0	% \$58,928	23.5		%

The effective rates for the three months ended March 31, 2012 and 2011 were calculated using the annual effective rate projection on recurring earnings and include tax liabilities related to certain discrete transactions which are described below.

During the three months ended March 31, 2012, CONSOL Energy reached an agreement with the Internal Revenue Service Appeals Division on its Extraterritorial Income Exclusion refund claim for tax years 2004-2005. As a result of the agreement, the Company reflected \$983 as a discrete reduction to income tax expense. The discrete transaction was reflected in the Other line of the rate reconciliation.

The total amounts of uncertain tax positions at March 31, 2012 and 2011 were \$25,570 and \$65,510, respectively. If these uncertain tax positions were recognized, approximately \$3,891 and \$16,802, respectively, would affect CONSOL Energy's effective tax rate. There were no additions to the liability for unrecognized tax benefits during the three months ended March 31, 2012 and 2011.

CONSOL Energy recognizes interest accrued related to uncertain tax positions in its interest expense. As of March 31, 2012 and 2011, the Company reported an accrued interest liability relating to uncertain tax positions of \$5,741 and \$11,895, respectively. The accrued interest liability includes \$368 of interest income and \$1,121 of interest expense that is reflected in the Company's Consolidated Statements of Income for the three months ended March 31, 2012 and 2011, respectively.

CONSOL Energy recognizes penalties accrued related to uncertain tax positions in its income tax expense. As of March 31, 2012 and 2011, CONSOL Energy had no accrued liability for tax penalties.

CONSOL Energy and its subsidiaries file federal income tax returns with the United States and returns within various states and Canadian jurisdictions. With few exceptions, the Company is no longer subject to United States federal, state, local, or non-U.S. income tax determinations by tax authorities for the years before 2008.

NOTE 6—INVENTORIES:

Inventory components consist of the following:

	March 31, 2012	December 31, 2011
Coal	\$125,308	\$105,378
Merchandise for resale	43,130	43,639
Supplies	116,559	109,318
Total Inventories	\$284,997	\$258,335

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 \$23,093 and \$22,406 at March 31, 2012 and December 31, 2011, 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 March 31, 2012, there were letters of credit outstanding against the facility of \$160,779. CONSOL Energy management believes that these guarantees will expire without being funded, and therefore the commitments will not have a material adverse effect on financial condition. No amounts related to these financial guarantees and letters of credit are recorded as liabilities on the financial statements.

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. In accordance with the Transfers and Servicing Topics of the Financial Accounting Standards Board (FASB) Accounting Standards Codification, CONSOL Energy records transactions under the securitization facility as secured borrowings on the Consolidated Balance Sheets. The pledge of collateral is reported as Accounts Receivable - Securitized and the borrowings are classified as debt in Borrowings under Securitization Facility.

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 \$419 and \$724 for the three months ended March 31, 2012 and 2011, 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 March 2017 with the underlying liquidity agreement renewing annually each March.

At March 31, 2012 and December 31, 2011, eligible accounts receivable totaled \$200,000 and \$192,700, respectively. There was subordinated retained interest of \$39,221 at March 31, 2012 and \$192,700 at December 31, 2011. There were no borrowings under the Securitization Facility recorded on the Consolidated Balance Sheet as of March 31, 2012 and December 31, 2011. In accordance with the facility agreement, the Company is able to receive proceeds based upon the eligible accounts receivable at the previous month end.





## NOTE 8—PROPERTY, PLANT AND EQUIPMENT:

	March 31, 2012	December 31, 2011
Coal & Other Plant and Equipment	\$5,301,715	\$5,160,759
Proven Gas Properties	1,542,838	1,542,837
Coal Properties and Surface Lands	1,352,159	1,340,757
Intangible Drilling Cost	1,344,207	1,277,678
Unproven Gas Properties	1,269,083	1,258,027
Gas Gathering Equipment	970,552	963,494
Airshafts	666,334	659,736
Leased Coal Lands	541,577	540,817
Mine Development	474,859	457,179
Gas Wells and Related Equipment	410,245	408,814
Coal Advance Mining Royalties	396,682	393,340
Other Gas Assets	80,459	79,816
Gas Advance Royalties	6,536	4,065
Total Property Plant and Equipment	14,357,246	14,087,319
Less: Accumulated DD&A	4,915,809	4,760,903
Total Net PP&E	\$9,441,437	\$9,326,416

## Industry Participation Agreements

As of March 31, 2012, CONSOL Energy had entered into two significant industry participation agreements (referred to as "joint ventures" or "JVs") that provided drilling and completion carries for our retained interests. The following table provides information about our industry participation agreements as of March 31, 2012:

Shale Play	Industry Participation Agreement Partner	Industry Participation Agreement Date	Total Drilling Carries	Drilling Carries Billed to Partner	Drilling Carries Remaining
Marcellus	Noble Energy, Inc.	September 30, 2011	\$ 2,100,000	\$ 10,204	\$ 2,089,796
Utica	Hess Ohio Developments, LLC	October 21, 2011	\$ 534,000	\$ 3,348	\$ 530,652

## NOTE 9—SHORT-TERM NOTES PAYABLE:

CONSOL Energy's \$1,500,000 Senior Secured Credit Agreement expires April 12, 2016. The facility is secured by substantially all of the assets of CONSOL Energy and certain of its subsidiaries. CONSOL Energy's credit facility allows for up to \$1,500,000 of borrowings and letters of credit. CONSOL Energy can request an additional \$250,000 increase in the aggregate borrowing limit amount. 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 2.50 to 1.00, measured quarterly. The interest coverage ratio was 5.84 to 1.00 at March 31, 2012. The facility includes a maximum leverage ratio covenant of not more than 4.75 to 1.00, measured quarterly through March 31, 2013, and no more than 4.50 to 1.00 thereafter. The leverage ratio was 2.10 to 1.00 at March 31, 2012. The facility also includes a senior secured leverage ratio covenant of not more than 2.00 to 1.00, measured quarterly. The senior secured leverage ratio was 0.07 to 1.00 at March 31, 2012. 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, merge with another corporation and amend, modify or restate the senior unsecured notes. At March 31, 2012, the \$1,500,000 facility had no borrowings outstanding and \$101,013 of letters of credit outstanding, leaving \$1,398,987 of capacity available for borrowings and the issuance of letters of credit. The facility had no borrowings outstanding at December 31, 2011.

CNX Gas Corporation's (CNX Gas) \$1,000,000 Senior Secured Credit Agreement expires April 12, 2016. The facility is secured by substantially all of the assets of CNX Gas and its subsidiaries. CNX Gas' credit facility allows for up to

\$1,000,000

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for borrowings and letters of credit. CNX Gas can request an additional \$250,000 increase in the aggregate borrowing limit amount. Fees and interest rate spreads are based on the percentage of facility utilization, measured quarterly. Covenants in the facility limit CNX Gas' ability to dispose of assets, make investments, pay dividends and merge with another corporation. The credit facility allows investments in joint ventures for the development and operation of gas gathering systems and provides for \$600,000 of loans, advances and dividends from CNX Gas to CONSOL Energy. Investments in the CONE Gathering Company are unrestricted. The facility includes a maximum leverage ratio covenant of not more than 3.50 to 1.00, measured quarterly. The leverage ratio was 0.00 to 1.00 at March 31, 2012. The facility also includes a minimum interest coverage ratio covenant of no less than 3.00 to 1.00, measured quarterly. This ratio was 35.79 to 1.00 at March 31, 2012. At March 31, 2012, the \$1,000,000 facility had no borrowings outstanding and \$70,203 of letters of credit outstanding, leaving \$929,797 of capacity available for borrowings and the issuance of letters of credit. The facility had no borrowings outstanding at December 31, 2011.

## NOTE 10—LONG-TERM DEBT:

	March 31, 2012	December 31, 2011
Debt:		
Senior notes due April 2017 at 8.00%, issued at par value	\$1,500,000	\$1,500,000
Senior notes due April 2020 at 8.25%, issued at par value	1,250,000	1,250,000
Senior notes due March 2021 at 6.375%, issued at par value	250,000	250,000
Baltimore Port Facility revenue bonds in series due September 2025 at 5.75%	102,865	102,865
Advance royalty commitments (6.73% weighted average interest rate for March 31, 2012 and December 31, 2011, respectively)	31,053	31,053
Other long-term note maturing in 2031	75	75
	3,133,993	3,133,993
Less amounts due in one year	11,759	11,759
Long-Term Debt	\$3,122,234	\$3,122,234

Accrued interest related to Long-Term Debt of \$113,891 and \$63,577 was included in Other Accrued Liabilities in the Consolidated Balance Sheets at March 31, 2012 and December 31, 2011, respectively.

## NOTE 11—COMMITMENTS AND CONTINGENCIES:

CONSOL Energy and its subsidiaries are subject to various lawsuits and claims with respect to such matters as personal injury, wrongful death, damage to property, exposure to hazardous substances, governmental regulations including environmental remediation, employment and contract disputes and other claims and actions arising out of the normal course of business. We accrue the estimated loss for these lawsuits and claims when the loss is probable and can be estimated. Our current estimated accruals related to these pending claims, individually and in the aggregate, are immaterial to the financial position, results of operations or cash flows of CONSOL Energy. It is possible that the aggregate loss in the future with respect to these lawsuits and claims could ultimately be material to the financial position, results of operations or cash flows of CONSOL Energy; however, such amount cannot be reasonably estimated. The amount claimed against CONSOL Energy is disclosed below when an amount is expressly stated in the lawsuit or claim, which is not often the case. The maximum aggregate amount claimed in those lawsuits and claims, regardless of probability, where a claim is expressly stated or can be estimated, exceeds the aggregate amounts accrued for all lawsuits and claims by approximately \$1,562,000.

The following lawsuits and claims include those for which a loss is probable and an accrual has been recognized.

American Electric Corp: On August 8, 2011, the United States Environmental Protection Agency, Region IV, sent Consolidation Coal Company a General Notice and Offer to Negotiate regarding the Ellis Road/American Electric

Corp. Superfund Site in Jacksonville, Florida. The General Notice was sent to approximately 180 former customers of American Electric Corp. CONSOL Energy has confirmed that it did business with American Electric Corp. in 1983 and 1984. The General Notice indicated that the Environmental Protection Agency (EPA) has determined that polychlorinated biphenyls (PCBs) and other contaminants in the soils and sediments at and near the site require a removal action. The Offer to Negotiate invited the potentially responsible parties (PRPs) to enter into an Administrative Settlement Agreement and Order on Consent (AOC) to provide for conducting the removal action under the EPA oversight and to reimburse the EPA for its past costs, in the

amount of \$384 and for its future costs. CONSOL Energy responded to the EPA indicating its willingness to participate in such negotiations, and CONSOL Energy is participating in a group of potentially responsible parties to conduct the removal action. It is likely that the AOC will be executed in the second quarter of 2012. If the AOC is signed by April 30, 2012 the EPA will grant the performing parties a \$408 orphan share credit, which will offset the EPA's past costs. The actual scope of the work has yet to be determined, but the current estimate of the total costs of the removal action is in the range of \$2,000 to \$5,400, with CONSOL Energy's share of such costs at approximately 8%. CONSOL Energy has established an initial accrual based on its percentage share of the costs at the high end of the range. The liability is immaterial to the overall financial position of CONSOL Energy and is included in Other Accrued Liabilities on the Consolidated Balance Sheet.

**Ward Transformer Superfund Site:** CONSOL Energy was notified in November 2004 by the United States Environmental Protection Agency (EPA) that it is a potentially responsible party (PRP) under the Superfund program established by the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended (CERCLA), with respect to the Ward Transformer site in Wake County, North Carolina. The EPA, CONSOL Energy and two other PRPs entered into an administrative Settlement Agreement and Order of Consent, requiring those PRPs to undertake and complete a PCB soil removal action, at and in the vicinity of the Ward Transformer property. In June 2008, while conducting the PCB soil excavation on the Ward property, it was determined that PCBs have migrated onto adjacent properties. The current estimated cost of remedial action for the area CONSOL Energy was originally named a PRP, including payment of the EPA's past and future cost, is approximately \$65,000. The current estimated cost of the most likely remediation plan for the additional areas discovered is approximately \$11,000. Also, in September 2008, the EPA notified CONSOL Energy and sixty other PRPs that there were additional areas of potential contamination allegedly related to the Ward Transformer Site. Current estimates of the cost or potential range of cost for this area are not yet available. CONSOL Energy recognized no expense in Cost of Goods Sold and Other charges in the three months ended March 31, 2012 and 2011, respectively. As of March 31, 2012, CONSOL Energy and the other participating PRPs had asserted CERCLA cost recovery and contribution claims against approximately 225 nonparticipating PRPs to recover a share of the costs incurred and to be incurred to conduct the removal actions at the Ward Site. CONSOL Energy's portion of recoveries from settled claims is \$4,477. Accordingly, the liability reflected in Other Accrued Liabilities was reduced by these settled claims. The remaining net liability at March 31, 2012 is \$3,483.

**Asbestos-Related Litigation:** One of our subsidiaries, Fairmont Supply Company (Fairmont), which distributes industrial supplies, currently is named as a defendant in approximately 7,300 asbestos-related claims in state courts in Pennsylvania, Ohio, West Virginia, Maryland, Texas and Illinois. Because a very small percentage of products manufactured by third parties and supplied by Fairmont in the past may have contained asbestos and many of the pending claims are part of mass complaints filed by hundreds of plaintiffs against a hundred or more defendants, it has been difficult for Fairmont to determine how many of the cases actually involve valid claims or plaintiffs who were actually exposed to asbestos-containing products supplied by Fairmont. In addition, while Fairmont may be entitled to indemnity or contribution in certain jurisdictions from manufacturers of identified products, the availability of such indemnity or contribution is unclear at this time, and in recent years, some of the manufacturers named as defendants in these actions have sought protection from these claims under bankruptcy laws. Fairmont has no insurance coverage with respect to these asbestos cases. Based on over 15 years of experience with this litigation, we have established an accrual to cover our estimated liability for these cases. This accrual is immaterial to the overall financial position of CONSOL Energy and is included in Other Accrued Liabilities on the Consolidated Balance Sheet. Past payments by Fairmont with respect to asbestos cases have not been material.

**Ryerson Dam Litigation:** In 2008, the Pennsylvania Department of Conservation and Natural Resources (the Commonwealth) filed a six-count Complaint in the Court of Common Pleas of Allegheny County, Pennsylvania, claiming that the Company's underground longwall mining activities at its Bailey Mine caused cracks and seepage damage to the Ryerson Park Dam. The Commonwealth subsequently breached the dam, thereby eliminating the Ryerson Park Lake. The Commonwealth claimed that the Company is liable for dam reconstruction costs, lake

restoration costs and natural resource damages totaling \$58,000. In October 2008, the Common Pleas Court ruled that natural resource damages were not recoverable and referred the Commonwealth's claim to the Pennsylvania Department of Environmental Protection (DEP). On February 16, 2010, the DEP issued an interim report, concluding that the alleged damage was subsidence related. The DEP estimated the cost of repair to be approximately \$20,000. The Company has appealed the DEP's findings to the Pennsylvania Environmental Hearing Board (PEHB), which will consider the case de novo, meaning without regard to the DEP's decision, as to any finding of causation of damage and/or the amount of damages. Either party may appeal the decision of the PEHB to the Pennsylvania Commonwealth Court, and then, as may be allowed, to the Pennsylvania Supreme Court. A hearing on the merits of the case will not occur until sometime in the spring or summer of 2013. As to the underlying claim, CONSOL Energy believes it is not responsible for the damage to the dam and that numerous grounds exist upon which to attack the propriety of the claims. If CONSOL Energy is ultimately found to be liable for damages to the dam, we believe the range of loss would be between \$9,000 and \$30,000. There have been settlement discussions and we have established an accrual to cover our estimated settlement liability for this case. This accrual is immaterial to the overall financial position of CONSOL Energy and is included in Other Accrued Liabilities on the Consolidated Balance Sheet.

C. L. Ritter: On March 1, 2011, the Company was served with a complaint instituted by C. L. Ritter Lumber Company Incorporated against Consolidation Coal Company (CCC), Island Creek Coal Company, (ICCC), CNX Gas Company LLC, subsidiaries of CONSOL Energy Inc., as well as CONSOL Energy itself in the Circuit Court of Buchanan County, Virginia, seeking damages and injunctive relief in connection with the deposit of untreated water from mining activities at CCC's Buchanan Mine into nearby void spaces at one of the mines of ICCC. The suit alleges damages of between \$34,000 and \$430,000 for alleged damage to coal and coalbed methane, as well as breach of contract damages. We have removed the case to federal court and filed a motion to dismiss, largely predicated on the statute of limitations bar. The trial judge ruled that the issue of the applicability of the statute of limitations bar can only be addressed after discovery. There have been settlement discussions and we have established an accrual to cover our estimated settlement liability for this case. This accrual is immaterial to the overall financial position of CONSOL Energy and is included in Other Accrued Liabilities on the Consolidated Balance Sheet.

Hale Litigation: A purported class action lawsuit was filed on September 23, 2010 in U.S. District Court in Abingdon, Virginia styled Hale v. CNX Gas Company LLC et. al. The lawsuit alleges that the plaintiff class consists of oil and gas owners, that the Virginia Supreme Court has decided that coalbed methane (CBM) belongs to the owner of the oil and gas estate, that the Virginia Gas and Oil Act of 1990 unconstitutionally allows force pooling of CBM, that the Act unconstitutionally provides only a 1/8 royalty to CBM owners for gas produced under the force pooling orders, and that the Company only relied upon control of the coal estate in force pooling the CBM notwithstanding the Virginia Supreme Court decision holding that if only the coal estate is controlled, the CBM is not thereby controlled. The lawsuit seeks a judicial declaration of ownership of the CBM and that the entire net proceeds of CBM production (that is, the 1/8 royalty and the 7/8 of net revenues since production began) be distributed to the class members. The Magistrate Judge issued a Report and Recommendation in which she recommended that the District Judge decide that the deemed lease provision of the Gas and Oil Act is constitutional as is the 1/8 royalty, and that CNX Gas need not distribute the net proceeds to class members. The Magistrate Judge recommended against the dismissal of certain other claims, none of which are believed to have any significance. The District Judge affirmed the Magistrate Judge's Recommendations in their entirety. The plaintiffs and CNX Gas have agreed to stay this litigation. CONSOL Energy believes that the case is without merit and intends to defend it vigorously. We have established an accrual to cover our estimated liability for this case. This accrual is immaterial to the overall financial position of CONSOL Energy and is included in Other Accrued Liabilities on the Consolidated Balance Sheet.

Addison Litigation: A purported class action lawsuit was filed on April 28, 2010 in Federal court in Virginia styled Addison v. CNX Gas Company LLC. The case involves two primary claims: (i) the plaintiff and similarly situated CNX Gas lessors identified as conflicting claimants during the force pooling process before the Virginia Gas and Oil Board are the owners of the CBM and, accordingly, the owners of the escrowed royalty payments being held by the Commonwealth of Virginia; and (ii) CNX Gas Company failed to either pay royalties due these conflicting claimant lessors or paid them less than required because of the alleged practice of improper below market sales and/or taking alleged improper post-production deductions. Plaintiffs seek a declaratory judgment regarding ownership and compensatory and punitive damages for breach of contract; conversion; negligence (voluntary undertaking), for force pooling coal owners after the Ratliff decision declared coal owners did not own the CBM; negligent breach of duties as an operator; breach of fiduciary duties; and unjust enrichment. We filed a Motion to Dismiss in this case, and the Magistrate Judge recommended dismissing some claims and allowing others to proceed. The District Judge affirmed the Magistrate Judge's Recommendations in their entirety. The plaintiffs and CNX Gas Company have agreed to stay this litigation. CONSOL Energy believes that the case is without merit and intends to defend it vigorously. We have established an accrual to cover our estimated liability for this case. This accrual is immaterial to the overall financial position of CONSOL Energy and is included in Other Accrued Liabilities on the Consolidated Balance Sheet. The following lawsuits and claims include those for which a loss is reasonably possible, but not probable, and accordingly no accrual has been recognized.

South Carolina Gas & Electric Company Arbitration: South Carolina Electric & Gas Company (SCE&G), a utility, has demanded arbitration, seeking \$36,000 in damages against CONSOL of Kentucky and CONSOL Energy Sales

Company, both wholly owned subsidiaries of CONSOL Energy. SCE&G claims it suffered damages in obtaining cover coal to replace coal which was not delivered in 2008 under a coal sales agreement. CONSOL Energy counterclaimed against SCE&G for \$9,400 for terminating coal shipments under the sales agreement which SCE&G had agreed could be made up in 2009. A hearing on the claims is scheduled for April 30, 2012. The named CONSOL Energy defendants deny all liability and intend to vigorously defend the action filed against them. For that reason, we have not accrued a liability for this claim. If liability is ultimately imposed on the named CONSOL Energy defendants, we believe the range of loss would be between \$17,000 and \$29,000.

CNX Gas Shareholders Litigation: CONSOL Energy has been named as a defendant in five putative class actions brought by alleged shareholders of CNX Gas challenging the tender offer by CONSOL Energy to acquire all of the shares of



CNX Gas common stock that CONSOL Energy did not already own for \$38.25 per share. The two cases filed in Pennsylvania Common Pleas Court have been stayed and the three cases filed in the Delaware Chancery Court have been consolidated under the caption In Re CNX Gas Shareholders Litigation (C.A. No. 5377-VCL). All five actions generally allege that CONSOL Energy breached and/or aided and abetted in the breach of fiduciary duties purportedly owed to CNX Gas public shareholders, essentially alleging that the \$38.25 per share price that CONSOL Energy paid to CNX Gas shareholders in the tender offer and subsequent short-form merger was unfair. Among other things, the actions sought a permanent injunction against or rescission of the tender offer, damages, and attorneys' fees and expenses. The lawsuit will likely go to trial, possibly in 2013. CONSOL Energy believes that these actions are without merit and intends to defend them vigorously. For that reason, we have not accrued a liability for this claim; however, if liability is ultimately imposed, based on the expert reports that have been exchanged by the parties, we believe the range of loss could be up to \$221,000.

The following royalty and land right lawsuits and claims include those for which a loss is reasonably possible, but not probable, and accordingly, no accrual has been recognized. These claims are influenced by many factors which prevent the estimation of a range of potential loss. These factors include, but are not limited to, generalized allegations of unspecified damages (such as improper deductions), discovery having not commenced or not having been completed, unavailability of expert reports on damages and non-monetary issues are being tried. For example, in instances where a gas lease termination is sought, damages would depend on speculation as to if and when the gas production would otherwise have occurred, how many wells would have been drilled on the lease premises, what their production would be, what the cost of production would be, and what the price of gas would be during the production period. An estimate is calculated, if applicable, when sufficient information becomes available.

Ratliff: On March 22, 2012, the Company was served with four complaints filed on May 31, 2011 which were instituted by four individuals against Consolidation Coal Company (CCC), Island Creek Coal Company, (ICCC), CNX Gas Company LLC, subsidiaries of CONSOL Energy, as well as CONSOL Energy itself in the Circuit Court of Russell County, Virginia, seeking damages and injunctive relief in connection with the deposit of untreated water from mining activities at CCC's Buchanan Mine into nearby void spaces at some of the mines of ICCC. The suits each allege damages of between \$25,750 and \$119,500 for alleged damage to coal and coalbed methane, as well as breach of contract and assumpsit damages. We have removed the cases to federal court and filed a motion to dismiss, largely predicated on the statute of limitations bar. Three similar lawsuits were filed recently, one in federal court and two in the Circuit Court of Buchanan County, Virginia, by other plaintiffs that collectively allege damages of between \$100,000 and \$622,000. One of the three suits which claimed damages of \$22,000 was dismissed in federal court and has been appealed. Another which claimed damages of \$312,000 was settled for an amount immaterial to the overall financial position of CONSOL Energy. The Company intends to file a motion to dismiss the remaining case. CCC believes that it had, and continues to have, the right to store water in these void areas. CCC and the other named CONSOL Energy defendants deny all liability and intend to vigorously defend the actions filed against them in connection with the removal and deposit of water from the Buchanan Mine. Consequently, we have not recognized any liability related to these actions.

Hall Litigation: A purported class action lawsuit was filed on December 23, 2010 styled Hall v. CONSOL Gas Company in Allegheny County Pennsylvania Common Pleas Court. The named plaintiff is Earl D. Hall. The purported class plaintiffs are all Pennsylvania oil and gas lessors to Dominion Exploration and Production Company, whose leases were acquired by CONSOL Energy. The complaint alleges more than 1,000 similarly situated lessors. The lawsuit alleges that CONSOL Energy incorrectly calculated royalties by (i) calculating line loss on the basis of allocated volumes rather than on a well-by-well basis, (ii) possibly calculating the royalty on the basis of an incorrect price, (iii) possibly taking unreasonable deductions for post-production costs and costs that were not arms-length, (iv) not paying royalties on gas lost or used before the point of sale, and (v) not paying royalties on oil production. The complaint also alleges that royalty statements were false and misleading. The complaint seeks damages, interest and an accounting on a well-by-well basis. CONSOL Energy believes that the case is without merit and intends to defend

it vigorously. Consequently, we have not recognized any liability related to these actions.

**Kennedy Litigation:** The Company is a party to a case filed on March 26, 2008 captioned Earl Kennedy (and others) v. CNX Gas Company and CONSOL Energy in the Court of Common Pleas of Greene County, Pennsylvania. The lawsuit alleges that CNX Gas Company and CONSOL Energy trespassed and converted gas and other minerals allegedly belonging to the plaintiffs in connection with wells drilled by CNX Gas Company. The complaint, as amended, seeks injunctive relief, including removing CNX Gas Company from the property, and compensatory damages of \$20,000. The suit also sought to overturn existing law as to the ownership of coalbed methane in Pennsylvania, but that claim was dismissed by the court; the plaintiffs are seeking to appeal that dismissal. The suit also seeks a determination that the Pittsburgh 8 coal seam does not include the “roof/rider” coal. The court denied the plaintiff’s summary judgment motion on that issue. The court held a bench trial on the “roof/rider” coal issue in November 2011 and briefing will take place before a decision is rendered. CNX Gas Company and CONSOL Energy believe this lawsuit to be without merit and intend to vigorously defend it. Consequently, we

have not recognized any liability related to these actions.

**Rowland Litigation:** Rowland Land Company filed a complaint in May 2011 against CONSOL Energy, CNX Gas Company, Dominion Resources, and EQT Production Company (EQT) in Raleigh County Circuit Court, West Virginia. Rowland is the lessor on a 33,000 acre oil and gas lease in southern West Virginia. EQT was the original lessee, but they farmed out the development of the lease to Dominion, in exchange for an overriding royalty. Dominion sold the indirect subsidiary that held the lease to a subsidiary of CONSOL Energy on April 30, 2010. Subsequent to that acquisition, the subsidiary that held the lease was merged into CNX Gas Company as part of an internal reorganization. Rowland alleges that (i) Dominion's sale of the subsidiary to CONSOL Energy was a change in control that required its consent under the terms of the farmout agreement and lease, and (ii) the subsequent merger of the subsidiary into CNX Gas Company was an assignment that required its consent under the lease. Rowland alleges that the failure to obtain the required consent constitutes a breach of the lease and it seeks damages and a forfeiture of the lease. CONSOL Energy and CNX Gas Company have filed a motion to dismiss the complaint, arguing among other things, that Dominion's sale of the indirect subsidiary was not a change in control; that even if the sale constituted a change in control, the purchase agreement between Dominion and CONSOL Energy did not give effect to the transfer so the transfer never occurred; that the mergers did not require consent; and that Rowland did not provide timely notice of breach of the lease in accordance with its terms. Rowland is amending its complaint to include allegations that CONSOL Energy and Dominion Resources are liable for their subsidiaries' actions. We will file a motion to dismiss in response. CONSOL Energy believes that the case is without merit and intends to defend it vigorously. Consequently, we have not recognized any liability related to these actions.

**Majorsville Storage Field Declaratory Judgment:** On March 3, 2011, an attorney sent a letter to CNX Gas Company regarding certain leases that CNX Gas Company obtained from Columbia Gas in Greene County, Pennsylvania involving the Majorsville Storage Field. The letter was written on behalf of three lessors alleging that the leases totaling 525 acres are invalid, and had expired by their terms. The plaintiffs' theory is that the rights of storage and production are severable under the leases. Ignoring the fact that the leases have been used for gas storage, they claim that since there has been no production or development of production, the right to produce gas expired at the end of the primary terms. On June 16, 2011 in the Court of Common Pleas of Greene County, Pennsylvania, the Company filed a declaratory judgment action, seeking to have a court confirm the validity of the leases. We believe that we will prevail in this litigation based on the language of the leases and the current status of the law. Consequently, we have not recognized any liability related to these actions.

The following lawsuit and claims include those for which a loss is remote and accordingly, no accrual has been recognized, although if a non favorable verdict were received the impact could be material.

**Comer Litigation:** In 2005, plaintiffs Ned Comer and others filed a purported class action lawsuit in the U.S. District Court for the Southern District of Mississippi against a number of companies in energy, fossil fuels and chemical industries, including CONSOL Energy styled, Comer, et al. v. Murphy Oil, et al. The plaintiffs, residents and owners of property along the Mississippi Gulf coast, alleged that the defendants caused the emission of greenhouse gases that contributed to global warming, which in turn caused a rise in sea levels and added to the ferocity of Hurricane Katrina, which combined to destroy the plaintiffs' property. The District Court dismissed the case and the plaintiffs appealed. The Circuit Court panel reversed and the defendants sought a rehearing before the entire court. A rehearing before the entire court was granted, which had the effect of vacating the panel's reversal, but before the case could be heard on the merits, a number of judges recused themselves and there was no longer a quorum. As a result, the District Court's dismissal was effectively reinstated. The plaintiffs asked the U.S. Supreme Court to require the Circuit Court to address the merits of their appeal. On January 11, 2011, the Supreme Court denied that request. Although that should have resulted in the dismissal being final, the plaintiffs filed a lawsuit on May 27, 2011, in the same jurisdiction against essentially the same defendants making nearly identical allegations as in the original lawsuit. The trial court has dismissed this case. The dismissal is being appealed.

At March 31, 2012, CONSOL Energy has provided the following financial guarantees, unconditional purchase obligations and letters of credit to certain third parties, as described by major category in the following table. These amounts represent the maximum potential total of future payments that we could be required to make under these

instruments. These amounts have not been reduced for potential recoveries under recourse or collateralization provisions. Generally, recoveries under reclamation bonds would be limited to the extent of the work performed at the time of the default. No amounts related to these financial guarantees and letters of credit are recorded as liabilities on the financial statements. CONSOL Energy management believes that these guarantees will expire without being funded, and therefore the commitments will not have a material adverse effect on financial condition.

	Amount of Commitment				
	Expiration Per Period				
	Total Amounts Committed	Less Than 1 Year	1-3 Years	3-5 Years	Beyond 5 Years
Letters of Credit:					
Employee-Related	\$194,566	\$130,826	\$63,740	\$—	\$—
Environmental	56,994	35,046	21,948	—	—
Other	80,508	43,561	36,947	—	—
Total Letters of Credit	332,068	209,433	122,635	—	—
Surety Bonds:					
Employee-Related	204,895	179,515	25,380	—	—
Environmental	447,858	436,545	11,313	—	—
Other	27,729	27,663	65	—	1
Total Surety Bonds	680,482	643,723	36,758	—	1
Guarantees:					
Coal	24,802	16,501	3,301	1,000	4,000
Gas	123,418	72,811	19,985	—	30,622
Other	456,389	83,388	137,314	87,975	147,712
Total Guarantees	604,609	172,700	160,600	88,975	182,334
Total Commitments	\$1,617,159	\$1,025,856	\$319,993	\$88,975	\$182,335

Employee-related financial guarantees have primarily been provided to support the United Mine Workers' of America's 1992 Benefit Plan and various state workers' compensation self-insurance programs. Environmental financial guarantees have primarily been provided to support various performance bonds related to reclamation and other environmental issues. Coal and Gas financial guarantees have primarily been provided to support various sales contracts. Other guarantees have also been extended to support insurance policies, legal matters, full and timely payments of mining equipment leases, and various other items necessary in the normal course of business. CONSOL Energy and CNX Gas enter into long-term unconditional purchase obligations to procure major equipment purchases, natural gas firm transportation, gas drilling services and other operating goods and services. These purchase obligations are not recorded on the Consolidated Balance Sheet. As of March 31, 2012, the purchase obligations for each of the next five years and beyond were as follows:

Obligations Due	Amount
Less than 1 year	\$563,134
1 - 3 years	403,906
3 - 5 years	498,271
More than 5 years	1,639,535
Total Purchase Obligations	\$3,104,846

Costs related to these purchase obligations include:

	Three Months Ended	
	March 31,	
	2012	2011
Major equipment purchases	\$13,166	\$7,655
Firm transportation expense	15,045	12,818
Gas drilling obligations	29,576	25,818
Other	298	101

Total costs related to purchase obligations	\$58,085	\$46,392
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## NOTE 12—DERIVATIVE INSTRUMENTS:

CONSOL Energy enters into financial derivative instruments to manage our exposure to commodity price volatility. We measure each derivative instrument at fair value and record it on the balance sheet as either an asset or liability. The fair value of CONSOL Energy's derivatives (natural gas price swaps) are based on intra-bank pricing models which utilize inputs that are either readily available in the public market, such as natural gas forward curves, or can be corroborated from active markets or broker quotes. These values are then compared to the values given by our counterparties for reasonableness. Changes in the fair value of the derivatives are recorded currently in earnings unless special hedge accounting criteria are met. For derivatives designated as fair value hedges, the changes in fair value of both the derivative instrument and the hedged item are recorded in earnings. For derivatives designated as cash flow hedges, the effective portions of changes in fair value of the derivative are reported in Other Comprehensive Income or Loss (OCI) and reclassified into earnings in the same period or periods which the forecasted transaction affects earnings. The ineffective portions of hedges are recognized in earnings in the current period. CONSOL Energy currently utilizes only cash flow hedges that are considered highly effective.

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

CONSOL Energy is exposed to credit risk in the event of nonperformance by counterparties. The creditworthiness of counterparties is subject to continuing review. The Company has not experienced any issues of non-performance by derivative counterparties.

CONSOL Energy has entered into swap contracts for natural gas to manage the price risk associated with the forecasted natural gas revenues. The objective of these hedges is to reduce the variability of the cash flows associated with the forecasted revenues from the underlying commodity. As of March 31, 2012, the total notional amount of the Company's outstanding natural gas swap contracts was 160.0 billion cubic feet. These swap contracts are forecasted to settle through December 31, 2015 and meet the criteria for cash flow hedge accounting. During the next twelve months, \$110,024 of unrealized gain is expected to be reclassified from Other Comprehensive Income and into earnings, as a result of the settlement of cash flow hedges. No gains or losses have been reclassified into earnings as a result of the discontinuance of cash flow hedges.

The fair value at March 31, 2012 of CONSOL Energy's derivative instruments, which were all natural gas swaps and qualify as cash flow hedges, was an asset of \$297,708 and a liability of \$1,505. The total asset is comprised of \$181,072 and \$116,636 which were included in Prepaid Expense and Other Assets, respectively, on the Consolidated Balance Sheets. The total liability is included in Other Liabilities on the Consolidated Balance Sheets.

The fair value at December 31, 2011 of CONSOL Energy's derivative instruments, which were all natural gas swaps and qualify as cash flow hedges, was an asset of \$251,277. The total asset is comprised of \$153,376 and \$97,901 which were included in Prepaid Expense and Other Assets, respectively, on the Consolidated Balance Sheets.

The effect of derivative instruments in cash flow hedging relationships on the Consolidated Statements of Income and the Consolidated Statements of Stockholders' Equity were as follows:

	Three Months Ended March 31,	
	2012	2011
Natural Gas Price Swaps		
Gain recognized in Accumulated OCI	\$ 76,076	\$ 4,371
Gain reclassified from Accumulated OCI into Outside Sales	\$	