CONSOL ENERGY INC
Form 10-Q
November 04, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 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 **(State or Other Jurisdiction of** **Incorporation or Organization)**	**51-0337383** **(IRS Employer** **Identification No.)**
1000 CONSOL Energy Drive	
Canonsburg, Pennsylvania **(Address of Principal Executive Offices)**	**15317** **(Zip Code)**

(724)485-4000

(Registrant s Telephone Number, Including Area Code)

Consol Plaza, 1800 Washington Road, Pittsburgh, PA 15241

(Registrant s Former Address)

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 October 17, 2008**
Common stock, $0.01 par value	181,193,758

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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)

	For the Three Months Ended September 30, 2008	For the Three Months Ended September 30, 2007	For the Nine Months Ended September 30, 2008	For the Nine Months Ended September 30, 2007
Sales Outside	$ 1,052,384	$ 791,981	$ 3,050,119	$ 2,504,408
Sales Gas Royalty Interests	22,902	10,175	61,921	36,841
Sales Purchased Gas	1,674	821	6,860	3,297
Freight Outside	60,458	44,707	169,129	132,007
Other Income	35,688	20,692	121,704	167,006
Total Revenue and Other Income	1,173,106	868,376	3,409,733	2,843,559
Cost of Goods Sold and Other Operating Charges (exclusive of depreciation, depletion and amortization shown below)	740,063	634,852	2,117,526	1,745,258
Gas Royalty Interests Costs	21,040	8,525	58,994	31,663
Purchased Gas Costs	1,664	496	6,607	2,988
Freight Expense	60,458	44,707	169,129	132,007
Selling, General and Administrative Expense	31,406	26,623	92,520	79,171
Depreciation, Depletion and Amortization	96,288	82,402	284,791	234,880
Interest Expense	9,069	5,820	27,771	19,257
Taxes Other Than Income	69,688	60,064	214,593	190,816
Total Costs	1,029,676	863,489	2,971,931	2,436,040
Earnings Before Income Taxes and Minority Interest	143,430	4,887	437,802	407,519
Income Taxes	41,014	4,506	138,365	126,964
Earnings Before Minority Interest	102,416	381	299,437	280,555
Minority Interest	(12,362)	(5,765)	(33,289)	(19,560)
Net Income (Loss)	$ 90,054	$ (5,384)	$ 266,148	$ 260,995
Basic Earnings (Loss) Per Share	$ 0.49	$ (0.03)	$ 1.46	$ 1.43
Dilutive Earnings (Loss) Per Share	$ 0.49	$ (0.03)	$ 1.44	$ 1.41
Weighted Average Number of Common Shares Outstanding:				

Basic	183,202,086	181,866,727	182,918,637	182,123,133
Dilutive	185,591,759	181,866,727	185,349,250	184,517,283
Dividends Paid Per Share	$ 0.10	$ 0.07	$ 0.30	$ 0.21

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) September 30, 2008	December 31, 2007
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 10,302	$ 41,651
Accounts and Notes Receivable:		
Trade	234,580	180,545
Other Receivables	55,539	69,771
Inventories	175,981	163,193
Deferred Income Taxes	113,102	130,820
Recoverable Income Taxes	10,583	19,090
Prepaid Expenses	152,056	78,085
Total Current Assets	752,143	683,155
Property, Plant and Equipment:		
Property, Plant and Equipment	9,650,694	8,945,312
Less Accumulated Depreciation, Depletion and Amortization	4,188,371	3,980,270
Total Property, Plant and Equipment Net	5,462,323	4,965,042
Other Assets:		
Deferred Income Taxes	317,705	374,811
Investment in Affiliates	69,657	94,866
Other	103,903	90,216
Total Other Assets	491,265	559,893
TOTAL ASSETS	$ 6,705,731	$ 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) September 30, 2008	December 31, 2007
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts Payable	$ 324,590	$ 238,312
Short-Term Notes Payable	270,500	247,500
Current Portion of Long-Term Debt	20,829	18,283
Other Accrued Liabilities	564,581	512,302
Total Current Liabilities	1,180,500	1,016,397
Long-Term Debt:		
Long-Term Debt	410,910	398,077
Capital Lease Obligations	71,553	90,848
Total Long-Term Debt	482,463	488,925
Deferred Credits and Other Liabilities:		
Postretirement Benefits Other Than Pensions	2,392,171	2,336,809
Pneumoconiosis Benefits	181,827	171,896
Mine Closing	406,827	399,633
Workers Compensation	133,406	118,356
Deferred Revenue		3,162
Salary Retirement	57,380	67,392
Reclamation	33,971	34,317
Other	184,370	193,666
Total Deferred Credits and Other Liabilities	3,389,952	3,325,231
Minority Interest	210,041	163,118
Total Liabilities and Minority Interest	5,262,956	4,993,671
Stockholders Equity:		
Common Stock, $.01 par value; 500,000,000 Shares Authorized, 183,938,026 Issued and 182,085,298 Outstanding at September 30, 2008; 185,126,526 Issued and 182,291,623 Outstanding at December 31, 2007	1,839	1,851
Capital in Excess of Par Value	996,530	966,544
Retained Earnings	882,228	766,536
Other Comprehensive Loss	(370,825)	(419,284)
Common Stock in Treasury, at Cost 1,852,728 Shares at September 30, 2008 and 2,834,903 Shares at December 31, 2007	(66,997)	(101,228)
Total Stockholders Equity	1,442,775	1,214,419
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 6,705,731	$ 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			266,148			266,148
Treasury Rate Lock (Net of ($42) tax)				(56)		(56)
Amortization of Prior Service Costs and Actuarial Gains (Loss) (Net of ($154) tax)				(260)		(260)
Minority Interest in Other Comprehensive Income and Stock-based Compensation of Gas				(10,947)		(10,947)
Gas Cash Flow Hedge (Net of $36,960 tax)				59,809		59,809
Comprehensive Income (loss)			266,148	48,546		314,694
Cumulative Effect of FAS 158 Measurement (Net of $22,973 tax)			(37,647)	(87)		(37,734)
Issuance of Treasury Stock			(20,977)		34,316	13,339
Purchases of Treasury Stock					(85)	(85)
Retirement of Common Stock	(12)	(9,496)	(36,954)			(46,462)
Tax Benefit from Stock-Based Compensation		23,108				23,108
Amortization of Stock-Based Compensation Awards		16,374				16,374
Dividends ($0.30 per share)			(54,878)			(54,878)
Balance September 30, 2008	$ 1,839	$ 996,530	$ 882,228	$ (370,825)	$ (66,997)	$ 1,442,775

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)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Operating Activities:		
Net Income	$ 266,148	$ 260,995
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	284,791	234,880
Stock-based Compensation	18,911	20,496
Gain on the Sale of Assets	(16,586)	(109,898)
Change in Minority Interest	33,289	19,560
Amortization of Mineral Leases	3,467	3,546
Deferred Income Taxes	56,251	63,643
Equity in Earnings of Affiliates	(5,314)	(5,209)
Changes in Operating Assets:		
Accounts Receivable Securitization	39,600	113,300
Accounts and Notes Receivable	(75,530)	34,941
Inventories	(12,788)	10,480
Prepaid Expenses	(8,146)	(9,180)
Changes in Other Assets	14,166	19,977
Changes in Operating Liabilities:		
Accounts Payable	14,391	11,822
Other Operating Liabilities	29,554	(21,063)
Changes in Other Liabilities	39,741	(52,182)
Other	1,297	(73)
Net Cash Provided by Operating Activities	683,242	596,035
Investing Activities:		
Capital Expenditures	(731,849)	(514,911)
Additions to Mineral Leases	(8,157)	(10,733)
Acquisition of AMVEST, net of cash received		(296,659)
Net Investment in Equity Affiliates	(608)	(3,034)
Purchase of CNX Gas Stock		(10,000)
Proceeds from Sales of Assets	18,799	64,287
Net Cash Used in Investing Activities	(721,815)	(771,050)
Financing Activities:		
Proceeds from (Payments on) Miscellaneous Borrowings	1,005	(1,316)
Proceeds from Revolver	23,000	181,000
Payments on Long Term Notes		(45,000)
Tax Benefit from Stock-Based Compensation	23,108	6,358
Dividends Paid	(54,878)	(38,282)
Issuance of Treasury Stock	15,074	7,200
Purchases of Common Stock	(85)	(80,132)

Net Cash Provided by Financing Activities	7,224	29,828
Net Decrease in Cash and Cash Equivalents	(31,349)	(145,187)
Cash and Cash Equivalents at Beginning of Period	41,651	223,883
Cash and Cash Equivalents at End of Period	$ 10,302	$ 78,696

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

September 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 nine months ended September 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 nine months ended September 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 382,487 shares of common stock were outstanding for both the three and nine months ended September 30, 2008, but were not included in the computation of dilutive earnings per share because the effect would be antidilutive. As a result of the net loss for the three months ended September 30, 2007, no options or units were included in the computation of dilutive earnings per share because the effect would be antidilutive. Options to purchase 1,174,561 shares of common stock were outstanding for the nine months ended September 30, 2007, but were not included in the computation of dilutive earnings per share because the effect would be antidilutive.

There were 17,678 options and 136,930 options exercised during the three months ended September 30, 2008 and 2007, respectively. The weighted average exercise price per share of the options exercised during the three months ended September 30, 2008 and 2007 was $26.23 and $14.95, respectively. There were 834,292 options and 536,652 options exercised during the nine months ended September 30, 2008 and 2007, respectively. The weighted average exercise price per share of the options exercised during the nine months ended September 30, 2008 and 2007 was $18.08 and $13.42, respectively. Additionally, during the three and nine months ended September 30, 2008, 125,395 and 174,324 fully vested restricted stock awards were released, respectively. During both the three and nine months ended September 30, 2007, 172,702 fully vested restricted stock awards were released.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net Income (Loss)	$ 90,054	$ (5,384)	$ 266,148	$ 260,995
Average shares of common stock outstanding:				
Basic	183,202,086	181,866,727	182,918,637	182,123,133
Effect of stock-based compensation	2,389,673		2,430,613	2,394,150
Dilutive	185,591,759	181,866,727	185,349,250	184,517,283
Earnings per share:				
Basic	$ 0.49	$ (0.03)	$ 1.46	$ 1.43
Dilutive	$ 0.49	$ (0.03)	$ 1.44	$ 1.41

NOTE 2 ACQUISITIONS AND DISPOSITIONS:

In July 2008, our 81.7% subsidiary, CNX Gas, completed the acquisition of several leases and gas wells from KIS Oil & Gas Inc. for a cash payment of $19,324. The purchase price was principally allocated to property, plant, and equipment. The sales agreement called for the transfer of 30 oil and gas wells and approximately 5,600 leased acres. This acquisition enhanced our acreage position in Northern Appalachia. The pro forma results for this acquisition were not significant to CONSOL Energy s financial results.

In June 2008, CNX Gas completed the acquisition of the 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 were not significant to CONSOL Energy s financial results. The acquisition was not material to the CONSOL Energy s consolidated financial statements.

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

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. The acquisition was not material to the CONSOL Energy s consolidated financial statements.

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 $296,659 in a transaction accounted for under SFAS 141. The coal reserves acquired consist of approximately 160 million tons

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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 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 nine months ended September 30, 2007, assuming the acquisition had occurred at January 1, 2007 are estimated to be:

	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2007
Revenue	$ 1,020,904	$ 3,115,328
Earnings Before Taxes	$ 1,545	$ 410,314
Net Income	$ (7,815)	$ 263,054
Basic Earnings (Loss) Per Share	$ (0.04)	$ 1.44
Dilutive Earnings (Loss) Per Share	$ (0.04)	$ 1.43

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 were 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 $1,269 of miscellaneous acquisition costs. Subsequent to September 30, 2007, $381 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 nine months ended September 30 are as follows:

	Pension Benefits				Other Benefits			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007	2008	2007	2008	2007
Service cost	$ 2,438	$ 2,754	$ 7,314	$ 8,261	$ 2,639	$ 2,747	$ 7,916	$ 8,241
Interest cost	8,257	7,201	24,771	21,478	39,958	34,814	119,878	104,396
Expected return on plan assets	(8,418)	(7,688)	(25,253)	(22,936)				
Settlement loss				3,192				
Amortization of prior service costs (credit)	(278)	(279)	(835)	(836)	(12,156)	(12,750)	(36,469)	(38,251)
Recognized net actuarial loss	4,182	3,122	12,546	9,366	15,376	15,307	46,128	45,923
Net periodic benefit cost	$ 6,181	$ 5,110	$ 18,543	$ 18,525	$ 45,817	$ 40,118	$ 137,453	$ 120,309

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 nine months ended September 30, 2007. The settlement loss was included in cost of goods sold and other operating charges and selling, general and administrative expenses.

For the three and nine months ended September 30, 2008, $6,409 and $21,295 of contributions to pension trusts and pension benefits have been paid from operating cash flows. CONSOL Energy presently anticipates contributing a total of approximately $42,000 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 nine months ended September 30, 2008, $37,000 and $107,273 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 nine months ended September 30 are as follows:

	CWP				Workers Compensation			
	Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007	2008	2007	2008	2007
Service cost	$ 1,259	$ 1,412	$ 3,777	$ 4,234	$ 7,257	$ 7,415	$ 21,773	$ 22,244
Interest cost	2,938	2,935	8,811	8,636	2,081	2,095	6,246	6,253
Amortization of actuarial gain	(6,028)	(5,775)	(18,083)	(17,325)	(1,235)	(988)	(3,704)	(2,965)
State administrative fees and insurance bond premiums					1,538	2,024	4,578	5,903
Legal and administrative costs	675	675	2,025	2,025	806	815	2,418	2,445
Net periodic (benefit) cost	$ (1,156)	$ (753)	$ (3,470)	$ (2,430)	$ 10,447	$ 11,361	$ 31,311	$ 33,880

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 nine months ended September 30, 2008, $3,505 and $9,330 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 nine months ended September 30, 2008, $8,603 and $27,364 of workers compensation benefits, state administrative fees and surety bond premiums have been paid.

NOTE 5 INCOME TAXES:

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

	For the Nine Months Ended September 30,			
	2008		2007	
	Amount	Percent	Amount	Percent
Statutory U.S. federal income tax rate	$ 153,231	35.0%	$ 142,632	35.0%
Excess tax depletion	(31,040)	(7.1)	(38,356)	(9.4)
Effect of Domestic Production Activities Deduction	(6,348)	(1.5)	(1,504)	(0.4)
Effect of Medicare Prescription Drug, Improvement and Modernization Act of 2003	963	0.2	1,169	0.3
Effect of Federal Tax Accrual to Tax Return Reconciling Adjustment	473	0.1	4,172	1.0
Net Effect of state tax	17,381	4.0	16,177	4.0
Other	3,705	0.9	2,674	0.6
Income Tax Expense / Effective Rate	$ 138,365	31.6%	$ 126,964	31.1%

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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 September 30, 2008, CONSOL Energy did not change its liability for unrecognized tax benefits. During the three months ended September 30, 2007, the Company recognized an increase of $9,917 in its liability for unrecognized tax benefits as a result of tax positions taken during the period and uncertain tax positions identified upon the acquisition of AMVEST Corporation and related subsidiaries (AMVEST). Of the total increase in the liability for unrecognized positions, $7,397 results from an increase in uncertain tax positions related to temporary differences similar to those positions that are generated by current operations and are currently under examination by the Internal Revenue Service (IRS) in its audit of CONSOL Energy s tax returns. The remainder of the increase in the liability for uncertain tax positions, $2,520, was attributable to the acquisition of AMVEST.

The total amounts of unrecognized tax benefits as of September 30, 2008 and September 30, 2007 were approximately $55,622 and $61,082, respectively. If these unrecognized tax benefits were recognized, approximately $12,376 and $13,200, 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 September 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 audit period of $7,878 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. 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 September 30, 2008 and September 30, 2007, the Company had accrued interest of approximately $11,032 and $7,176, respectively, for interest related to uncertain tax positions. The accrued interest liabilities for the nine months ended September 30, 2008 and September 30, 2007 include $2,527 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 September 30, 2008 and September 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:

	September 30, 2008	December 31, 2007
Coal	$ 60,570	$ 45,614
Merchandise for resale	24,714	25,418
Supplies	90,697	92,161
Total Inventories	$ 175,981	$ 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 September 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 $1,389 and $4,251 for the three and nine months ended September 30, 2008. Costs associated with the receivables facility totaled $1,231 and $1,420 for the three and nine months ended September 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 September 30, 2008 and 2007, eligible accounts receivable totaled approximately $165,000 and $131,400, respectively. There was no subordinated retained interest at September 30, 2008. The subordinated retained interest approximated $18,100 at September 30, 2007. Accounts receivables totaling $165,000 and $113,300 were removed from the Consolidated Balance Sheet at September 30, 2008 and 2007. CONSOL Energy s $39,600 and $113,300 increase in the accounts receivable securitization program for the nine months ended September 30, 2008 and 2007, respectively, 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:

	September 30, 2008	December 31, 2007
Coal & other plant and equipment	$ 4,445,172	$ 4,249,698
Coal properties and surface lands	1,257,223	1,313,440
Gas properties and related development	1,245,119	889,057
Gas gathering equipment	705,990	596,171
Airshafts	605,115	582,028
Leased coal lands	502,473	458,216
Mine development	514,604	490,876
Coal advance mining royalties	372,589	363,072
Gas advance royalties	2,409	2,754
Total property, plant and equipment	9,650,694	8,945,312
Less accumulated depreciation, depletion and amortization	4,188,371	3,980,270
Total Net Property, Plant & Equipment	$ 5,462,323	$ 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 at the request of CONSOL Energy 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 10.74 to 1.00 at September 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 1.63 to 1.00 at September 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 September 30, 2008, the $1,000,000 facility had borrowings of $212,300 outstanding and $257,658 of letters of credit outstanding, leaving $530,042 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 0.32 to 1.00 at September 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 76.43 to 1.00 at September 30, 2008. At September 30, 2008, the CNX Gas credit agreement had $58,200 of borrowings outstanding and $14,933 of letters of credit outstanding, leaving $126,867 of capacity available for borrowings and the issuance of letters of credit.

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NOTE 10 COMMITMENTS AND CONTINGENCIES:

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

On January 30, 2008, the Pennsylvania Department of Conservation and Natural Resources filed a six-count Complaint in the Court of Common Pleas of Allegheny County, Pennsylvania, asserting claims in both tort and contract against the Company for alleged damage to park property owned by the Commonwealth allegedly due to the Company s underground mining activities. The 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 Court, in ruling on the Company s Preliminary Objections to the Complaint, stayed the current proceedings in the state court, holding that the Commonwealth should pursue administrative agency review of the claim because full compensatory relief, if warranted, could be provided by the particular administrative agency and then the Environmental Hearing Board, if further relief was sought. Furthermore, the Court found that the Commonwealth could not recover natural resources damages under applicable law. The remainder of the Company s objections were preserved pending the outcome of the administrative proceedings. As to the underlying claim, the Company believes it is not responsible for the damage to the dam, that there exist numerous grounds upon which to attack the propriety of the claims, and it will vigorously defend the case. However, it is reasonably possible that the ultimate liability in the future with respect to these claims may be material to the financial position, results of operations, or cash flows of CONSOL Energy.

One of our subsidiaries, Fairmont Supply Company (Fairmont), which distributes industrial supplies, currently is named as a defendant in approximately 25,000 asbestos claims in state courts in Pennsylvania, Ohio, West Virginia, Maryland, Mississippi 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 nine months ended September 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 has also been sued in a limited number of asbestos cases in Pennsylvania and Illinois. All involve claims that the plaintiffs developed asbestos-related diseases as a result of working with or around

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asbestos containing products used at mines operated by subsidiaries Consolidation Coal Company or CONSOL of Kentucky. CONSOL Energy has raised a number of defenses including lack of jurisdiction and that it is not properly named as a party since CONSOL Energy did not own or operate the mines at which the alleged exposures occurred. Discovery is still in the early stages in each matter. The Company believes it is not responsible for these claims, and it will vigorously defend the cases. 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.

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 $50,000. There was $2,880 and $6,080 of expense recognized in the three and nine months ended September 30, 2008. CONSOL Energy funded $1,840 and $4,720 in the three and nine months ended September 30, 2008, respectively, to an independent trust established for this remediation. CONSOL Energy has funded $8,479 since inception of the independent trust established for this remediation. The remaining liability of $7,202 is included in Other Accrued Liabilities at September 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 advised the PRPs that it had completed its investigation of additional areas of potential contamination allegedly related to the Ward Transformer site. On September 29, 2008, the EPA issued a Record of Decision (ROD), which is the remedy selection, for the area of the Ward Site designated as Operable Unit 1 (OU1). The ROD estimates the cost of the selected remedy for OU1 at approximately $6,300. However, the selected remedy requires an extensive pre-remedial design sampling program that could determine that the contamination is more widespread than currently estimated by the EPA. That could result in an upward adjustment in the OU1 remedial action cost. On or about September 30, 2008, the EPA sent Special Notice Letters to 61 PRPs, including CONSOL Energy, requesting those PRPs to sign a consent decree committing to do the remedial work at OU1, to conduct a remedial investigation and feasibility study at Operable Unit 2 (OU2), which is generally the area encompassed by the current removal action work, to reimburse the EPA for approximately $2,900 in past costs, and to agree to reimburse the EPA for its future oversight costs. Those PRPs have until December 8, 2008 to submit a response to the Special Notice Letter. CONSOL Energy expects that a new, larger group of PRPs will form in order to respond to the Special Notice Letter. Until that occurs, it is premature to estimate a specific range of potential exposure. No expense was recognized in the nine months ended September 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 September 30, 2008. 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 twice amended the original complaint to assert additional claims for compensatory damages to the coal and gas estates of up to $3,252,000, punitive damages in the amount of $350,000, as well as interest, costs, and attorneys fees, against CCC. Plaintiffs have also added CONSOL Energy, CNX Gas Company, LLC and ICCC as additional defendants asserting additional damage claims of $150,000 against those defendants. The Yukon group has recently filed a demand for arbitration against ICCC which makes similar claims relating to breach of the lease for water deposits and lost coal claims. In addition, an appeal of the 2005 Arbitration Award in favor of ICCC is pending before the Buchanan Circuit Court.

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

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

CNX Gas 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) filed in 2006. 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. GeoMet filed an appeal to the Virginia Supreme Court which, on September 12, 2008, reversed the Circuit Court s decision, holding that CNX Gas right to construct and operate pipelines on the property is not an exclusive right, but that Pocahontas Mining and GeoMet may not use the property in a manner that affects CNX Gas exercise of its stated lease rights or causes CNX Gas to suffer any inconvenience or other difficulty in its exercise of those rights. The Supreme Court remanded the case to the Circuit Court for further proceedings consistent with its decision. We do not believe that CNX Gas has any exposure for damages in this matter.

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

In 1999, CNX Gas was named in a suit brought by a group of royalty owners that leases gas development rights to CNX Gas in southwest Virginia. The suit alleged the underpayment of royalties to the group of royalty owners. The claim of underpayment of royalties related to the interpretation of permissible deductions from production revenues upon which royalties are calculated. The deductions at issue relate to post-production expenses of gathering, compression and transportation. CNX Gas was ordered to pay, and subsequently paid, damages to the group of royalty owners that brought the suit. A final payment was subsequently made to the plaintiffs to adjust all royalties owed to the plaintiffs for subsequent periods, which effectively settled this case. CNX Gas recognized an estimated liability for other similarly situated plaintiffs who could bring similar claims. This amount is included in Other Liabilities on the balance sheet and is evaluated quarterly. CONSOL Energy believes that the final resolution of this matter will not have a material effect on our financial position, results of operations or cash flows.

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 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 nine months ended September 30, 2007.

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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 nine months ended September 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 September 30, 2008, all recognized recoveries have been collected. No other insurance recoveries for this incident will be received.

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

CONSOL Energy estimates that it could receive refunds of BLET of approximately $25,000. The estimated interest to be received on BLET refunds is approximately $30,000. The claims for refund of BLET plus interest were filed with the Internal Revenue Service (IRS) on October 30, 2008. At this time, CONSOL Energy cannot be certain that it will receive the refund of BLET and related interest since technical guidance has not been issued by the IRS regarding the type of documentation required before it will approve the refund of BLET and the related payment of interest. As of September 30, 2008, no amounts have been recognized related to the potential BLET refunds.

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At September 30, 2007, CONSOL Energy has provided financial guarantees 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 in the financial statements. CONSOL Energy management believes that these guarantees will expire without being funded, and therefore the commitments will not have a material adverse effect on financial condition.

	Total Amounts Committed	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Letters of Credit:					
Employee-Related	$ 175,018	$ 71,808	$ 103,210	$	$
Environmental	73,790	71,410	2,380		
Gas	14,933	14,913	20		
Other	8,850	250	8,600		
Total Letters of Credit	$ 272,591	$ 158,381	$ 114,210	$	$
Surety Bonds:					
Employee-Related	$ 188,251	$ 188,251	$	$	$
Environmental	315,783	313,529	2,254		
Gas	3,947	3,897	50		
Other	10,233	10,214	19		
Total Surety Bonds	$ 518,214	$ 515,891	$ 2,323	$	$
Guarantees:					
Coal	$ 534,908	$ 292,825	$ 221,356	$ 17,018	$ 3,709
Gas	37,272	34,172			3,100
Other	205,006	21,062	38,599	27,280	118,065
Total Guarantees	$ 777,186	$ 348,059	$ 259,955	$ 44,298	$ 124,874
Total Commitments	$ 1,567,991	$ 1,022,331	$ 376,488	$ 44,298	$ 124,874

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 to support various other items necessary in the normal course of business.

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NOTE 11 OTHER COMPREHENSIVE INCOME:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net Income (Loss)	$ 90,054	$ (5,384)	$ 266,148	$ 260,995
Treasury Rate Lock	(21)	(21)	(56)	(62)
Amortization of prior service costs and actuarial loss	(87)	(909)	(260)	(2,727)
Pension Settlement Accounting				2,132
Minority Interest in Other Comprehensive Income	(38,614)	(1,446)	(10,947)	(1,183)
Gas Cash Flow Hedge	210,686	7,875	59,809	6,549
FAS 158 Long-Term Liability Deferred Tax Adjustments				(361)
Total Comprehensive Income	$ 262,018	$ 115	$ 314,694	$ 265,343

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

	Fair Value Measurements at September 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	$	$ 106,994	$
Coal Sales Options	$	$ (15,294)	$

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.

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

	September 30, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 10,302	$ 10,302	$ 41,651	$ 41,651
Short-term notes payable	$ (270,500)	$ (270,500)	$ (247,500)	$ (247,500)
Long-term debt	$ (421,206)	$ (417,214)	$ (406,451)	$ (420,203)

NOTE 13 SEGMENT INFORMATION:

CONSOL Energy has two principal business units: Coal and Gas. The principal activities of the Coal unit are mining, preparation and marketing of steam coal, sold primarily to power generators, and metallurgical coal, sold to metal and coke producers. The Coal unit includes four reportable segments. These reportable segments are Northern Appalachian, Central Appalachian, Metallurgical and Other Coal. Each of these reportable segments includes a number of operating segments (mines). For the three and nine months ended September 30, 2008, the Northern Appalachian aggregated segment includes the following mines: Blacksville 2, Robinson Run, McElroy, Loveridge, Bailey, Enlow Fork, Shoemaker, and Mine 84. For the three and nine months ended September 30, 2008, the Central Appalachian aggregated segment includes the following mines: Jones Fork, the Fola Complex and the Terry Eagle Complex. For the three and nine months ended September 30, 2008, the Metallurgical aggregated segment includes the Buchanan and Amonate mines. The Other Coal segment includes our purchased coal activities, idled mine cost, coal segment business units not meeting aggregation criteria, as well as various other activities assigned to the coal segment but not allocated to each individual mine. The principal activity of the Gas unit is to produce pipeline quality methane gas for sale primarily to gas wholesalers. CONSOL Energy s All Other classification is made up of the Company s terminal services, river and dock services, industrial supply services and other business activities, including rentals of buildings and flight operations. Intersegment sales have been recorded at amounts approximating market. Operating profit for each segment is based on sales less identifiable operating and non-operating expenses. Certain reclassifications of 2007 segment information have been made to conform to the 2008 presentation.

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Industry segment results for the three months ended September 30, 2008:

	Northern Appalachian	Central Appalachian	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate Adjustments & Eliminations	Consolidated
Sales outside	$ 491,507	$ 78,658	$ 109,189	$ 101,093	$ 780,447	$ 189,689	$ 82,248	$	$ 1,052,384
Sales gas royalty interest						22,902			22,902
Sales purchased gas						1,674			1,674
Freight outside				60,458	60,458				60,458
Intersegment transfers						1,510	34,893	(36,403)	
Total Sales and Freight	$ 491,507	$ 78,658	$ 109,189	$ 161,551	$ 840,905	$ 215,775	$ 117,141	$ (36,403)	$ 1,137,418
Earnings (Loss) Before Income Taxes	$ 29,099	$ (12,472)	$ 49,248	$ (18,861)	$ 47,014	$ 114,214	$ 5,304	$ (23,102)	$ 143,430(A)
Segment assets					$ 4,133,854	$ 1,854,067	$ 267,691	$ 450,119	$ 6,750,731(B)
Depreciation, depletion and amortization					$ 73,517	$ 17,803	$ 4,968	$	$ 96,288
Capital Expenditures (Including acquisitions)					$ 122,372	$ 170,374	$ 10,983	$	$ 303,729

(A) Includes equity in earnings of unconsolidated affiliates of $589, $236 and $844 for Coal, Gas and All Other, respectively.

(B) Includes investments in unconsolidated equity affiliates of $7,304, $25,005 and $37,348 for Coal, Gas and All Other, respectively.

Industry segment results for the three months ended September 30, 2007:

	Northern Appalachian	Central Appalachian	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate Adjustments & Eliminations	Consolidated
Sales outside	$ 456,869	$ 70,367	$ 44,373	$ 58,510	$ 630,119	$ 98,389	$ 63,473	$	$ 791,981
Sales gas royalty interest						10,175			10,175
Sales purchased gas						821			821
Freight outside				44,707	44,707				44,707
Intersegment transfers						212	28,796	(29,008)	
Total Sales and Freight	$ 456,869	$ 70,367	$ 44,373	$ 103,217	$ 674,826	$ 109,597	$ 92,269	$ (29,008)	$ 847,684
Earnings (Loss) Before Income Taxes	$ 50,675	$ 4,010	$ (6,662)	$ (96,425)	$ (48,402)	$ 51,852	$ 5,025	$ (3,588)	$ 4,887(C)
Segment assets					$ 3,975,973	$ 1,320,124	$ 255,149	$ 525,176	$ 6,076,422(D)
Depreciation, depletion and amortization					$ 65,550	$ 12,248	$ 4,604	$	$ 82,402
Capital Expenditures (Including Acquisitions)					$ 380,704	$ 72,571	$ 24,429	$	$ 477,704

(C) Includes equity in earnings of unconsolidated affiliates of $303, $927 and $1,246 for Coal, Gas and All Other, respectively.

(D) Includes investments in unconsolidated equity affiliates of $2,116, $55,872 and $34,474 for Coal, Gas and All Other, respectively. Also, included in the Coal segment is $26,006 of receivables related to the Export Sales Excise Tax resolution.

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Industry segment results for the nine months ended September 30, 2008:

	Northern Appalachian	Central Appalachian	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate Adjustments & Eliminations	Consolidated
Sales outside	$ 1.549,663	$ 261,240	$ 250,866	$ 253,996	$ 2,315,765	$ 496,563	$ 237,791	$	$ 3,050,119
Sales gas royalty interest						61,921			61,921
Sales purchased gas						6,860			6,860
Freight outside				169,129	169,129				169,129
Intersegment transfers						6,096	104,220	(110,316)	
Total Sales and Freight	$ 1,549,663	$ 261,240	$ 250,866	$ 423,125	$ 2,484,894	$ 571,440	$ 342,011	$ (110,316)	$ 3,288,029
Earnings (Loss) Before Income Taxes	$ 205,863	$ (25,839)	$ 94,492	$ (81,775)	$ 192,741	$ 295,245	$ 17,932	$ (68,116)	$ 437,802(E)
Segment assets					$ 4,133,854	$ 1,854,067	$ 267,691	$ 450,119	$ 6,705,731(F)
Depreciation, depletion and amortization					$ 219,648	$ 50,340	$ 14,803	$	$ 284,791
Capital Expenditures (Including acquisitions)					$ 312,537	$ 406,180	$ 21,289	$	$ 740,006

(E) Includes equity in earnings of unconsolidated affiliates of $1,263, $352 and $3,699 for Coal, Gas and All Other, respectively.
(F) Includes investments in unconsolidated equity affiliates of $7,304, $25,005 and $37,348 for Coal, Gas and All Other, respectively.

Industry segment results for the nine months ended September 30, 2007:

	Northern Appalachian	Central Appalachian	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate Adjustments & Eliminations	Consolidated
Sales outside	$ 1,487,815	$ 174,386	$ 230,155	$ 132,780	$ 2,025,136	$ 310,967	$ 168,305	$	$ 2,504,408
Sales gas royalty interest						36,841			36,841
Sales purchased gas						3,297			3,297
Freight outside				132,007	132,007				132,007
Intersegment transfers						2,628	98,434	(101,062)	
Total Sales and Freight	$ 1,487,815	$ 174,386	$ 230,155	$ 264,787	$ 2,157,143	$ 353,733	$ 266,739	$ (101,062)	$ 2,676,553
Earnings (Loss) Before Income Taxes	$ 272,457	$ 15,283	$ 69,722	$ (77,079)	$ 280,383	$ 169,761	$ 13,255	$ (55,880)	$ 407,519(G)
Segment assets					$ 3,975,973	$ 1,320,124	$ 255,149	$ 525,176	$ 6,076,422(H)
Depreciation, depletion and amortization					$ 184,957	$ 36,325	$ 13,598	$	$ 234,880
Capital Expenditures (Including Acquisitions)					$ 571,254	$ 220,236	$ 30,813	$	$ 822,303

(G) Includes equity in earnings of unconsolidated affiliates of $741, $1,330 and $3,138 for Coal, Gas and All Other, respectively.

(H) Includes investments in unconsolidated equity affiliates of $2,116, $55,872 and $34,474 for Coal, Gas and All Other, respectively. Also, included in the Coal segment is $26,006 of receivables related to the Export Sales Excise Tax resolution.

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Reconciliation of Segment Information to Consolidated Amounts

Earnings Before Income Taxes:

	For the Three Months Ended September 30, 2008	2007	For the Nine Months Ended September 30, 2008	2007
Segment earnings before income taxes for total reportable business segments	$ 161,228	$ 3,450	$ 487,986	$ 450,144
Segment earnings (loss) before income taxes for all other businesses	5,304	5,025	17,932	13,255
Incentive compensation (A)	(6,874)	5,736	(18,887)	(20,237)
Compensation from restricted stock unit grants, stock option expense and performance share unit expense (A)	(5,605)	(2,949)	(16,375)	(18,081)
Interest income (expense), net and other non-operating activity(A)	(10,623)	(6,375)	(32,854)	(17,562)
Earnings Before Income Taxes	$ 143,430	$ 4,887	$ 437,802	$ 407,519

Total Assets:

	September 30, 2008	2007
Segment assets for total reportable business segments	$ 5,987,921	$ 5,296,097
Segment assets for all other businesses	267,691	255,149
Items excluded from segment assets:		
Cash and other investments (A)	7,610	20,628
Deferred tax assets	430,807	502,999
Recoverable income taxes	10,583	
Bond issuance costs	1,119	1,549
Total Consolidated Assets	$ 6,705,731	$ 6,076,422

(A) Excludes amounts specifically related to the gas segment.

NOTE 14 GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION:

The payment obligations under the $250,000, 7.875% per annum notes due March 1, 2012 issued by CONSOL Energy are jointly and severally, and also fully and unconditionally guaranteed by several subsidiaries of CONSOL Energy. In accordance with positions established by the Securities and Exchange Commission (SEC), the following financial information sets forth separate financial information with respect to the parent, CNX Gas, an 81.7% owned guarantor subsidiary, the remaining guarantor subsidiaries and the non-guarantor subsidiaries. CNX Gas is presented in a separate column in accordance with SEC Regulation S-X Rule 3-10. CNX Gas Corporation is a reporting company under Section 12(b) of the Securities Exchange Act of 1933, and as such, CNX Gas Corporation files its own financial statements with the Securities and Exchange Commission and those financial statements, when filed, are publicly available on EDGAR. The principal elimination entries include investments in subsidiaries and certain intercompany balances and transactions. CONSOL Energy, the parent, and a guarantor subsidiary manage several assets and liabilities of all other 100% owned subsidiaries. These include, for example, deferred tax assets, cash and other post-employment liabilities. These assets and liabilities are reflected as parent company or guarantor company amounts for purposes of this presentation.

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Income Statement for the three months ended September 30, 2008:

	Parent Issuer	CNX Gas Guarantor	Other Subsidiary Guarantors	Non-Guarantors	Elimination	Consolidated
Sales Outside	$	$ 191,199	$ 795,356	$ 68,416	$ (2,587)	$ 1,052,384
Sales Purchased Gas		1,674				1,674
Sales Gas Royalty Interests		22,902				22,902
Freight Outside			60,458			60,458
Other Income (including equity earnings)	110,447	1,172	25,543	10,131	(111,605)	35,688
Total Revenue and Other Income	110,447	216,947	881,357	78,547	(114,192)	1,173,106
Cost of Goods Sold and Other Operating Charges	22,266	37,639	545,840	31,299	103,019	740,063
Purchased Gas Costs		1,664				1,664
Gas Royalty Interests Costs		21,055			(15)	21,040
Related Party Activity	2,773		67,873	36,509	(107,155)	
Freight Expense			60,458			60,458
Selling, General and Administrative Expense		13,527	16,737	1,142		31,406
Depreciation, Depletion and Amortization	2,211	17,803	73,680	2,596	(2)	96,288
Interest Expense	3,314	2,412	3,292	135	(84)	9,069
Taxes Other Than Income	1,308	7,272	58,766	2,342		69,688
Total Costs	31,872	101,372	826,646	74,023	(4,237)	1,029,676
Earnings (Loss) Before Income Taxes	78,575	115,575	54,711	4,524	(109,955)	143,430
Income Tax Expense (Benefit)	(11,479)	48,160	2,622	1,711		41,014
Earnings (Loss) before Minority Interest	90,054	67,415	52,089	2,813	(109,955)	102,416
Minority Interest					(12,362)	(12,362)
Net Income (Loss)	$ 90,054	$ 67,415	$ 52,089	$ 2,813	$ (122,317)	$ 90,054

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Balance Sheet for September 30, 2008:

	Parent Issuer	CNX Gas Guarantor	Other Subsidiary Guarantors	Non-Guarantors	Elimination	Consolidated
Assets:						
Current Assets:						
Cash and Cash Equivalents	$ 2,810	$ 3,116	$	$ 4,376	$	$ 10,302
Accounts and Notes Receivable:						
Trade		64,356		170,224		234,580
Other	1,670	7,454	8,018	38,397		55,539
Inventories	80		150,563	25,338		175,981
Recoverable Income Taxes	10,583					10,583
Deferred Income Taxes	141,305	(28,203)				113,102
Prepaid Expenses	23,317	79,632	47,679	1,428		152,056
Total Current Assets	179,765	126,355	206,260	239,763		752,143
Property, Plant and Equipment:						
Property, Plant and Equipment	114,959	1,943,084	7,504,244	88,407		9,650,694
Less-Accumulated Depreciation, Depletion and Amortization	68,640	301,790	3,773,113	44,828		4,188,371
Property, Plant and Equipment Net	46,319	1,641,294	3,731,131	43,579		5,462,323
Other Assets:						
Deferred Income Taxes	577,531	(259,826)				317,705
Investment in Affiliates	3,212,133	25,005	1,413,582		(4,581,063)	69,657
Other	35,927	34,040	16,193	17,743		103,903
Total Other Assets	3,825,591	(200,781)	1,429,775	17,743	(4,581,063)	491,265
Total Assets	$ 4,051,675	$ 1,566,868	$ 5,367,166	$ 301,085	$ (4,581,063)	$ 6,705,731
Liabilities and Stockholders Equity:						
Current Liabilities:						
Accounts Payable	$ 124,831	$ 69,101	$ 107,438	$ 23,220	$	$ 324,590
Accounts Payable (Recoverable) Related Parties	1,760,582		(1,900,521)	139,939		
Short-Term Notes Payable	212,300	58,200				270,500
Current Portion of Long-Term Debt		7,563	11,266	2,000		20,829
Other Accrued Liabilities	148,743	46,517	357,536	11,785		564,581
Total Current Liabilities	2,246,456	181,381	(1,424,281)	176,944		1,180,500
Long-Term Debt	249,294	75,365	150,319	7,485		482,463
Deferred Credits and Other Liabilities:						
Postretirement Benefits Other Than Pensions		2,896	2,389,275			2,392,171
Pneumoconiosis			181,827			181,827
Mine Closing			398,725	8,102		406,827
Workers Compensation			133,406			133,406
Salary Retirement	57,380					57,380
Reclamation			13,644	20,327		33,971
Other	55,770	39,543	71,528	17,529		184,370
Total Deferred Credits and Other Liabilities	113,150	42,439	3,188,405	45,958		3,389,952
Minority Interest					210,041	210,041
Stockholders Equity	1,442,775	1,267,683	3,452,723	70,698	(4,791,104)	1,442,775

Total Liabilities and Stockholders Equity	$ 4,051,675	$ 1,566,868	$ 5,367,166	$ 301,085	$ (4,581,063)	$ 6,705,731

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Income Statement for the three months ended September 30, 2007:

	Parent Issuer	CNX Gas Guarantor	Other Subsidiary Guarantors	Non-Guarantors	Elimination	Consolidated
Sales Outside	$	$ 98,601	$ 641,475	$ 56,469	$ (4,564)	$ 791,981
Sales Purchased Gas		821				821
Sales Gas Royalty Interests		10,175				10,175
Freight Outside			44,707			44,707
Other Income (including equity earnings)	1,833	208	9,967	9,585	(901)	20,692
Total Revenue and Other Income	1,833	109,805	696,149	66,054	(5,465)	868,376
Cost of Goods Sold and Other Operating Charges	1,172	18,731	541,560	25,771	47,618	634,852
Purchased Gas Costs		496				496
Gas Royalty Interests Costs		8,543	55		(73)	8,525
Related Party Activity	3,326		11,152	29,540	(44,018)	
Freight Expense			44,707			44,707
Selling, General and Administrative Expense		12,793	12,990	840		26,623
Depreciation, Depletion and Amortization	1,929	12,248	65,485	2,813	(73)	82,402
Interest Expense	2,154	1,221	2,303	142		5,820
Taxes Other Than Income	1,433	3,776	53,085	1,770		60,064
Total Costs	10,014	57,808	731,337	60,876	3,454	863,489
Earnings (Loss) Before Income Taxes	(8,181)	51,997	(35,188)	5,178	(8,919)	4,887
Income Tax Expense (Benefit)	(2,797)	20,701	(15,566)	2,168		4,506
Earnings (Loss) before Minority Interest	(5,384)	31,296	(19,622)	3,010	(8,919)	381
Minority Interest					(5,765)	(5,765)
Net Income (Loss)	$ (5,384)	$ 31,296	$ (19,622)	$ 3,010	$ (14,684)	$ (5,384)

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Balance Sheet for December 31, 2007:

	Parent Issuer	CNX Gas Guarantor	Other Subsidiary Guarantors	Non-Guarantors	Elimination	Consolidated
Assets:						
Current Assets:						
Cash and Cash Equivalents	$ 6,519	$ 32,048	$	$ 3,084	$	$ 41,651
Accounts and Notes Receivable:						
Trade		38,680		141,865		180,545
Other	840	2,428	34,619	31,884		69,771
Inventories			135,132	28,061		163,193
Recoverable Income Taxes	18,118	972				19,090
Deferred Income Taxes	132,089	(1,269)				130,820
Prepaid Expenses	18,130	13,859	40,985	5,111		78,085
Total Current Assets	175,696	86,718	210,736	210,005		683,155
Property, Plant and Equipment:						
Property, Plant and Equipment	103,223	1,480,446	7,274,197	87,446		8,945,312
Less-Accumulated Depreciation, Depletion and Amortization	52,103	251,367	3,638,286	38,514		3,980,270
Property, Plant and Equipment Net	51,120	1,229,079	3,635,911	48,932		4,965,042
Other Assets:						
Deferred Income Taxes	563,226	(188,415)				374,811
Investment in Affiliates	2,818,267	56,865	1,305,043		(4,085,309)	94,866
Other	30,242	6,772	35,600	17,602		90,216
Total Other Assets	3,411,735	(124,778)	1,340,643	17,602	(4,085,309)	559,893
Total Assets	$ 3,638,551	$ 1,191,019	$ 5,187,290	$ 276,539	$ (4,085,309)	$ 6,208,090
Liabilities and Stockholders Equity:						
Current Liabilities:						
Accounts Payable	$ 71,558	$ 30,263	$ 110,370	$ 26,121	$	$ 238,312
Accounts Payable (Recoverable) Related Parties	1,586,775		(1,708,831)	122,056		
Short-Term Notes Payable	247,500					247,500
Current Portion of Long-Term Debt		5,819	10,464	2,000		18,283
Other Accrued Liabilities	105,226	25,333	372,731	9,012		512,302
Total Current Liabilities	2,011,059	61,415	(1,215,266)	159,189		1,016,397
Long-Term Debt	258,848	66,949	154,143	8,985		488,925
Deferred Credits and Other Liabilities:						
Postretirement Benefits Other Than Pensions		2,700	2,334,109			2,336,809
Pneumoconiosis			171,896			171,896
Mine Closing			388,710	10,923		399,633
Workers Compensation			118,356			118,356
Deferred Revenue			3,162			3,162
Salary Retirement	67,065	327				67,392
Reclamation			14,497	19,820		34,317
Other	87,160	36,391	52,958	17,157		193,666
Total Deferred Credits and Other Liabilities	154,225	39,418	3,083,688	47,900		3,325,231
Minority Interest					163,118	163,118

Stockholders Equity	1,214,419	1,023,237	3,164,725	60,465	(4,248,427)	1,214,419
Total Liabilities and Stockholders Equity	$ 3,638,551	$ 1,191,019	$ 5,187,290	$ 276,539	$ (4,085,309)	$ 6,208,090

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Income Statement for the Nine Months Ended September 30, 2008

	Parent Issuer	CNX Gas Guarantor	Other Subsidiary Guarantors	Non-Guarantors	Elimination	Consolidated
Sales Outside	$	$ 502,659	$ 2,352,975	$ 202,520	$ (8,035)	$ 3,050,119
Sales Purchased Gas		6,860				6,860
Sales Gas Royalty Interests		61,921				61,921
Freight Outside			169,129			169,129
Other Income (including equity earnings)	319,766	11,929	82,226	29,424	(321,641)	121,704
Total Revenue and Other Income	319,766	583,369	2,604,330	231,944	(329,676)	3,409,733
Cost of Goods Sold and Other Operating Charges	54,949	90,147	1,712,321	87,536	172,573	2,117,526
Purchased Gas Costs		6,607				6,607
Gas Royalty Interests Costs		59,057			(63)	58,994
Related Party Activity	4,170		60,007	113,200	(177,377)	
Freight Expense			169,129			169,129
Selling, General and Administrative Expense		50,701	38,529	3,290		92,520
Depreciation, Depletion and Amortization	6,480	50,340	221,838	8,022	(1,889)	284,791
Interest Expense	13,055	5,567	8,994	405	(250)	27,771
Taxes Other Than Income	4,721	20,072	182,694	7,106		214,593
Total Costs	83,375	282,491	2,393,512	219,559	(7,006)	2,971,931
Earnings (Loss) Before Income Taxes	236,391	300,878	210,818	12,385	(322,670)	437,802
Income Tax Expense (Benefit)	(29,757)	119,287	44,150	4,685		138,365
Earnings (Loss) before Minority Interest	266,148	181,591	166,668	7,700	(322,670)	299,437
Minority Interest					(33,289)	(33,289)
Net Income (Loss)	$ 266,148	$ 181,591	$ 166,668	$ 7,700	$ (355,959)	$ 266,148

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Income Statement for the Nine Months Ended September 30, 2007

	Parent Issuer	CNX Gas Guarantor	Other Subsidiary Guarantors	Non-Guarantors	Elimination	Consolidated
Sales Outside	$	$ 313,595	$ 2,054,368	$ 143,425	$ (6,980)	$ 2,504,408
Sales Purchased Gas		3,297				3,297
Sales Gas Royalty Interests		36,841				36,841
Freight Outside			132,007			132,007
Other Income (including equity earnings)	309,404	4,675	127,052	29,382	(303,507)	167,006
Total Revenue and Other Income	309,404	358,408	2,313,427	172,807	(310,487)	2,843,559
Cost of Goods Sold and Other Operating Charges	50,190	59,918	1,443,754	34,620	156,776	1,745,258
Purchased Gas Costs		2,988				2,988
Gas Royalty Interests Costs		31,736			(73)	31,663
Related Party Activity	8,055		34,712	103,187	(145,954)	
Freight Expense			132,007			132,007
Selling, General and Administrative Expense		39,069	37,582	2,520		79,171
Depreciation, Depletion and Amortization	5,666	36,325	187,172	7,790	(2,073)	234,880
Interest Expense	4,211	3,686	10,938	422		19,257
Taxes Other Than Income	4,121	12,519	169,139	5,037		190,816
Total Costs	72,243	186,241	2,015,304	153,576	8,676	2,436,040
Earnings (Loss) Before Income Taxes	237,161	172,167	298,123	19,231	(319,163)	407,519
Income Tax Expense (Benefit)	(23,834)	66,387	77,680	6,731		126,964
Earnings (Loss) before Minority Interest	260,995	105,780	220,443	12,500	(319,163)	280,555
Minority Interest					(19,560)	(19,560)
Net Income (Loss)	$ 260,995	$ 105,780	$ 220,443	$ 12,500	$ (338,723)	$ 260,995

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Cash Flow for the nine months ended September 30, 2008:

	Parent	CNX Gas	Guarantor	Non-Guarantor	Elimination	Consolidated
Net Cash Provided by Operating Activities	$ 55,236	$ 306,919	$ 316,874	$ 4,213	$	$ 683,242
Cash Flows from Investing Activities:						
Capital Expenditures	$ (6,964)	$ (406,180)	$ (325,441)	$ (1,421)	$	$ (740,006)
Investment in Equity Affiliates		1,081	(1,689)			(608)
Other Investing Activities		450	18,349			18,799
Net Cash Used in Investing Activities	$ (6,964)	$ (404,649)	$ (308,781)	$ (1,421)	$	$ (721,815)
Cash Flows from Financial Activities:						
Dividends Paid	$ (54,878)	$	$	$	$	$ (54,878)
Purchase of Common Stock	(85)					(85)
(Payments on) Proceeds from Short Term Borrowings	(35,200)	58,200				23,000
Other Financing Activities	38,182	10,598	(8,093)	(1,500)		39,187
Net Cash (Used in) Provided by Financing Activities	$ (51,981)	$ 68,798	$ (8,093)	$ (1,500)	$	$ 7,224

Cash Flow for the nine months ended September 30, 2007:

	Parent	CNX Gas	Guarantor	Non-Guarantor	Elimination	Consolidated
Net Cash Provided by Operating Activities	$ (161,115)	$ 211,075	$ 522,045	$ 24,030	$	$ 596,035
Cash Flows from Investing Activities:						
Capital Expenditures	$ (11,932)	$ (265,116)	$ (261,050)	$ (21,693)	$ 44,880	$ (514,911)
Acquistion of AMVEST			(296,659)			(296,659)
Investment in Equity Affiliates		(2,259)	(775)			(3,034)
Other Investing Activities		187	88,247		(44,880)	43,554
Net Cash Used in Investing Activities	$ (11,932)	$ (267,188)	$ (470,237)	$ (21,693)	$	$ (771,050)
Cash Flows from Financial Activities:						
Dividends Paid	$ (38,282)	$	$	$	$	$ (38,282)
Proceeds from Revolver	181,000					181,000
Purchase of Common Stock	(80,132)					(80,132)
Tax Benefit from Stock-Based Compensation	6,323	35				6,358
Payments on Long Term Notes			(45,000)			(45,000)
Other Financing Activities	7,005	7,308	(6,929)	(1,500)		5,884
Net Cash (Used in) Provided by Financing Activities	$ 75,914	$ 7,343	$ (51,929)	$ (1,500)	$	$ 29,828

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NOTE 15 RECENT ACCOUNTING PRONOUNCEMENTS:

In May 2008, The Financial Accounting Standards Board (FASB) issued FASB Statement No. 162, The Hierarchy of Generally Accepted Accounting Principles. The new standard is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements that are presented in conformity with U.S. generally accepted accounting principles (GAAP) for nongovernmental entities. Statement 162 establishes that the GAAP hierarchy should be directed to entities because it is the entity (not its auditor) that is responsible for selecting accounting principles for financial statements that are presented in conformity with GAAP. Statement 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board Auditing amendments to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. We do not expect this guidance to have a significant impact on CONSOL Energy.

In March 2008, The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement 133 (SFAS 161*)*. The new standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, results of operations and cash flows. The new standard also improves transparency about how and why a company uses derivative instruments and how derivative instruments and related hedged items are accounted for under Statement 133. It is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. CONSOL Energy s management is currently assessing the new disclosure requirements required by SFAS 161.

In December 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 141(R), Business Combinations (SFAS 141R), and Statement of Financial Accounting Standards No. 160, Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51 (SFAS 160). SFAS 141R and SFAS 160 will significantly change the accounting for and reporting of business combination transactions and noncontrolling (minority) interests in consolidated financial statements. SFAS 141R retains the fundamental requirements in Statement 141 Business Combinations while providing additional definitions, such as the definition of the acquirer in a purchase and improvements in the application of how the acquisition method is applied. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests, and classified as a component of equity. These Statements become simultaneously effective January 1, 2009. Early adoption is not permitted. We are currently evaluating the impact this guidance will have on our consolidated financial statements.

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

Current forecasts by the U.S. Department of Energy estimate that worldwide energy demand will grow more than 55 percent by 2030 and that the two fastest growing supply segments are expected to be coal and natural gas, which are forecasted to grow approximately 74 percent and 63 percent, respectively. The company believes that the long-term fundamentals of population growth, a desire for improved living standards, and the need to build or repair critical infrastructure in many countries will keep demand for energy strong over the next several decades, despite indications that global economic growth is slowing in the face of a more challenging financial environment.

The impact of current economic conditions on global demand for coal and natural gas in the short-term is far from clear. For instance, the impact on price from a decline in demand for coal is likely to be offset by the continuing challenges of coal production globally. The Company believes that the long-term global demand for coal is very strong and developing countries will continue to grow at rates that will stretch global supplies of coal.

In the short-term, base loading of eastern power generation in the U.S. will continue to create demand for CONSOL s high-Btu coal. On the supply side, coal production challenges related to permitting, new safety regulations, and complex geology in Appalachia are expected to keep supplies tight.

The company believes it is in a strong position in the near term for a number of reasons:

- The company has a significant amount of anticipated 2009 coal and gas production already committed for sale;
- The company s low-volatile metallurgical coal and its high Btu (British thermal units) steam coal are premium products that should command premium prices even in a weaker demand environment;
- The company expects to generate strong cash flows during the next 15 months, reflecting both higher priced tons entering the sales mix and the relatively low-cost position of both its coal and gas segments;
- The company s relatively low debt and strong liquidity position allows the company to maintain its reputation as a disciplined producer and to make adjustments to production should market conditions require it; and
- The company has the flexibility to defer or slow certain capital project outlays without undercutting the company s fundamental growth strategy.

During the second and third quarters, a number of factors impacted production, but no single factor dominated. Factors included: events such as roof falls on main line belt haulage; regulatory issues, particularly related to safety that impacted productivity and costs; technological issues, particularly the challenge of completing development of new longwall coal panels as rapidly as required; and geologic issues such as roof conditions and intrusion of rock into coal seams. We have made a number of important changes that, over the next six months, are expected to positively impact productivity and production. We have focused a lot of attention on the development issue because it is the key to getting the maximum efficiency from our longwall equipped mines.

The company has added crews and changed work schedules to increase longwall panel development; has worked with equipment manufacturers to develop better haulage systems for continuous mining machines to increase rates of advance in development sections of the mine; and is modifying mine plans in a number of longwall-equipped mines to increase the ratio of coal produced by the longwall equipment compared to that produced by the continuous miners.

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Some of the changes we have made, such as adding additional crews, should give us benefits very quickly, while things like mine plan modifications take several quarters to fully execute. However, over the next year, we expect the aggregate result of these actions will positively impact productivity.

Regulatory impacts on production are more difficult to manage. Most producers in the eastern U.S. are being impacted by government regulations and enforcement to a much greater extent than we saw only a few years ago. The pace with which government issues permits needed for on-going operations to continue mining has negatively impacted expected production, especially in Central Appalachia. Environmental groups in West Virginia and Kentucky have challenged state and U.S. Army Corps of Engineers permits for mountaintop mining on various grounds. The most recent challenges have focused on the adequacy of the Corp of Engineers analysis of impacts to streams and the adequacy of mitigation plans to compensate for stream impacts. In 2007, the U.S. District Court of the Southern District of West Virginia found other operators permits for mining in these areas to be deficient. The ruling is currently in appeals. The legal issues around these previously issued permits have delayed or prevented the issuance of new permits by the Corp of Engineers. Currently, CONSOL Energy s surface operations in these areas have not been impacted, but the delay or denial of additional permits could impact some or all of the surface operations within the next twelve to twenty-four months. In addition, the length of time needed to bring a new mine into production has increased by several years because of the increased time required to obtain necessary permits. New safety laws and regulations have impacted productivity at underground mines, although the company has not yet been able to ascertain the exact amount of the impact.

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

CONSOL Energy estimates that it could receive refunds of BLET of approximately $25 million. The estimated interest to be received on BLET refunds is approximately $30 million. The claims for refund of BLET plus interest must be filed with the Internal Revenue Service (IRS) within 30 days of enactment of the Act. At this time, CONSOL Energy cannot be certain that it will receive the refund of BLET and related interest since technical guidance has not been issued by the IRS regarding the type of documentation required before it will approve the refund of BLET and the related payment of interest. As of September 30, 2008, no amounts have been recognized related to the potential BLET refunds.

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Results of Operations

Three Months Ended September 30, 2008 Compared with Three Months Ended September 30, 2007

Net Income

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

	2008 Period	2007 Period	Dollar Variance	Percentage Change
Coal Sales Produced and Purchased	$ 780	$ 630	$ 150	23.8%
Produced Gas Sales	190	98	92	93.9%
Gas Royalty Interest	23	10	13	130.0%
Other Sales and Other Income	180	130	50	38.5%
Total Revenue and Other Income	1,173	868	305	35.1%
Coal Cost of Goods Sold Produced and Purchased	577	455	122	26.8%
Produced Gas Cost of Goods Sold	51	30	21	70.0%
Gas Royalty Interest costs of Goods Sold	21	9	12	133.3%
Other Cost of Goods Sold	114	150	(36)	(24.0)%
Total Cost of Goods Sold	763	644	119	18.5%
Depreciation, Depletion and Amortizaton	96	82	14	17.1%
Other	171	137	34	24.8%
Total Costs	1,030	863	167	19.4%
Earnings Before Income Taxes and Minority Interest	143	5	138	2760.0%
Income Tax Expense	41	5	36	720.0%
Earnings Before Minority Interest	102		102	100.0%
Minority Interest	12	5	7	140.0%
Net Income (Loss)	$ 90	$ (5)	$ 95	(1900.0)%

CONSOL Energy had net income of $90 million for the three months ended September 30, 2008 compared to a net loss of $5 million in the three months ended September 30, 2007. Net income for the 2008 period was improved in comparison to the 2007 period due to:

the 2007 period including a total of approximately $72 million of pre-tax expenses related to the July 2007 Buchanan Mine incident which idled the mine through March 2008;