

CONSOL Energy Inc  
Form 10-Q  
August 01, 2014

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

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended June 30, 2014

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-14901

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CONSOL Energy Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

1000 CONSOL Energy Drive  
Canonsburg, PA 15317-6506  
(724) 485-4000

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller Reporting Company ☐

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

Yes ☐ No ☒

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

Class	Shares outstanding as of July 16, 2014
Common stock, \$0.01 par value	230,166,816

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## GLOSSARY OF CERTAIN OIL AND GAS MEASUREMENT TERMS

The following are abbreviations of certain measurement terms commonly used in the oil and gas industry and included within this Form 10-Q:

Bbl - One stock tank barrel, or 42 U.S. gallons liquid volume, used in reference to oil or other liquid hydrocarbons.

Bcf - One billion cubic feet of natural gas.

Bcfe - One billion cubic feet of natural gas equivalents, with one barrel of oil being equivalent to 6,000 cubic feet of gas.

Btu - One British thermal unit.

Mbbls - One thousand barrels of oil or other liquid hydrocarbons.

Mcf - One thousand cubic feet of natural gas.

Mcfe - One thousand cubic feet of natural gas equivalents, with one barrel of oil being equivalent to 6,000 cubic feet of gas.

MMbtu - One million British Thermal units.

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MMcfe - One million cubic feet of natural gas equivalents, with one barrel of oil being equivalent to 6,000 cubic feet of gas.

NGL - Natural gas liquids.

Tcfe - One trillion cubic feet of natural gas equivalents, with one barrel of oil being equivalent to 6,000 cubic feet of gas.

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## PART I : FINANCIAL INFORMATION

## ITEM 1. CONDENSED FINANCIAL STATEMENTS

CONSOL ENERGY INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Revenues and Other Income:				
Natural Gas, NGLs and Oil Sales	\$229,743	\$171,236	\$496,041	\$339,078
Coal Sales	536,298	505,060	1,070,979	1,052,969
Other Outside Sales	70,087	65,218	139,374	133,902
Gas Royalty Interests and Purchased Gas Sales	19,739	18,434	49,958	33,996
Freight-Outside Coal	10,109	9,660	20,054	21,913
Miscellaneous Other Income	69,977	28,520	125,031	56,907
Gain on Sale of Assets	1,417	30,039	5,086	32,345
Total Revenue and Other Income	937,370	828,167	1,906,523	1,671,110
Costs and Expenses:				
Exploration and Production Costs				
Lease Operating Expense	26,374	25,221	55,617	47,235
Transportation, Gathering and Compression	57,796	48,871	111,578	97,303
Production, Ad Valorem, and Other Fees	10,145	7,409	20,331	11,978
Direct Administrative and Selling	13,503	11,803	25,156	22,889
Depreciation, Depletion and Amortization	71,499	52,846	143,228	105,834
Exploration and Production Related Other Costs	4,624	10,406	7,723	20,895
Production Royalty Interests and Purchased Gas Costs	16,672	14,595	42,768	27,360
Other Corporate Expenses	21,012	22,557	47,176	47,950
General and Administrative	15,517	10,472	32,881	19,062
Total Exploration and Production Costs	237,142	204,180	486,458	400,506
Coal Costs				
Operating and Other Costs	347,541	329,934	674,390	664,949
Royalties and Production Taxes	27,603	26,438	54,091	54,877
Direct Administrative and Selling	11,816	12,252	23,110	23,136
Depreciation, Depletion and Amortization	65,086	55,247	121,149	112,437
Freight Expense	10,109	9,660	20,054	21,913
General and Administrative Costs	10,450	10,038	22,963	19,339
Other Corporate Expenses	12,035	11,996	31,330	31,911
Total Coal Costs	484,640	455,565	947,087	928,562
Other Costs				
Miscellaneous Operating Expense	99,079	73,872	173,628	196,908
General and Administrative Costs	428	470	834	893
Depreciation, Depletion and Amortization	1,314	1,436	2,638	2,836
Loss on Debt Extinguishment	74,277	—	74,277	—
Interest Expense	64,211	54,517	115,142	107,894
Total Other Costs	239,309	130,295	366,519	308,531
Total Costs And Expenses	961,091	790,040	1,800,064	1,637,599
(Loss) Earnings Before Income Tax	(23,721 )	38,127	106,459	33,511

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Income Taxes	1,214	29,565	9,703	28,673
(Loss) Income From Continuing Operations	(24,935 )	8,562	96,756	4,838
(Loss) Income From Discontinued Operations, net	—	(21,375 )	(5,687 )	(19,472 )
Net (Loss) Income	(24,935 )	(12,813 )	91,069	(14,634 )
Less: Net Loss Attributable to Noncontrolling Interests	—	(287 )	—	(544 )
Net (Loss) Income Attributable to CONSOL Energy Shareholders	\$(24,935 )	\$(12,526 )	\$91,069	\$(14,090 )

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

CONSOL ENERGY INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(CONTINUED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands, except per share data) (Unaudited)	2014	2013	2014	2013
(Loss) Earnings Per Share				
Basic				
(Loss) Income from Continuing Operations	\$(0.11 )	\$0.04	\$0.42	\$0.02
Loss from Discontinued Operations	—	(0.09 )	(0.02 )	(0.08 )
Total Basic (Loss) Earnings Per Share	\$(0.11 )	\$(0.05 )	\$0.40	\$(0.06 )
Dilutive				
(Loss) Income from Continuing Operations	\$(0.11 )	\$0.04	\$0.42	\$0.02
Loss from Discontinued Operations	—	(0.09 )	(0.03 )	(0.08 )
Total Dilutive (Loss) Earnings Per Share	\$(0.11 )	\$(0.05 )	\$0.39	\$(0.06 )
Dividends Paid Per Share	\$0.0625	\$0.125	\$0.125	\$0.125

CONSOL ENERGY INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in thousands) (Unaudited)	2014	2013	2014	2013
Net (Loss) Income	\$(24,935 )	\$(12,813 )	\$91,069	\$(14,634 )
Other Comprehensive (Loss) Income:				
Actuarially Determined Long-Term Liability Adjustments (Net of tax: \$2,214, (\$26,489), (\$771), (\$54,739))	(3,798 )	42,904	1,321	88,661
Net (Decrease) Increase in the Value of Cash Flow Hedges (Net of tax: \$8,027, (\$29,484), \$38,883, (\$17,500))	(12,218 )	45,749	(59,183 )	27,154
Reclassification of Cash Flow Hedges from OCI to Earnings (Net of tax: (\$6,642), \$8,560, (\$17,593), \$22,526)	6,951	(9,528 )	23,264	(32,241 )
Other Comprehensive (Loss) Income	(9,065 )	79,125	(34,598 )	83,574
Comprehensive (Loss) Income	(34,000 )	66,312	56,471	68,940
Less: Comprehensive Loss Attributable to Noncontrolling Interest	—	(287 )	—	(544 )
Comprehensive (Loss) Income Attributable to CONSOL Energy Inc. Shareholders	\$(34,000 )	\$66,599	\$56,471	\$69,484

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





CONSOL ENERGY INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
(Dollars in thousands)	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 147,393	\$ 327,420
Accounts and Notes Receivable:		
Trade	275,431	332,574
Notes Receivable	1,328	25,861
Other Receivables	390,484	243,973
Inventories	148,005	157,914
Deferred Income Taxes	137,716	211,303
Recoverable Income Taxes	47,060	10,705
Prepaid Expenses	78,438	135,842
Total Current Assets	1,225,855	1,445,592
Property, Plant and Equipment:		
Property, Plant and Equipment	14,160,967	13,578,509
Less—Accumulated Depreciation, Depletion and Amortization	4,384,209	4,136,247
Total Property, Plant and Equipment—Net	9,776,758	9,442,262
Other Assets:		
Investment in Affiliates	352,187	291,675
Notes Receivable	—	125
Other	211,847	214,013
Total Other Assets	564,034	505,813
<b>TOTAL ASSETS</b>	<b>\$ 11,566,647</b>	<b>\$ 11,393,667</b>

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

CONSOL ENERGY INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
(Dollars in thousands, except per share data)	June 30, 2014	December 31, 2013
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities:		
Accounts Payable	\$504,009	\$514,580
Current Portion of Long-Term Debt	12,127	11,455
Other Accrued Liabilities	554,476	565,697
Current Liabilities of Discontinued Operations	13,054	28,239
Total Current Liabilities	1,083,666	1,119,971
Long-Term Debt:		
Long-Term Debt	3,214,913	3,115,963
Capital Lease Obligations	44,468	47,596
Total Long-Term Debt	3,259,381	3,163,559
Deferred Credits and Other Liabilities:		
Deferred Income Taxes	291,928	242,643
Postretirement Benefits Other Than Pensions	959,034	961,127
Pneumoconiosis Benefits	111,519	111,971
Mine Closing	320,902	320,723
Gas Well Closing	180,097	175,603
Workers' Compensation	73,406	71,468
Salary Retirement	58,962	48,252
Reclamation	35,779	40,706
Other	132,315	131,355
Total Deferred Credits and Other Liabilities	2,163,942	2,103,848
<b>TOTAL LIABILITIES</b>	<b>6,506,989</b>	<b>6,387,378</b>
Stockholders' Equity:		
Common Stock, \$.01 Par Value; 500,000,000 Shares Authorized, 230,165,816 Issued and Outstanding at June 30, 2014; 229,145,736 Issued and Outstanding at December 31, 2013	2,305	2,294
Capital in Excess of Par Value	2,405,728	2,364,592
Preferred Stock, 15,000,000 shares authorized, None issued and outstanding	—	—
Retained Earnings	3,011,340	2,964,520
Accumulated Other Comprehensive Loss	(359,715 )	(325,117 )
Total CONSOL Energy Inc. Stockholders' Equity	5,059,658	5,006,289
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$11,566,647</b>	<b>\$11,393,667</b>

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

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CONSOL ENERGY INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(Dollars in thousands, except per share data)	Common Stock	Capital in Excess of Par Value	Retained Earnings (Deficit)	Accumulated Other Comprehensive Income (Loss)	Total CONSOL Energy Inc. Stockholders' Equity
December 31, 2013 (Unaudited)	\$2,294	\$2,364,592	\$2,964,520	\$(325,117)	) \$5,006,289
Net Income	—	—	91,069	—	91,069
Other Comprehensive Loss	—	—	—	(34,598)	) (34,598)
Comprehensive Income (Loss)	—	—	91,069	(34,598)	) 56,471
Issuance of Common Stock	11	13,223	—	—	13,234
Treasury Stock Activity	—	—	(15,516)	) —	(15,516)
Tax Benefit From Stock-Based Compensation	—	2,413	—	—	2,413
Amortization of Stock-Based Compensation Awards	—	25,500	—	—	25,500
Dividends (\$0.125 per share)	—	—	(28,733)	) —	(28,733)
Balance at June 30, 2014	\$2,305	\$2,405,728	\$3,011,340	\$(359,715)	) \$5,059,658

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

(Dollars in thousands)

(Unaudited)

Operating Activities:

	Six Months Ended	
	June 30,	
	2014	2013
Net Income (Loss)	\$91,069	\$(14,634 )

Adjustments to Reconcile Net Income (Loss) to Net Cash Provided By Continuing Operating Activities:

Net Loss from Discontinued Operations	5,687	19,472
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Depreciation, Depletion and Amortization	267,015	221,107
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Stock-Based Compensation	25,500	34,647
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Gain on Sale of Assets	(5,086 )	(32,345 )
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Loss on Debt Extinguishment	74,277	—
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Deferred Income Taxes	13,785	6,998
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Equity in Earnings of Affiliates	(21,512 )	(16,667 )
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Changes in Operating Assets:

Accounts and Notes Receivable	(52,920 )	25,360
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Inventories	9,909	19,772
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Prepaid Expenses	24,529	25,359
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Changes in Other Assets	13,427	28,070
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Changes in Operating Liabilities:

Accounts Payable	53,371	(13,470 )
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Accrued Interest	(10,483 )	(73 )
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Other Operating Liabilities	74,714	(4,173 )
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Other	14,737	6,523
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Net Cash Provided by Continuing Operations	578,019	305,946
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Net Cash (Used in) Provided by Discontinued Operating Activities	(20,872 )	87,444
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Net Cash Provided by Operating Activities	557,147	393,390
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Cash Flows from Investing Activities:

Capital Expenditures	(819,295 )	(707,452 )
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Change in Restricted Cash	—	68,673
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Proceeds from Sales of Assets	133,075	107,626
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Net Investments In Equity Affiliates	(39,000 )	(16,600 )
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Net Cash Used in Investing Activities in Continuing Operations	(725,220 )	(547,753 )
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Net Cash Provided By Investing Activities in Discontinued Operations	—	82,627
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Net Cash Used in Investing Activities	(725,220 )	(465,126 )
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Cash Flows from Financing Activities:

(Payments on) Proceeds from Short-Term Borrowings	(11,736 )	173,000
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Payments on Miscellaneous Borrowings	(3,167 )	(29,964 )
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Proceeds from Long-Term Borrowings	1,600,000	—
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Payments on Long-Term Borrowings	(1,583,965)	—
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Proceeds from Securitization Facility	—	2,873
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Tax Benefit from Stock-Based Compensation	2,413	2,185
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Dividends Paid	(28,733 )	(28,601 )
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Issuance of Common Stock	13,234	2,497
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Net Cash (Used in) Provided By Financing Activities in Continuing Operations	(11,954 )	121,990
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Net Cash Used in Financing Activities in Discontinued Operations	—	(198 )
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Net Cash (Used in) Provided By Financing Activities	(11,954	)	121,792
Net (Decrease) Increase in Cash and Cash Equivalents	(180,027	)	50,056
Cash and Cash Equivalents at Beginning of Period	327,420		21,862
Cash and Cash Equivalents at End of Period	\$ 147,393		\$ 71,918

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



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

NOTE 1—BASIS OF PRESENTATION:

The accompanying Unaudited Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and six months ended June 30, 2014 are not necessarily indicative of the results that may be expected for future periods.

The balance sheet at December 31, 2013 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, 2013 included in CONSOL Energy Inc.'s Form 10-K.

Certain amounts in prior periods have been reclassified to conform with the report classifications of the year ended December 31, 2013, with no effect on previously reported net income or stockholders' equity.

Basic earnings per share are computed by dividing net income (loss) attributable to shareholders 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 stock options, performance stock options, CONSOL stock units, and restricted and performance share units, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and performance share options were exercised, that outstanding restricted stock units, performance share units, and CONSOL stock units were released, and that the proceeds from such activities were used to acquire shares of common stock at the average market price during the reporting period. CONSOL Energy Inc. (CONSOL Energy or the Company) includes the impact of pro forma deferred tax assets in determining potential windfalls and shortfalls for purposes of calculating assumed proceeds under the treasury stock method. The table below sets forth the share-based awards that have been excluded from the computation of the diluted earnings per share because their effect would be anti-dilutive:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Anti-Dilutive Options	4,123,949	4,845,029	359,488	4,845,029
Anti-Dilutive Restricted Stock Units	1,265,237	1,383,908	—	1,383,908
Anti-Dilutive Performance Share Units	523,357	83,356	—	83,356
Anti-Dilutive Performance Share Options	802,804	602,101	—	602,101
	6,715,347	6,914,394	359,488	6,914,394

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Options	382,773	160,119	648,112	245,113
Restricted Stock Units	56,403	89,632	390,802	568,141
Performance Share Units	—	—	378,971	159,228

439,176	249,751	1,417,885	972,482
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The weighted average exercise price per share of the options exercised during the three months ended June 30, 2014 and 2013 was \$21.57 and \$9.90, respectively. The weighted average exercise price per share of the options exercised during the six months ended June 30, 2014 and 2013 was \$20.41 and \$10.16, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
(Loss) Income from Continuing Operations	\$(24,935 )	\$8,562	\$96,756	\$4,838
(Loss) Income from Discontinuing Operations	—	(21,375 )	(5,687 )	(19,472 )
Less: Net Loss Attributable to Noncontrolling Interest	—	(287 )	—	(544 )
Net (Loss) Income Attributable to CONSOL Energy Inc. Shareholders	\$(24,935 )	\$(12,526 )	\$91,069	\$(14,090 )
Weighted average shares of common stock outstanding:				
Basic	230,061,395	228,721,980	229,795,193	228,520,886
Effect of stock-based compensation awards	—	—	1,595,988	—
Dilutive	230,061,395	228,721,980	231,391,181	228,520,886
Earnings per share:				
Basic (Continuing Operations)	\$(0.11 )	\$0.04	\$0.42	\$0.02
Basic (Discontinuing Operations)	—	(0.09 )	(0.02 )	(0.08 )
Total Basic	\$(0.11 )	\$(0.05 )	\$0.40	\$(0.06 )
Dilutive (Continuing Operations)	\$(0.11 )	\$0.04	\$0.42	\$0.02
Dilutive (Discontinuing Operations)	—	(0.09 )	(0.03 )	(0.08 )
Total Dilutive	\$(0.11 )	\$(0.05 )	\$0.39	\$(0.06 )

Changes in Accumulated Other Comprehensive Income / (Loss) by component, net of tax, were as follows:

	Gains and Losses on Cash Flow Hedges	Postretirement Benefits	Total
Balance at December 31, 2013	\$42,493	\$(367,610 )	\$(325,117 )
Other comprehensive income before reclassifications	(59,183 )	(22,133 )	(81,316 )
Amounts reclassified from accumulated other comprehensive income	23,264	23,454	46,718
Current period other comprehensive income	(35,919 )	1,321	(34,598 )
Balance at June 30, 2014	\$6,574	\$(366,289 )	\$(359,715 )

The following table shows the reclassification of adjustments out of Accumulated Other Comprehensive Loss:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Derivative Instruments (Note 13)				
Natural gas price swaps and options	\$13,593	\$(18,088 )	\$40,857	\$(54,767 )
Tax (expense) benefit	(6,642 )	8,560	(17,593 )	22,526
Net of tax	\$6,951	\$(9,528 )	\$23,264	\$(32,241 )
Actuarially Determined Long-Term Liability Adjustments*(Note 4 and Note 5)				
Amortization of prior service costs	\$(2,542 )	\$(8,211 )	\$(5,084 )	\$(16,423 )
Recognized net actuarial loss	10,861	23,559	21,507	48,747
Settlement loss	20,707	5,087	20,707	32,202
Total	29,026	20,435	37,130	64,526
Tax expense	(10,691 )	(7,800 )	(13,676 )	(24,631 )

Net of tax	\$18,335	\$12,635	\$23,454	\$39,895
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## NOTE 2—ACQUISITIONS AND DISPOSITIONS:

In March 2014, CONSOL Energy completed a sale-leaseback of longwall shields for the Harvey Mine (formerly the BMX Mine). Cash proceeds for the sale offset the basis of \$75,357; therefore, no gain or loss was recognized on the sale. The lease has been accounted for as an operating lease. The lease term is five years.

In December 2013, CONSOL Energy completed the sale of its Consolidation Coal Company (CCC) subsidiary, which includes all five of its longwall coal mines in West Virginia, to a subsidiary of Murray Energy Corporation (Murray Energy). CONSOL Energy retained overriding royalty interests in certain reserves sold in the transaction. Murray Energy also assumed \$2,050,656 of CONSOL Energy's employee benefit obligations valued as of December 5, 2013 and its UMWA 1974 Pension Trust obligations. Murray Energy is primarily liable for all 1993 Coal Act liabilities. Cash proceeds of \$825,285 were received related to this transaction, which were net of \$24,715 in transaction fees. Proceeds are subject to adjustments related to working capital. A pre-tax gain of \$1,035,346 was included in Income from Discontinued Operations on the Consolidated Statement of Income. In the first quarter of 2014, there was a pre-tax reduction in gain on sale of \$7,044 related to the estimated working capital adjustment and various other miscellaneous items. Final settlement of working capital adjustments are currently being evaluated and are not expected to be material. For all periods presented in the accompanying Consolidated Statements of Income, the sale of CCC was classified as discontinued operations. There were no other active businesses classified as discontinued operations in the presented periods.

In December 2013, CONSOL Energy acquired the gas drilling rights to approximately 90,000 contiguous acres from Dominion Transmission, a unit of Dominion Resources. The acreage, which is associated with Dominion's Fink-Kennedy, Lost Creek, and Racket Newberne gas storage fields in West Virginia, lies in the northern portion of Lewis County and the southern portion of Harrison County. CONSOL Energy anticipates that over one-half of the acres will have wet gas. CONSOL Energy has acquired the gas rights to both the Marcellus Shale and the Upper Devonian formations in the storage fields. Consideration of up to \$190,000 will be paid by CONSOL Energy in two installments: 50% was paid at closing and the balance is due over time as the acres are drilled. In addition, CONSOL Energy will pay an overriding royalty to Dominion Resources based on a sliding scale. With respect to production from this area, CONSOL Energy has committed to be an anchor shipper on Dominion's transmission system for 250,000 Dth/d with a primary term of 15 years. CONSOL Energy paid \$91,243 in 2013 related to this transaction. In the six months ended June 30, 2014, CONSOL Energy made an additional bonus payment of \$16,000 to Dominion Transmission. Noble Energy, our joint venture partner, acquired 50% of the acres and reimbursed CONSOL Energy for 50% of the associated costs.

In June 2013, CONSOL Energy completed the sale of Potomac coal reserves in Grant and Tucker Counties in West Virginia. Cash proceeds for the sale were \$25,000. A gain of \$24,663 was included in Other Income in the Consolidated Statement of Income.

In April 2013, the Company and the Commonwealth of Pennsylvania (Commonwealth) entered into a Settlement Agreement and Release Settlement settling all of the Commonwealth's claims regarding the Ryerson Park Dam (Dam) and the Ryerson Park Lake (Lake). The Settlement provides in part for the payment to the Commonwealth of \$36,000 for use to rebuild the Dam and restore the Lake with \$13,728 of the settlement amount credited to lease bonus and royalty payments on the Commonwealth's Marcellus gas interests within the Park, subject to the Company's agreement to extract the gas from surface facilities located outside of the boundaries of the Park. The Settlement also provides in part for the conveyance by the Company to the Commonwealth of eight surface parcels (Parcels)

containing approximately 506 acres of land adjoining the Park after the Parcels are no longer needed for the Company's operations and the conveyance by the Commonwealth to the Company of certain coal and mining rights in an area of the Bailey Mine where a mining permit application is currently pending.

In March 2013, CNX Gas Company LLC (CNX Gas Company), a wholly owned subsidiary of CONSOL Energy, completed negotiations with the Allegheny County Airport Authority, which operates the Pittsburgh International Airport and the Allegheny County Airport, for the lease of the oil and gas rights on approximately 9.3 thousand acres. A majority of these contiguous acres are in the liquids area of the Marcellus Shale play. CNX Gas Company paid \$46,315 as an up-front bonus payment at closing. Approximately 7.6% of the bonus payment was placed into escrow while negotiations continue for a portion of the acres associated with the Allegheny County Airport and other acres that have potentially defective title. CNX Gas Company must spud a well by February 21, 2015 and proceed with due diligence to complete the well or the lease terminates and CNX Gas Company foregoes the bonus. Our joint venture partner, Noble Energy, acquired a 50% undivided interest in the acreage and has reimbursed CNX Gas Company for 50% of the associated acquisition costs during the year ended December 31, 2013.

In January 2013, CONSOL Energy completed a sale-leaseback of longwall shields for the Bailey Mine. Cash proceeds for the sale were \$71,166. A loss of \$358 was recognized due to transaction fees and is included in Other Income in the Consolidated Statement of Income. The lease has been accounted for as an operating lease. The lease term is five years.

NOTE 3—OTHER INCOME:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Coal Contract Settlement	\$30,000	\$—	\$30,000	\$—
Rental Income	10,697	1,111	25,605	1,884
Equity in Earnings of Affiliates	14,062	11,869	21,512	16,666
Gathering Revenue	2,020	733	20,750	5,097
Royalty Income	4,476	4,931	9,755	8,757
Bailey Belt Settlement	4,275	—	4,275	—
Right of Way Issuance	513	25	2,413	1,708
Interest Income	676	4,477	1,300	11,401
Business Interruption Insurance	—	—	—	2,700
Other	3,258	5,374	9,421	8,694
Total Other Income	\$69,977	\$28,520	\$125,031	\$56,907

NOTE 4—COMPONENTS OF PENSION AND OTHER POST-EMPLOYMENT BENEFIT (OPEB) PLANS NET PERIODIC BENEFIT COSTS:

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

	Pension Benefits				Other Post-Employment Benefits			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	June 30,		June 30,		June 30,		June 30,	
	2014	2013	2014	2013	2014	2013	2014	2013
Service cost	\$4,483	\$5,581	\$8,791	\$11,287	\$2,331	\$4,849	\$4,663	\$9,698
Interest cost	8,993	8,909	18,144	17,752	12,097	29,619	24,194	59,237
Expected return on plan assets	(12,765 )	(12,711 )	(25,512 )	(24,855 )	—	—	—	—
Amortization of prior service credits	(346 )	(407 )	(692 )	(815 )	(2,196 )	(7,804 )	(4,392 )	(15,608 )
Recognized net actuarial loss	6,106	10,547	11,997	22,722	6,369	17,595	12,737	35,190
Settlement loss	20,707	5,087	20,707	32,202	—	—	—	—
Net periodic benefit cost	\$27,178	\$17,006	\$33,435	\$58,293	\$18,601	\$44,259	\$37,202	\$88,517

Expenses attributable to discontinued operations included in net periodic cost above were \$2,517 and \$5,380 for the three and six months ended June 30, 2013, respectively, for the Pension Plans; and were \$25,504 and \$50,898 for the three and six months ended June 30, 2013, respectively, for the Other Post-Employment Benefit Plan.

For the six months ended June 30, 2014, \$16,387 was paid to the pension trust from operating cash flows. Currently, depending upon asset values and asset returns held in the trust, we expect to contribute an additional \$9,000 to the pension trust in 2014. Net periodic benefit costs are allocated to Exploration and Production Costs, Direct

Administrative and Selling Expenses and Coal Costs, Operating and Other Costs in the Consolidated Statements of Income.

According to the Defined Benefit Plans Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification, if the lump sum distributions made during a plan year, which for CONSOL Energy is January 1 to December 31, exceed the total of the projected service cost and interest cost for the plan year, settlement accounting is required. Lump sum payments exceeded this threshold during the three and six months ended June 30, 2014. Accordingly, CONSOL Energy recognized settlement expense of \$20,707 for the three and six months ended June 30, 2014 in Other Costs - Miscellaneous Operating Expense in the Consolidated Statements of Income. The settlement charges represented a pro rata



portion of the net unrecognized loss based on the percentage reduction in the projected benefit obligation due to the lump sum payments. The settlement accounting was triggered in May 2014, resulting in a remeasurement at May 31. Additional lump sum distributions during June 2014 resulted in another remeasurement at June 30, 2014. The May 31 and June 30, 2014 remeasurements used a discount rate of 4.26% at May 31 and June 30, 2014, a decrease from 4.87% used at December 31, 2013. The May remeasurement increased the pension liability by \$41,527. The May settlement and corresponding remeasurement of the pension plan resulted in a decrease of \$14,193 in Other Comprehensive Income, net of \$8,276 in deferred taxes. The June remeasurement decreased the pension liability by \$6,490. The June settlement and corresponding remeasurement of the pension plan resulted in an increase of \$5,141 in Other Comprehensive Income, net of \$2,998 in deferred taxes. If CONSOL Energy incurs additional lump sum distributions from the plan in 2014, additional settlement charges will be recorded.

Lump sum payments also exceeded the settlement threshold during the three and six months ended June 30, 2013. Accordingly, CONSOL Energy recognized settlement expense of \$5,087 and \$32,202 for the three and six months ended June 30, 2013, respectively, in Other Costs - Miscellaneous Operating Expense in the Consolidated Statements of Income. The settlement charges represented a pro rata portion of the net unrecognized loss based on the percentage reduction in the projected benefit obligation due to the lump sum payments. The 2013 settlement charges also resulted in a remeasurement of the pension plan at June 30 and March 31, 2013. The June 30, 2013 remeasurement resulted in a change to the discount rate to 4.84% from 4.12% at March 31, 2013. The June remeasurement reduced the pension liability by \$48,957. The June settlement and corresponding remeasurement of the pension plan resulted in an increase of \$33,414 in Other Comprehensive Income, net of \$20,630 in deferred taxes. The March 31, 2013 remeasurement resulted in a change to the discount rate to 4.12% from 4.00% at December 31, 2012. The March remeasurement reduced the pension liability by \$29,916. The March settlement and corresponding remeasurement of the pension plan resulted in an increase of \$35,261 in Other Comprehensive Income, net of \$21,770 in deferred taxes.

CONSOL Energy does not expect to contribute to the other post-employment benefits plan in 2014. We intend to pay benefit claims as they become due. For the six months ended June 30, 2014, \$29,915 of other post-employment benefits have been paid.

#### NOTE 5—COMPONENTS OF COAL WORKERS' PNEUMOCONIOSIS (CWP) AND WORKERS' COMPENSATION NET PERIODIC BENEFIT COSTS:

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

	CWP Three Months Ended June 30,		Six Months Ended June 30,		Workers' Compensation Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013	2014	2013	2014	2013
Service cost	\$1,418	\$2,135	\$2,837	\$4,270	\$2,445	\$3,533	\$4,890	\$7,066
Interest cost	1,385	1,808	2,769	3,616	895	1,655	1,789	3,310
Amortization of actuarial gain	(1,549 )	(4,212 )	(3,098 )	(8,425 )	(96 )	(699 )	(191 )	(1,398 )
State administrative fees and insurance bond premiums	—	—	—	—	929	1,345	2,039	3,004
Legal and administrative costs	—	—	—	—	—	591	—	1,182
Net periodic cost (benefit)	\$1,254	\$(269 )	\$2,508	\$(539 )	\$4,173	\$6,425	\$8,527	\$13,164

Expenses (income) attributable to discontinued operations included in the net periodic cost (benefit) above were (\$165) and (\$330) for the three and six months ended June 30, 2013, respectively, for CWP; and were \$2,318 and

\$4,853 for the three and six months ended June 30, 2013, respectively, for Workers' Compensation.

CONSOL Energy does not expect to contribute to the CWP plan in 2014. We intend to pay benefit claims as they become due. For the six months ended June 30, 2014, \$6,062 of CWP benefit claims have been paid.

CONSOL Energy does not expect to contribute to the workers' compensation plan in 2014. We intend to pay benefit claims as they become due. For the six months ended June 30, 2014, \$6,914 of workers' compensation benefits, state administrative fees and surety bond premiums have been paid.

NOTE 6—INCOME TAXES:

The effective tax rate on continuing operations for the six months ended June 30, 2014 and 2013 was 9.1% and 85.6%, respectively.

The effective rate for the six months ended June 30, 2014 differs from the U.S. federal statutory rate of 35% primarily due to a \$20,480 income tax benefit for excess depletion, \$8,820 discrete income tax benefit related to the completion of the Internal Revenue Service audit of tax years 2008 and 2009, and \$7,395 discrete income tax benefit as a result of changes in estimates of excess percentage depletion and Domestic Production Activities Deduction related to the prior-year tax provision.

For the six months ended June 30, 2014, CONSOL Energy recognized certain tax benefits as a result of changes in estimates related to a prior-year tax provision. The tax benefit of \$8,351 related to increased percentage depletion deductions offset by \$956 of tax expense related to changes in the Domestic Production Activities Deduction and various other estimates.

The rate for the six months ended June 30, 2013 differs from the U.S. federal statutory rate of 35% primarily due to a \$25,471 income tax charge for excess depletion, \$8,269 discrete income tax charge related to the gain on sale of the Potomac coal reserves and a \$1,585 income tax benefit due to a refund claim related to prior year Commonwealth of Pennsylvania taxes.

The total amounts of uncertain tax positions at June 30, 2014 and December 31, 2013 were \$2,540 and \$22,770, respectively. If these uncertain tax positions were recognized, approximately \$1,651 and \$2,071, respectively, would affect CONSOL Energy's effective tax rate. There were no additions to the liability for unrecognized tax benefits during the six months ended June 30, 2014 and 2013. The reduction in uncertain tax positions was due to the completion of the Internal Revenue Service audit of the 2008 and 2009 tax years.

CONSOL Energy recognizes interest accrued related to uncertain tax positions in its interest expense. As of June 30, 2014 and December 31, 2013, the Company reported an accrued interest liability relating to uncertain tax positions of \$1,302 and \$6,200, respectively. The accrued interest liability includes \$4,898 of interest income and \$675 of interest expense that is reflected in the Company's Consolidated Statements of Income for the six months ended June 30, 2014 and 2013, respectively.

CONSOL Energy recognizes penalties accrued related to uncertain tax positions in its income tax expense. As of June 30, 2014 and December 31, 2013, CONSOL Energy had no accrued liability for tax penalties.

CONSOL Energy and its subsidiaries file federal income tax returns with the United States and returns within various states and Canadian jurisdictions. With few exceptions, the Company is no longer subject to United States federal, state, local, or non-U.S. income tax examinations by tax authorities for the years before 2010. The Internal Revenue Service has issued its audit report related to the examination of CONSOL Energy's 2008 and 2009 U.S. income tax returns during the six months ended June 30, 2014. As a result of these findings, CONSOL Energy paid federal income tax deficiencies of \$4,464 and \$1,001, respectively. The deficiencies were the result of changes in the timing of certain tax deductions. The changes in timing of these tax deductions increased the tax benefit of percentage depletion by \$2,925 and \$4,493 in tax years 2008 and 2009, respectively. The Company also recognized additional tax benefits of \$1,402 primarily related to an increase in the Domestic Production Activities Deduction for the audited periods. Also, as a result of closing the IRS audit, CONSOL was required to file amended state income tax returns for the changes. In the quarter ended June 30, 2014, the Company filed the required amended returns and realized a discrete state income tax charge of \$5,144 which was offset by a federal income tax benefit of \$1,800.

NOTE 7—INVENTORIES:

Inventory components consist of the following:

	June 30, 2014	December 31, 2013
Coal	\$23,953	\$31,944
Merchandise for resale	39,251	38,263
Supplies	84,801	87,707
Total Inventories	\$148,005	\$157,914

Inventories are stated at the lower of cost or market. The cost of coal inventories is determined by the first-in, first-out (FIFO) method. Coal inventory costs include labor, supplies, equipment costs, operating overhead, depreciation, depletion and amortization, and other related costs.

Merchandise for resale is valued using the last-in, first-out (LIFO) cost method. The excess of replacement cost of merchandise for resale inventories over carrying LIFO value was \$19,418 and \$18,836 at June 30, 2014 and December 31, 2013, respectively.

**NOTE 8—ACCOUNTS RECEIVABLE SECURITIZATION:**

CONSOL Energy and certain of our U.S. subsidiaries are party to a trade accounts receivable facility with financial institutions for the sale on a continuous basis of eligible trade accounts receivable. The facility allows CONSOL Energy to receive on a revolving basis up to \$125,000. The facility also allows for the issuance of letters of credit against the \$125,000 capacity. At June 30, 2014, there were letters of credit outstanding against the facility of \$61,930. CONSOL Energy management believes that these letters of credit will expire without being funded, and therefore the commitments will not have a material adverse effect on the Company's financial condition. No amounts related to these financial guarantees and letters of credit are recorded as liabilities on the financial statements. CNX Funding Corporation, a wholly owned, special purpose, bankruptcy-remote subsidiary, buys and sells eligible trade receivables generated by certain subsidiaries of CONSOL Energy. Under the receivables facility, CONSOL Energy and certain subsidiaries, irrevocably and without recourse, sell all of their eligible trade accounts receivable to CNX Funding Corporation, which in turn sells these receivables to financial institutions and their affiliates, while maintaining a subordinated interest in a portion of the pool of trade receivables. This retained interest, which is included in Accounts and Notes Receivable Trade in the Consolidated Balance Sheets, is recorded at fair value. Due to a short average collection cycle for such receivables, our collection experience history and the composition of the designated pool of trade accounts receivable that are part of this program, the fair value of our retained interest approximates the total amount of the designated pool of accounts receivable. CONSOL Energy will continue to service the sold trade receivables for the financial institutions for a fee based upon market rates for similar services. In accordance with the Transfers and Servicing Topics of the Financial Accounting Standards Board (FASB) Accounting Standards Codification, CONSOL Energy records transactions under the securitization facility as secured borrowings on the Consolidated Balance Sheets. The pledge of collateral is reported as Accounts Receivable - Securitized and the borrowings are classified as debt in Borrowings under Securitization Facility. The cost of funds under this facility is based upon commercial paper rates or LIBOR, plus a charge for administrative services paid to the financial institutions. Costs associated with the receivables facility totaled \$484 and \$913 for the six months ended June 30, 2014 and 2013, respectively. These costs have been recorded as financing fees which are included in the Other Costs - Miscellaneous Operating Expense in the Consolidated Statements of Income. No servicing asset or liability has been recorded. The receivables facility expires in March 2015. At June 30, 2014 and December 31, 2013, eligible accounts receivable totaled \$85,900 and \$115,000, respectively. There was \$23,970 subordinated retained interest at June 30, 2014 and \$48,945 subordinated retained interest at December 31, 2013. There were no borrowings under the Securitization Facility recorded on the Consolidated Balance Sheet as of June 30, 2014 and no borrowings at December 31, 2013. The accounts receivable securitization program had no change in the six months ended June 30, 2014 and increased by \$2,873 in the six months ended June 30, 2013. The increase is reflected in the Net Cash Used in Financing Activities in the Consolidated Statement of Cash Flows. In accordance with the facility agreement, the Company is able to receive proceeds based upon the eligible accounts receivable at the previous month end.

## NOTE 9—PROPERTY, PLANT AND EQUIPMENT:

	June 30, 2014	December 31, 2013
Coal and other plant and equipment	\$3,711,184	\$3,681,051
Intangible drilling cost	2,228,806	1,937,336
Proven gas properties	1,683,052	1,670,404
Unproven gas properties	1,493,708	1,463,406
Coal properties and surface lands	1,407,518	1,409,408
Gas gathering equipment	1,074,265	1,058,008
Gas wells and related equipment	780,212	688,548
Airshafts	443,657	397,466
Mine development	416,296	354,607
Leased coal lands	388,033	388,020
Coal advance mining royalties	387,199	381,348
Other gas assets	124,903	126,239
Gas advance royalties	22,134	22,668
Total Property Plant and Equipment	14,160,967	13,578,509
Less: Accumulated DD&A	4,384,209	4,136,247
Total Net PP&E	\$9,776,758	\$9,442,262

## Industry Participation Agreements

CONSOL Energy has two significant industry participation agreements (referred to as "joint ventures" or "JVs") that provided drilling and completion carries for our retained interests.

CNX Gas Company LLC (CNX Gas Company), a wholly owned subsidiary of CONSOL Energy, is party to a joint development agreement with Hess Ohio Developments, LLC (Hess) with respect to approximately 144 thousand net Utica Shale acres in Ohio in which each party has a 50% undivided interest. Under the agreement, as amended, Hess is obligated to pay a total of approximately \$335,000 in the form of a 50% drilling carry of certain CONSOL Energy working interest obligations as the acreage is developed. As of June 30, 2014, Hess' remaining carry obligation is \$175,582.

CNX Gas Company is party to a joint development agreement with Noble Energy, Inc. (Noble) with respect to approximately 696 thousand net Marcellus Shale oil and gas acres in West Virginia and Pennsylvania, in which each party owns a 50% undivided interest. Under the agreement, as amended, Noble Energy is obligated to pay a total of approximately \$1,884,000 in the form of a one-third drilling carry of certain of CONSOL Energy's working interest obligations as the property is developed, subject to certain limitations. These limitations include the suspension of the carry if average Henry Hub natural gas prices are below \$4.00 per million British thermal units (MMBtu) for three consecutive months. Due to the increase in average natural gas prices, the carry is in effect beginning March 1, 2014, and will remain effective until average natural gas prices are below \$4.00/MMBtu for three consecutive months. Restrictions also include a \$400,000 annual maximum on Noble Energy's carried cost obligation. As of June 30, 2014, Noble Energy's remaining carry obligation is \$1,816,095.

## NOTE 10—SHORT-TERM NOTES PAYABLE:

CONSOL Energy entered into a new Amended and Restated Credit Agreement dated June 18, 2014 for a \$2,000,000 senior secured revolving credit facility which expires on June 18, 2019. The new senior revolving credit facility replaced CONSOL Energy's existing \$1,000,000 senior secured revolving credit facility which had been entered into

as of April 12, 2011 and amended and restated on December 5, 2013 and the existing \$1,000,000 senior secured revolving credit facility of CNX Gas Corporation and its subsidiaries that had been entered into as of April 12, 2011. The new senior secured revolving credit facility resulted in the acceleration of previously deferred financing charges of \$2,989 during the quarter ended June 30, 2014. The facility is secured by substantially all of the assets of CONSOL Energy and certain of its subsidiaries. CONSOL Energy's credit facility allows for up to \$2,000,000 of borrowings, which includes \$750,000 in letters of credit aggregate sub-limit. CONSOL Energy can request an additional \$500,000 increase in the aggregate borrowing limit amount. Fees and interest rate spreads are based on the percentage of facility utilization, measured quarterly. Availability under the facility is generally limited to a borrowing base, which is determined by the required number of lenders in good faith by calculating a loan value of CONSOL Energy's proved gas reserves. The facility includes a minimum interest coverage ratio covenant of no less than 2.50 to 1.00, measured quarterly. The interest coverage ratio was 4.15 to 1.00 at June 30, 2014. The facility includes a minimum

current ratio covenant of no less than 1.00 to 1.00, measured quarterly. The minimum current ratio was 2.59 to 1.00 at June 30, 2014. Affirmative and negative covenants in the facility limit our ability to dispose of assets, make investments, purchase or redeem CONSOL Energy common stock, pay dividends, merge with another corporation and amend, modify or restate the senior unsecured notes. The credit facility allows unlimited investments in joint ventures for the development and operation of gas gathering systems. The facility permits CONSOL Energy to separate its gas and coal businesses if the leverage ratio (which, is essentially, the ratio of debt to EBITDA) of the gas business immediately after the separation would not be greater than 2.75 to 1.00. At June 30, 2014, the \$2,000,000 facility had no borrowings outstanding and \$260,473 of letters of credit outstanding, leaving \$1,739,527 of unused capacity. At December 31, 2013, the prior CONSOL Energy \$1,000,000 facility had no borrowings outstanding and \$206,988 of letters of credit outstanding, leaving \$793,012 of unused capacity. At December 31, 2013, the prior CNX Gas Corporation \$1,000,000 facility had no borrowings outstanding and \$87,643 of letters of credit outstanding, leaving \$912,357 of unused capacity.

#### NOTE 11—LONG-TERM DEBT:

	June 30, 2014	December 31, 2013
Debt:		
Senior notes due April 2017 at 8.00%, issued at par value	\$—	\$1,500,000
Senior notes due April 2020 at 8.25%, issued at par value	1,250,000	1,250,000
Senior notes due March 2021 at 6.375%, issued at par value	250,000	250,000
Senior notes due April 2022 at 5.875%, issued at par value	1,600,000	—
MEDCO revenue bonds in series due September 2025 at 5.75%	102,865	102,865
Advance royalty commitments (7.93% weighted average interest rate for June 30, 2014 and December 31, 2013)	11,182	11,182
Other long-term notes maturing at various dates through 2031 (total value of \$5,236 and \$5,923 less unamortized discount of \$835 and \$1,050 at June 30, 2014 and December 31, 2013, respectively).	4,401	4,873
	3,218,448	3,118,920
Less amounts due in one year *	3,535	2,957
Long-Term Debt	\$3,214,913	\$3,115,963
* Excludes current portion of Capital Lease Obligations of \$8,592 and \$8,498 at June 30, 2014 and December 31, 2013, respectively.		

Accrued interest related to Long-Term Debt of \$52,859 and \$63,272 was included in Other Accrued Liabilities in the Consolidated Balance Sheets at June 30, 2014 and December 31, 2013, respectively.

On April 16, 2014, CONSOL Energy closed on the private placement of \$1,600,000 of 5.875% senior notes due 2022 (the "Notes"). The Notes are guaranteed by substantially all of CONSOL Energy's wholly-owned domestic restricted subsidiaries. CONSOL Energy used substantially all of the net proceeds of the sale of the Notes to purchase the 8.00% senior notes due in 2017.

#### NOTE 12—COMMITMENTS AND CONTINGENT LIABILITIES:

CONSOL Energy and its subsidiaries are subject to various lawsuits and claims with respect to such matters as personal injury, wrongful death, damage to property, exposure to hazardous substances, governmental regulations including environmental remediation, employment and contract disputes and other claims and actions arising out of the normal course of business. We accrue the estimated loss for these lawsuits and claims when the loss is probable and can be estimated. Our current estimated accruals related to these pending claims, individually and in the



aggregate, are immaterial to the financial position, results of operations or cash flows of CONSOL Energy. It is possible that the aggregate loss in the future with respect to these lawsuits and claims could ultimately be material to the financial position, results of operations or cash flows of CONSOL Energy; however, such amounts cannot be reasonably estimated. The amount claimed against CONSOL Energy is disclosed below when an amount is expressly stated in the lawsuit or claim, which is not often the case. The maximum aggregate amount claimed in those lawsuits and claims, regardless of probability, where a claim is expressly stated or can be estimated, exceeds the aggregate amounts accrued for all lawsuits and claims by approximately \$390,096.

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

**Asbestos-Related Litigation:** One of our subsidiaries, Fairmont Supply Company (Fairmont), which distributes industrial supplies, currently is named as a defendant in approximately 6,900 asbestos-related claims in state courts in Pennsylvania, Ohio, West Virginia, Maryland, Texas and Illinois. Because a very small percentage of products manufactured by third parties and supplied by Fairmont in the past may have contained asbestos, and since many of the pending claims are asserted against dozens of defendants in any given action, it has been difficult for Fairmont to determine how many of the pending cases actually involve valid claims or plaintiffs who were actually exposed to asbestos-containing products supplied by Fairmont. In addition, while Fairmont may be entitled to indemnity or contribution in certain jurisdictions from manufacturers of identified products, the availability of such indemnity or contribution is unclear at this time, and in recent years, some of the manufacturers named as defendants in these actions have sought protection from these claims under bankruptcy laws. Fairmont has no insurance coverage with respect to these asbestos cases. Based on nearly 20 years of experience with this litigation, we have established an accrual to cover our estimated liability for these cases. This accrual is immaterial to the overall financial position of CONSOL Energy and was included in Other Accrued Liabilities on the Consolidated Balance Sheets. Past payments by Fairmont with respect to asbestos cases have not been material.

**Hale Litigation:** A purported class action lawsuit was filed on September 23, 2010 in the U.S. District Court in Abingdon, Virginia styled *Hale v. CNX Gas Company, et. al.* The lawsuit alleges that the putative class consists of forced-pooled unleased gas owners whose gas ownership was declared to be in conflict with rights of others even where the Virginia Supreme Court and General Assembly have purportedly decided that coalbed methane (CBM) belongs to the owner of the gas estate; that the Virginia Gas and Oil Act of 1990 unconstitutionally provides only a 1/8 net proceeds royalty to CBM owners for gas produced under the forced-pooled orders; and, that CNX Gas Company relied upon control of only the coal estate in force pooling the CBM notwithstanding decisions by the Virginia Supreme Court. The lawsuit seeks a judicial declaration of ownership of the CBM and that the entire net proceeds of CBM production (that is, the 1/8 royalty and the 7/8 of net revenues since production began) be distributed to the class members. The lawsuit also alleges CNX Gas Company failed to either pay royalties due to conflicting claimants, or deemed lessors or paid them less than required because of the alleged practice of improper below market sales and/or taking alleged improper post-production deductions. In ruling on our Motion to Dismiss, the District Judge decided that the deemed lease provision of the Gas and Oil Act is constitutional, as is the 1/8 royalty. An amended complaint was filed, which added additional allegations that include gas hedging receipts should have been used as the basis for royalty payments, severance tax should not be allowed as a post-production deduction from royalties, and damages incurred because gas was produced prior to the entry of pooling orders. A motion to dismiss the Amended Complaint was filed and denied. The Magistrate Judge issued a Report & Recommendation on June 5, 2013, recommending that the District Judge grant plaintiffs' Motion for Class Certification. On September 30, 2013, the District Judge entered an Order overruling CNX Gas Company's Objections, adopting the Report & Recommendation and certifying the class with a modified class definition. CONSOL Energy believes this case cannot properly proceed as a class action and filed a Petition asking the U.S. Court of Appeals for the Fourth Circuit to review the class certification Order. On November 13, 2013, the Fourth Circuit entered an Order deferring a ruling on the Petition but assigning the case to a merits panel. The appeal was fully briefed, and oral argument was held before a three-judge panel of the Fourth Circuit on May 13, 2014. Plaintiffs filed Motions for Summary Judgment on the issue of ownership of the gas royalty escrow accounts and seeking an accounting. The Fourth Circuit denied a Motion to Stay the trial court proceedings while it considers the class certification issues, and the District Judge heard argument on the summary judgment motions on January 6, 2014, but has not ruled on the Motions. CONSOL Energy believes that the case has meritorious defenses and intends to defend it vigorously. We have established an accrual to cover our estimated liability for this case. This accrual is immaterial to the overall financial position of CONSOL Energy and is included in Other Accrued Liabilities on the Consolidated Balance Sheets.

Addison Litigation: A putative class action lawsuit was filed on April 28, 2010 in the United States District Court in Abingdon, Virginia styled Addison v. CNX Gas Company, et al. The lawsuit alleges that the plaintiff class consists of gas lessors whose gas ownership is in conflict. The lawsuit alleges that the Virginia Supreme Court and General Assembly have decided that the plaintiffs own the gas and are entitled to royalties held in escrow by the Commonwealth of Virginia or CNX Gas Company. The lawsuit also alleges CNX Gas Company failed to either pay royalties due these conflicting claimant lessors or paid them less than required because of the alleged practice of improper below market sales and/or taking alleged improper post-production deductions. Plaintiff seeks a declaratory judgment regarding ownership, an accounting and compensatory and punitive damages for breach of contract; conversion; negligence (voluntary undertaking) for improperly asserting that conflicting ownership exists, negligence (breach of duties as an operator); breach of fiduciary duties; and unjust enrichment. The District Judge granted, in part, CNX Gas Company's Motion to Dismiss. An Amended Complaint was filed which added an additional allegation that gas hedging receipts should have been used as the basis for royalty payments. A motion to dismiss those claims was filed and was denied. The Magistrate Judge issued a Report & Recommendation on June 5, 2013, recommending that the District Judge grant plaintiffs' Motion for Class Certification. On September 30, 2013, the District Judge entered an Order overruling CNX Gas Company's Objections, adopting the Report & Recommendation and certifying the class with a modified class definition. CNX Gas believes this case cannot properly proceed as a class action and filed a Petition asking the U.S. Court of Appeals for the Fourth Circuit to review the class certification Order. On November 13, 2013, the Fourth Circuit entered an Order deferring a ruling on the Petition but assigning the case to a merits panel. The appeal was fully briefed, and a three-judge panel of the Fourth

Circuit heard oral argument on May 13, 2014. Plaintiffs have filed Motions for Summary Judgment on the issue of ownership of the gas royalty escrow accounts and seeking an accounting. The Fourth Circuit denied a Motion to Stay the trial court proceedings while it considers the class certification issues, and the District Judge heard argument on the summary judgment motions on January 6, 2014, but has not ruled on the Motions. CONSOL Energy believes that the case has meritorious defenses and intends to defend it vigorously. We have established an accrual to cover our estimated liability for this case. This accrual is immaterial to the overall financial position of CONSOL Energy and was included in Other Accrued Liabilities on the Consolidated Balance Sheets.

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

**Ratliff Litigation:** On January 30, 2013, the Company was served with a complaint filed on behalf of four individuals against Consolidation Coal Company (CCC), Island Creek Coal Company (ICCC), CNX Gas Company, as well as CONSOL Energy itself in the United States District Court for the Western District of Virginia. The complaint seeks damages and injunctive relief in connection with the deposit of water from mining activities at the Buchanan Mine into nearby void spaces at some of the mines of ICCC, voids ostensibly underlying their property. The suit alleges damage to coal and coalbed methane and seeks recovery in tort, contract and assumpsit (quasi-contract). The suit seeks damages of approximately \$50,000 plus punitive damages. The defendants have asserted Virginia's Mine Void Statute as a defense to plaintiffs' claims and the plaintiffs have challenged the constitutionality of that statute. On March 18, 2014, the District Court concluded, in ruling on Defendants' Motion to Dismiss, it could not resolve either the constitutionality or the applicability of the Mine Void Statute on the current record. Discovery is ongoing. CONSOL Energy intends to vigorously defend the suit.

**Kennedy Litigation:** The Company is a party to a case filed on March 26, 2008 captioned Earl Kennedy (and others) v. CNX Gas Company and CONSOL Energy in the Court of Common Pleas of Greene County, Pennsylvania. The lawsuit alleges that CNX Gas Company and CONSOL Energy trespassed and converted gas and other minerals allegedly belonging to the plaintiffs in connection with wells drilled by CNX Gas Company. The complaint, as amended, seeks injunctive relief, including removing CNX Gas Company from the property, and compensatory damages of \$20,000. The suit also sought to overturn existing law as to the ownership of coalbed methane in Pennsylvania, but that claim was dismissed by the court. The suit further sought a determination that the Pittsburgh 8 coal seam does not include the "roof/rider" coal. The court held a bench trial on the "roof/rider" coal issue in November 2011 and ruled in favor of CNX Gas Company and CONSOL Energy. On March 3, 2014, the Company won summary judgment on Counts 1 through 10 of the Amended Complaint, each relating to the alleged trespass of horizontal CBM wells into strata other than the Pittsburgh 8 Seam. The Court rejected each of those claims, essentially holding that if CNX Gas Company went out of the coal seam, it had no intention to do so and, in any event, the plaintiff could not prove any damages as a result. The last remaining Count, seeking to quiet title to approximately 40 acres of Pittsburgh Seam coal, was nonsuited by Plaintiffs, without prejudice, on March 26, 2014. On March 28, 2014, Plaintiffs filed Notices of Appeal with the Pennsylvania Superior Court on all issues decided in CONSOL Energy's favor.

**Rowland Litigation:** Rowland Land Company filed a complaint in May 2011 against CONSOL Energy, CNX Gas Company, Dominion Resources Inc., and EQT Production Company (EQT) in Raleigh County Circuit Court, West

Virginia. Rowland is the lessor on a 33,000 acre oil and gas lease in southern West Virginia. EQT was the original lessee, but farmed out the development of the lease to Dominion Resources in exchange for an overriding royalty. Dominion Resources sold the indirect subsidiary that held the lease to a subsidiary of CONSOL Energy on April 30, 2010. Subsequent to that acquisition, the subsidiary that held the lease was merged into CNX Gas Company as part of an internal reorganization. Rowland alleges that (i) Dominion Resources' sale of the subsidiary to CONSOL Energy was a change in control that required its consent under the terms of the farmout agreement and lease, and/or (ii) the subsequent merger of the subsidiary into CNX Gas Company was an assignment that required its consent under the lease. Rowland has recently been permitted to file its Third Amended Complaint to include additional allegations that CONSOL Energy has slandered Rowland's title. A motion to dismiss will be filed. Although initial mediation efforts were unsuccessful, another mediation session was held on May 27, 2014, and the parties continue to discuss settlement. CONSOL Energy believes that the case is without merit and intends to defend it vigorously. Consequently, we have not recognized any liability related to these actions.

At June 30, 2014, CONSOL Energy has provided the following financial guarantees, unconditional purchase obligations and letters of credit to certain third parties, as described by major category in the following table. These amounts represent the maximum potential total of future payments that we could be required to make under these instruments. These amounts have not been reduced for potential recoveries under recourse or collateralization provisions. Generally, recoveries under reclamation bonds would be limited to the extent of the work performed at the time of the default. No amounts related to these financial guarantees and letters of credit are recorded as liabilities on the financial statements. CONSOL Energy management believes that these guarantees will expire without being funded, and therefore the commitments will not have a material adverse effect on financial condition.

	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less Than 1 Year	1-3 Years	3-5 Years	Beyond 5 Years
Letters of Credit:					
Employee-Related	\$151,311	\$117,542	\$33,769	\$—	\$—
Environmental	39,363	39,363	—	—	—
Other	131,802	58,979	72,823	—	—
Total Letters of Credit	322,476	215,884	106,592	—	—
Surety Bonds:					
Employee-Related	204,893	194,893	10,000	—	—
Environmental	678,943	673,076	5,867	—	—
Other	26,887	26,840	46	—	1
Total Surety Bonds	910,723	894,809	15,913	—	1
Guarantees:					
Coal	233,260	150,300	82,960	—	—
Other	67,717	35,611	10,470	14,462	7,174
Total Guarantees	300,977	185,911	93,430	14,462	7,174
Total Commitments	\$1,534,176	\$1,296,604			