

FOREST OIL CORP
Form 10-Q
August 09, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2006

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

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(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

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 July 31, 2006 there were 62,866,871 shares of the registrant's common stock, par value \$.10 per share, outstanding.

FOREST OIL CORPORATION
INDEX TO FORM 10-Q
June 30, 2006

Part I FINANCIAL INFORMATION

Item 1 Financial Statements

Condensed Consolidated Balance Sheets as of June 30, 2006 and December 31, 2005 1

Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2006 and 2005 2

Condensed Consolidated Statement of Shareholders' Equity for the Six Months Ended June 30, 2006 3

Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2006 and 2005 4

Notes to Condensed Consolidated Financial Statements 5

Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations 19

Item 3 Quantitative and Qualitative Disclosures About Market Risk 31

Item 4 Controls and Procedures 33

Part II OTHER INFORMATION

Item 4 Submission of Matters to a Vote of Security Holders 33

Item 6 Exhibits 34

Signatures 35

PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

FOREST OIL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In Thousands, Except Share Data)

	June 30, 2006	December 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 5,456	7,231
Accounts receivable	139,673	178,124
Derivative instruments	10,870	941
Deferred tax assets	16,816	77,346
Other current assets	35,054	52,283
Total current assets	207,869	315,925
Property and equipment, at cost:		
Oil and gas properties, full cost method of accounting:		
Proved, net of accumulated depletion of \$2,159,630 and \$3,059,031	2,298,209	2,898,774
Unproved	264,218	275,684
Net oil and gas properties	2,562,427	3,174,458
Other property and equipment, net of accumulated depreciation and amortization of \$30,152 and \$32,527	28,550	25,560
Net property and equipment	2,590,977	3,200,018
Derivative instruments	3,747	
Goodwill	87,725	87,072
Other assets	35,583	42,531
	\$ 2,925,901	3,645,546
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 209,266	312,076
Accrued interest	4,752	4,260
Derivative instruments	49,203	151,678
Asset retirement obligations	1,741	33,329
Other current liabilities	15,172	21,573
Total current liabilities	280,134	522,916
Long-term debt	1,086,924	884,807
Asset retirement obligations	61,023	178,225
Derivative instruments	1,197	
Other liabilities	46,970	45,691
Deferred income taxes	152,593	329,385
Total liabilities	1,628,841	1,961,024
Shareholders' equity:		
Preferred stock, none issued		
Common stock, 62,854,397 and 64,548,229 shares issued and outstanding	6,286	6,455
Capital surplus	1,179,987	1,529,102
Retained earnings	30,013	217,293
Accumulated other comprehensive income (loss)	80,774	(18,220)
Treasury stock, at cost, 1,861,143 shares held in 2005		(50,108)
Total shareholders' equity	1,297,060	1,684,522
	\$ 2,925,901	3,645,546

See accompanying Notes to Condensed Consolidated Financial Statements.

FOREST OIL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In Thousands, Except Per Share Amounts)			
Revenue:				
Oil and gas sales:				
Natural gas	\$ 94,753	160,115	221,806	314,641
Oil, condensate, and natural gas liquids	115,470	109,240	207,513	213,584
Total oil and gas sales	210,223	269,355	429,319	528,225
Marketing, processing, and other	1,630	1,700	3,980	3,121
Total revenue	211,853	271,055	433,299	531,346
Operating expenses:				
Lease operating expenses	35,529	45,783	80,860	93,643
Production and property taxes	10,997	10,547	21,725	20,444
Transportation costs	5,642	4,583	10,371	9,755
General and administrative (including stock-based compensation)	11,071	11,091	28,207	21,847
Depreciation and depletion	63,253	97,249	140,921	193,525
Accretion of asset retirement obligations	1,301	4,322	4,653	8,599
Impairments	2,078		2,078	2,924
Spin-off and merger costs			5,416	
Total operating expenses	129,871	173,575	294,231	350,737
Earnings from operations	81,982	97,480	139,068	180,609
Other income and expense:				
Interest expense	17,340	16,061	32,491	30,560
Unrealized (gains) losses on derivative instruments, net	(14,378)	(4,310)	9,736	2,270
Realized losses (gains) on derivative instruments, net	13,698	(850)	17,613	(318)
Other (income) expense, net	(110)	2,509	750	3,910
Total other income and expense	16,550	13,410	60,590	36,422
Earnings before income taxes and discontinued operations	65,432	84,070	78,478	144,187
Income tax expense:				
Current	1,819	617	2,821	2,174
Deferred	6,565	31,252	17,360	50,941
Total income tax expense	8,384	31,869	20,181	53,115
Earnings from continuing operations	57,048	52,201	58,297	91,072
Income from discontinued operations, net of tax			2,422	
Net earnings	\$ 57,048	52,201	60,719	91,072
Basic earnings per common share:				
Earnings from continuing operations	\$.92	.85	.94	1.50
Income from discontinued operations, net of tax			.04	
Net earnings per common share	\$.92	.85	.98	1.50
Diluted earnings per common share:				
Earnings from continuing operations	\$.90	.83	.92	1.46
Income from discontinued operations, net of tax			.04	
Net earnings per common share	\$.90	.83	.96	1.46

See accompanying Notes to Condensed Consolidated Financial Statements.

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

	Common Stock		Capital	Retained	Accumulated	Treasury	Total
	Shares	Amount	Surplus	Earnings	Other	Stock	Shareholders
	(In Thousands)				(Loss) Income		Equity
Balances at January 1, 2006	64,548	\$ 6,455	1,529,102	217,293	(18,220)	(50,108)	1,684,522
Exercise of stock options	152	15	3,376	(8)		27	3,410
Tax benefit of stock options exercised			23				23
Employee stock purchase plan	13	2	364				366
Restricted stock issued, net of forfeitures	1						
Retirement of treasury stock	(1,860)	(186)	(49,895)			50,081	
Amortization of stock-based compensation			14,684				14,684
Pro rata distribution of FERI common stock to shareholders (Note 2)			(317,667)	(247,991)	7,549		(558,109)
Comprehensive earnings:							
Net earnings				60,719			60,719
Unrealized gain on effective derivative instruments, net of tax							