

CONSOL ENERGY INC
Form 11-K
June 29, 2005
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

x **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.**

For the fiscal year ended December 31, 2004;

OR

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

For the transition period from _____

Commission file number: 001-14901

A. Full title of the plan and the address of the plan, if different from that of issuer named below:

Consol Energy Inc. Investment Plan for Salaried Employees

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Consol Energy Inc.

1800 Washington Road

Pittsburgh, Pennsylvania 15241

Registrant's telephone number including area code: 412-831-4000

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Consol Energy Inc.

Investment Plan for

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Financial Statements and Supplemental Schedule

December 31, 2004 and 2003

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Investment Plan for

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Trustees and Participants of

CONSOL Energy Inc. Investment Plan for Salaried Employees

We have audited the accompanying statement of net assets available for benefits of CONSOL Energy Inc. Investment Plan for Salaried Employees (the Plan) as of December 31, 2004, and the related statement of changes in net assets available for benefits for the year then ended. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of CONSOL Energy Inc. Investment Plan for Salaried Employees as of and for the year ended December 31, 2003 were audited by other auditors whose report dated June 14, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2004, and the changes in net assets available for benefits for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule of Assets Held for Investment Purposes at End of Year as of December 31, 2004, is presented for the purpose of additional analysis and is not a required part of the basic financial statements, but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in our audit of the basic 2004 financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

/s/ McCrory & McDowell LLC

Pittsburgh, PA

June 28, 2005

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CONSOL ENERGY INC. INVESTMENT PLAN FOR SALARIED EMPLOYEES

Statements of Net Assets Available for Benefits

ASSETS

(in thousands of dollars)

	December 31	
	2004	2003
<u>Investment at Contract Value</u>		
Stable Value Fund	\$ 574,670	\$ 558,250
<u>Investments at Fair Value</u>		
Interests in Registered Investment Companies	165,062	151,795
Barclays 3-Way Fund	0	15,120
Merrill Lynch Aggressive Asset Allocation Portfolio	0	1,257
Merrill Lynch Conservative Asset Allocation Portfolio	0	458
Merrill Lynch Moderate Asset Allocation Portfolio	0	2,659
Merrill Lynch Small Cap Index Trust	0	3,110
Merrill Lynch International Index Trust	0	937
Merrill Lynch Equity Index Trust	46,291	14,019
E.I. DuPont de Nemours & Company Common Stock	140,426	161,373
CONSOL Stock Fund	72,186	42,568
Daimler Chrysler AG Common Stock	103	117
Participant Loans	14,449	14,115
	<u>438,517</u>	<u>407,528</u>
Total Investments	1,013,187	965,778
<u>Receivables</u>		
Due from Broker for Securities Sold	224	612
Accrued Interest and Dividends	7	5
	<u>231</u>	<u>617</u>
<u>Cash</u>	78	617
NET ASSETS AVAILABLE FOR BENEFITS	<u>\$ 1,013,496</u>	<u>\$ 967,012</u>

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

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CONSOL ENERGY INC. INVESTMENT PLAN FOR SALARIED EMPLOYEES

Statement of Changes in Net Assets Available for Benefits

	For the Year Ended
	December 31,
	2004
<i>(in thousands of dollars)</i>	
<u>Additions to Net Assets Attributable to:</u>	
<u>Contributions:</u>	
Participants Contributions	\$ 20,765
Participants Rollovers	23,367
Employer	12,156
	<u>56,288</u>
<u>Investment Income:</u>	
Interest and Dividends	10,960
Net Appreciation in Fair Value of Investments	81,573
	<u>92,533</u>
<u>Total Additions</u>	148,821
<u>Deductions from Net Assets Attributed to:</u>	
Benefits Paid to Participants	102,334
Administrative Expense	3
	<u>102,337</u>
<u>Total Deductions</u>	102,337
<u>Net Additions</u>	46,484
<u>Net Assets Available for Benefits</u>	
Beginning of Year	967,012
END OF YEAR	\$ 1,013,496

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

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CONSOL ENERGY INC. INVESTMENT PLAN FOR SALARIED EMPLOYEES

Notes to Financial Statements

December 31, 2004 and 2003

1. DESCRIPTION OF PLAN

The following brief description of the CONSOL Energy Inc. Investment Plan for Salaried Employees (the Plan) is provided for general information purposes only. Participants should refer to the Plan agreement for a more complete description of the Plan's provisions.

General The Plan is a defined contribution plan established in 1953. Salaried, operations and maintenance and, in certain circumstances, production and maintenance employees of CONSOL Energy Inc. and participating employers (CONSOL Energy or the Company) are eligible to participate in the Plan on the first of the month following the start of regular full-time employment. In addition, temporary employees are eligible to participate in the Plan upon completion of a period of 12 consecutive months, commencing upon their employment date or anniversary date thereof, during which the employee completes 1,000 or more hours of service. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

On April 29, 1999, CONSOL Energy underwent an initial public offering. In connection with the public offering, the Plan offers CONSOL Energy common stock (CONSOL Stock Fund) as an investment option. Participants of the Plan were able to transfer funds into the CONSOL Stock Fund in June 1999 and to allocate contributions to this fund in July 1999. In addition, participants were no longer able to allocate contributions to E.I. DuPont de Nemours & Company (DuPont) common stock (DuPont Stock Fund).

The CONSOL Stock Fund investment option is an Employee Stock Ownership Plan (ESOP), whereby participants in the plan will be given the opportunity to elect to receive cash for dividends declared on CONSOL Energy stock. If a participant does not make an election, the dividends will be reinvested in the CONSOL Stock Fund.

Contributions During the year 2004 participants could, with certain restrictions, contribute a maximum of 44% of monthly base pay to the Plan exclusive of supplemental make-up deposits. CONSOL Energy and participating employers match these contributions, dollar for dollar, up to 6% of base pay (as defined by the Plan). The employer and employee contributions may not exceed \$41,000 and \$40,000 for the years 2004 and 2003, respectively. Contributions may be made with before-tax or after-tax dollars. In addition, subject to certain limitations, a participant is allowed to make lump-sum savings deposits in cash to the Plan. For the year ended December 31, 2004, the Plan was amended for full-time employees hired or rehired on or after August 1, 2004. For these employees, CONSOL Energy and participating employers match participant's contributions, dollar for dollar, up to 9% of base pay (as defined by the Plan).

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CONSOL ENERGY INC. INVESTMENT PLAN FOR SALARIED EMPLOYEES

Notes to Financial Statements

December 31, 2004 and 2003

1. DESCRIPTION OF PLAN (Continued)

Participant Accounts Each participant's account is credited with the participant's contributions and allocations of the Company's contributions and plan investment earnings and is charged with an allocation of administrative expenses and plan investment losses. Allocations are based on participant earnings or account balances, as defined. Forfeited balances of terminated participants' nonvested accounts are used to reduce future Company contributions. The benefit to which a participant is entitled is the benefit that can be provided from the participant's account.

Investment Options Upon enrollment in the Plan, a participant may direct employee contributions in any of the funds included in the supplemental schedule of assets (held at end of year), which is attached to these financial statements, except for E.I. DuPont de Nemours & Company Common Stock, Daimler Chrysler AG Common Stock and Fidelity Low Price Stock Fund. These options are no longer available to Plan participants.

Vesting Plan participants vest upon completion of three cumulative years of service. Participants are always 100% vested in their deposits and in the earnings on both their deposits and the Company's contributions.

Participant Loans Participants may borrow up to one-half of their nonforfeitable account balances subject to certain minimum and maximum loan limitations. Such loans are repayable over periods of 12 to 60 months (120 months maximum if for the purchase of a principal residence) and bear an interest rate equal to the average rate charged by selected major banks for secured personal loans. Principal and interest are paid ratably through payroll deductions.

Payment of Benefits Participants who retire from active service may elect to make withdrawals until April 1 of the calendar year following the year in which the participant attains age 70 1/2. They may also elect an option to have their account distributed over a period of not less than two years or more than a period which would pay the account balance during the employee's actuarial life in either a fixed or variable amount. Before-tax deposits may be withdrawn only in the event of an employee's retirement, death, termination, attainment of age 59½ or defined hardship. At December 31, 2004 and 2003; approximately \$82,000 and \$617,000 was payable to withdrawing participants.

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CONSOL ENERGY INC. INVESTMENT PLAN FOR SALARIED EMPLOYEES

Notes to Financial Statements

December 31, 2004 and 2003

1. DESCRIPTION OF PLAN (Continued)

Forfeitures Nonvested participants whose services with the Company have been terminated will forfeit their entire Company matching source. Total forfeitures were approximately \$47,000 and \$32,000 for the years ended December 31, 2004 and 2003, respectively. Forfeitures are used to reduce the employer matching contributions to the Plan.

Plan Termination Although it has not expressed any intent to do so, CONSOL Energy has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of plan termination, participants will become 100% vested in their accounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting The financial statements of the Plan are prepared under the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America.

Investment Valuation and Income Recognition The Plan's investments are stated at fair value except for the Stable Value Fund (Note 3). The Stable Value Fund is comprised of guaranteed investment contracts (GIC), separate account portfolios (SAP) and synthetic GICs (SYN), all of which are held with multiple insurance companies. These fully benefit responsive contracts are held for investment purposes by the Plan and are stated at contract value (which represents contributions made under the contract, plus earnings, less withdrawals and administrative expenses). Participants may ordinarily direct the withdrawals or transfer of all or a portion of their investment at contract value. Changes in contract value of the investment contracts are recognized in the statement of changes in net assets available for benefits as they occur. There are no reserves against contract value for credit risk of the contract issuer or otherwise. The fair value of the Stable Value Fund at December 31, 2004 and 2003 was \$600,271,000 and \$589,068,000, respectively.

Investments in common stocks, common stock funds and registered investment companies are stated at fair value based on publicly quoted market prices. Investments in Common/Collective Trusts are valued at the net asset value of units held by the Plan at year end by the applicable custodian.

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CONSOL ENERGY INC. INVESTMENT PLAN FOR SALARIED EMPLOYEES

Notes to Financial Statements

December 31, 2004 and 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Purchases and sales of investments are recorded on a trade-date basis. Dividend income is recorded on the ex-dividend date and interest income is recorded on the accrual basis. Gains and losses on the sale of DuPont and CONSOL Energy common stock are based on the average cost of the securities sold. The CONSOL Stock Fund, which is comprised solely of CONSOL Energy common stock, is valued at its quoted market price at year end. Participant loans are valued at cost, which approximates fair value.

Use of Estimates The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Risks and Uncertainties The Plan provides for various investment options. These investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is possible that changes in the near or long term could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits and the statement of changes in net assets available for benefits.

Payment of Benefits Benefits are recorded when paid.

Administrative Expenses Certain administrative expenses of the Plan, such as trustee fees, accounting and legal fees are provided to the Plan by CONSOL Energy without cost. Other administrative expenses are borne by the Plan.

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CONSOL ENERGY INC. INVESTMENT PLAN FOR SALARIED EMPLOYEES

Notes to Financial Statements

December 31, 2004 and 2003

3. INVESTMENTS

The following presents individual investments that represent 5% or more of the Plan's net assets available for benefits at December 31:

(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
E.I. DuPont de Nemours & Company common stock, 2,862,919 and 3,516,507 shares, respectively	\$ 140,426	\$ 161,373
CONSOL Energy Inc. common stock, 1,758,494 and 1,643,532 shares, respectively	72,186	42,568
*LM Western Asset Core Plus, 5,995,955 and 6,060,594 shares, respectively	63,917	63,576
*PIMCO Low Duration Fund, 7,775,816 and 8,810,584 shares, respectively	79,313	90,220
*GEM Trust: GEM Trust Risk-Controlled 2	6,359,169 units	64,222
		0
*GEM Trust: GEM Trust Opportunistic 1	6,278,445 units	63,531
		0
*GEM Trust: GEM Trust Opportunistic 2	6,485,302 units	65,611
		0
*GEM Trust: GEM Trust Opportunistic 3	6,521,489 units	66,116
		0

* These investments are included in the Stable Value Fund.

During 2004, the Plan's investments (including gains and losses on investments bought and sold, as well as held during the year) appreciated in value by \$81,573,000 as follows:

	Net
	Appreciation in Investment Value During Year
<i>(in thousands of dollars)</i>	
Registered investment companies	\$ 15,248
Common stock	
CONSOL Stock Fund	26,712
E.I. DuPont de Nemours & Company	7,930
Daimler Chrysler AG	3
Stable Value Fund	27,834
Common/Collective Trusts	3,846
	<u>\$ 81,573</u>

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CONSOL ENERGY INC. INVESTMENT PLAN FOR SALARIED EMPLOYEES

Notes to Financial Statements

December 31, 2004 and 2003

3. INVESTMENTS (Continued)

The Stable Value Fund is a separate account held by the Plan. The investment contracts are entered into based on an evaluation of the credit risk of the contract issuers and/or third party guarantors. Collateral is generally not provided. The Stable Value Fund includes traditional guaranteed investment contracts as well as synthetic guaranteed investment contracts. A synthetic guaranteed investment contract provides for a guaranteed return on principal over a specified period of time through the use of underlying assets and a benefit responsive wrapper contract issued by a third party. Included in the contract value of synthetic guaranteed investment contracts is approximately \$(18,800,000) and \$(21,700,000) at December 31, 2004 and 2003, respectively, attributable to wrapper contract providers representing the amounts by which the value of contracts are greater than (less than) the value of the underlying assets.

The composition of assets of the Stable Value Fund as of December 31, 2004 and 2003 are as follows:

(in thousands of dollars)

	<u>2004</u>	<u>2003</u>
Investment contracts	\$ 571,392	\$ 551,652
Short-term investments	3,278	6,598
	<u>\$ 574,670</u>	<u>\$ 558,250</u>

The composition of changes in net assets of the Stable Value Fund for the year ended December 31, 2004 is as follows:

(in thousands of dollars)

Employer contributions	\$ 6,420
Participant contributions and rollovers	34,798
	<u>41,218</u>
Interest and dividend income	444
Net realized/unrealized appreciation in fair value	27,834
Benefits paid to participants	(73,944)
Administrative Expense	(1)
Net loan activity	(760)
Net interfund transfers	21,629
	<u>16,420</u>
Increase in net assets available for benefits	16,420
Net Assets	

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Beginning of year	558,250
End of year	\$ 574,670

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CONSOL ENERGY INC. INVESTMENT PLAN FOR SALARIED EMPLOYEES

Notes to Financial Statements

December 31, 2004 and 2003

3. INVESTMENTS (Continued)

The aggregate crediting rates for all contracts as of December 31, 2004 and 2003 were 5.19% and 5.36%, respectively. The crediting rates for SAP and SYN contracts are reset annually and are based on the market value of the underlying portfolio of assets backing these contracts. Inputs used to determine the crediting rate include each contract's portfolio market value, current yield-to-maturity, duration (i.e., weighted average life), and market value relative to contract value. The average yield of the Stable Value Fund was approximately 5.29% and 5.53% in 2004 and 2003, respectively.

Participants investing in the Stable Value Fund or Common/Collective Trusts are assigned units at the time of investment based on the net asset value per unit.

4. TAX STATUS

The Plan obtained its latest determination letter on September 17, 2002, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has been amended since receiving the determination letter. However, the Plan administrator and the Plan's tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan's financial statements.

5. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500

The following is a reconciliation of net assets available for benefits per the financial statements at December 31, 2004 and 2003 to Form 5500:

(in thousands of dollars)

	2004	2003
Net assets available for benefits per the financial statements	\$ 1,013,496	\$ 967,012
Amounts allocated to withdrawing participants	(82)	(617)
Net assets available for benefits per the Form 5500	\$ 1,013,414	\$ 966,395

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CONSOL ENERGY INC. INVESTMENT PLAN FOR SALARIED EMPLOYEES

Notes to Financial Statements

December 31, 2004 and 2003

5. RECONCILIATION OF FINANCIAL STATEMENTS TO FORM 5500 (Continued)

The following is a reconciliation of benefits paid to participants per the financial statements for the year ended December 31, 2004, to Form 5500:

(in thousands of dollars)

Benefits paid to participants per the financial statements	\$ 102,334
Amounts allocated to withdrawing participants at December 31, 2004	82
<u>Less:</u> Amounts allocated to withdrawing participants at December 31, 2003	(617)
	<hr/>
Benefits paid to participants per form 5500	\$ 101,799
	<hr/>

Amounts allocated to withdrawing participants are recorded on the Form 5500 for benefit claims that have been processed and approved for payment prior to December 31, 2004 and 2003, but not yet paid as of that date.

6. TRANSACTIONS WITH PARTIES-IN-INTEREST

Plan investments include collective investment fund managed by Merrill Lynch. Merrill Lynch is the trustee as defined by the Plan and, therefore, these transactions qualify as those conducted with a party-in-interest to the Plan.

One of the investment vehicles available to employees, the CONSOL Stock Fund, contains stock of CONSOL Energy. The Plan held 1,758,494 shares and 1,643,532 shares of CONSOL Energy's common stock at December 31, 2004 and 2003, respectively.

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CONSOL ENERGY INC. INVESTMENT PLAN FOR SALARIED EMPLOYEES

SUPPLEMENTAL SCHEDULE

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CONSOL ENERGY INC. INVESTMENT PLAN FOR SALARIED EMPLOYEES

EIN Number 51-0337383, Plan Number 002

Schedule H, Part IV, Line 4(i) Schedule of Assets

Held for Investment Purposes at End of Year

Supplemental Schedule

(a) Lessor or Similar Party	(c) Description of investment including maturity date, rate of interest, collateral, par or maturity value	(d) Number of shares/units	(e) Current Value (in 000s)
Common Stock			
* Consol Stock Fund		1,758,494	\$ 72,186
E.I. DuPont de Nemours & Company		2,862,919	140,426
Daimler Chrysler AG		2,143	103
Total Common Stock			212,715
Interests in Registered Investment Companies			
* Merrill Lynch	Basic Value Fund	474,688	15,105
Fidelity Investments	Low Priced Stock Fund	541,019	21,776
	Growth and Income Portfolio	221,031	8,446
	Magellan Fund	317,129	32,915
Templeton	Foreign Fund	936,591	11,520
Smith Barney	Large Cap Growth Fund	883,816	19,329
PIMCO	Total Return Fund	297,921	3,179
American Funds	Europacific Growth Fund		