CONSOL ENERGY INC
Form 10-Q/A
February 05, 2004
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 2)

(Mark One)

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

For the quarterly period ended March 31, 2003 or

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

For the transition period from ______________ to ______________

Commission File Number: 001-14901

CONSOL Energy, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**51-0337383**

(State or other jurisdiction	**(IRS Employer**
of incorporation or organization)	**Identification No.)**

1800 Washington Road, Pittsburgh, Pennsylvania 15241

(Address of principal executive offices, including zip code)

(412) 831-4000

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

As of April 30, 2003, there were 78,762,586 shares of Common Stock, $.01 par value, outstanding.

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FINANCIAL INFORMATION

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PART I

FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

CONSOL ENERGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended March 31,	
	2003	**2002**
Sales Outside	$ 506,560	$ 505,201
Sales Related Parties	1,369	4
Freight Outside	32,028	36,432
Freight Related Parties	562	
Other Income	19,290	8,371
Total Revenue and Other Income	559,809	550,008
Cost of Goods Sold and Other Operating Charges	407,871	362,909
Freight Expense	32,590	36,432
Selling, General and Administrative Expense	17,084	16,657
Depreciation, Depletion and Amortization	60,706	66,457
Interest Expense	9,476	10,137
Taxes Other Than Income	43,142	50,725
Total Costs	570,869	543,317
Earnings (Loss) Before Income Taxes	(11,060)	6,691
Income Tax Expense (Benefit)	(14,449)	1,190
Earnings before Cumulative Effect of Change in Accounting Principle	3,389	5,501
Cumulative Effect of Changes in Accounting for Mine Closing, Reclamation and Gas Well Closing Costs, net of Income Taxes of $3,035	4,768	
Net Income	$ 8,157	$ 5,501
Basic Earnings Per Share	$ 0.10	$ 0.07

Dilutive Earnings Per Share	$ 0.10	$ 0.07
Weighted Average Number of Common Shares Outstanding:		
Basic	78,749,180	78,707,070
Dilutive	78,845,356	78,912,296
Dividends Paid Per Share	$ 0.14	$ 0.28

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

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CONSOL ENERGY INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	(Unaudited) MARCH 31, 2003	DECEMBER 31, 2002
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 19,944	$ 11,517
Accounts and Notes Receivable:		
Trade	219,687	205,891
Other Receivables	128,284	127,226
Inventories	127,360	135,621
Deferred Income Taxes	89,954	92,236
Recoverable Income Taxes	12,272	21,935
Prepaid Expenses	30,682	28,411
Total Current Assets	628,183	622,837
Property, Plant and Equipment:		
Property, Plant and Equipment	5,332,820	5,257,456
Less Accumulated Depreciation, Depletion and Amortization	2,686,206	2,651,233
Total Property, Plant and Equipment Net	2,646,614	2,606,223
Other Assets:		
Deferred Income Taxes	444,907	420,718
Intangible Assets, Net	382,257	388,362
Investment in Affiliates	83,024	135,362
Other	120,730	119,658
Total Other Assets	1,030,918	1,064,100
TOTAL ASSETS	$ 4,305,715	$ 4,293,160

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

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CONSOL ENERGY INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except per share data)

	(Unaudited) MARCH 31, 2003	DECEMBER 31, 2002
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts Payable	$ 118,828	$ 151,371
Short-Term Notes Payable	153,848	204,545
Current Portion of Long-Term Debt	8,256	8,615
Other Accrued Liabilities	495,771	449,902
Total Current Liabilities	776,703	814,433
Long-Term Debt:		
Long-Term Debt	487,781	485,535
Capital Lease Obligations	2,420	2,896
Total Long-Term Debt	490,201	488,431
Deferred Credits and Other Liabilities:		
Postretirement Benefits Other Than Pensions	1,457,342	1,437,987
Pneumoconiosis Benefits	450,473	455,436
Mine Closing	371,928	332,920
Workers Compensation	259,316	261,250
Deferred Revenue	91,655	102,400
Salary Retirement	93,523	91,474
Reclamation	6,933	5,812
Other	150,548	140,970
Total Deferred Credits and Other Liabilities	2,881,718	2,828,249
Stockholders Equity:		
Common Stock, $.01 par value;		
500,000,000 Shares Authorized, 80,267,558 Issued; and 78,749,504 Outstanding at March 31, 2003 and 78,749,001 Outstanding at December 31, 2002	803	803
Preferred Stock, 15,000,000 Shares Authorized;		
None Issued and Outstanding		
Capital in Excess of Par Value	643,790	643,787
Retained Earnings (Deficit)	(374,885)	(372,017)
Other Comprehensive Loss	(95,465)	(93,370)
Common Stock in Treasury, at Cost 1,518,054 Shares at March 31, 2003 and 1,518,557 Shares at December 31, 2002	(17,150)	(17,156)
Total Stockholders Equity	157,093	162,047
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 4,305,715	$ 4,293,160

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)	Other Compre-hensive Income (Loss)	Treasury Stock	Total Stock-holders Equity
Balance December 31, 2002	$ 803	$ 643,787	$ (372,017)	$ (93,370)	$ (17,156)	$ 162,047
(Unaudited)						
Net Income			8,157			8,157
Treasury Rate Lock (Net of $14 tax)				(21)		(21)
Interest Rate Swap Contract (Net of $32 tax)				(49)		(49)
Gas Cash Flow Hedge (Net of $1,289 tax)				(2,025)		(2,025)
Comprehensive Income (Loss)			8,157	(2,095)		6,062
Treasury Stock Issued (503 shares)		3			6	9
Dividends ($.14 per share)			(11,025)			(11,025)
Balance March 31, 2003	$ 803	$ 643,790	$ (374,885)	$ (95,465)	$ (17,150)	$ 157,093

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

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CONSOL ENERGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Dollars in thousands)

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Operating Activities:		
Net Income	$ 8,157	$ 5,501
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Cumulative Effect of Change in Accounting Principle, net of tax	(4,768)	
Depreciation, Depletion and Amortization	60,706	66,457
Gain on the Sale of Assets	(8,900)	(298)
Amortization of Advance Mining Royalties	1,007	4,064
Deferred Income Taxes	(23,607)	657
Equity in Earnings of Affiliates	337	560
Changes in Operating Assets:		
Accounts and Notes Receivable	(15,216)	(9,666)
Inventories	3,042	(69,724)
Prepaid Expenses	(5,490)	(14,786)
Changes in Other Assets	(966)	3,066
Changes in Operating Liabilities:		
Accounts Payable	(26,767)	(29,210)
Other Operating Liabilities	55,971	63,185
Changes in Other Liabilities	1,488	13,532
Other	(1,634)	(2,425)
	35,203	25,412
Net Cash Provided by Operating Activities	43,360	30,913
Investing Activities:		
Capital Expenditures	(46,646)	(70,306)
Additions to Intangible Assets	(2,665)	(3,830)
Investment in Equity Affiliates	(831)	(5,411)
Proceeds from Sales of Assets	76,878	949
Net Cash Provided by (Used in) Investing Activities	26,736	(78,598)
Financing Activities:		
Payments on Commercial Paper Net	(52,281)	(144,750)
Proceeds from (Payment on) Miscellaneous Borrowings	621	(987)

Payments on Long Term Notes		(23,000)
Proceeds from Long Term Notes	1,007	246,310
Dividends Paid	(11,016)	(22,025)
Proceeds from Treasury Rate Lock		1,332
Payments for Bond Issuance Costs		(596)
Issuance of Treasury Stock		117
Net Cash (Used in) Provided by Financing Activities	(61,669)	56,401
Net Increase in Cash and Cash Equivalents	8,427	8,716
Cash and Cash Equivalents at Beginning of Period	11,517	15,582
Cash and Cash Equivalents at End of Period	$ 19,944	$ 24,298

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

March 31, 2003

(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-month period ended March 31, 2003 are not necessarily indicative of the results that may be expected for future periods.

The balance sheet at December 31, 2002 has been derived from the audited financial statements at that date but does not include all the footnotes required by generally accepted accounting principles for complete financial statements.

For further information, refer to the consolidated financial statements and footnotes for the year ended December 31, 2002 included in CONSOL Energy Inc. s (CONSOL Energy) Form 10-K, as amended.

Certain reclassifications of the prior year s data have been made to conform to the three months ended March 31, 2003 classifications.

Basic earnings per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings per share are computed similar to basic earnings per share except that the weighted average shares outstanding are increased to include additional shares from the assumed exercise of stock options, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options were exercised and that the proceeds from such exercises were used to acquire shares of common stock at the average market price during the reporting period. Options to purchase 1,738,141 shares and 1,101,693 shares of common stock were outstanding at March 31, 2003 and 2002, respectively, but were not included in the computation of diluted earnings per share because the options exercise prices were greater than the average market price of the common shares and, therefore, the effect would be antidilutive.

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

	For the Three Months Ended March 31	
	2003	2002
Net Income	$ 8,157	$ 5,501
Average shares of common stock		
Outstanding:		
Basic	78,749,180	78,707,070
Effect of stock options	96,176	205,226
Diluted	78,845,356	78,912,296
Earnings per share:		
Basic	$ 0.10	$ 0.07
Diluted	$ 0.10	$ 0.07

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NOTE 2 STOCK-BASED COMPENSATION:

CONSOL Energy has implemented the disclosure-only provisions of Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS No. 123). CONSOL Energy continues to measure compensation expense for its stock-based compensation plans using the intrinsic value based method of accounting prescribed by Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees, as amended. No stock-based employee compensation cost is reflected in net income, as all options granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of the grant. The following table illustrates the effect on net income and earnings per share if CONSOL Energy had applied the fair value recognition provisions of SFAS No. 123, to stock-based employee compensation:

	March 31,	
	2003	2002
Net income, as reported	$ 8,157	$ 5,501
Deduct: Total stock based employee compensation expense determined under Black-Scholes option pricing model	(648)	(773)
Pro forma net income	$ 7,509	$ 4,728
Earnings per share:		
Basic as reported	$ 0.10	$ 0.07
Basic pro forma	$ 0.10	$ 0.06
Diluted as reported	$ 0.10	$ 0.07
Diluted pro forma	$ 0.10	$ 0.06

The pro forma adjustments in the current period are not necessarily indicative of future period pro forma adjustments as the assumptions used to determine fair value can vary significantly and the number of future shares to be issued under these plans is unknown.

NOTE 3 CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING FOR MINE CLOSING, RECLAMATION AND GAS WELL CLOSING COSTS:

Effective January 1, 2003, CONSOL Energy adopted Statement of Financial Accounting Standards No. 143, Accounting for Asset Retirement Obligations (SFAS No. 143). As a result of this statement, CONSOL Energy recognized additional liabilities of $51,692 for asset retirement obligations associated with the costs of mine closing, reclamation and gas well closing. In addition, CONSOL Energy capitalized asset retirement costs by increasing the carrying amount of related long-lived assets, net of the associated accumulated depreciation, by $59,495.

The cumulative effect adjustment recognized upon adoption of this statement was a gain of $4,768, net of a tax cost of approximately $3,035. Net income for the three months ended March 31, 2002 and for the twelve months ended December 31, 2002 would not materially differ if this statement had been adopted January 1, 2002. The obligation for asset retirements is included in Mine Closing, Reclamation, Other Accrued Liabilities and Other Liabilities in the balance sheets.

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The following table illustrates the pro forma impact on the carrying amounts of the obligations for the three months ended March 31, 2003 and the twelve months ended December 31, 2002 as if this statement had been adopted on January 1, 2002:

	Three Months Ended March 31, 2003	Twelve Months Ended December 31, 2002
Balance at beginning of period	$ 452,751	$ 450,420
Accretion Expense	6,198	24,793
Payments	(6,408)	(24,378)
Other	(5,025)	1,916
Balance at end of period	$ 447,516	$ 452,751

NOTE 4 INCOME TAXES:

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

	For the Three Months Ended March 31,			
	2003		2002	
	Amount	**Percent**	**Amount**	**Percent**
Statutory U. S. federal income tax rate	$ (3,871)	35.0%	$ 2,342	35.0%
Excess tax depletion	(7,545)	68.2	(1,987)	(29.7)
Net effect of state tax	(2,220)	20.1	335	5.0
Net effect of foreign tax	(391)	3.5	562	8.4
Other	(422)	3.8	(62)	(0.9)
Income Tax (Benefit) Expense				
Effective Rate	$ (14,449)	130.6%	$ 1,190	17.8%

CONSOL Energy used a discrete tax calculation for the three months ended March 31, 2003. An annual effective rate was not applied to the quarterly results due to the sensitivity of the rate to small changes in forecasted income. The 2002 period rate was calculated using the annual effective rate projection available at that time. A small change in our estimated annual income was not projected to cause a disproportionately large change in the annual effective tax rate for the year ended December 31, 2002.

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NOTE 5 INVENTORIES:

The components of inventories consist of the following:

	March 31, 2003	December 31, 2002
Coal	$ 59,505	$ 67,119
Merchandise for resale	18,904	18,855
Supplies	48,951	49,647
Total Inventories	$ 127,360	$ 135,621

NOTE 6 COMMITMENTS AND CONTINGENCIES:

CONSOL Energy has various purchase commitments for materials, supplies and items of permanent investment incidental to the ordinary conduct of business. Such commitments are not at prices in excess of current market values.

One of our subsidiaries, Fairmont Supply Company, which distributes industrial supplies, currently is named as a defendant in approximately 21,900 asbestos claims in state courts in Pennsylvania, Ohio, West Virginia, Maryland, New Jersey and Mississippi. Because a very small percentage of products manufactured by third parties and supplied by Fairmont in the past may have contained asbestos and many of the pending claims are part of mass complaints filed by hundreds of plaintiffs against a hundred or more defendants, it has been difficult for Fairmont to determine how many of the cases actually involve valid claims or plaintiffs who were actually exposed to asbestos-containing products supplied by Fairmont. In addition, while Fairmont may be entitled to indemnity or contribution in certain jurisdictions from manufacturers of identified products, the availability of such indemnity or contribution is unclear at this time and, in recent years, some of the manufacturers named as defendants in these actions have sought protection from these claims under bankruptcy laws. Fairmont has no insurance coverage with respect to these asbestos cases. To date, payments by Fairmont with respect to asbestos cases have not been material. However, there cannot be any assurance that payments in the future with respect to pending or future asbestos cases will not be material to the financial position, results of operations or cash flows of CONSOL Energy.

CONSOL Energy is 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. In September 1991, CONSOL Energy was named a potentially responsible party related to the Buckeye Landfill Superfund Site. The estimated total remaining remediation cost for all potentially responsible parties is estimated to be approximately $15,000 at March 31, 2003. CONSOL Energy s portion of this claim is approximately 20%. To date, CONSOL Energy has paid $2,092 to date related to the remediation of this waste disposal site and, accordingly, reduced the liability to $2,883 at March 31, 2003. In the opinion of management, the ultimate liabilities resulting from such pending lawsuits and claims will not materially affect the financial position, results of operations or cash flows of CONSOL Energy.

CONSOL Energy and certain of its subsidiaries have provided the following financial guarantees. 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. The fair values of all liabilities associated with these guarantees have been properly recorded and reported in the financial statements at March 31, 2003.

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Guarantee	Term	Maximum Payments
Workers Compensation Surety Bonds (a)	Various	$ 421,600
Reclamation Surety Bonds (b)	Various	$ 267,100
Gas Sales Agreements (c)	Various	$ 99,000
Ohio Power Company (d)	6/1993-6/2006	$ 50,714
Ohio Valley Electric Corporation (e)	1/2000-12/2006	$ 33,099
Miscellaneous Surety Bonds (f)	Various	$ 28,800
1992 Benefit Plan (g)	10/2002-10/2003	$ 22,389
Orix Financial Services (h)	12/2002-12/2007	$ 17,700
U.S. Bancorp (i)	7/2002-7/2007	$ 15,311
Court Bonds (j)	Various	$ 11,000
Illinois Industrial Commission (k)	10/2002-10/2003	$ 8,325
Old Republic Insurance (l)	Various	$ 6,777
Citibank ISDA Agreements (m)	Various	$ 6,300
U.S. Department of Energy (n)		$ 4,900
GE Capital Finance (o)		$ 2,449
Centimark Corp. (p)	8/2000-8/2008	$ 1,581
Reliant Energy (q)	12/2002-12/2005	$ 1,575
West Penn Power Company (r)	7/1967-12/2004	$ 1,204
U.S. Department of Labor (s)	12/2002-12/2003	$ 1,150
Orion Power (t)	12/2002-12/2005	$ 635
Highmark Life & Casualty (u)	2/2002-5/2003	$ 500
LABAR Co. (v)	4/1999-4/2005	$ 346
Lumbermens Mutual (w)	7/2002-11/2003	$ 253
Total Guarantees		$ 1,002,708

a) CONSOL Energy and its subsidiaries, at various times throughout the year, have obtained surety bonds related to workers compensation obligations. These bonds are necessary as a result of CONSOL Energy being self insured for workers compensation, and will be called should CONSOL Energy or any of its subsidiaries fail to pay workers compensation claims.

b) A number of CONSOL Energy subsidiaries have obtained surety bonds related to reclamation and subsidence obligations. CONSOL Energy through these bonds, guarantees the performance of these obligations related to reclamation and subsidence.

c) Certain subsidiaries of CONSOL Energy have entered into gas sales agreements in which CONSOL Energy guarantees the delivery of a specific quantity of fixed price gas for the duration of the contract. These agreements include the following:

1) CNX Gas Company LLC, a subsidiary of CONSOL Energy, has an agreement with CONOCO/Phillips Inc. that guarantees the physical delivery of CNX Gas Company LLC production through December 31, 2005. CONSOL Energy has guaranteed any unpaid obligations of CNX Gas Company LLC to this sales agreement, up to $60,000.

2) CONSOL Energy has an agreement with Dominion Field Services to guarantee any unpaid obligations of CNX Gas Company LLC and Greene Energy, subsidiaries of CONSOL Energy, pursuant to their gas sales agreements with Dominion Field Services. The maximum undiscounted future payments required pursuant to the agreement to be made by these subsidiaries at March 31, 2003 are as follows: (a) CNX Gas Company LLC $36,000 and (b) Greene Energy $3,000.

3) The CNX Gas Company LLC Sales Agreement guarantees the delivery of specific quantities of gas through May 7, 2022. If our subsidiary fails to deliver the volume specified in the contract,

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it is obligated to pay a deficiency charge, for each day delivery is not made, equal to the undelivered volumes times the daily price of gas.

d) CONSOL Energy is the guarantor of the Coal Supply Agreement dated June 3, 1993 between one of CONSOL Energy s subsidiaries and Ohio Power Company. Under this agreement, CONSOL Energy guarantees full and timely performance of all obligations of its subsidiary arising from the Coal Supply Agreement.

e) CONSOL Energy is the guarantor of the Coal Supply Agreement between several of its subsidiaries and Ohio Valley Electric Corporation. Under this agreement, CONSOL Energy guarantees the full and faithful performance of all obligations of these subsidiaries with respect to this Coal Supply Agreement.

f) Several subsidiaries of CONSOL Energy have issued miscellaneous surety bonds, primarily water quality bonds and road bonds. CONSOL Energy guarantees the performance of these obligations by its subsidiaries.

g) On October 15, 2002, a subsidiary of CONSOL Energy arranged for the issuance of a letter of credit to the 1992 Benefit Plan. This letter of credit will be drawn upon if the subsidiary fails to pay the claims related to this plan.

h) A CONSOL Energy subsidiary entered into an equipment lease agreement on December 30, 2002 for a longwall to be used at Buchanan Mine. In accordance with this agreement, CONSOL Energy guarantees the payment of all liabilities and the performance of all obligations of the subsidiary.

i) A CONSOL Energy subsidiary entered into an agreement on July 17, 2002 with U.S. Bancorp Equipment Finance, Inc. to lease a longwall for use at McElroy Mine. CONSOL Energy is the guarantor of this agreement and promises prompt and full payment to U.S. Bancorp upon the failure of the subsidiary to satisfy the obligations of the agreement.

j) Several subsidiaries of CONSOL Energy have issued court bonds related to court proceedings in which they are involved. These bonds would be called should any of the subsidiaries file bankruptcy while the proceedings were still in existence and unresolved. The bonds will be released by the court when the proceedings conclude.

k) On October 15, 2002, CONSOL Energy, in conjunction with several of its subsidiaries, obtained the issuance of a letter of credit to the Illinois Industrial Commission. This letter of credit is related to CONSOL Energy s self- insurance program for workers compensation. Should CONSOL Energy, or any of these subsidiaries, fail to pay the workers compensation claims, the Illinois Industrial Commission will draw on this letter of credit.

l) A subsidiary of CONSOL Energy obtained the issuance of several letters of credit to Old Republic Insurance Company at various times. These letters of credit are related to workers compensation liabilities, and are due to the fact that CONSOL Energy and its subsidiaries are self insured for workers compensation. The letters of credit will be drawn upon if the subsidiary fails to pay the related workers compensation claims.

m) CONSOL Energy has several International Swap and Derivative Association (ISDA) Agreements with Citibank effective November 21, 2002. These agreements cover the gas derivative hedging activity of CNX Gas Company LLC.

n) CONSOL Energy, along with SynAggs Inc., organized Universal Aggregates, LLC on January 1, 2000. Universal Aggregates is obligated to complete the design, construction and operation phases of the Birchwood Power Plant Project, and CONSOL Energy is obligated to provide its 50% share of the funds for this project. CONSOL Energy, acting as guarantor, guarantees the performance of the obligations of Universal Aggregates, with respect to this agreement, to the Department of Energy, to the extent of its 50% membership interest in Universal Aggregates.

o) Universal Aggregates received financing from GE Capital Public Finance, Inc. for the purchase of equipment for the Birchwood Power Plant Project, through an agreement dated December 1, 2002. CONSOL Energy unconditionally guarantees to GE Capital the full and prompt payment when due of all debts, liabilities and obligations owed by Universal Aggregates with respect to this loan agreement, not to exceed $2,499.

p) A subsidiary of CONSOL Energy entered into an agreement to lease office space from Centimark Corporation on August 1, 2000. In connection with this agreement, CONSOL Energy guarantees full and timely performance of all obligations of the subsidiary to Centimark, in relation to this lease agreement.

q) CONSOL Energy is the guarantor of the Coal Supply Agreement dated December 17, 2002 between several of its subsidiaries and Reliant Energy Mid-Atlantic Power Holdings, LLC. Under this agreement, CONSOL Energy guarantees the full and faithful performance of all obligations of these subsidiaries with respect to this Coal Supply Agreement.

r) CONSOL Energy is the guarantor of the Coal Supply Agreement dated July 3, 1967 between several of its subsidiaries and West Penn Power Company. Under this agreement, CONSOL Energy guarantees the full and timely performance of all obligations of these subsidiaries with respect to this Coal Supply Agreement.

s) On December 17, 2002, three subsidiaries of CONSOL Energy obtained the issuance of a letter of credit to the U.S. Department of Labor. This letter of credit is related to Longshore and Harborworkers compensation claims and will be drawn upon should these subsidiaries fail to pay the claims.

t) CONSOL Energy is the guarantor of the Coal Supply Agreement dated December 17, 2002 between several of its subsidiaries and Orion Power MidWest, LP. Under this agreement, CONSOL Energy guarantees the full and timely performance of all obligations of these subsidiaries with respect to this Coal Supply Agreement.

u) On February 4, 2002, a subsidiary of CONSOL Energy obtained the issuance of a letter of credit to Highmark Life and Casualty to support the administrative service program of making medical payments under various CONSOL Energy medical benefit programs. CONSOL Energy and its subsidiaries are self-insured. Highmark processes and pays the medical claims under the CONSOL Energy medical benefit programs and then bills CONSOL Energy for reimbursement. The letter of credit will be drawn upon if CONSOL Energy or its subsidiary fails to reimburse Highmark for these payments.

v) On April 1, 1999, a subsidiary of CONSOL Energy entered into an agreement with Alaska Supply Chain Integrators (ASCI) to lease warehouse space. CONSOL Energy guarantees prompt payment of all amounts due under the lease in the event of default by the subsidiary.

w) On July 19, 2002, CONSOL Energy obtained the issuance of a letter of credit to Lumbermens Mutual. Lumbermens Mutual processes and pays all automobile claims and then bills CONSOL Energy, which is self-insured, for reimbursement. The letter of credit will be drawn upon if CONSOL Energy should fail to reimburse Lumbermens Mutual for these payments.

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NOTE 7 INTANGIBLE ASSETS

Intangible assets consist of leased coal interests and advance mining royalties. Advance mining royalties are advance payments made to lessors under terms of mineral lease agreements that are recoupable against future production primarily using the units-of-production method. Depletion of coal interests is computed primarily using the units-of-production method over the estimated proven and probable reserves. Advance mining royalties and leased coal interests are evaluated quarterly for impairment issues, of which none were recognized in the quarter ended March 31, 2003.

	March 31, 2003	December 31, 2002
Leased coal interests	$ 433,725	$ 440,268
Advance mining royalties	343,579	340,229
Total gross carrying value	777,304	780,497
Less Accumulated depletion of leased coal interests	144,372	142,467
Less Accumulated amortization of advance mining royalties	250,675	249,668
Total accumulated depletion and amortization	395,047	392,135
Net Intangible Assets	$ 382,257	$ 388,362

Included in the March 31, 2003 gross carrying value for leased coal interests and advance mining royalties are $77 and $2,588 of current year additions, respectively. The additions to leased coal interests are depleted using the units-of-production method where proven and probable coal reserves are reported and using the straight-line method where proven and probable coal reserves are not yet reported. The additions to advance mining royalties are recoupable against future production using the units-of-production method where proven and probable coal reserves are reported and using the straight-line method where proven and probable coal reserves are not yet reported.

Aggregate depletion and amortization expense for the three months ended March 31, 2003 was $3,107.

Estimated depletion and amortization expense of leased coal interests and advance mining royalties during the next five years is as follows:

Year ended December 31,	
2003	$ 14,624
2004	$ 14,323
2005	$ 5,499
2006	$ 3,627
2007	$ 3,350

NOTE 8 FAIR VALUE OF FINANCIAL INSTRUMENTS SFAS 107

The following methods and assumptions were used to estimate the fair values of financial instruments:

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

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

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

Capital leases: The fair values of capital leases are estimated using discounted cash flow analyses, based on CONSOL Energy s current incremental borrowing rates for similar types of borrowing arrangements.

The carrying amounts and fair values of financial instruments, excluding derivative financial instruments disclosed in Item 3 Quantitative and Qualitative Disclosure About Market Risk, are as follows:

	March 31, 2003		December 31, 2002	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Cash and cash equivalents	$ 19,944	$ 19,944	$ 11,517	$ 11,517
Short-term notes payable	$ (153,848)	$ (153,848)	$ (204,545)	$ (204,545)
Long-term debt	$ (491,163)	$ (493,897)	$ (488,907)	$ (492,534)
Capital leases	$ (7,294)	$ (7,724)	$ (8,139)	$ (8,679)

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NOTE 9 SEGMENT INFORMATION:

CONSOL Energy operates two principal businesses: Coal and Gas. CONSOL Energy has presented the coal business as several aggregated operating segments that reflect the type of coal produced by each individual mine within the grouping. The Other Coal operating segment includes the Company s purchased coal activities, idled mine cost, coal segment business units not meeting aggregation criteria as well as various activities assigned to the coal segment but not allocated to each individual mine. CONSOL Energy s All Other classification is made up of our terminal services, river and dock services, industrial supply services and other business activities, such as rentals of buildings and flight operations that do not qualify as operating segments.

Segment results for the three months ended March 31, 2003:

	High Sulfur	Low Sulfur	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate, Adjustment & Eliminations	Consolidated
Sales outside	$ 129,753	$ 205,453	$ 58,863	$ 41,381	$ 435,450	$ 51,783	$ 19,327	$	$ 506,560
Sales related parties		1,267	102		1,369				1,369
Freight outside				32,028	32,028				32,028
Freight related parties				562	562				562
Intersegment transfers						950	24,233	(25,183)	
Total Sales and Freight	$ 129,753	$ 206,720	$ 58,965	$ 73,971	$ 469,409	$ 52,733	$ 43,560	$ (25,183)	$ 540,519
Earnings (Loss) Before Income Taxes	$ (5,289)	$ 32,282	$ 5,689	$ (45,281)	$ (12,599)	$ 16,084	$ (6,160)	$ (8,385)	$ (11,060)(A)
Segment assets					$ 2,836,352	$ 655,033	$ 222,502	$ 591,828	$ 4,305,715 (B)
Depreciation, depletion and amortization					$ 48,960	$ 9,034	$ 2,712	$	$ 60,706
Capital expenditures					$ 37,553	$ 8,672	$ 421	$	$ 46,646

(A) Includes equity in earnings (loss) of unconsolidated equity affiliates of $509, ($278) and ($568) for Other Coal, Gas and All Other, respectively.

(B) Includes investments in unconsolidated equity affiliates of $39,180, $15,440 and $28,404 for Coal, Gas and All Other, respectively. Also, included in the Coal segment is $68,593 of receivables related to the Export Sales Excise Tax Resolution.

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Industry segment results for the three months ended March 31, 2002:

	High Sulfur	Low Sulfur	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate, Adjustments & Eliminations	Consolidated
Sales outside	$ 135,387	$ 208,868	$ 47,361	$ 64,257	$ 455,873	$ 27,692	$ 21,636	$	$ 505,201
Sales related parties		4			4				4
Freight outside				36,338	36,338		94		36,432
Freight related parties									
Intersegment transfers						445	25,326	(25,771)	
Total Sales and Freight	$ 135,387	$ 208,872	$ 47,361	$ 100,595	$ 492,215	$ 28,137	$ 47,056	$ (25,771)	$ 541,637
Earnings (Loss) Before Income Taxes	$ 12,579	$ 35,917	$ 2,597	$ (36,665)	$ 14,428	$ 3,514	$ (1,139)	$ (10,112)	$ 6,691(C)
Segment assets					$ 2,948,015	$ 602,673	$ 208,562	$ 533,574	$ 4,292,824(D)
Depreciation, depletion and amortization					$ 55,493	$ 8,162	$ 2,359	$ 443	$ 66,457
Capital expenditures					$ 51,173	$ 18,662	$ 471	$	$ 70,306

(C) Includes equity in earnings (loss) of unconsolidated affiliates of ($2), ($374) and ($184) for Other Coal, Gas and All Other, respectively.

(D) Includes investments in unconsolidated equity affiliates of $72,434, $9,185 and $1,160 for Coal, Gas and All Other, respectively. Also, included in the Coal segment is $72,194 of receivables related to the Export Sales Excise Tax Resolution.

Reconciliation of Segment Information to Consolidated Amounts:

Earnings (Loss) Before Income Taxes:

	For the Three Months Ended March 31, 2003	2002
Segment earnings (loss) before income taxes for total reportable business segments	$ 3,485	$ 17,942

Segment (loss) before income taxes for all other businesses	(6,160)	(1,139)
Incentive compensation	8	(332)
Interest income (expense), net and other non-operating activity	(8,393)	(9,780)
Earnings (Loss) Before Income Taxes	$ (11,060)	$ 6,691

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Total Assets:

	March 31,	
	2003	2002
Segment assets for total reportable business segments	$ 3,491,385	$ 3,550,688
Segment assets for all other businesses	222,502	208,562
Items excluded from segment assets:		
Cash and other investments	20,269	24,695
Export sales excise tax resolution interest receivable	21,262	20,602
Deferred tax assets	534,861	400,595
Recoverable income taxes	12,272	84,572
Bond issuance costs	3,164	3,110
Total Consolidated Assets	$ 4,305,715	$ 4,292,824

NOTE 10 GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION:

The payment obligations under the $250,000 7.875 percent Notes due 2012 issued by CONSOL Energy in 2002 are fully and unconditionally guaranteed by several subsidiaries of CONSOL Energy. In accordance with positions established by the Securities and Exchange Commission, the following financial information sets forth separate financial information with respect to the parent, the guarantor subsidiaries and the non-guarantor subsidiaries. The principal elimination entries eliminate investments in subsidiaries and certain intercompany balances and transactions. CONSOL Energy, the parent, and a guarantor subsidiary manage several assets and liabilities of their subsidiaries. For example, these include deferred tax assets, cash and other post-employment liabilities. These assets and liabilities are reflected as parent company or guarantor company amounts for purposes of this presentation.

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Income Statement for Three Months Ended March 31, 2003:

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Sales Outside	$	$ 404,930	$ 101,630	$	$ 506,560
Sales Related Parties		1,369			1,369
Freight Outside		25,543	6,485		32,028
Freight Related Parties		562			562
Other Income (including equity earnings)	16,358	38,919	(10,021)	(25,966)	19,290
Total Revenue and Other Income	16,358	471,323	98,094	(25,966)	559,809
Cost of Goods Sold and Other Operating Charges	4,029	337,883	105,622	(39,663)	407,871
Intercompany Activity	237	(12,093)	(33,613)	45,469	
Freight Expense		26,105	6,485		32,590
Selling, General and Administrative Expense		13,499	3,585		17,084
Depreciation, Depletion and Amortization	694	54,636	7,230	(1,854)	60,706
Interest Expense	5,900	3,290	286		9,476
Taxes Other Than Income	1,223	34,294	7,625		43,142
Total Costs	12,083	457,614	97,220	3,952	570,869
Earnings (Loss) Before Income Taxes	4,275	13,709	874	(29,918)	(11,060)
Income Taxes (Benefit)	(3,882)	(10,629)	62		(14,449)
Earnings (Loss) before Cumulative Effect of Change in Accounting Principle	8,157	24,338	812	(29,918)	3,389
Cumulative Effect of Changes in Accounting for Mine Closing, Reclamation, and Gas Well Closing Costs, Net of Income Taxes		(2,900)	(1,868)		(4,768)
Net Income (Loss)	$ 8,157	$ 27,238	$ 2,680	$ (29,918)	$ 8,157

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Balance Sheet for March 31, 2003:

	Parent	Guarantors	Non-Guarantors	Elimination	Total
Assets:					
Current Assets:					
Cash and Cash Equivalents	$ 4,180	$ 399	$ 15,365	$	$ 19,944
Accounts and Notes Receivable:					
Trade	78,043	110,581	31,063		219,687
Other	6,031	108,949	13,304		128,284
Inventories	258	99,190	27,912		127,360
Deferred Income Taxes	89,954				89,954
Recoverable Income Taxes	12,272				12,272
Prepaid Expenses	12,125	18,344	213		30,682
Total Current Assets	202,863	337,463	87,857		628,183
Property, Plant and Equipment:					
Property, Plant and Equipment	90,977	4,639,695	602,148		5,332,820
Less-Accumulated Depreciation, Depletion and Amortization	42,233	2,518,706	125,267		2,686,206
Property, Plant and Equipment Net	48,744	2,120,989	476,881		2,646,614
Other Assets:					
Deferred Income Taxes	444,907				444,907
Intangible Assets, Net		339,982	42,275		382,257
Investment in Affiliates	1,320,428	647,873	120,099	(2,005,376)	83,024
Other	3,203	97,740	19,787		120,730
Total Other Assets	1,768,538	1,085,595	182,161	(2,005,376)	1,030,918
Total Assets	$ 2,020,145	$ 3,544,047	$ 746,899	$ (2,005,376)	$ 4,305,715
Liabilities and Stockholders Equity:					
Current Liabilities:					
Accounts Payable	$ 94,940	$ 8,446	$ 15,442	$	$ 118,828
Accounts Payable (Recoverable)-Related Parties	1,141,651	(277,973)	(863,678)		
Short-Term Notes Payable	150,825		3,023		153,848
Current Portion of Long-Term Debt		7,772	484		8,256
Other Accrued Liabilities	66,756	361,735	67,280		495,771
Total Current Liabilities	1,454,172	99,980	(777,449)		776,703
Long-Term Debt:					
Long-Term Debt	248,159	218,722	20,900		487,781
Capital Lease Obligations		2,420			2,420
Total Long-Term Debt	248,159	221,142	20,900		490,201
Deferred Credits and Other Liabilities:					
Postretirement Benefits Other Than Pensions		1,457,342			1,457,342
Pneumoconiosis Benefits		450,473			450,473
Mine Closing		237,163	134,765		371,928
Workers Compensation	1,484	222,986	34,846		259,316
Deferred Revenue		80,094	11,561		91,655

Salary Retirement	93,268	255			93,523
Reclamation		4,014	2,919		6,933
Other	65,969	62,684	21,895		150,548
Total Deferred Credits and Other Liabilities	160,721	2,515,011	205,986		2,881,718
Stockholders Equity	157,093	707,914	1,297,462	(2,005,376)	157,093
Total Liabilities and Stockholders Equity	$ 2,020,145	$ 3,544,047	$ 746,899	$ (2,005,376)	$ 4,305,715

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Condensed Statement of Cash Flows

For the Three Months Ended March 31, 2003:

	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net Cash Provided by (Used in) Operating Activities	$ 67,500	$ 31,710	$ (55,850)	$	$ 43,360
Cash Flows from Investing Activities:					
Capital Expenditures	$ (2,575)	$ (35,474)	$ (8,597)	$	$ (46,646)
Investment in Equity Affiliates		(15)	(816)		(831)
Other Investing Activities					