

CONSOL ENERGY INC
Form 10-Q/A
February 18, 2004

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

FORM 10-Q/A

(Amendment No. 2)

(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, 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

(State or other jurisdiction of incorporation or organization)

51-0337383

(IRS Employer 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.

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Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of July 31, 2003, there were 78,784,883 shares of Common Stock, \$.01 par value, outstanding.

EXPLANATORY NOTE

We are filing this Amendment No. 3 on Form 10-Q/A to our Report on Form 10-Q for the period ended June 30, 2003 (the Form 10-Q) to amend the introduction to Note 10 of the Financial Statements in Item 1 - Condensed Financial Statements in connection with the Securities and Exchange Commission s review of the Form 10-Q.

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PART I
FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

CONSOL ENERGY INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Sales - Outside	\$ 511,235	\$ 482,073	\$ 1,017,795	\$ 987,275
Sales - Related Parties		815	1,369	819
Freight - Outside	25,580	33,699	57,608	70,131
Freight - Related Parties		549	562	549
Other Income	19,703	15,530	38,993	23,901
Total Revenue and Other Income	556,518	532,666	1,116,327	1,082,675
Cost of Goods Sold and Other Operating Charges	383,691	362,511	791,562	725,421
Freight Expense	25,580	34,248	58,170	70,680
Selling, General and Administrative Expense	19,389	17,195	36,473	33,852
Depreciation, Depletion and Amortization	62,293	65,801	122,999	132,258
Interest Expense	8,490	11,848	17,966	21,985
Taxes Other Than Income	42,420	42,867	85,562	93,592
Export Sales Excise Tax Resolution	(614)	(1,037)	(614)	(1,037)
Total Costs	541,249	533,433	1,112,118	1,076,751
Earnings (Loss) Before Income Taxes	15,269	(767)	4,209	5,924
Income Tax Expense (Benefit)	4,710	(9,794)	(9,739)	(8,604)
Earnings Before Cumulative Effect of Change in Accounting Principle	10,559	9,027	13,948	14,528
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	\$ 10,559	\$ 9,027	\$ 18,716	\$ 14,528
Basic Earnings Per Share	\$ 0.13	\$ 0.11	\$ 0.24	\$ 0.18
Dilutive Earnings Per Share	\$ 0.13	\$ 0.11	\$ 0.24	\$ 0.18
Weighted Average Number of Common Shares Outstanding:				

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Basic	<u>78,759,875</u>	<u>78,722,778</u>	<u>78,754,557</u>	<u>78,714,967</u>
Dilutive	<u>79,104,915</u>	<u>78,935,017</u>	<u>78,960,438</u>	<u>78,921,664</u>
Dividends Paid Per Share	<u>\$ 0.14</u>	<u>\$ 0.28</u>	<u>\$ 0.28</u>	<u>\$ 0.56</u>

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

CONSOL ENERGY INC. AND SUBSIDIARIESCONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	(Unaudited)	
	JUNE 30,	DECEMBER 31,
	2003	2002
	<u> </u>	<u> </u>
<u>ASSETS</u>		
Current Assets:		
Cash and Cash Equivalents	\$ 13,967	\$ 11,517
Accounts and Notes Receivable:		
Trade	170,400	205,891
Other Receivables	81,953	127,226
Inventories	129,298	135,621
Deferred Income Taxes	89,077	92,236
Recoverable Income Taxes	14,542	21,935
Prepaid Expenses	29,974	28,411
	<u> </u>	<u> </u>
Total Current Assets	529,211	622,837
Property, Plant and Equipment:		
Property, Plant and Equipment	5,365,207	5,257,456
Less - Accumulated Depreciation, Depletion and Amortization	2,714,369	2,651,233
	<u> </u>	<u> </u>
Total Property, Plant and Equipment - Net	2,650,838	2,606,223
Other Assets:		
Deferred Income Taxes	442,604	420,718
Intangible Assets, Net	381,485	388,362
Investment in Affiliates	81,573	135,362
Other	115,312	119,658
	<u> </u>	<u> </u>
Total Other Assets	1,020,974	1,064,100
	<u> </u>	<u> </u>
TOTAL ASSETS	\$ 4,201,023	\$ 4,293,160
	<u> </u>	<u> </u>

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

CONSOL ENERGY INC. AND SUBSIDIARIESCONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	(Unaudited) JUNE 30, 2003	DECEMBER 31, 2002
	<u> </u>	<u> </u>
<u>LIABILITIES AND STOCKHOLDERS EQUITY</u>		
Current Liabilities:		
Accounts Payable	\$ 109,973	\$ 151,371
Short-Term Notes Payable	28,357	204,545
Current Portion of Long-Term Debt	52,704	8,615
Other Accrued Liabilities	540,463	449,902
	<u> </u>	<u> </u>
Total Current Liabilities	731,497	814,433
Long-Term Debt:		
Long-Term Debt	442,837	485,535
Capital Lease Obligations	1,934	2,896
	<u> </u>	<u> </u>
Total Long-Term Debt	444,771	488,431
Deferred Credits and Other Liabilities:		
Postretirement Benefits Other Than Pensions	1,450,458	1,437,987
Pneumoconiosis Benefits	449,273	455,436
Mine Closing	364,050	332,920
Workers Compensation	255,125	261,250
Deferred Revenue	80,715	102,400
Salary Retirement	113,335	91,474
Reclamation	11,190	5,812
Other	150,039	140,970
	<u> </u>	<u> </u>
Total Deferred Credits and Other Liabilities	2,874,185	2,828,249
Stockholders Equity:		
Common Stock, \$.01 par value; 500,000,000 Shares Authorized, 80,267,558 Issued; and 78,769,133 Outstanding at June 30, 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	643,907	643,787
Retained Earnings (Deficit)	(375,353)	(372,017)
Other Comprehensive Loss	(101,859)	(93,370)
Common Stock in Treasury, at Cost - 1,498,425 Shares at June 30, 2003 and 1,518,557 Shares at December 31, 2002	(16,928)	(17,156)
	<u> </u>	<u> </u>
Total Stockholders Equity	150,570	162,047
	<u> </u>	<u> </u>
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 4,201,023	\$ 4,293,160
	<u> </u>	<u> </u>

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

CONSOL ENERGY INC. AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(Dollars in thousands, except per share data)

	<u>Common Stock</u>	<u>Capital in Excess of Par Value</u>	<u>Retained Earnings (Deficit)</u>	<u>Other Comprehensive Income (Loss)</u>	<u>Treasury Stock</u>	<u>Total Stockholders Equity</u>
Balance - December 31, 2002	\$ 803	\$ 643,787	\$ (372,017)	\$ (93,370)	\$ (17,156)	\$ 162,047
(Unaudited)						
Net Income			18,716			18,716
Minimum Pension Liability (Net of \$3,136 tax)				(5,825)		(5,825)
Treasury Rate Lock (Net of \$26 tax)				(41)		(41)
Interest Rate Swap Contract (Net of \$133 tax)				(208)		(208)
Gas Cash Flow Hedge (Net of \$1,537 tax)				(2,415)		(2,415)
Comprehensive Income (Loss)			18,716	(8,489)		10,227
Treasury Stock Issued (20,132 shares)		120			228	348
Dividends (\$.28 per share)			(22,052)			(22,052)
Balance - June 30, 2003	\$ 803	\$ 643,907	\$ (375,353)	\$ (101,859)	\$ (16,928)	\$ 150,570

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

CONSOL ENERGY INC. AND SUBSIDIARIESCONSOLIDATED STATEMENTS OF CASH FLOWS(Unaudited)
(Dollars in thousands)

	Six Months Ended June 30,	
	2003	2002
<i>Operating Activities:</i>		
Net Income	\$ 18,716	\$ 14,528
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	122,999	132,258
Gain on the Sale of Assets	(17,403)	(2,126)
Amortization of Advance Mining Royalties	1,424	4,940
Deferred Income Taxes	(15,638)	(19,797)
Equity in Earnings of Affiliates	5,077	2,589
Changes in Operating Assets:		
Accounts Receivable Securitization	50,000	
Accounts and Notes Receivable	30,402	4,817
Inventories	1,104	(87,807)
Prepaid Expenses	(4,782)	(2,121)
Changes in Other Assets	3,601	3,137
Changes in Operating Liabilities:		
Accounts Payable	(30,622)	(41,226)
Other Operating Liabilities	97,460	79,968
Changes in Other Liabilities	(15,053)	(6,433)
Other	(3,415)	(6,998)
	<u>220,386</u>	<u>61,201</u>
Net Cash Provided by Operating Activities	<u>239,102</u>	<u>75,729</u>
<i>Investing Activities:</i>		
Capital Expenditures	(110,720)	(149,689)
Additions to Intangible Assets	(3,222)	(2,818)
Investment in Equity Affiliates	(4,710)	(34,920)
Proceeds from Sales of Assets	80,735	3,366
Net Cash Used in Investing Activities	<u>(37,917)</u>	<u>(184,061)</u>
<i>Financing Activities:</i>		
Payments on Commercial Paper	(177,954)	(32,078)
Payments on Miscellaneous Borrowings	(84)	(1,973)
Payments on Long Term Notes		(66,000)
Proceeds from Long Term Notes	1,007	246,310

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Dividends Paid	(22,032)	(44,054)
Proceeds from Treasury Rate Lock		1,332
Payments for Bond Issuance Costs		(957)
Issuance of Treasury Stock	328	384
	<u> </u>	<u> </u>
Net Cash (Used in) Provided by Financing Activities	(198,735)	102,964
	<u> </u>	<u> </u>
Net (Decrease)Increase in Cash and Cash Equivalents	2,450	(5,368)
Cash and Cash Equivalents at Beginning of Period	11,517	15,582
	<u> </u>	<u> </u>
Cash and Cash Equivalents at End of Period	\$ 13,967	\$ 10,214
	<u> </u>	<u> </u>

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

CONSOL ENERGY INC. AND SUBSIDIARIES

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 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 and six-month periods ended June 30, 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 to the consolidated financial statements 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 six months ended June 30, 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 similarly 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 1,089,393 and 1,729,780 shares of common stock were outstanding for the three and six month periods ended June 30, 2003, 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. Options to purchase 1,101,693 shares of common stock were outstanding for the three and six month periods ended June 30, 2002, but were not included in the computation of diluted earnings per share because the options were antidilutive.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
Net Income	\$ 10,559	\$ 9,027	\$ 18,716	\$ 14,528
Average shares of common stock				
Outstanding:				
Basic	78,759,875	78,722,778	78,754,557	78,714,967
Effect of stock options	345,040	212,239	205,881	206,697
Diluted	79,104,915	78,935,017	78,960,438	78,921,664
Earnings per share:				
Basic	\$ 0.13	\$ 0.11	\$ 0.24	\$ 0.18
Diluted	\$ 0.13	\$ 0.11	\$ 0.24	\$ 0.18

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:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net income, as reported	\$ 10,559	\$ 9,027	\$ 18,716	\$ 14,528
Deduct: Total stock-based employee compensation expense determined under Black-Scholes option pricing model	(1,052)	(486)	(1,696)	(1,259)
Pro forma net income	\$ 9,507	\$ 8,541	\$ 17,020	\$ 13,269
Earnings per share:				
Basic - as reported	\$ 0.13	\$ 0.11	\$ 0.24	\$ 0.18
Basic - pro forma	\$ 0.12	\$ 0.11	\$ 0.22	\$ 0.17
Diluted - as reported	\$ 0.13	\$ 0.11	\$ 0.24	\$ 0.18

Diluted - pro forma	\$ 0.12	\$ 0.11	\$ 0.22	\$ 0.17
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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. The cumulative effect adjustment was recognized in the three months ended March 31, 2003. Net income for the three months and six months ended June 30, 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.

The following table illustrates the pro forma impact on the carrying amounts of the obligations as of and for the period ended June 30, 2002 and December 31, 2002 as if this statement had been adopted on January 1, 2002:

	Six Months Ended June 30, 2002	Twelve Months Ended December 31, 2002
Balance at beginning of period	\$ 452,750,822	\$ 450,420,116
Accretion Expense	12,376,152	24,793,428
Payments	(14,605,900)	(24,378,722)
Other	(4,604,074)	1,916,000
Balance at end of period	<u>\$ 445,917,000</u>	<u>\$ 452,750,822</u>

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			
	June 30,			
	2003		2002	
	Amount	Percent	Amount	Percent
Statutory U.S. federal income tax rate	\$ 5,344	35.0 %	\$ (269)	35.0%
Excess tax depletion	(2,133)	(14.0)	(5,956)	776.6
Net effect of state tax	658	4.3	894	(116.6)
Net effect of foreign tax	1,255	8.2	729	(95.0)
Prior year tax settlement			(1,908)	248.8
Other	(414)	(2.7)	(3,284)	428.1
Income Tax (Benefit)Expense/ Effective Rate	\$ 4,710	30.8%	\$ (9,794)	1,276.9%

	For the Six Months Ended			
	June 30,			
	2003		2002	
	Amount	Percent	Amount	Percent
Statutory U.S. federal income tax rate	\$ 1,473	35.0 %	\$ 2,073	35.0 %
Excess tax depletion	(9,678)	(229.9)	(7,945)	(134.1)
Net effect of state tax	(773)	(18.4)	1,227	20.7
Net effect of foreign tax	864	20.5	1,290	21.8
Prior year tax settlement			(1,908)	(32.2)
Other	(1,625)	(38.6)	(3,341)	(56.4)
Income Tax (Benefit)Expense/ Effective Rate	\$ (9,739)	(231.4)%	\$ (8,604)	(145.2)%

CONSOL Energy estimates the effective tax rate expected to be applicable for the full fiscal year. This rate is used to provide for income taxes on a current year-to-date basis. The effective tax rate is sensitive to changes in annual profitability and percentage depletion. In addition, the provision for income taxes is adjusted at the time the tax returns are filed to reflect changes in previously estimated amounts. These adjustments, which are included in the Other line above, decreased income tax expense by \$1,128 for the three months and six months ended June 30, 2003, and \$2,974 for the three months and six months ended June 30, 2002.

NOTE 5 - INVENTORIES:

The components of inventories consist of the following:

	June 30, 2003	December 31, 2002
Coal	\$ 57,347	\$ 67,119
Merchandise for resale	20,455	18,855
Supplies	51,496	49,647
Total Inventories	\$ 129,298	\$ 135,621

NOTE 6 ACCOUNTS RECEIVABLE SECURITIZATION:

In April 2003, CONSOL Energy and certain of its U.S. subsidiaries entered into a trade account receivables facility with financial institutions for the sale on a continuous basis of eligible trade accounts receivable. CONSOL Energy formed CNX Funding Corporation, a wholly owned, special purpose, bankruptcy-remote subsidiary for the sole purpose of buying and selling eligible trade receivables generated by certain subsidiaries of CONSOL Energy. Under the receivables facility, CONSOL Energy and certain subsidiaries, irrevocably and without recourse, sell all of their eligible trade accounts receivable to CNX Funding Corporation. CNX Funding Corporation then sells, on a revolving basis, an undivided percentage interest in the pool of eligible trade accounts receivable to financial institutions and their affiliates, while maintaining a subordinated interest in a portion of the pool of trade receivables. CONSOL Energy will continue to service the sold trade receivables for the financial institutions for a fee based upon market rates for similar services.

The receivables facility allows CONSOL Energy to receive, on a revolving basis, up to \$125 million. The cost of funds are consistent with commercial paper rates plus a charge for administrative services paid to the financial institutions. The receivables facility expires in 2006.

At June 30, 2003, eligible accounts receivable totaled approximately \$116,000, of which the subordinated retained interest was approximately \$66,000. Accordingly, \$50,000 of accounts receivable were removed from the consolidated balance sheet at June 30, 2003. The \$50,000 of proceeds are included in cash flows from operating activities in the consolidated statement of cash flows. Costs associated with the Receivables Facility totaled \$252 for the six months ended June 30, 2003. These costs have been recorded as financing fees which are included in Cost of Goods Sold and Other Operating Charges in the consolidated statements of income. No servicing asset or liability has been recorded.

The key economic assumptions used to measure the retained interest at the date of the securitization for all such sales completed in 2003 were a discount rate of 1.78% and an estimated life of 35 days. At June 30, 2003, an increase in the discount rate or estimated life of 10% and 20% would have reduced the fair value of the retained interest by \$20 and \$40, respectively. These sensitivities are hypothetical and should be used with caution. As the figures indicate, changes in fair value based on a 10% variation in assumption to the change in fair value may not be linear. Also, in this example, the effect of a variation in a particular assumption on the fair value of the subordinated retained interest is calculated without changing any other assumption. Changes in one factor may result in changes in another.

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 June 30, 2003.

	June 30, 2003	December 31, 2002
Leased coal interests	433,834	440,268
Advance mining royalties	344,027	340,229
Total gross carrying value	777,861	780,497
Less - Accumulated depletion of leased coal interests	145,284	142,467
Less - Accumulated amortization of advance mining royalties	251,092	249,668
Total accumulated depletion and amortization	396,376	392,135
Net Intangible Assets	\$ 381,485	\$ 388,362

Included in the June 30, 2003 gross carrying value for leased coal interests and advance mining royalties are \$186 and \$3,036 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 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 six months ended June 30, 2003 was \$5,302.

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 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 22,100 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 responsible parties is estimated to be approximately \$15,000. CONSOL Energy's portion of this claim is approximately 15-20%. CONSOL Energy has paid \$2,182 to date, of which \$90 has been in the three months ended June 30, 2003, related to the remediation of this waste disposal site and, accordingly, reduced the liability to \$2,793 at June 30, 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 the financial condition of CONSOL Energy and its subsidiaries. The fair values of all liabilities associated with these guarantees have been properly recorded and reported in the financial statements at June 30, 2003.

Guarantee	Term	Maximum Payments
Workers Compensation Surety Bonds (a)	Various	\$ 381,700
Reclamation Surety Bonds (b)	Various	264,500
Gas Sales Agreements (c)	Various	109,000
Ohio Power Company (d)	6/1993-6/2006	43,248
1992 Benefit Plan (e)	10/2002-10/2003	35,784
Miscellaneous Surety Bonds (f)	Various	29,500
West Virginia Workers Compensation Division (g)	4/2003-4/2004	26,261
Orix Financial Services (h)	12/2002-12/2007	17,700
U.S. Bancorp (i)	7/2002-7/2007	15,311
Ohio Valley Electric Corporation (j)	5/2000-12/2006	10,868
Court Bonds (k)	Various	10,000
Illinois Industrial Commission (l)	10/2002-10/2003	8,325
Citibank ISDA Agreements (m)	Various	6,900
Old Republic Insurance (n)	Various	6,777
Duke Energy Corporation (o)	2/2003-12/2003	5,835
U.S. Department of Energy (p)		4,900
GE Capital Finance (q)		2,372
Centimark Corp. (r)	8/2000-8/2008	1,581
Reliant Energy (s)	12/2002-12/2005	1,575
U.S. Department of Labor (t)	12/2002-12/2003	1,150
Orion Power (u)	12/2002-12/2005	635
Ginger Hill Synfuels, LLC (v)	1/2003-12/2007	635
Highmark Life & Casualty (w)	5/2003-4/2004	500
LABAR Co. (x)	4/1999-4/2005	346
Lumbermens Mutual (y)	7/2002-11/2003	253
Total Guarantees		\$ 985,656

- 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 to the extent that CONSOL Energy or any of its subsidiaries fails 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 June 30,

2003 are as follows: (a) CNX Gas Company LLC - \$36,000 and (b) Greene Energy - \$3,000.

- 3) CONSOL Energy has an agreement with AEP Energy Services to unconditionally guarantee the full and prompt payment of all obligations, up to \$10,000, of CNX Gas Company LLC, a subsidiary of CONSOL Energy, arising from AEP Energy Services purchase, sale or exchange of energy services or energy related commodities with respect to the sales agreement between CNX Gas Company LLC and AEP Energy Services.
 - 4) 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, 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 several of its 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) 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.
 - 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 April 24, 2003, a subsidiary of CONSOL Energy issued a letter of credit to the West Virginia Workers Compensation Division. This letter of credit is related to workers compensation, as a result of the fact that CONSOL Energy and its subsidiaries are self insured for these liabilities. This letter of credit will be drawn upon if CONSOL Energy fails to pay the related workers compensation claims.
 - 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) 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.
 - k) 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.
 - l) 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.
 - 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) 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.

- o) CONSOL Energy is the guarantor of the Coal Supply Agreement dated February 1, 2003 between several of its subsidiaries and Duke Energy Corporation. Under this agreement, CONSOL Energy guarantees full and timely performance of all obligations of its subsidiaries arising from this Coal Supply Agreement.
- p) 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.
- q) 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 \$2,500.
- r) 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.
- s) 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.
- t) 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.
- u) 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.
- v) CONSOL Energy is the guarantor of the Coal Supply Agreement dated January 15, 2003 between one of its subsidiaries and Ginger Hill Synfuels, LLC. Under this agreement, CONSOL Energy guarantees the full and faithful performance of all obligations of its subsidiary with respect to this Coal Supply Agreement.
- w) On May 1, 2003, 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.
- x) On April 1, 1999, a subsidiary of CONSOL Energy entered into an agreement with Alaska Supply Chain Integrators (ASCI) to lease warehouse space from LABAR Co. CONSOL Energy guarantees prompt payment of all amounts due under the lease in the event of default by the subsidiary.
- y) 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.

NOTE 9- FAIR VALUE OF FINANCIAL INSTRUMENTS:

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.

Current and long-term debt: The fair values of current and 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:

	June 30, 2003		December 31, 2002	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 13,967	\$ 13,967	\$ 11,517	\$ 11,517
Short-term notes payable	\$ (28,357)	\$ (28,357)	\$ (204,545)	\$ (204,545)
Current and long-term debt	\$ (491,219)	\$ (522,623)	\$ (488,907)	\$ (492,534)
Capital leases	\$ (6,256)	\$ (6,584)	\$ (8,139)	\$ (8,679)

NOTE 10- SEGMENT INFORMATION:

CONSOL Energy has two major business units: Coal and Gas. The principal activities of the Coal unit are mining, preparation and marketing of steam coal, sold primarily to electric utilities, and metallurgical coal, sold to steel and coke producers. The Coal unit includes four reportable segments. These reportable segments are High Sulfur, Low Sulfur, Metallurgical and Other Coal. Each of these reportable segments includes a number of operating segments (mines). For the three months and six months ended June 30, 2003 and June 30, 2002, the High Sulfur aggregated segment includes the following mines: Shoemaker, Blacksville #2, Robinson Run, Humphrey #138, Mahoning Valley and McElroy. For the three months and six months ended June 30, 2003 and June 30, 2002, the Low Sulfur aggregated segment includes the following mines: Enlow Fork, Mine 84, Bailey, Jones Fork, Mill Creek and Wiley-Mill Creek. For the three months and six months ended June 30, 2003 and June 30, 2002, the Metallurgical aggregated segment includes the following mines: Buchanan, Cardinal River, Amonate Contract and V.P. #8. The Other Coal 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. The principal activity of the Gas unit is to produce pipeline quality methane gas for sale primarily to gas wholesalers. CONSOL Energy's All Other Classification is made up of the Company's terminal services, river and dock services, industrial supply services and other business activities, including rentals of buildings and flight operations that do not qualify as operating segments.

Industry segment results for the three months ended June 30, 2003:

	High Sulfur	Low Sulfur	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate, Adjustments & Eliminations	Consolidated
Sales outside	\$ 148,905	\$ 199,416	\$ 62,022	\$ 31,280	\$ 441,623	\$ 50,742	\$ 18,870	\$	\$ 511,235
Freight outside				25,555	25,555			25	25,580
Intersegment transfers						834	22,609	(23,443)	
Total Sales and Freight	\$ 148,905	\$ 199,416	\$ 62,022	\$ 56,835	\$ 467,178	\$ 51,576	\$ 41,504	\$ (23,443)	\$ 536,815
Earnings (Loss) Before Income Taxes	\$ 26,489	\$ 10,304	\$ 5,183	\$ (29,421)	\$ 12,555	\$ 17,173	\$ (5,060)	\$ (9,399)	\$ 15,269(A)
Segment assets					\$ 2,803,276	\$ 609,898	\$ 224,272	\$ 563,577	\$ 4,201,023(B)
Depreciation, depletion and amortization					\$ 49,790	\$ 9,589	\$ 2,914	\$	\$ 62,293
Capital expenditures					\$ 45,194	\$ 18,240	\$ 640	\$	\$ 64,074

(A) Includes equity in earnings (loss) of unconsolidated equity affiliates of (\$3,940), (\$328) and (\$472) for Other Coal, Gas and All Other, respectively.

(B) Includes investments in unconsolidated equity affiliates of \$37,378, \$15,767 and \$28,428 for Coal, Gas and All Other, respectively. Also, included in the Coal segment is \$26,006 of receivables related to the Export Sales Excise Tax Resolution.

Industry segment results for the three months ended June 30, 2002:

	High Sulfur	Low Sulfur	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate, Adjustments & Eliminations	Consolidated
Sales outside	\$ 109,160	\$ 216,011	\$ 45,077	\$ 56,411	\$ 426,659	\$ 35,020	\$ 20,394	\$	\$ 482,073
Sales related parties		815			815				815
Freight outside				33,663	33,663		36		33,699
Freight related parties				549	549				549
Intersegment transfers						543	22,815	(23,358)	
Total Sales and Freight	\$ 109,160	\$ 216,826	\$ 45,077	\$ 90,623	\$ 461,686	\$ 35,563	\$ 43,245	\$ (23,358)	\$ 517,136
Earnings (Loss) Before									
Income Taxes	\$ 8,800	\$ 22,698	\$ 192	\$ (20,352)	\$ 11,338	\$ 8,323	\$ (6,975)	\$ (13,453)	\$ (767)(C)
Segment assets					\$ 3,043,109	\$ 548,084	\$ 210,384	\$ 547,098	\$ 4,348,675(D)
Depreciation, depletion and amortization									
					\$ 54,773	\$ 8,597	\$ 2,431	\$	\$ 65,801
Capital expenditures					\$ 64,894	\$ 11,401	\$ 3,088	\$	\$ 79,383

(C) Includes equity in earnings (loss) of unconsolidated equity affiliates of (\$1,256), (\$556) and (\$217) for Other Coal, Gas and All Other, respectively.

(D) Includes investments in unconsolidated equity affiliates of \$78,067, \$11,259 and \$29,933 for Coal, Gas and All Other, respectively. Also, included in the Coal segment is \$71,581 of receivables related to the Export Sales Excise Tax Resolution.

Industry segment results for the six months ended June 30, 2003:

	High Sulfur	Low Sulfur	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate, Adjustments & Eliminations	Consolidated
Sales outside	\$ 278,658	\$ 404,869	\$ 120,885	\$ 72,661	\$ 877,073	\$ 102,525	\$ 38,197	\$	\$ 1,017,795
Sales related parties		1,267	102		1,369				1,369
Freight outside				57,462	57,462		146		57,608
Freight related parties				562	562				562
Intersegment transfers						1,785	46,842	(48,627)	
Total Sales and Freight	\$ 278,658	\$ 406,136	\$ 120,987	\$ 130,685	\$ 936,466	\$ 104,310	\$ 85,185	\$ (48,627)	\$ 1,077,334
Earnings (Loss) Before Income Taxes	\$ 21,200	\$ 42,586	\$ 10,872	\$ (74,702)	\$ (44)	\$ 33,257	\$ (11,220)	\$ (17,784)	\$ 4,209(E)
Segment assets					\$ 2,803,276	\$ 609,898	\$ 224,272	\$ 563,577	\$ 4,201,023(F)
Depreciation, depletion and amortization					\$ 98,750	\$ 18,623	\$ 5,626	\$	\$ 122,999
Capital expenditures					\$ 82,747	\$ 26,912	\$ 1,061	\$	\$ 110,720

(E) Includes equity in earnings (loss) of unconsolidated equity affiliates of (\$3,431), (\$606) and (\$1,040) for Other Coal, Gas and All Other, respectively.

(F) Includes investments in unconsolidated equity affiliates of \$37,378, \$15,767 and \$28,428 for Coal, Gas and All Other, respectively. Also, included in the Coal segment is \$26,006 of receivables related to the Export Sales Excise Tax Resolution.

Industry segment results for the six months ended June 30, 2002:

	High Sulfur	Low Sulfur	Metallurgical	Other Coal	Total Coal	Gas	All Other	Corporate, Adjustments & Eliminations	Consolidated
Sales outside	\$ 244,547	\$ 424,879	\$ 92,438	\$ 120,669	\$ 882,533	\$ 62,712	\$ 42,030		\$ 987,275
Sales related parties		819			819				819
Freight outside				70,001	70,001		130		70,131
Freight related parties				549	549				549
Intersegment transfers						988	48,141	(49,129)	
Total Sales and Freight	\$ 244,547	\$ 425,698	\$ 92,438	\$ 191,219	\$ 953,902	\$ 63,700	\$ 90,301	\$ (49,129)	\$ 1,058,774
Earnings (Loss) Before Income Taxes	\$ 21,379	\$ 58,615	\$ 2,789	\$ (57,018)	\$ 25,765	\$ 11,837	\$ (8,114)	\$ (23,564)	\$ 5,924(G)
Segment assets					\$ 3,043,109	\$ 548,084	\$ 210,384	\$ 547,098	\$ 4,348,675(H)
Depreciation, depletion and amortization					\$ 110,709	\$ 16,759	\$ 4,790		\$ 132,258
Capital expenditures					\$ 116,067	\$ 30,063	\$ 3,559		\$ 149,689

(G) Includes equity in earnings (loss) of unconsolidated equity affiliates of (\$1,258), (\$930) and (\$401) for Other Coal, Gas and All Other, respectively.

(H) Includes investments in unconsolidated equity affiliates of \$78,067, \$11,259 and \$29,933 for Coal, Gas and All Other, respectively. Also, included in the Coal segment is \$71,581 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 June 30,		For the Six Months Ended June 30,	
	2003	2002	2003	2002
Segment earnings before income taxes for total reportable business segments	\$ 29,728	\$ 19,661	\$ 33,213	\$ 37,602
Segment loss before income taxes for all other businesses	(5,060)	(6,975)	(11,220)	(8,114)

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Incentive compensation	(4,101)	(3,046)	(4,093)	(3,378)
Interest income (expense), net and other non-operating activity	(5,298)	(10,407)	(13,691)	(20,186)
Earnings (Loss) Before Income Taxes	<u>\$ 15,269</u>	<u>\$ (767)</u>	<u>\$ 4,209</u>	<u>\$ 5,924</u>

Total Assets:

	June 30,	
	2003	2002
Segment assets for total reportable business segments	\$ 3,413,174	\$ 3,591,193
Segment assets for all other businesses	224,272	210,384
Items excluded from segment assets:		
Cash and other investments	14,291	10,611
Export sales excise tax resolution interest receivable		21,655
Deferred tax assets	531,681	421,063
Recoverable income taxes	14,542	90,407
Bond issuance costs	3,063	3,362
Total Consolidated Assets	\$ 4,201,023	\$ 4,348,675

NOTE 11- 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.

Income Statement for the Three Months Ended June 30, 2003:

	<u>Parent</u>	<u>Guarantors</u>	<u>Non- Guarantors</u>	<u>Elimination</u>	<u>Consolidated</u>
Sales - Outside	\$	\$ 461,767	\$ 49,468	\$	\$ 511,235
Sales - Related Parties					
Freight - Outside		24,258	1,322		25,580
Freight - Related Parties					
Other Income (including equity earnings)	20,049	19,269	(20,135)	520	19,703
Total Revenue and Other Income	20,049	505,294	30,655	520	556,518
Cost of Goods Sold and Other Operating Charges	6,398	330,692	85,846	(39,245)	383,691
Intercompany Activity	41	31,960	(71,756)	39,755	
Freight Expense		24,258	1,322		25,580
Selling, General and Administrative Expense		15,977	3,412		19,389
Depreciation, Depletion and Amortization	841	58,442	3,010		62,293
Interest Expense	4,286	2,868	1,336		8,490
Taxes Other Than Income	911	36,144	5,365		42,420
Export Sales Excise Tax Resolution		(614)			(614)
Total Costs	12,477	499,727	28,535	510	541,249
Earnings (Loss) Before Income Taxes	7,572	5,567	2,120	10	15,269
Income Taxes (Benefit)	(2,987)	7,199	498		4,710
Net Income (Loss)	\$ 10,559	\$ (1,632)	\$ 1,622	\$ 10	\$ 10,559

Balance Sheet for June 30, 2003:

	<u>Parent</u>	<u>Guarantors</u>	<u>Non- Guarantors</u>	<u>Elimination</u>	<u>Total</u>
Assets:					
Current Assets:					
Cash and Cash Equivalents	\$ 2,766	\$ 98	\$ 11,103	\$	\$ 13,967
Accounts and Notes Receivable:					
Trade		2,584	167,816		170,400
Other	5,651	63,751	12,551		81,953
Inventories	258	96,489	32,551		129,298
Deferred Income Taxes	89,077				89,077
Recoverable Income Taxes	14,542				14,542
Prepaid Expenses	12,979	13,991	3,004		29,974
Total Current Assets	125,273	176,913	227,025		529,211
Property, Plant and Equipment:					
Property, Plant and Equipment	94,441	4,756,917	513,849		5,365,207
Less-Accumulated Depreciation, Depletion and Amortization	43,270	2,565,318	105,781		2,714,369
Property, Plant and Equipment - Net	51,171	2,191,599	408,068		2,650,838
Other Assets:					
Deferred Income Taxes	442,604				442,604
Intangible Assets, Net		339,258	42,227		381,485
Investment in Affiliates	1,354,371	674,604	87,751	(2,035,153)	81,573
Other	2,562	93,149	19,601		115,312
Total Other Assets	1,799,537	1,107,011	149,579	(2,035,153)	1,020,974
Total Assets	\$ 1,975,981	\$ 3,475,523	\$ 784,672	\$ (2,035,153)	\$ 4,201,023
Liabilities and Stockholders Equity:					
Current Liabilities:					
Accounts Payable	\$ 44,437	\$ 39,945	\$ 25,591	\$	\$ 109,973
Accounts Payable(Recoverable)-Related Parties	1,255,847	(626,949)	(628,898)		
Short-Term Notes Payable	25,000		3,357		28,357
Current Portion of Long-Term Debt		52,220	484		52,704
Other Accrued Liabilities	74,022	401,848	64,593		540,463
Total Current Liabilities	1,399,306	(132,936)	(534,873)		731,497
Long-Term Debt:					
Long-Term Debt	248,211	173,726	20,900		442,837
Capital Lease Obligations		1,934			1,934
Total Long-Term Debt	248,211	175,660	20,900		444,771
Deferred Credits and Other Liabilities:					

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Postretirement Benefits Other Than Pensions		1,450,458			1,450,458
Pneumoconiosis Benefits		449,273			449,273
Mine Closing		233,090	130,960		364,050
Workers Compensation	1,441	219,002	34,682		255,125
Deferred Revenue		72,296	8,419		80,715
Salary Retirement	113,120	215			113,335
Reclamation		6,327	4,863		11,190
Other	63,333	78,338	8,368		150,039
		<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Deferred Credits and Other Liabilities	177,894	2,508,999	187,292		2,874,185
Stockholders Equity	150,570	923,800	1,111,353	(2,035,153)	150,570
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Stockholders Equity	\$ 1,975,981	\$ 3,475,523	\$ 784,672	\$ (2,035,153)	\$ 4,201,023
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Condensed Statement of Cash Flows
For the Three Months Ended June 30, 2003:

	<u>Parent</u>	<u>Guarantors</u>	<u>Non- Guarantors</u>	<u>Elimination</u>	<u>Consolidated</u>
Net Cash Provided by Operating Activities	\$ 137,673	\$ 46,119	\$ 11,950	\$	\$ 195,742
Cash Flows from Investing Activities:					
Capital Expenditures	\$ (2,728)	\$ (49,919)	\$ (11,427)	\$	\$ (64,074)
Investment in Equity Affiliates		(199)	(3,680)		(3,879)
Other Investing Activities	2	4,738	(1,440)		3,300
Net Cash (Used in) Provided by Investing Activities	\$ (2,726)	\$ (45,380)	\$ (16,547)	\$	\$ (64,653)
Cash Flows from Financing Activities:					
Payments on Short-Term					
Borrowings	\$ (125,673)	\$	\$	\$	\$ (125,673)
Proceeds from Long-Term Notes					
Dividends Paid	(11,016)				(11,016)
Other Financing Activities	328	(1,040)	335		(377)
Net Cash (Used in) Provided by Financing Activities	\$ (136,361)	\$ (1,040)	\$ 335	\$	\$ (137,066)

Income Statement for the Three Months Ended June 30, 2002:

	<u>Parent</u>	<u>Guarantors</u>	<u>Non- Guarantors</u>	<u>Elimination</u>	<u>Consolidated</u>
Sales - Outside	\$	\$ 431,506	\$ 50,567	\$	\$ 482,073
Sales - Related Parties		817	(2)		815
Freight - Outside		27,423	6,276		33,699
Freight - Related Parties		549			549
Other Income (including equity earnings)	18,039	6,050	11,197	(19,756)	15,530
Total Revenue and Other Income	18,039	466,345	68,038	(19,756)	532,666
Cost of Goods Sold and Other Operating					
Charges	5,882	309,177	87,766	(40,314)	362,511
Intercompany Activity	298	9,032	(51,339)	42,009	
Freight Expense		27,972	6,276		34,248
Selling, General and Administrative Expense		14,221	2,974		17,195
Depreciation, Depletion and Amortization	133	61,180	4,488		65,801
Interest Expense	6,527	4,579	742		11,848
Taxes Other Than Income	907	36,388	5,572		42,867
Export Sales Excise Tax Resolution		(1,037)			(1,037)

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Total Costs	13,747	461,512	56,479	1,695	533,433
Earnings (Loss) Before Income Taxes	4,292	4,833	11,559	(21,451)	(767)
Income Taxes (Benefit)	(4,735)	(5,439)	380		(9,794)
Net Income (Loss)	\$ 9,027	\$ 10,272	\$ 11,179	\$ (21,451)	\$ 9,027

Balance Sheet for December 31, 2002:

	<u>Parent</u>	<u>Guarantors</u>	<u>Non- Guarantors</u>	<u>Elimination</u>	<u>Total</u>
Assets:					
Current Assets:					
Cash and Cash Equivalents	\$ 2,651	\$ 293	\$ 8,573	\$	\$ 11,517
Accounts and Notes Receivable:					
Trade		165,110	40,781		205,891
Other	6,481	110,524	10,221		127,226
Inventories	258	93,899	41,464		135,621
Deferred Income Taxes	92,236				92,236
Recoverable Income Taxes	21,935				21,935
Prepaid Expenses	4,770	19,106	4,535		28,411
Total Current Assets	128,331	388,932	105,574		622,837
Property, Plant and Equipment:					
Property, Plant and Equipment	87,689	4,652,501	517,266		5,257,456
Less-Accumulated Depreciation, Depletion and Amortization					