CONSOL ENERGY INC
Form 10-Q
August 05, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2008 or

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

For the transition period from _________ to _________

Commission File Number: 001-14901

CONSOL Energy Inc.

(Exact name of registrant as specified in its charter)

Delaware	**51-0337383**
(State or Other Jurisdiction of Incorporation or Organization)	**(IRS Employer Identification No.)**
1800 Washington Road Pittsburgh, Pennsylvania	**15241**
(Address of Principal Executive Offices)	**(Zip Code)**

(412) 831-4000

(Registrant s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant;(1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes x No ¨

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

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

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

Yes ¨ No x

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

Class	Shares outstanding as of July 18, 2008
Common stock, $0.01 par value	183,187,399

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FINANCIAL INFORMATION

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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 June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Sales Outside	$ 1,111,410	$ 879,300	$ 1,997,735	$ 1,712,427
Sales Gas Royalty Interests	22,515	14,484	39,019	26,666
Sales Purchased Gas	1,647	1,317	5,186	2,476
Freight Outside	63,927	43,667	108,671	87,300
Other Income	11,397	121,230	86,016	146,314
Total Revenue and Other Income	1,210,896	1,059,998	2,236,627	1,975,183
Cost of Goods Sold and Other Operating Charges (exclusive of depreciation, depletion and amortization shown below)	740,735	591,157	1,377,463	1,110,406
Gas Royalty Interests Costs	21,880	12,500	37,954	23,138
Purchased Gas Costs	1,522	1,473	4,943	2,492
Freight Expense	63,927	43,667	108,671	87,300
Selling, General and Administrative Expense	30,644	26,539	61,114	52,548
Depreciation, Depletion and Amortization	95,775	75,689	188,503	152,478
Interest Expense	8,526	6,174	18,702	13,437
Taxes Other Than Income	73,299	62,474	144,905	130,752
Total Costs	1,036,308	819,673	1,942,255	1,572,551
Earnings Before Income Taxes and Minority Interest	174,588	240,325	294,372	402,632
Income Taxes	61,798	79,524	97,351	122,458
Earnings Before Minority Interest	112,790	160,801	197,021	280,174
Minority Interest	(11,778)	(7,684)	(20,927)	(13,795)
Net Income	$ 101,012	$ 153,117	$ 176,094	$ 266,379
Basic Earnings Per Share	$ 0.55	$ 0.84	$ 0.96	$ 1.46
Dilutive Earnings Per Share	$ 0.54	$ 0.83	$ 0.95	$ 1.44
Weighted Average Number of Common Shares Outstanding:				
Basic	182,977,726	182,195,390	182,775,355	182,282,857

Dilutive		185,637,248		185,000,122		185,330,300		184,788,415
Dividends Paid Per Share	$	0.10	$	0.07	$	0.20	$	0.14

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) June 30, 2008	December 31, 2007
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 55,189	$ 41,651
Accounts and Notes Receivable:		
Trade	282,409	180,545
Other Receivables	52,736	69,771
Inventories	174,660	163,193
Deferred Income Taxes	204,713	130,820
Recoverable Income Taxes	37,186	19,090
Prepaid Expenses	46,865	78,085
Total Current Assets	853,758	683,155
Property, Plant and Equipment:		
Property, Plant and Equipment	9,352,002	8,945,312
Less Accumulated Depreciation, Depletion and Amortization	4,101,556	3,980,270
Total Property, Plant and Equipment Net	5,250,446	4,965,042
Other Assets:		
Deferred Income Taxes	343,823	374,811
Investment in Affiliates	68,199	94,866
Other	75,009	90,216
Total Other Assets	487,031	559,893
TOTAL ASSETS	$ 6,591,235	$ 6,208,090

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) June 30, 2008	December 31, 2007
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts Payable	$ 267,966	$ 238,312
Short-Term Notes Payable	207,000	247,500
Current Portion of Long-Term Debt	20,716	18,283
Other Accrued Liabilities	733,880	512,302
Total Current Liabilities	1,229,562	1,016,397
Long-Term Debt:		
Long-Term Debt	411,887	398,077
Capital Lease Obligations	85,640	90,848
Total Long-Term Debt	497,527	488,925
Deferred Credits and Other Liabilities:		
Postretirement Benefits Other Than Pensions	2,388,980	2,336,809
Pneumoconiosis Benefits	180,535	171,896
Mine Closing	402,270	399,633
Workers Compensation	131,356	118,356
Deferred Revenue		3,162
Salary Retirement	61,330	67,392
Reclamation	33,821	34,317
Other	269,972	193,666
Total Deferred Credits and Other Liabilities	3,468,264	3,325,231
Minority Interest	158,181	163,118
Total Liabilities and Minority Interest	5,353,534	4,993,671
Stockholders Equity:		
Common Stock, $.01 par value; 500,000,000 Shares Authorized, 185,126,526 Issued and 183,150,253 Outstanding at June 30, 2008; 185,126,526 Issued and 182,291,623 Outstanding at December 31, 2007	1,851	1,851
Preferred Stock, 15,000,000 Shares Authorized; None Issued and Outstanding		
Capital in Excess of Par Value	997,308	966,544
Retained Earnings	852,123	766,536
Accumulated Other Comprehensive Loss	(542,789)	(419,284)
Common Stock in Treasury, at Cost 1,976,273 Shares at June 30, 2008 and 2,834,903 Shares at December 31, 2007	(70,792)	(101,228)
Total Stockholders Equity	1,237,701	1,214,419
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 6,591,235	$ 6,208,090

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

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CONSOL ENERGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF STOCKHOLDERS EQUITY

(Dollars in thousands, except per share data)

	Common Stock	Capital in Excess of Par Value	Retained Earnings (Deficit)	Other Compre-hensive Income (Loss)	Treasury Stock	Total Stock-holders Equity
Balance December 31, 2007	$ 1,851	$ 966,544	$ 766,536	$ (419,284)	$ (101,228)	$ 1,214,419
(Unaudited)						
Net Income			176,094			176,094
Treasury Rate Lock (Net of ($31) tax)				(35)		(35)
Amortization of Prior Service Costs and Actuarial Loss (Net of ($106) tax)				(173)		(173)
Minority Interest in Other Comprehensive Income and Stock-based Compensation of Gas				27,667		27,667
Gas Cash Flow Hedge (Net of ($96,703) tax)				(150,877)		(150,877)
Comprehensive Income (Loss)			176,094	(123,418)		52,676
Cumulative Effect of FAS 158 Measurement (Net of $22,973 tax)			(37,647)	(87)		(37,734)
Issuance of Treasury Stock			(16,311)		30,467	14,156
Purchases of Treasury Stock					(31)	(31)
Tax Benefit from Stock-Based Compensation		19,994				19,994
Amortization of Stock-Based Compensation Awards		10,770				10,770
Dividends ($0.20 per share)			(36,549)			(36,549)
Balance June 30, 2008	$ 1,851	$ 997,308	$ 852,123	$ (542,789)	$ (70,792)	$ 1,237,701

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)

	Six Months Ended June 30,	
	2008	**2007**
Operating Activities:		
Net Income	$ 176,094	$ 266,379
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	188,503	152,478
Stock-based Compensation	12,425	16,717
Gain on the Sale of Assets	(8,050)	(106,541)
Change in Minority Interest	20,927	13,795
Amortization of Mineral Leases	3,240	3,465
Deferred Income Taxes	68,996	57,034
Equity in Earnings of Affiliates	(3,645)	(2,733)
Changes in Operating Assets:		
Accounts Receivable Securitization	29,900	
Accounts and Notes Receivable	(110,856)	14,059
Inventories	(11,467)	(14,998)
Prepaid Expenses	19,289	11,542
Changes in Other Assets	13,822	16,518
Changes in Operating Liabilities:		
Accounts Payable	21,058	(39,195)
Other Operating Liabilities	11,276	36,107
Changes in Other Liabilities	37,739	29,078
Other	726	765
Net Cash Provided by Operating Activities	469,977	454,470
Investing Activities:		
Capital Expenditures	(436,277)	(344,599)
Net Investment in Equity Affiliates	(819)	(2,240)
Proceeds from Sales of Assets	17,280	61,055
Net Cash Used in Investing Activities	(419,816)	(285,784)
Financing Activities:		
Proceeds from Miscellaneous Borrowings	6,307	284
Payments on Revolver	(40,500)	
Payments on Long Term Notes		(45,000)
Tax Benefit from Stock-Based Compensation	19,994	4,643
Dividends Paid	(36,549)	(25,526)
Issuance of Treasury Stock	14,156	5,153
Purchases of Treasury Stock	(31)	(25,618)
Net Cash Used in Financing Activities	(36,623)	(86,064)
Net Increase in Cash and Cash Equivalents	13,538	82,622

Cash and Cash Equivalents at Beginning of Period	41,651	223,883
Cash and Cash Equivalents at End of Period	$ 55,189	$ 306,505

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

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2008

(Dollars in thousands, except per share data)

NOTE 1 BASIS OF PRESENTATION:

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2008 are not necessarily indicative of the results that may be expected for future periods.

The balance sheet at December 31, 2007 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, 2007 included in CONSOL Energy s Form 10-K.

Certain reclassifications of 2007 data have been made to conform to the three and six months ended June 30, 2008 classifications.

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 effect of dilutive potential common shares outstanding during the period as calculated in accordance with Statement of Financial Accounting Standards No. 123R (SFAS 123R). The number of additional shares is calculated by assuming that restricted stock units and performance share units were converted, and outstanding stock options were exercised, and that the proceeds from such activity were used to acquire shares of common stock at the average market price during the reporting period. Options to purchase 383,161 shares of common stock were outstanding for both the three and six months ended June 30, 2008, but were not included in the computation of dilutive earnings per share because the effect would be antidilutive. Options to purchase 137,963 shares and 1,179,871 shares of common stock were outstanding for the three and six months ended June 30, 2007, respectively, but were not included in the computation of dilutive earnings per share because the effect would be antidilutive.

There were 423,977 options and 304,247 options exercised during the three months ended June 30, 2008 and 2007, respectively. The weighted average exercise price per share of the options exercised during the three months ended June 30, 2008 and 2007 was $20.98 and $13.44, respectively. There were 816,614 options and 399,722 options exercised during the six months ended June 30, 2008 and 2007, respectively. The weighted average exercise price per share of the options exercised during the six months ended June 30, 2008 and 2007 was $17.90 and $12.89, respectively. Additionally, during the three and six months ended June 30, 2008, 391 and 48,929 fully vested restricted stock awards were released, respectively. During the three and six months ended June 30, 2007, no restricted stock awards were released.

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Net Income	$ 101,012	$ 153,117	$ 176,094	$ 266,379
Average shares of common stock outstanding:				
Basic	182,977,726	182,195,390	182,775,355	182,282,857
Effect of stock options	2,659,522	2,804,732	2,554,945	2,505,558
Dilutive	185,637,248	185,000,122	185,330,300	184,788,415
Earnings per share:				
Basic	$ 0.55	$ 0.84	$ 0.96	$ 1.46
Dilutive	$ 0.54	$ 0.83	$ 0.95	$ 1.44

NOTE 2 ACQUISITIONS AND DISPOSITIONS:

In June 2008, CONSOL Energy, through a subsidiary, completed the acquisition of the outstanding 50% interest in Knox Energy, LLC not already owned by CNX Gas for a cash payment of $36,000 which was principally allocated to property, plant, and equipment. Prior to the acquisition of the outstanding interest, Knox Energy, LLC had been proportionately consolidated into CONSOL Energy s financial statements. Knox Energy, LLC is a natural gas production company with operations in Tennessee. The pro forma results for this acquisition are not significant to CONSOL Energy s financial results.

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

In December 2007, CONSOL Energy, through a subsidiary, completed a sale/lease-back of 35 river barges. Cash proceeds from the sale were $16,895, with our basis in the equipment being $16,951. Accordingly, a loss of $56 was recorded on the transaction. The lease has been accounted for as an operating lease. The lease term is fourteen years.

In October 2007, CONSOL Energy, through a subsidiary, acquired 100% of the outstanding shares in an oil and gas company for a cash payment of $12,385 which was principally allocated to property, plant and equipment. The acquired company is in the business of owning, operating and producing oil and gas wells and related pipelines. The acquired assets consisted of gas wells, equipment and connecting pipelines utilized in well operations. The acquisition was accounted for under the guidance of Statement of Financial Accounting Standards No. 141 (SFAS 141), Business Combinations.

On July 31, 2007, CONSOL Energy acquired 100% of the voting interest of AMVEST Corporation and certain subsidiaries and affiliates (AMVEST) for a cash payment, net of cash acquired, of $296,724 in a transaction accounted for under SFAS 141. The coal reserves acquired consist of approximately 160 million tons of high quality, low sulfur steam and high-volatile metallurgical coal. Also included in the acquisition were four coal preparation plants, several fleets of modern mining equipment and a common short-line railroad that connects the coal preparation plants to the CSX and Norfolk and Southern rail interchanges. The results of operations of the acquired entities are included in CONSOL Energy s Consolidated Statement of Income as of August 1, 2007.

The AMVEST acquisition, when combined with CONSOL Energy s adjacent coal reserves, creates a large contiguous block of coal reserves in the Central Appalachian region. Also included in the acquisition was a

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highly-skilled workforce proficient in Central Appalachian surface mining. This workforce, combined with CONSOL Energy s underground mining expertise, will allow us to build and transfer knowledge among operations to focus the best skill sets to development requirements of the various parts of this reserve block.

The unaudited pro forma results for the three and six months ended June 30, 2007, assuming the acquisition had occurred at January 1, 2007 are estimated to be:

	Three Months Ended June 30, 2007		Six Months Ended June 30, 2007	
Revenue	$	1,120,463	$	2,094,424
Earnings Before Taxes	$	243,559	$	408,769
Net Income	$	155,482	$	270,870
Basic Earnings Per Share	$	0.85	$	1.49
Dilutive Earnings Per Share	$	0.84	$	1.47

The pro forma results are not necessarily indicative of what actually would have occurred if the acquisition had been completed as of January 1, 2007, nor are they necessarily indicative of future consolidated results.

In July 2007, CONSOL Energy, through a subsidiary, completed the acquisition of Piping & Equipment, Inc. for a cash payment, net of cash acquired, of $16,914. Piping & Equipment, Inc. is a pipe, valve and fittings supplier with eight locations in Florida, Alabama, Louisiana and Texas. The fair value of merchandise for resale acquired in this acquisition was $8,481 and was included in inventory on the Consolidated Balance Sheets. The pro forma results for this acquisition are not significant to CONSOL Energy s financial results.

During the year ended December 31, 2007, CONSOL Energy purchased $10,000 of CNX Gas stock on the open market at an average price of $26.87 per share. The purchase of these 372,000 shares changed CONSOL Energy s ownership percentage in CNX Gas from 81.5% to 81.7%.

In June 2007, CONSOL Energy, through a subsidiary, exchanged certain coal assets in Northern Appalachia with Peabody Energy for coalbed methane and gas rights. This transaction was accounted for as a non-monetary exchange under Statement of Financial Accounting Standards No. 153, Exchanges of Non-Monetary Assets, and resulted in a pre-tax gain of $50,060.

In June 2007, CONSOL Energy, through a subsidiary, acquired certain coalbed methane and gas rights from Peabody Energy for a cash payment of $15,000 plus approximately $361 of miscellaneous acquisition costs. Subsequent to June 30, 2007, $1,289 of additional acquisition costs were paid related to this acquisition.

In June 2007, CONSOL Energy, through a subsidiary, sold the rights to certain western Kentucky coal in the Illinois Basin to Alliance Resource Partners, L.P. for $53,309. This transaction resulted in a pre-tax gain of $49,868.

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

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

	Pension Benefits				Other Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007	2008	2007	2008	2007
Service cost	$ 2,438	$ 2,754	$ 4,876	$ 5,507	$ 2,639	$ 2,747	$ 5,277	$ 5,494
Interest cost	8,257	7,139	16,515	14,277	39,959	34,791	79,919	69,582
Expected return on plan assets	(8,418)	(7,624)	(16,835)	(15,248)				
Settlement loss				3,192				
Amortization of prior service costs (credit)	(279)	(279)	(557)	(557)	(12,157)	(12,750)	(24,313)	(25,500)
Recognized net actuarial loss	4,182	3,122	8,363	6,244	15,376	15,307	30,752	30,615
Net periodic benefit cost	$ 6,180	$ 5,112	$ 12,362	$ 13,415	$ 45,817	$ 40,095	$ 91,635	$ 80,191

CONSOL Energy adopted the measurement provisions of Statement of Financial Accounting Standards No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158), on January 1, 2008. As a result of this adoption, the Company recognized an increase of $2,278 and $42,599 in the liabilities for pension and other postretirement benefits, respectively. These increases were accounted for as a reduction in the January 1, 2008 balance of retained earnings.

Our defined benefit pension plan for salaried employees allows such employees to receive a lump-sum distribution in lieu of annual payments when they retire from CONSOL Energy. Statement of Financial Accounting Standards No. 88, Employers Accounting for Settlements & Curtailments of Defined Benefit Pension Plans and for Termination Benefits (SFAS 88), requires that when the lump-sum distributions made for a plan year, which prior to CONSOL Energy s adoption of SFAS 158 was October 1 to September 30, exceed the total of the service cost and interest cost for the plan year, an adjustment equaling the unrecognized actuarial gain or loss resulting from each individual who received a lump sum in that year be recognized. CONSOL Energy recognized a settlement loss of $3,192 in the six months ended June 30, 2007. The settlement loss was included in costs of goods sold and other operating charges and selling, general and administrative expenses.

For the three and six months ended June 30, 2008, $14,734 and $14,886 of contributions to pension trusts and pension benefits have been paid from operating cash flows. CONSOL Energy presently anticipates contributing a total of $39,000 to the pension trust in 2008.

We do not expect to contribute to the other post employment benefit plan in 2008. We intend to pay benefit claims as they become due. For the three and six months ended June 30, 2008, $34,315 and $70,273 of other post employment benefits have been paid.

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

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

	CWP				Workers Compensation			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007	2008	2007	2008	2007
Service cost	$ 1,259	$ 1,412	$ 2,518	$ 2,822	$ 7,258	$ 7,414	$ 14,515	$ 14,829
Interest cost	2,937	2,851	5,874	5,701	2,082	2,079	4,164	4,157
Amortization of actuarial gain	(6,027)	(5,776)	(12,056)	(11,550)	(1,235)	(988)	(2,468)	(1,976)
State administrative fees and insurance bond premiums					1,750	1,661	3,041	3,879
Legal and administrative costs	675	675	1,350	1,350	806	815	1,612	1,630
Net periodic (benefit) cost	$ (1,156)	$ (838)	$ (2,314)	$ (1,677)	$ 10,661	$ 10,981	$ 20,864	$ 22,519

CONSOL Energy adopted the measurement provisions of Statement of Financial Accounting Standards No. 158 Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158), on January 1, 2008. As a result of this adoption, the Company recognized an increase of $4,871 and $10,146 in the liabilities for coal workers pneumoconiosis and workers compensation, respectively. These increases were accounted for as a reduction in the January 1, 2008 balance of retained earnings.

CONSOL Energy does not expect to contribute to the CWP plan in 2008. We intend to pay benefit claims as they become due. For the three and six months ended June 30, 2008, $3,110 and $5,825 of CWP benefit claims have been paid.

CONSOL Energy does not expect to contribute to the workers compensation plan in 2008. We intend to pay benefit claims as they become due. For the three and six months ended June 30, 2008, $9,038 and $18,761 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 Six Months Ended June 30,			
	2008		2007	
	Amount	Percent	Amount	Percent
Statutory U.S. federal income tax rate	$ 103,030	35.0%	$ 140,921	35.0%
Excess tax depletion	(18,163)	(6.2)	(34,872)	(8.7)
Effect of domestic production activities deduction	(1,472)	(0.5)	(2,361)	(0.6)
Effect of Medicare Prescription Drug, Improvement and Modernization Act of 2003	589	0.2	878	0.2
Net effect of state tax	11,304	3.8	16,169	4.0
Other	2,063	0.7	1,723	0.5
Income Tax Expense / Effective Rate	$ 97,351	33.0%	$ 122,458	30.4%

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CONSOL Energy adopted the provisions of FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes, on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized an increase of $3,202 in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. During the three months ended June 30, 2008 CONSOL Energy reduced its liability for unrecognized tax benefits by $7,899 as a result of resolving certain issues with the Internal Revenue Service (IRS) related to its examination of the Company s 2004 and 2005 income tax returns. The reduction in the liability for unrecognized tax benefits had no impact on net income for the period since the issues involved the proper timing of certain tax deductions, and not the deductibility of the expenses. During the three months ended June 30, 2007 the Company recognized an increase of $970 in its liability for unrecognized tax benefits as a result of tax positions taken during the period. The increase in the liability was accounted for as additional state income tax expense.

The total amounts of unrecognized tax benefits as of June 30, 2008 and June 30, 2007 were approximately $55,622 and $51,164 respectively. If these unrecognized tax benefits were recognized approximately $12,600 and $10,600, respectively, would affect CONSOL Energy s effective tax rate.

CONSOL Energy Inc. and its subsidiaries file income tax returns in the U.S. federal, various states, and Canadian tax jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2002. The IRS is in the process of concluding its examination of CONSOL Energy s U.S. 2004 and 2005 income tax returns. Within the next twelve months, CONSOL Energy expects to conclude this examination, and remit payment of the resulting tax deficiencies to federal and state taxing authorities. The amounts of the tax deficiencies for 2004 and 2005 have not been determined at this time by the IRS, however the Company believes that the recorded amount of the liabilities related to unrecognized tax benefits for these periods is adequate. Consequently, the resolution of the IRS examination of the Company s 2004 and 2005 tax returns should have no impact on net income during the next twelve-month period. As of June 30, 2008, CONSOL Energy classified federal and state unrecognized tax benefits relating to the 2004 and 2005 tax returns of $16,264 and $3,251, respectively, as current liabilities in its financial statements. The Company also classified interest expense relating to the two-year audit period of $5,728 as a current liability.

The IRS Appeals Division concluded its review of the examination results of the Company s 2002 and 2003 income tax returns during the three months ended June 30, 2008. The Company paid the disputed tax liability in a prior period, and anticipates that approximately $1,612 of interest will be paid as a result of the settlement of an issue relating to the proper year of deducting certain operating costs. The resolution of the issue and payment of interest has no impact on net income since the liability previously had been adequately provided.

Within the next twelve months the statute of limitations will expire for a tax period in one of the states in which the Company conducts business. At this time the taxing jurisdiction has not commenced an examination of the Company s tax return filed for this period. Consequently, the amount of the tax payment to be made regarding this year cannot be projected at this time; however, the Company believes that the impact of the expiration of the statute of limitations in the state is insignificant to its financial statements.

CONSOL Energy recognizes interest expense related to unrecognized tax benefits as a component of interest expense. As of June 30, 2008 and June 30, 2007 the Company had accrued interest of approximately $9,944 and $7,102, respectively, for interest related to uncertain tax positions. The accrued interest liabilities for the six months ended June 30, 2008 and June 30, 2007 include $1,439 and $2,109, respectively, of interest expense recorded in the Company s statements of operations related to unrecognized tax benefits.

CONSOL Energy recognizes penalties accrued related to unrecognized tax benefits in its income tax expense. As of June 30, 2008 and June 30, 2007, CONSOL Energy had an accrued liability of approximately $1,200 for tax penalties.

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NOTE 6 INVENTORIES:

Inventory components consist of the following:

	June 30, 2008	December 31, 2007
Coal	$ 60,403	$ 45,614
Merchandise for resale	22,515	25,418
Supplies	91,742	92,161
Total Inventories	$ 174,660	$ 163,193

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 up to $165,000 on a revolving basis. The facility also allows for the issuance of letters of credit against the $165,000 capacity. At June 30, 2008, there were no letters of credit outstanding against the facility.

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

The cost of funds under this facility is based upon commercial paper rates, plus a charge for administrative services paid to the financial institutions. Costs associated with the receivables facility totaled $1,285 and $2,862 for the three and six months ended June 30, 2008. Costs associated with the receivables facility totaled $112 and $189 for the three and six months ended June 30, 2007. These costs have been recorded as financing fees which are included in Cost of Goods Sold and Other Operating Charges in the Consolidated Statements of Income. No servicing asset or liability has been recorded. The receivables facility expires in April 2012.

At June 30, 2008 and 2007, eligible accounts receivable totaled approximately $165,000 and $137,500, respectively. The subordinated retained interest approximated $9,700 and $137,500 at June 30, 2008 and 2007, respectively. Accounts receivables totaling $155,300 were removed from the Consolidated Balance Sheet at June 30, 2008. At June 30, 2007, no accounts receivable were removed from the Consolidated Balance Sheet because CNX Funding retained the total eligible accounts receivable. CONSOL Energy s $29,900 increase in the accounts receivable securitization program for the six months ended June 30, 2008 is reflected in cash flows from operating activities in the Consolidated Statement of Cash Flows.

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NOTE 8 PROPERTY, PLANT AND EQUIPMENT:

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

	June 30, 2008	December 31, 2007
Coal & other plant and equipment	$ 4,349,443	$ 4,249,698
Coal properties and surface lands	1,251,948	1,313,440
Gas properties and related development	1,106,995	889,057
Gas gathering equipment	660,239	596,171
Airshafts	600,644	582,028
Leased coal lands	502,130	458,216
Mine development	507,053	490,876
Coal advance mining royalties	371,291	363,072
Gas advance royalties	2,259	2,754
Total property, plant and equipment	9,352,002	8,945,312
Less accumulated depreciation, depletion and amortization	4,101,556	3,980,270
Total Net Property, Plant & Equipment	$ 5,250,446	$ 4,965,042

NOTE 9 SHORT-TERM NOTE PAYABLE:

CONSOL Energy has a five-year, $1,000,000 senior secured credit facility which extends through June 2012. The facility is secured by substantially all of the assets of CONSOL Energy and certain of its subsidiaries, and collateral is shared equally and ratably with the holders of CONSOL Energy Inc. 7.875% bonds maturing in 2012. The Agreement does provide for the release of collateral upon the achievement of certain credit ratings. Fees and interest rate spreads are based on a ratio of financial covenant debt to twelve month trailing earnings before interest, taxes, depreciation, depletion and amortization (EBITDA), measured quarterly. The facility includes a minimum interest coverage ratio covenant of no less than 4.50 to 1.00, measured quarterly. The interest coverage ratio was 8.96 to 1.00 at June 30, 2008. The facility also includes a maximum leverage ratio of not more than 3.25 to 1.00, measured quarterly. The leverage ratio covenant was 1.89 to 1.00 at June 30, 2008. Affirmative and negative covenants in the facility limit our ability to dispose of assets, make investments, purchase or redeem CONSOL Energy common stock, pay dividends and merge with another corporation. At June 30, 2008, the $1,000,000 facility had borrowings of $180,000 outstanding and $259,413 of letters of credit outstanding, leaving $560,587 of capacity available for borrowings and the issuance of letters of credit.

In October 2005, CNX Gas entered into a five-year, $200,000 unsecured credit agreement. The agreement contains a negative pledge provision, whereas CNX Gas assets cannot be used to secure other obligations. Fees and interest rate spreads are based on the percentage of facility utilization, measured quarterly. Covenants in the facility limit CNX Gas ability to dispose of assets, make investments, purchase or redeem CNX Gas stock, pay dividends and merge with another corporation. The facility includes a maximum leverage ratio covenant of not more than 3.00 to 1.00, measured quarterly. The leverage ratio was 0.24 to 1.00 at June 30, 2008. The facility also includes a minimum interest coverage ratio covenant of no less than 3.00 to 1.00, measured quarterly. This ratio was 72.65 to 1.00 at June 30, 2008. At June 30, 2008, the CNX Gas credit agreement had $27,000 of borrowings outstanding and $14,933 of letters of credit outstanding, leaving $158,067 of capacity available for borrowings and the issuance of letters of credit.

NOTE 10 COMMITMENTS AND CONTINGENCIES:

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

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On January 30, 2008, the Pennsylvania Department of Conservation and Natural Resources filed a six-count Complaint in the Court of Common Pleas of Allegheny County, Pennsylvania, asserting claims in both tort and contract against the Company for alleged damage to park property owned by the Commonwealth allegedly due to the Company s underground mining activities. The matter was the subject of a mediation process with an independent, neutral mediator prior to the filing of the Complaint. That process terminated with no resolution and the Commonwealth then filed its Complaint. The Commonwealth claims that the Company s underground longwall mining activities in the Summer of 2005 in Greene County, Pennsylvania, caused cracks and seepage damage to the nearby Ryerson Park Dam. The Commonwealth demolished the Ryerson Dam s spillway allegedly under its role of Parens Patrie to protect persons and property, thereby eliminating the Ryerson Park lake. The Commonwealth claims that the Company is liable for dam reconstruction costs, lake restoration costs and natural resources damages totaling $58,000. The theories of liability include general allegations of negligence, breach of contract, strict liability, nuisance, an administrative remedy claim under the Bituminous Mine Subsidence Act and a claim of fraud; the last claim seeking punitive damages. The Company has not yet filed its answer to the Complaint, but has filed preliminary motions regarding the propriety of the claims filed by the Commonwealth. The Company believes it was not responsible for the damage to the dam, that there exist numerous grounds upon which to attack the propriety of the claims, and it will vigorously defend the case. However, it is reasonably possible that the ultimate liability in the future with respect to these claims may be material to the financial position, results of operations, or cash flows of CONSOL Energy.

One of our subsidiaries, Fairmont Supply Company (Fairmont), which distributes industrial supplies, currently is named as a defendant in approximately 25,000 asbestos claims in state courts in Pennsylvania, Ohio, West Virginia, Maryland, Mississippi and New Jersey. Because a very small percentage of products manufactured by third parties and supplied by Fairmont in the past may have contained asbestos and many of the pending claims are part of mass complaints filed by hundreds of plaintiffs against a hundred or more defendants, it has been difficult for Fairmont to determine how many of the cases actually involve valid claims or plaintiffs who were actually exposed to asbestos-containing products supplied by Fairmont. In addition, while Fairmont may be entitled to indemnity or contribution in certain jurisdictions from manufacturers of identified products, the availability of such indemnity or contribution is unclear at this time, and in recent years, some of the manufacturers named as defendants in these actions have sought protection from these claims under bankruptcy laws. Fairmont has no insurance coverage with respect to these asbestos cases. For the three and six months ended June 30, 2008 and the year ended December 31, 2007, payments by Fairmont with respect to asbestos cases have not been material. Our current estimates related to these asbestos claims, individually and in the aggregate, are immaterial to the financial position, results of operations and cash flows of CONSOL Energy. However, it is reasonably possible that payments in the future with respect to pending or future asbestos cases may be material to the financial position, results of operations or cash flows of CONSOL Energy.

CONSOL Energy was notified in November 2004 by the United States Environmental Protection Agency (EPA) that it is a potentially responsible party (PRP) under Superfund legislation with respect to the Ward Transformer site in Wake County, North Carolina. At that time, the EPA also identified 38 other PRPs for the Ward Transformer site. On September 16, 2005, the EPA, CONSOL Energy and two other PRPs entered into an administrative Settlement Agreement and Order of Consent, requiring those PRPs to undertake and complete a PCB soil removal action, at and in the vicinity of the Ward Transformer property. In December 2005, the EPA approved the PRPs work plan, and field work began the first week of January 2006. On March 12, 2007, another party joined the participating PRPs and reduced CONSOL Energy s interim allocation from 46% to 32%. Accordingly, CONSOL Energy recognized a reduction in the previously recognized liability related to this matter. The current estimated cost of remedial action including payment of the EPA s past and future cost is approximately $40,000. There was $3,200 of expense recognized in the three and six months ended June 30, 2008. CONSOL Energy funded $1,440 and $2,880 in the three and six months ended June 30, 2008, respectively, to an independent trust established for this remediation. CONSOL Energy has funded $6,639 since inception of the independent trust established for this remediation. The remaining liability of $6,162 is included in Other Accrued Liabilities at June 30, 2008. CONSOL Energy and the other participating PRPs are investigating contribution claims against other, non-participating PRPs, and such claims will be brought to recover a share of the costs incurred. CONSOL Energy s portion of probable recoveries are estimated to be $3,420, of which $16 has been collected to date. Accordingly, an asset has been included in Other Assets for these claims. CONSOL Energy expects the majority of payments related to this liability to be made over the next eighteen months. In addition, the EPA has advised the PRPs that it has completed its investigation of additional areas of potential contamination allegedly related to the Ward Transformer site and published the proposed remedial action plan for public comment. Special notice letters to PRPs have not yet been completed. We are currently working with the EPA in an effort to have special notice letters sent to a large group of PRPs, of which it is probable we will be named. No expense was recognized in the six months ended June 30, 2008 related to the additional areas of Ward Transformer. The $1,000 previously recognized liability related to these areas is included in Other Accrued Liabilities at June 30, 2008. Until the remediation determination is completed, a specific range of potential exposure is not possible to estimate. There may be some delay in negotiating settlements with other PRPs who may want settlement of all Ward-related claims. We cannot predict the ultimate outcome of this Superfund site; however, it is reasonably possible that payments in the future with respect to this lawsuit may be material to the financial position, results of operations or cash flows of CONSOL Energy.

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

Yukon Pocahontas Coal Company, Buchanan Coal Company and Sayers-Pocahontas Coal Company filed an action on March 22, 2004 against CCC which is presently pending in the Circuit Court of Buchanan County, Virginia (the Yukon Action). The action is related to untreated water in connection with mining activities at CCC s Buchanan Mine being deposited in the void spaces of nearby mines of one of our other subsidiaries, Island Creek Coal Company (ICCC). The plaintiffs are seeking to stop CCC from depositing any additional water in these areas, to require CCC to remove the water that is stored there along with any remaining impurities, to recover $300,000 of compensatory and trebled damages and to recover punitive damages. Plaintiffs have amended the original complaint to assert additional damage claims of up to $3,252,000, and punitive damages in the amount of $350,000, plus interest, costs, and attorneys fees, against CCC and have added CONSOL Energy, CNX Gas Company, LLC and ICCC as additional defendants asserting additional damage claims of $150,000 against those defendants. The plaintiffs in the Yukon Action have moved to amend their Complaint again, and the amendment likely will be permitted by the Court. The amendment seeks primarily to correct defects in the current version of their Complaint and to add a count seeking a declaratory judgment that certain agreements between ICCC and CCC are void.

Levisa Coal Company filed an action on July 10, 2006 against CCC in the Circuit Court of Buchanan County, Virginia (the Levisa Action). The action is for injunctive relief and declaratory judgment and sought a court order prohibiting CCC from depositing water from its Buchanan Mine into the void spaces of ICCC s VP3 mine, part of which is under lease from Levisa Coal Company. The plaintiff claimed the water would adversely affect its remaining coal reserves and coalbed methane production, thereby impacting the plaintiff s future royalties. In mid-November 2006, Levisa Coal Company petitioned the Circuit Court for a temporary restraining order prohibiting the further depositing of water into the void spaces which, after a two-day hearing, the Circuit Court denied. Subsequently, the Circuit Court entered an order holding that CCC has the right to store water in the VP3 mine void based upon provisions in this lease and dismissed the action. The Virginia Supreme Court, on appeal, disagreed with the Circuit Court s interpretation of the lease, held that CCC has no right to store wastewater in VP3 and reversed the dismissal and remanded to the Circuit Court to determine whether under equitable principles a permanent injunction should be issued. We have petitioned the Virginia Supreme Court for reconsideration of its decision. On June 13, 2008 Levisa Coal Company filed a second action against CCC in the Circuit Court of Buchanan County, Virginia relating to the deposit of water by CCC into the void spaces of the VP3 mine which seeks damages of approximately $300,000, plus interest, costs and attorneys fees.

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

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

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

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

CNX Gas, an 81.7% subsidiary, is a party to a case captioned GeoMet Operating Company, Inc. and Pocahontas Mining Limited Liability Company v. CNX Gas Company LLC in the Circuit Court for Buchanan County, Virginia (Case No. 337-06). CNX Gas has a coal seam gas lease with Pocahontas Mining in southwest Virginia and southern West Virginia. With the agreement of Pocahontas Mining, GeoMet constructed a pipeline on the property. CNX Gas sought a judicial determination that under the terms of the lease, CNX Gas has the exclusive right to construct and operate pipelines on the property. On May 23, 2007, the circuit court entered an order granting CNX Gas motion for summary judgment against GeoMet and Pocahontas Mining. The order provided that CNX Gas has exclusive rights to construct and operate pipelines on the property and prohibited GeoMet from owning, operating or maintaining its pipeline on the property. The court stayed the portion of its order that required GeoMet to remove its pipeline, pending GeoMet s appeal of the decision to the Virginia Supreme Court. GeoMet filed an emergency appeal to the Virginia Supreme Court, which on June 20, 2007, overturned the provision of the circuit court s order requiring GeoMet to remove its pipeline, as well as the related stay and the conditions thereof. The remaining portions of the May 23, 2007 order have been certified for interlocutory appeal to the Virginia Supreme Court, and the appeal is pending in the Virginia Supreme Court. Pocahontas Mining has amended its complaint to seek rescission or reformation of the lease. We cannot predict the ultimate outcome of this litigation; however, it is reasonably possible that payments in the future with respect to this lawsuit may be material to the financial position, results of operations or cash flows of CONSOL Energy.

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

In April 2005, Buchanan County Virginia (through its Board of Supervisors and Commissioner of Revenue) filed a Motion for Judgment Pursuant to the Declaratory Judgment Act Virginia Code § 8.01-184 against CNX Gas Company LLC in the Circuit Court of the County of Buchanan (Case No. CL05000149-00) for the year 2002; the county has since filed and served two substantially similar cases for years 2003, 2004 and 2005. The complaint alleges that our calculation of the license tax on the basis of the wellhead value (sales price less post production costs) rather than the sales price is improper. For the period from 1999 through mid 2002, we paid the tax on the basis of the sales price, but we have filed a claim for a refund for these years. Since 2002, we have continued to pay Buchanan County taxes based on our method of calculating the taxes. However, we have been accruing an additional liability reflected in Other Liabilities on our balance sheet in an amount based on the difference between our calculation of the tax and Buchanan County s calculation. We believe that we have calculated the tax correctly and in accordance with the applicable rules and regulations of Buchanan County and intend to vigorously defend our position. We cannot predict the ultimate outcome of this litigation; however, it is reasonably possible that the ultimate liabilities in the future with respect to these lawsuits and claims may be material to the cash flows of CONSOL Energy.

In November 2005, we filed a complaint for declaratory judgment in the U.S. District Court for the Western District of Pennsylvania (C.A. No. 05-1574) against CDX Gas, LLC, seeking a judicial determination that we do not infringe any claim of any valid and enforceable CDX patent relating to certain vertical to horizontal CBM drilling methods. CDX filed an answer and counterclaim denying our allegations of invalidity and alleging that we infringe certain claims of their patents. On June 2, 2008, CNX Gas and CDX announced that they had settled this litigation. As part of the settlement, CNX Gas affirmed the validity and enforceability of the patents at issue in the litigation and CNX Gas licensed the CDX technology from CDX. The settlement did not require CNX Gas to pay CDX any cash consideration for CNX Gas prior drilling activities. The pending litigation was dismissed with prejudice. The parties have agreed to enter into joint venture arrangements with respect to several properties. The other terms of the settlement agreement are confidential.

We expensed and paid approximately $28,000 to the Combined Fund for the plan year beginning October 1, 2003 as a result of the higher per beneficiary premium rate calculated by the Commissioner of Social Security and retroactively imposed by the Combined Fund for beneficiaries assigned to CONSOL Energy and its subsidiaries. Additionally, CONSOL Energy expensed approximately $2,000 related to the higher per beneficiary premium rate for the plan year beginning October 1, 2004. The higher per beneficiary premium rate was imposed as a result of court decisions issued prior to June 10, 2003 arising from litigation over the formula used in the calculation of the annual per beneficiary premium rate owed by assigned operators, including subsidiaries of CONSOL Energy, to the Combined Fund. In August 2005, after additional litigation cases had been filed concerning the calculation and imposition of the higher per beneficiary premium rate, the United States District

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Court for the District of Maryland ruled that the calculation by the Commissioner of Social Security was improper, arbitrary and capricious. Subsequently, on December 31, 2006, the United States Court of Appeals for the Fourth Circuit affirmed the decision of the District Court.

On March 28, 2007, the assigned operators, including the subsidiaries of CONSOL Energy, and the Combined Fund entered into a settlement agreement that resolved all issues relating to the calculation and imposition of the higher per beneficiary premium rate. The settlement agreement provides for full reimbursement of the higher per beneficiary premium rate calculated and imposed on the subsidiaries of CONSOL Energy and for the payment of interest on all amounts to be reimbursed. CONSOL Energy received reimbursement of approximately $33,400, which includes the reduction of $2,255 related to the unassigned beneficiary premium liability previously accrued. The reimbursement was reflected as a reduction to cost of goods sold and other charges in the six months ended June 30, 2007.

In July 2007, production at the Buchanan Mine was suspended after several roof falls in previously mined areas damaged some of the ventilation controls inside the mine, requiring a general evacuation of the mine by employees. The mine atmosphere was continually monitored to determine the impact of the roof falls on the mine s ventilation system and the overall mine atmosphere. On March 17, 2008, Buchanan Mine resumed production. This incident is covered under our property and business interruption insurance policy, subject to certain deductibles. Business interruption recoveries of $50,000 were recognized as Other Income in the six months ended June 30, 2008, $42,000 in the coal segment and $8,000 in the gas segment. The total recoveries for this incident under our insurance policy were $75,000. As of June 30, 2008, all recognized recoveries have been collected. No other insurance recoveries for this incident will be received.

At June 30, 2008, CONSOL Energy and certain subsidiaries have provided the following financial guarantees and unconditional purchase obligations. We believe that these guarantees will expire without being funded, and therefore the commitments will not have a material adverse effect on financial condition. The fair value of all liabilities associated with these guarantees have been properly recorded and reported in the financial statements.

	Total Amounts Committed	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Letters of Credit:					
Employee-Related	$ 175,618	$ 113,104	$ 62,514	$	$
Environmental	74,193	71,478	2,715		
Gas	14,933	152	14,781		
Other	9,602	9,502	100		
Total Letters of Credit	$ 274,346	$ 194,236	$ 80,110	$	$
Surety Bonds:					
Employee-Related	$ 201,751	$ 190,251	$ 11,500	$	$
Environmental	309,629	284,959	24,670		
Gas	3,325	3,289	36		
Other	9,390	9,370	20		
Total Surety Bonds	$ 524,095	$ 487,869	$ 36,226	$	$
Guarantees:					
Coal	$ 588,403	$ 291,738	$ 263,024	$ 30,544	$ 3,097
Gas	42,004	38,904			3,100
Other	223,537	39,155	37,704	26,339	120,339
Total Guarantees	$ 853,944	$ 369,797	$ 300,728	$ 56,883	$ 126,536
Total Commitments	$ 1,652,385	$ 1,051,902	$ 417,064	$ 56,883	$ 126,536

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Employee-related financial guarantees have primarily been extended to support various state workers compensation self-insurance programs and the United Mine Workers of America s 1992 Benefit Plan. Environmental financial guarantees have primarily been extended to support various performance bonds related to reclamation and other environmental issues. Gas financial guarantees have primarily been provided to support various performance bonds related to land usage, pipeline usage and restorative issues. Other contingent liabilities have been extended to support insurance policies, legal matters and various other items necessary in the normal course of business.

CONSOL Energy and certain of its subsidiaries have also provided guarantees for the delivery of specific quantities of coal and gas to various customers. These guarantees are several or joint and several. Other guarantees have also been provided to promise the full and timely payments to lessors of mining equipment and support various other items necessary in the normal course of business.

NOTE 11 OTHER COMPREHENSIVE INCOME:

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net Income	$ 101,012	$ 153,117	$ 176,094	$ 266,379
Treasury Rate Lock	(14)	(21)	(35)	(41)
Amortization of prior service costs and actuarial gains (loss)	(86)	(909)	(173)	(1,818)
Pension Settlement Accounting				2,132
Minority Interest in Other Comprehensive Income and Stock- Based Compensation	18,650	(1,905)	27,667	263
Gas Cash Flow Hedge	(101,702)	10,358	(150,877)	(1,326)
FAS 158 Long-Term Liability Deferred Tax Adjustments		(361)		(361)
Total Comprehensive Income	$ 17,860	$ 160,279	$ 52,676	$ 265,228

NOTE 12 FAIR VALUE OF FINANCIAL INSTRUMENTS:

Effective January 1, 2008, CONSOL Energy adopted Statement of Financial Accounting Standards 157, Fair Value Measurements (SFAS 157) and Statement of Financial Accounting Standards 159 The Fair Value Option for Financial Assets and Financial Liabilities-Including an amendment of FASB Statement No. 115 (SFAS 159). As a result of the adoption, CONSOL Energy elected not to measure any additional financial assets or liabilities at fair value, other than those which were recorded at fair value prior to the adoption.

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

	Fair Value Measurements at June 30, 2008		
Description	Quoted Prices in Active Markets for Identical Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Gas Cash Flow Hedges	$	$ 238,738	$
Coal Sales Options	$	$ 21,652	$

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

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

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

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

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

	June 30, 2008		December 31, 2007
	Carrying Amount	**Fair Value**	&nb