

CONSOL Energy Inc
Form 10-Q
August 03, 2009
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(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, 2009 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)

1000 CONSOL Drive

Canonsburg, Pennsylvania
(Address of Principal Executive Offices)

51-0337383
(IRS Employer

Identification No.)

15317-6506
(Zip Code)

(724) 485-4000

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(Registrant's Telephone Number, Including Area Code)

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

Yes No

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

Yes No

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

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

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

Yes No

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

Class	Shares outstanding as of July 24, 2009
Common stock, \$0.01 par value	180,700,590

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Table of Contents**PART I****FINANCIAL INFORMATION****ITEM 1. CONDENSED FINANCIAL STATEMENTS****CONSOL ENERGY INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****(Unaudited)****(Dollars in thousands, except per share data)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Sales Outside	\$ 994,141	\$ 1,111,410	\$ 2,144,385	\$ 1,997,735
Sales Gas Royalty Interests	8,666	22,515	21,298	39,019
Sales Purchased Gas	1,166	1,647	2,631	5,186
Freight Outside	27,087	63,927	58,003	108,671
Other Income	39,505	11,397	62,999	86,016
Total Revenue and Other Income	1,070,565	1,210,896	2,289,316	2,236,627
Cost of Goods Sold and Other Operating Charges (exclusive of depreciation, depletion and amortization shown below)	642,856	740,735	1,310,478	1,377,461
Gas Royalty Interests Costs	6,458	21,880	17,049	37,954
Purchased Gas Costs	390	1,522	1,920	4,943
Freight Expense	27,087	63,927	58,003	108,671
Selling, General and Administrative Expense	35,627	30,644	66,443	61,114
Depreciation, Depletion and Amortization	107,475	95,775	213,694	188,503
Interest Expense	6,945	8,526	15,457	18,704
Taxes Other Than Income	70,472	73,299	148,311	144,905
Total Costs	897,310	1,036,308	1,831,355	1,942,255
Earnings Before Income Taxes	173,255	174,588	457,961	294,372
Income Taxes	54,416	61,798	134,151	97,351
Net Income	118,839	112,790	323,810	197,021
Less: Net Income Attributable to Noncontrolling Interest	(5,500)	(11,778)	(14,652)	(20,927)
Net Income Attributable to CONSOL Energy Inc. Shareholders	\$ 113,339	\$ 101,012	\$ 309,158	\$ 176,094
Basic Earnings Per Share	\$ 0.63	\$ 0.55	\$ 1.71	\$ 0.96
Dilutive Earnings Per Share	\$ 0.62	\$ 0.54	\$ 1.69	\$ 0.95

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Weighted Average Number of Common Shares Outstanding:				
Basic	180,644,498	182,977,726	180,610,676	182,775,355
Dilutive	183,073,413	185,637,248	182,833,111	185,330,300
Dividends Paid Per Share	\$ 0.10	\$ 0.10	\$ 0.20	\$ 0.20

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

Table of Contents**CONSOL ENERGY INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except per share data)

	(Unaudited)	
	June 30, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 108,311	\$ 138,512
Accounts and Notes Receivable:		
Trade	180,752	221,729
Other Receivables	20,921	79,552
Inventories	324,655	227,810
Deferred Income Taxes	63,103	60,599
Recoverable Income Taxes		33,862
Prepaid Expenses	228,462	221,750
Total Current Assets	926,204	983,814
Property, Plant and Equipment:		
Property, Plant and Equipment	10,265,654	9,980,288
Less Accumulated Depreciation, Depletion and Amortization	4,362,575	4,214,316
Total Property, Plant and Equipment Net	5,903,079	5,765,972
Other Assets:		
Deferred Income Taxes	301,511	333,543
Investment in Affiliates	77,706	72,996
Other	148,800	214,133
Total Other Assets	528,017	620,672
TOTAL ASSETS	\$ 7,357,300	\$ 7,370,458

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

Table of Contents**CONSOL ENERGY INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

(Dollars in thousands, except per share data)

	(Unaudited) June 30, 2009	December 31, 2008
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts Payable	\$ 232,136	\$ 385,197
Short-Term Notes Payable	452,000	557,700
Current Portion of Long-Term Debt	22,231	22,401
Accrued Income Taxes	4,891	
Other Accrued Liabilities	554,190	546,442
Total Current Liabilities	1,265,448	1,511,740
Long-Term Debt:		
Long-Term Debt	391,856	393,312
Capital Lease Obligations	69,736	75,039
Total Long-Term Debt	461,592	468,351
Deferred Credits and Other Liabilities:		
Postretirement Benefits Other Than Pensions	2,494,054	2,493,344
Pneumoconiosis Benefits	194,984	190,261
Mine Closing	393,653	404,629
Gas Well Plugging	84,114	80,554
Workers Compensation	131,959	128,477
Salary Retirement	167,587	194,567
Reclamation	21,818	38,193
Other	155,300	185,996
Total Deferred Credits and Other Liabilities	3,643,469	3,716,021
Total Liabilities	5,370,509	5,696,112
Stockholders Equity:		
Common Stock, \$.01 par value; 500,000,000 Shares Authorized, 183,014,426 Issued and 180,665,103 Outstanding at June 30, 2009; 183,014,426 Issued and 180,549,851 Outstanding at December 31, 2008	1,830	1,830
Preferred Stock, 15,000,000 Shares Authorized; None Issued and Outstanding		
Capital in Excess of Par Value	1,013,810	993,478
Retained Earnings	1,279,979	1,010,902
Other Comprehensive Loss	(467,193)	(461,900)
Common Stock in Treasury, at Cost 2,349,323 Shares at June 30, 2009 and 2,464,575 Shares at December 31, 2008	(78,150)	(82,123)
Total Consol Energy Inc. Stockholders Equity	1,750,276	1,462,187
Noncontrolling Interest	236,515	212,159
Total Equity	1,986,791	1,674,346
TOTAL LIABILITIES AND EQUITY	\$ 7,357,300	\$ 7,370,458

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

Table of Contents**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)	Other Compre- hensive Income (Loss)	Treasury Stock	Total Consol Energy, Inc. Stockholders Equity	Noncont- rolling Interest	Total Equity
Balance December 31, 2008	\$ 1,830	\$ 993,478	\$ 1,010,902	\$ (461,900)	\$ (82,123)	\$ 1,462,187	\$ 212,159	\$ 1,674,346
(Unaudited)								
Net Income			309,158			309,158	14,652	323,810
Treasury Rate Lock (Net of (\$24) tax)				(41)		(41)		(41)
FASB 158 Long-Term Liability Adjustment (Net of \$116 tax)				190		190	11	201
Gas Cash Flow Hedge (Net of \$4,775 tax)				(5,442)		(5,442)	(1,085)	(6,527)
Comprehensive Income			309,158	(5,293)		303,865	13,578	317,443
Issuance of Treasury Stock			(3,953)		3,973	20		20
Issuance of CNX Gas Stock							121	121
Tax Benefit from Stock-Based Compensation		(110)				(110)	(1)	(111)
Amortization of Stock-Based Compensation Awards		16,942				16,942	15,190	32,132
Stock-Based Compensation Awards to CNX Gas		3,500				3,500	(2,916)	584
Net Change in Crown Drilling Noncontrolling Interest							(1,616)	(1,616)
Dividends (\$0.20 per share)			(36,128)			(36,128)		(36,128)
Balance June 30, 2009	\$ 1,830	\$ 1,013,810	\$ 1,279,979	\$ (467,193)	\$ (78,150)	\$ 1,750,276	\$ 236,515	\$ 1,986,791

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

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CONSOL ENERGY INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Six Months Ended June 30,	
	2009	2008
<i>Operating Activities:</i>		
Net Income	\$ 323,810	\$ 197,021
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation, Depletion and Amortization	213,694	188,503
Stock-based Compensation	21,783	12,425
Gain on the Sale of Assets	(9,788)	(8,050)
Amortization of Mineral Leases	2,398	3,240
Deferred Income Taxes	34,488	68,996
Equity in Earnings of Affiliates	(6,800)	(3,645)
Changes in Operating Assets:		
Accounts Receivable Securitization		29,900
Accounts and Notes Receivable	100,554	(110,856)
Inventories	(96,845)	(11,467)
Prepaid Expenses	18,505	19,289
Changes in Other Assets	5,347	13,822
Changes in Operating Liabilities:		
Accounts Payable	(64,959)	21,058
Other Operating Liabilities	45,117	11,276
Changes in Other Liabilities	(30,977)	37,739
Other	9,919	726
Net Cash Provided by Operating Activities	566,246	469,977
<i>Investing Activities:</i>		
Capital Expenditures	(496,419)	(436,277)
Net Investment in Equity Affiliates	2,090	(819)
Proceeds from Sales of Assets	48,184	17,280
Net Cash Used in Investing Activities	(446,145)	(419,816)
<i>Financing Activities:</i>		
Proceeds from (Payments on) Miscellaneous Borrowings	(9,282)	6,307
Payments on Short-Term Borrowings	(105,700)	(40,500)
Tax Benefit from Stock-Based Compensation	397	19,994
Dividends Paid	(36,128)	(36,549)
Issuance of Treasury Stock	611	14,156
Purchases of Treasury Stock		(31)
Noncontrolling Interest Member Distribution	(200)	
Net Cash Used in Financing Activities	(150,302)	(36,623)
Net Increase(Decrease) in Cash and Cash Equivalents	(30,201)	13,538
Cash and Cash Equivalents at Beginning of Period	138,512	41,651

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Cash and Cash Equivalents at End of Period	\$ 108,311	\$ 55,189
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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

June 30, 2009

(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, 2009 are not necessarily indicative of the results that may be expected for future periods.

The balance sheet at December 31, 2008 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, 2008 included in CONSOL Energy's Form 10-K.

Effective January 1, 2009, CONSOL Energy adopted the provisions of Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements - an Amendment of ARB No. 51 (SFAS 160). This adoption resulted in modifications to the reporting of noncontrolling interests in the Consolidated Financial Statements. Additionally, certain reclassifications of prior period data have been made to conform to the three and six months ended June 30, 2009 classifications required by SFAS 160.

During the three months ended June 30, 2009, CONSOL Energy recognized the effect of an exchange offer that allows participants in the CNX Gas Long-Term Incentive Program to exchange their unvested performance share units for CONSOL Energy restricted stock units. The excess fair value of the replacement restricted stock units over the original performance stock units resulted in \$2,738 of incremental expense being immediately recognized. Additionally, a liability of \$10,347 for the cash settlement of CNX Gas performance share units was removed from the balance sheet.

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 Standard 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 1,659,105 and 1,659,695 shares of common stock were outstanding for the three and six months ended June 30, 2009, respectively, but were not included in the computation of dilutive earnings per share because the effect would be antidilutive. Options to purchase 383,161 shares of common stock were outstanding for both the three and six-months ended June 30, 2008, respectively, but were not included in the computation of dilutive earnings per share because the effect would be antidilutive. Unvested restricted stock units of 4,716 and 5,096, respectively, were outstanding for the three and six months ended June 30, 2009, but were not included in the computation of dilutive earnings per share because the effect would be antidilutive. No unvested restricted stock units were outstanding for the three and six months ended June 30, 2008 that were not included in the computation of dilutive earnings per share. Unvested performance share units of 33,364 and 120,645, respectively, were outstanding for the three and six months ended June 30,

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2009, but were not included in the computation of dilutive earnings per share because the effect would be antidilutive. There were no unvested performance share units outstanding for the three and six months ended June 30, 2008 that were not included in the computation of dilutive earnings per share.

Options exercised during the three months ended June 30, 2009 and 2008 were 38,413 shares and 423,977 shares, respectively. The weighted average exercise price per share of the options exercised during the three months ended June 30, 2009 and 2008 was \$13.42 and \$20.98, respectively. There were 57,087 and 816,614 options exercised during the six months ended June 30, 2009 and 2008, respectively. The weighted average exercise price per share of the options exercised during the six months ended June 30, 2009 and 2008 was \$11.69 and \$17.90, respectively. There were 25,668 and 81,672 fully vested restricted stock awards released during the three and six months ended June 30, 2009. Additionally, during the three and six months ended June 30, 2008, there were 391 and 48,929 fully vested restricted stock awards released, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net Income Attributable to CONSOL Energy Shareholders	\$ 113,339	\$ 101,012	\$ 309,158	\$ 176,094
Average shares of common stock outstanding:				
Basic	180,644,498	182,977,726	180,610,676	182,775,355
Effect of share based payments	2,428,915	2,659,522	2,222,435	2,554,945
Dilutive	183,073,413	185,637,248	182,833,111	185,330,300
Earnings per share:				
Basic	\$ 0.63	\$ 0.55	\$ 1.71	\$ 0.96
Dilutive	\$ 0.62	\$ 0.54	\$ 1.69	\$ 0.95

We have evaluated all subsequent events through August 3, 2009, the date the financial statements were issued. No material recognized or non-recognizable subsequent events were identified.

NOTE 2 ACQUISITIONS AND DISPOSITIONS:

In June 2009, CONSOL Energy recognized the fair value of the remaining lease payments in the amount of \$11,848 in accordance with Statement of Financial Accounting Standards No. 146 (SFAS 146), Accounting for Costs Associated with Exit or Disposal Activities, related to the Company's previous headquarters. This liability has been recorded in Other Liabilities on the consolidated balance sheet at June 30, 2009. Total expense related to this transaction was \$13,374 which was recognized in Cost of Goods Sold and Other Operating Charges. This amount includes the fair value of the remaining lease payments of \$11,848 as well as the removal of a related asset of \$1,526. Additionally, \$5,832 was recognized in Other Income for the acceleration of a deferred gain associated with the initial sale-leaseback of the premises that occurred in 2005.

In June 2009, CONSOL Energy recognized the fair value of the remaining lease payments partially offset by projected sublease income in the amount of \$831 in accordance with SFAS 146 related to a subsidiary's previous headquarters. This liability has been recorded in Other Liabilities on the consolidated balance sheet at June 30, 2009. Total expense related to this transaction was \$824 which was recognized in Cost of Goods Sold and Other Operating Charges. This amount includes the fair value of the remaining lease payments offset by projected sublease income of \$831 and the removal of the tenant improvement asset and related liability of \$7.

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In February 2009, CONSOL Energy completed a sale/lease-back of longwall shields for Bailey Mine. Cash proceeds from the sale were \$42,282, which was the same as our basis in the equipment. Accordingly, no gain or loss was recognized on the transaction. The lease has been accounted for as an operating lease. The lease term is five years.

In December 2008, CONSOL Energy, through a subsidiary, completed the acquisition of the outstanding 51% interest in Southern West Virginia Energy, LLC (SWVE) for a cash payment of \$11,521. This amount is included in capital expenditures in cash used in investing activities on the Consolidated Statement of Cash Flows. The purchase price was principally allocated to property, plant and equipment. SWVE wholly-owns Southern West Virginia Resources, LLC and Minway Contracting, LLC, and had previously been a 49% subsidiary of CONSOL Energy. Prior to the acquisition of the outstanding interest, SWVE had been fully consolidated in accordance with Financial Accounting Standards Board Interpretation No. 46, Consolidation of Variable Interest Entities by CONSOL Energy. The proforma results for this acquisition are not material to CONSOL Energy's financial results.

In November 2008, CONSOL Energy, through a subsidiary, completed the acquisition of the assets of North Penn Pipe & Supply, Inc. for a cash payment, net of cash acquired, of \$22,550. This amount is included in capital expenditures in cash used in investing activities on the Consolidated Statements of Cash Flows. North Penn Pipe & Supply, Inc. is a distributor of oil and gas field equipment, primarily tubular goods, to the northern Appalachian Basin, a region stretching from the state of New York to southwestern Pennsylvania and northern West Virginia. The fair value of merchandise for resale acquired in this acquisition is \$10,623 and is included in inventory on the Consolidated Balance Sheets as of the acquisition date. The proforma results for this acquisition are not significant to CONSOL Energy's financial results.

In October 2008, CONSOL Energy's Board of Directors authorized a purchase program for shares of CNX Gas Corporation common stock for an aggregate purchase price of up to \$150 million. The authorization, which is not intended to take CNX Gas private, was effective as of October 21, 2008 for a twenty-four month period. During the year ended December 31, 2008, CONSOL Energy completed the purchase of \$67,259 of CNX Gas stock on the open market at an average price of \$26.53 per share. The purchase price was allocated to property, plant and equipment. The purchase of these 2,531,400 shares changed CONSOL Energy's ownership percentage in CNX Gas from 81.7% to 83.3% at December 31, 2008. CONSOL Energy did not purchase any additional shares of CNX Gas stock during the six months ended June 30, 2009.

In July 2008, our 83.3% 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 approximately 5,600 leased acres and 30 oil and gas wells. 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 remaining 50% interest in Knox Energy, LLC and Coalfield Pipeline Company 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 remaining interest, Knox Energy, LLC had been proportionately consolidated into CONSOL Energy's financial statements during 2008. During 2006 and 2007, the equity method was used to account for these entities. Knox Energy, LLC is a natural gas production company and Coalfield Pipeline Company is a natural gas transportation company with operations in Tennessee. The pro forma results for this acquisition were not significant to CONSOL Energy's financial results.

In February 2008, CONSOL Energy, through a subsidiary, completed a sale of the Mill Creek Mining Complex located in Kentucky. The sales agreement called for the transfer of all of the assets comprising the complex. 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.

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

	Pension Benefits				Other Benefits			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	June 30,		June 30,		June 30,		June 30,	
	2009	2008	2009	2008	2009	2008	2009	2008
Service cost	\$ 3,302	\$ 2,438	\$ 6,169	\$ 4,876	\$ 2,949	\$ 2,639	\$ 6,327	\$ 5,277
Interest cost	9,082	8,257	17,741	16,515	35,991	39,959	75,726	79,919
Expected return on plan assets	(9,245)	(8,418)	(18,315)	(16,835)				
Amortization of prior service costs (credit)	(277)	(279)	(554)	(557)	(11,604)	(12,157)	(23,207)	(24,313)
Recognized net actuarial loss	5,692	4,182	11,131	8,363	10,209	15,376	25,178	30,752
Net periodic benefit cost	\$ 8,554	\$ 6,180	\$ 16,172	\$ 12,362	\$ 37,545	\$ 45,817	\$ 84,024	\$ 91,635

For the six months ended June 30, 2009, \$33,208 of contributions to pension trusts and pension benefits have been paid from operating cash flows. CONSOL Energy presently anticipates contributing a total of \$65,600 to the pension trust in 2009.

We do not expect to contribute to the other post employment benefit plan in 2009. We intend to pay benefit claims as they become due. For the six months ended June 30, 2009, \$77,611 of other post employment benefits have been paid.

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

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

	CWP				Workers' Compensation			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	June 30,		June 30,		June 30,		June 30,	
	2009	2008	2009	2008	2009	2008	2009	2008
Service cost	\$ 1,769	\$ 1,259	\$ 3,537	\$ 2,518	\$ 7,099	\$ 7,258	\$ 14,197	\$ 14,515
Interest cost	3,013	2,937	6,027	5,874				