

FOREST OIL CORP
Form 10-Q
November 06, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

Or

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

**For the transition period from _____ to _____
Commission File Number 1-13515**

FOREST OIL CORPORATION

(Exact name of registrant as specified in its charter)

New York
(State or other jurisdiction of
incorporation or organization)

25-0484900
(I.R.S. Employer
Identification No.)

707 17th Street, Suite 3600 Denver, Colorado 80202
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(303) 812-1400**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of October 30, 2009 there were 112,273,747 shares of the registrant's common stock, par value \$.10 per share, outstanding.

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September 30, 2009

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FOREST OIL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In Thousands, Except Share Data)

	September 30, 2009	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,153	2,205
Accounts receivable	95,537	157,226
Derivative instruments	76,744	169,387
Other investments		2,327
Inventory	68,567	78,683
Other current assets	56,000	63,221
Total current assets	302,001	473,049
Property and equipment, at cost:		
Oil and gas properties, full cost method of accounting:		
Proved, net of accumulated depletion of \$7,430,707 and \$5,502,782	2,097,696	3,449,510
Unproved	843,243	964,027
Net oil and gas properties	2,940,939	4,413,537
Other property and equipment, net of accumulated depreciation and amortization of \$51,149 and \$37,260	117,022	99,627
Net property and equipment	3,057,961	4,513,164
Deferred income taxes	293,704	
Goodwill	255,604	253,646
Derivative instruments	2,782	4,608
Other assets	47,383	38,331
	\$ 3,959,435	5,282,798

**LIABILITIES AND
SHAREHOLDERS' EQUITY**

Current liabilities:		
Accounts payable and accrued liabilities	\$ 193,785	424,941
Accrued interest	39,872	7,143
Derivative instruments	30,589	1,284
Deferred income taxes	12,404	54,583
Asset retirement obligations	3,456	5,852
Other current liabilities	22,943	27,608
Total current liabilities	303,049	521,411

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Long-term debt	2,475,413	2,735,661
Asset retirement obligations	95,696	91,139
Derivative instruments	11,148	2,600
Deferred income taxes		185,587
Other liabilities	68,541	73,488
Total liabilities	2,953,847	3,609,886
Shareholders' equity:		
Preferred stock, none issued and outstanding		
Common stock, 112,279,389 and 97,039,751 shares issued and outstanding	11,228	9,704
Capital surplus	2,630,769	2,354,903
Accumulated deficit	(1,697,614)	(729,293)
Accumulated other comprehensive income	61,205	37,598
Total shareholders' equity	1,005,588	1,672,912
	\$ 3,959,435	5,282,798

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
(In Thousands, Except Per Share Amounts)				
Revenues:				
Oil and gas sales	\$ 177,184	474,237	553,473	1,365,902
Interest and other	(42)	379	602	2,823
Total revenues	177,142	474,616	554,075	1,368,725
Costs, expenses, and other:				
Lease operating expenses	34,938	44,912	114,205	120,890
Production and property taxes	10,873	23,482	34,359	67,681
Transportation and processing costs	5,352	4,874	15,918	14,440
General and administrative	17,316	18,046	49,050	57,166
Depreciation, depletion, and amortization	65,275	136,731	237,964	378,882
Accretion of asset retirement obligations	2,014	1,871	6,195	5,622
Ceiling test write-down of oil and gas properties			1,575,843	
Interest expense	42,653	30,429	122,373	86,265
Realized and unrealized (gains) losses on derivative instruments, net	(5,665)	(449,340)	(112,212)	74,358
Gain on sale of assets		(21,063)		(21,063)
Other, net	(4,074)	21,725	(1,098)	32,779
Total costs, expenses, and other	168,682	(188,333)	2,042,597	817,020
Earnings (loss) before income taxes	8,460	662,949	(1,488,522)	551,705
Income tax:				
Current		2,961	1,505	6,939
Deferred	(163,851)	230,981	(521,706)	188,509
Total income tax	(163,851)	233,942	(520,201)	195,448
Net earnings (loss)	\$ 172,311	429,007	(968,321)	356,257
Basic earnings (loss) per common share	\$ 1.53	4.77	(9.46)	3.99
Diluted earnings (loss) per common share	\$ 1.53	4.71	(9.46)	3.94

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION
CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(Unaudited)

	Common Stock		Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Shareholders' Equity
	Shares	Amount				
(In Thousands)						
Balances at December 31, 2008	97,040	\$ 9,704	2,354,903	(729,293)	37,598	1,672,912
Common stock issued, net of offering costs	14,375	1,438	254,779			256,217
Exercise of stock options	3		48			48
Employee stock purchase plan	106	11	1,237			1,248
Restricted stock issued, net of cancellations	762	76	(76)			
Amortization of stock-based compensation			20,604			20,604
Restricted stock redeemed and other	(7)	(1)	(726)			(727)
Comprehensive loss:						
Net loss				(968,321)		(968,321)
Unfunded postretirement benefits, net of tax					984	984
Foreign currency translation					22,623	22,623
Total comprehensive loss						(944,714)
Balances at September 30, 2009	112,279	\$ 11,228	2,630,769	(1,697,614)	61,205	1,005,588

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30,	
	2009	2008
	(In Thousands)	
Operating activities:		
Net earnings (loss)	\$ (968,321)	356,257
Adjustments to reconcile net earnings (loss) to net cash provided by operating activities:		
Depreciation, depletion, and amortization	237,964	378,882
Accretion of asset retirement obligations	6,195	5,622
Deferred income tax	(521,706)	188,509
Stock-based compensation expense	12,948	14,093
Unrealized losses (gains) on derivative instruments, net	132,216	(36,329)
Ceiling test write-down of oil and gas properties	1,575,843	
Unrealized foreign currency exchange (gains) losses, net	(15,609)	6,771
Unrealized losses on other investments, net	2,327	22,066
Gain on sale of assets		(21,063)
Other, net	4,201	(2,837)
Changes in operating assets and liabilities:		
Accounts receivable	66,143	(1,234)
Other current assets	20,622	(50,275)
Accounts payable and accrued liabilities	(106,567)	605
Accrued interest and other current liabilities	27,317	21,383
Net cash provided by operating activities	473,573	882,450
Investing activities:		
Capital expenditures for property and equipment:		
Exploration, development, and acquisition costs	(512,266)	(1,903,413)
Other fixed assets	(30,185)	(50,928)
Proceeds from sales of assets	145,691	99,416
Other, net		13,898
Net cash used by investing activities	(396,760)	(1,841,027)
Financing activities:		
Proceeds from bank borrowings	706,551	2,609,133
Repayments of bank borrowings	(1,556,174)	(1,674,884)
Issuance of 8 ¹ / ₂ % senior notes, net of issuance costs	559,767	
Issuance of 7 ¹ / ₄ % senior notes, net of issuance costs		247,188
Redemption of 8% senior notes		(265,000)
Repurchases of 7% senior subordinated notes	(970)	(4,710)
Proceeds from common stock offering, net of offering costs	256,217	
Proceeds from the exercise of options and from employee stock purchase plan	1,296	17,475
Change in bank overdrafts	(36,303)	26,093
Other, net	(3,665)	(5,804)
Net cash (used) provided by financing activities	(73,281)	949,491
Effect of exchange rate changes on cash	(584)	(103)
Net increase (decrease) in cash and cash equivalents	2,948	(9,189)
Cash and cash equivalents at beginning of period	2,205	9,685

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Cash and cash equivalents at end of period	\$	5,153	496
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Cash paid during the period for:

Interest	\$	92,711	74,802
Income taxes		3,783	6,957

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(1) BASIS OF PRESENTATION

The Condensed Consolidated Financial Statements included herein are unaudited and include the accounts of Forest Oil Corporation and its consolidated subsidiaries (collectively, "Forest" or the "Company"). In the opinion of management, all adjustments, which are of a normal recurring nature, have been made which are necessary for a fair presentation of the financial position of Forest at September 30, 2009, the results of its operations for the three and nine months ended September 30, 2009 and 2008, and its cash flows for the nine months ended September 30, 2009 and 2008. Interim results are not necessarily indicative of expected annual results because of the impact of fluctuations in prices received for liquids (oil, condensate, and natural gas liquids) and natural gas and other factors. Management has evaluated events and transactions occurring after the balance sheet date through November 6, 2009, the date that the financial statements were issued.

In the course of preparing the Condensed Consolidated Financial Statements, management makes various assumptions, judgments, and estimates to determine the reported amounts of assets, liabilities, revenues, and expenses, and in the disclosures of commitments and contingencies. Changes in these assumptions, judgments, and estimates will occur as a result of the passage of time and the occurrence of future events and, accordingly, actual results could differ from amounts previously established.

The more significant areas requiring the use of assumptions, judgments, and estimates relate to volumes of oil and gas reserves used in calculating depletion, the amount of future net revenues used in computing the ceiling test limitations, and the amount of future capital costs and abandonment obligations used in such calculations, determining impairments of investments in unproved properties, valuing deferred tax assets and goodwill, and estimating fair values of financial instruments, including derivative instruments.

Certain amounts in the prior year financial statements have been reclassified to conform to the 2009 financial statement presentation.

For a more complete understanding of Forest's operations, financial position, and accounting policies, reference is made to the consolidated financial statements of Forest, and related notes thereto, filed with Forest's Annual Report on Form 10-K for the year ended December 31, 2008, previously filed with the Securities and Exchange Commission.

(2) EARNINGS (LOSS) PER SHARE AND COMPREHENSIVE EARNINGS (LOSS)

Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net earnings (loss) attributable to common stock by the weighted average number of common shares outstanding during each period. Under the treasury stock method, diluted earnings (loss) per share is computed by dividing net earnings (loss) adjusted for the effects of certain contracts that provide the issuer or holder with a choice between settlement methods by the weighted average number of common shares outstanding adjusted for the dilutive effect, if any, of potential common shares (i.e. stock options, unvested restricted stock grants, and unvested phantom stock units that may be settled in shares). No potential common shares shall be included in the computation of any diluted per share amount when a net loss exists.

The two-class method of computing earnings per share is required for those entities that have participating securities or multiple classes of common stock. The two-class method is an earnings

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(2) EARNINGS (LOSS) PER SHARE AND COMPREHENSIVE EARNINGS (LOSS) (Continued)

allocation formula that determines earnings per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. In June 2008, the Financial Accounting Standards Board ("FASB") issued authoritative guidance that addressed whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share under the two-class method. This guidance was effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those years. Accordingly, Forest adopted this guidance as of January 1, 2009. All prior period earnings per share data presented have been adjusted retrospectively to conform to the provisions of this guidance.

Restricted stock issued under Forest's stock incentive plans has the right to receive non-forfeitable cash dividends, participating on an equal basis with common stock. Phantom stock units issued to directors under Forest's stock incentive plans also have the right to receive non-forfeitable cash dividends, participating on an equal basis with common stock, while phantom stock units issued to employees do not participate in dividends. Stock options issued under Forest's stock incentive plans do not participate in dividends. Therefore, restricted stock issued to employees and directors and phantom stock units issued to directors are participating securities and earnings must now be allocated to both common stock and these participating securities under the two-class method. However, these participating securities do not have a contractual obligation to share in Forest's losses. Therefore, in periods of net loss, none of the loss is allocated to these participating securities, consequently, the adoption of this guidance will have no impact on Forest's basic earnings per share for those periods. In periods of net earnings, however, both basic and diluted earnings per share calculated under the two-class method will likely be lower than they would have been prior to the adoption of this guidance.

Stock options, unvested restricted stock grants, and unvested phantom stock units that may be settled in shares were not included in the calculation of diluted loss per share for the nine months ended September 30, 2009 as their inclusion would have an antidilutive effect. Unvested restricted stock grants and unvested participating phantom stock units were not included in the calculation of diluted earnings per share for the three and nine months ended September 30, 2008 and unvested restricted stock grants were not included in the calculation of diluted earnings per share for the three months ended September 30, 2009 as their inclusion would have an antidilutive effect.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(2) EARNINGS (LOSS) PER SHARE AND COMPREHENSIVE EARNINGS (LOSS) (Continued)

The following sets forth the calculation of basic and diluted earnings (loss) per share for the periods presented.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In Thousands, Except Per Share Amounts)			
Net earnings (loss)	\$ 172,311	429,007	(968,321)	356,257
Net earnings attributable to participating securities	(3,384)	(9,027)		(6,392)
Net earnings (loss) attributable to common stock for basic earnings per share	168,927	419,980	(968,321)	349,865
Adjustment for liability-classified stock-based compensation awards	(21)	(519)		195
Adjustment to net earnings attributable to participating securities		11		(3)
Net earnings (loss) for diluted earnings per share	\$ 168,906	419,472	(968,321)	350,057
Weighted average common shares outstanding during the period	110,054	87,987	102,366	87,667
Dilutive effects of potential common shares	168	1,058		1,155
Weighted average common shares outstanding, including the effects of dilutive potential common shares	110,222	89,045	102,366	88,822
Basic earnings (loss) per common share	\$ 1.53	4.77	(9.46)	3.99
Diluted earnings (loss) per common share	\$ 1.53	4.71	(9.46)	3.94

Comprehensive Earnings (Loss)

Comprehensive earnings (loss) is a term used to refer to net earnings (loss) plus other comprehensive income (loss). Other comprehensive income (loss) is comprised of revenues, expenses, gains, and losses that under U.S. generally accepted accounting principles are reported as separate components of shareholders' equity instead of net earnings (loss). Items included in Forest's other comprehensive income (loss) for the three and nine months ended September 30, 2009 and 2008 are foreign currency gains and losses related to the translation of the assets and liabilities of Forest's Canadian operations and changes in unfunded postretirement benefits.

The components of comprehensive earnings (loss) are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(In Thousands)			
Net earnings (loss)	\$ 172,311	429,007	(968,321)	356,257
Other comprehensive income (loss):				
Foreign currency translation gains (losses)	18,591	(18,663)	22,623	(30,645)
Unfunded postretirement benefits, net of tax	316	(7)	984	(7)
Total comprehensive earnings (loss)	\$ 191,218	410,337	(944,714)	325,605

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(3) STOCK-BASED COMPENSATION

The table below sets forth total stock-based compensation recorded during the three and nine months ended September 30, 2009 and 2008, and the remaining unamortized amounts and the weighted average amortization period remaining as of September 30, 2009.

	Stock Options	Restricted Stock	Phantom Stock Units	Total ⁽¹⁾
	(In Thousands)			
Three months ended September 30, 2009:				
Total stock-based compensation costs	\$ 196	6,938	972	8,106
Less: stock-based compensation costs capitalized	(70)	(2,664)	(470)	(3,204)
Stock-based compensation costs expensed	\$ 126	4,274	502	4,902
Nine months ended September 30, 2009:				
Total stock-based compensation costs	\$ 533	19,586	1,273	21,392
Less: stock-based compensation costs capitalized	(222)	(7,751)	(623)	(8,596)
Stock-based compensation costs expensed	\$ 311	11,835	650	12,796
Unamortized stock-based compensation costs as of				
September 30, 2009	\$ 1,611	40,268	6,109 ⁽²⁾	47,988
Weighted average amortization period remaining	1.3 years	1.7 years	2.4 years	1.8 years
Three months ended September 30, 2008:				
Total stock-based compensation costs	\$ 745	7,237	(1,030)	6,952
Less: stock-based compensation costs capitalized	(292)	(2,636)	658	(2,270)
Stock-based compensation costs expensed	\$ 453	4,601	(372)	4,682
Nine months ended September 30, 2008:				
Total stock-based compensation costs	\$ 2,274	17,429	2,788	22,491
Less: stock-based compensation costs capitalized	(940)	(6,172)	(1,683)	(8,795)
Stock-based compensation costs expensed	\$ 1,334	11,257	1,105	13,696

(1) The Company also maintains an employee stock purchase plan (which is not included in the table) under which \$.1 million and \$.5 million of compensation cost was recognized for the three and nine months ended September 30, 2009, respectively, and \$.1 million and \$.4 million of compensation cost was recognized for the three and nine months ended September 30, 2008, respectively.

(2) Based on the closing price of the Company's common stock on September 30, 2009.

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FOREST OIL CORPORATION

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(3) STOCK-BASED COMPENSATION (Continued)

Stock Options

The following table summarizes stock option activity in the Company's stock-based compensation plans for the nine months ended September 30, 2009.

	Number of Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value (In Thousands) ⁽¹⁾	Number of Shares Exercisable
Outstanding at January 1, 2009	2,097,267	\$ 21.13	\$ 376	1,898,316
Granted				
Exercised	(3,344)	\$ 14.56	7	
Cancelled	(102,782)	\$ 23.14		
Outstanding at September 30, 2009	1,991,141	\$ 21.03	3,602	1,890,034