UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2005

Or

o **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	**25-0484900**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1600 Broadway, Suite 2200, 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 ý No o

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

As of April 30, 2005 there were 60,640,740 shares of the registrant's common stock, par value $.10 per share, outstanding.

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March 31, 2005

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

FOREST OIL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2005	December 31, 2004
	(In Thousands)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,808	55,251
Accounts receivable	158,540	151,927
Current deferred tax asset	74,685	38,321
Other current assets	29,894	37,969
Total current assets	268,927	283,468
Property and equipment, at cost:		
Oil and gas properties, full cost method of accounting:		
Proved, net of accumulated depletion of $2,795,147 and $2,701,402	2,484,611	2,495,894
Unproved	222,930	213,870
Net oil and gas properties	2,707,541	2,709,764
Other property and equipment, net of accumulated depreciation and amortization of $29,683 and $28,797	11,128	11,354
Net property and equipment	2,718,669	2,721,118
Goodwill	67,546	68,560
Other assets	50,233	49,359
	$ 3,105,375	3,122,505
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	$ 194,594	217,640
Derivative instruments	170,754	80,523
Asset retirement obligations	29,229	25,452
Total current liabilities	394,577	323,615
Long-term debt	774,423	888,819
Asset retirement obligations	190,067	184,724
Derivative instruments	43,741	20,890
Other liabilities	37,529	35,785
Deferred income taxes	197,387	196,525
Total liabilities	1,637,724	1,650,358
Shareholders' equity:		
Preferred stock, none issued		

		March 31, 2005	December 31, 2004
Common stock, 62,529,534 and 61,595,024 shares issued and outstanding		6,253	6,159
Capital surplus		1,479,261	1,444,367
Retained earnings		104,843	66,007
Accumulated other comprehensive (loss) income		(71,757)	6,780
Treasury stock, at cost, 1,892,707 and 1,901,807 shares held		(50,949)	(51,166)
Total shareholders' equity		1,467,651	1,472,147
	$	3,105,375	3,122,505

See accompanying Notes to Condensed Consolidated Financial Statements.

FOREST OIL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended March 31, 2005	Three Months Ended March 31, 2004
	(In Thousands Except Per Share Amounts)	
Revenue:		
Oil and gas sales:		
Natural gas	$ 154,526	124,062
Oil, condensate and natural gas liquids	104,344	69,775
Total oil and gas sales	258,870	193,837
Processing income, net	1,421	416
Total revenue	260,291	194,253
Operating expenses:		
Lease operating expenses	47,860	48,189
Production and property taxes	9,897	7,448
Transportation costs	5,172	3,692
General and administrative	10,756	6,360
Depreciation and depletion	96,276	79,628
Impairment of oil and gas properties	2,924	
Accretion of asset retirement obligations	4,277	4,275
Total operating expenses	177,162	149,592
Earnings from operations	83,129	44,661
Other income and expense:		
Interest expense	14,499	12,947
Unrealized loss on derivative instruments	6,580	1,031
Other expense (income), net	1,933	(1,455)
Total other income and expense	23,012	12,523
Earnings before income taxes and discontinued operations	60,117	32,138
Income tax expense:		
Current	1,557	711
Deferred	19,689	11,790
Total income tax expense	21,246	12,501
Earnings from continuing operations	38,871	19,637
Loss from discontinued operations, net of tax		(575)
Net earnings	$ 38,871	19,062
Basic earnings per common share:		
Earnings from continuing operations	$ .65	.37

	Three Months Ended March 31,	
Loss from discontinued operations, net of tax		(.01)
Net earnings per common share	$ .65	.36
Diluted earnings per common share:		
Earnings from continuing operations	$ .63	.36
Loss from discontinued operations, net of tax		(.01)
Net earnings per common share	$ .63	.35

See accompanying Notes to Condensed Consolidated Financial Statements.

FOREST OIL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31, 2005	2004
	(In Thousands)	
Operating activities:		
Net earnings	$ 38,871	19,062
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and depletion	96,276	79,628
Impairment of oil and gas properties	2,924	
Accretion of asset retirement obligations	4,277	4,275
Unrealized loss on derivative instruments	6,580	1,031
Deferred income tax expense	19,689	12,511
Other, net	(1,134)	(827)
Changes in operating assets and liabilities:		
Accounts receivable	(6,243)	39,110
Other current assets	(1,599)	(10,989)
Accounts payable and accrued expenses	(23,558)	(46,024)
Net cash provided by operating activities	136,083	97,777
Investing activities:		
Capital expenditures for property and equipment:		
Exploration, development and acquisition costs	(96,603)	(59,417)
Other fixed assets	(693)	(639)
Proceeds from sales of assets	6,867	7,365
Sale of goodwill and contract value		8,493
Other, net	(6,217)	(1,002)
Net cash used by investing activities	(96,646)	(45,200)
Financing activities:		
Proceeds from bank borrowings	363,953	241,490
Repayments of bank borrowings	(477,000)	(284,000)
Proceeds from the exercise of options and warrants	24,383	3,707
Other, net	1,079	(67)
Net cash used by financing activities	(87,585)	(38,870)
Effect of exchange rate changes on cash	(1,295)	(67)
Net (decrease) increase in cash and cash equivalents	(49,443)	13,640
Cash and cash equivalents at beginning of period	55,251	11,509
Cash and cash equivalents at end of period	$ 5,808	25,149
Cash paid during the period for:		
Interest	$ 1,583	1,945
Income taxes	2,473	777

See accompanying Notes to Condensed Consolidated Financial Statements.

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, consisting of normal recurring accruals, have been made which are necessary for a fair presentation of the financial position of Forest at March 31, 2005, the results of operations for the three months ended March 31, 2005 and 2004, and its cash flows for the three months ended March 31, 2005 and 2004. Quarterly 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.

In the course of preparing the Condensed Consolidated Financial Statements, management makes various assumptions, judgments, and estimates to determine the reported amount of assets, liabilities, revenue, 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 initially 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. Assumptions, judgments, and estimates are also required in determining impairments of undeveloped properties, valuing deferred tax assets, and estimating fair values of derivative instruments.

Certain amounts in the prior year financial statements have been reclassified to conform to the 2005 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, 2004, previously filed with the Securities and Exchange Commission.

(2) ACQUISITIONS AND DIVESTITURES

Acquisitions

Recent Acquisition

On April 1, 2005, Forest purchased a private company whose primary assets are located in the Buffalo Wallow Field in Texas and includes approximately 33,000 gross acres located primarily in Hemphill and Wheeler Counties, Texas. Forest paid $200 million in cash for the stock and assumed approximately $35 million of debt (net of working capital).

Acquisition of The Wiser Oil Company

In June 2004, Forest completed its acquisition of the common stock of The Wiser Oil Company ("Wiser"), which held oil and gas assets located in the geographic areas of Forest's Gulf Coast, Western, and Canada business units ("the Wiser Acquisition").

The following unaudited pro forma consolidated statements of operations information assumes that the Wiser Acquisition occurred as of January 1, 2004. The pro forma results of operations is not necessarily indicative of the results of operations that would have actually been attained if the transaction had occurred as of January 1, 2004.

		Three Months Ended March 31, 2004
		(In Thousands)
Total revenue	$	222,651
Net earnings from continuing operations		18,288
Net earnings		17,713
Basic earnings per share		.30
Diluted earnings per share		.30

Divestitures

On March 1, 2004, the assets and business operations of Forest's Canadian marketing subsidiary, ProMark, were sold to Cinergy Canada, Inc. ("Cinergy") for $11.2 million CDN. Under the terms of the purchase and sale agreement, Cinergy will market natural gas (not already subject to prior contractual commitments) on behalf of Forest's Canadian exploration and production subsidiary, Canadian Forest Oil Ltd., for five years. Cinergy will also administer the netback pool formerly administered by ProMark. Forest could receive additional contingent payments over the next five years if Cinergy meets certain earnings goals with respect to the acquired business.

As a result of the sale, ProMark's results of operations have been reported as discontinued operations in the accompanying financial statements. The components of loss from discontinued operations for the three months ended March 31, 2004 are as follows:

		Three Months Ended March 31, 2004
		(In Thousands)
Marketing revenue, net	$	597
General and administrative expense		(280)
Interest expense		(2)
Other expense		(166)
Current income tax expense		(2)
Deferred income tax expense		(722)
Loss from discontinued operations, net of tax	$	(575)

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

Earnings per Share

Basic earnings per share is computed by dividing net earnings from continuing operations attributable to common stock by the weighted average number of common shares outstanding during each period, excluding treasury shares.

Diluted earnings per share is computed by adjusting the average number of common shares outstanding for the dilutive effect, if any, of convertible preferred stock, stock options, unvested restricted stock grants, and warrants.

The following sets forth the calculation of basic and diluted earnings per share:

	Three Months Ended March 31,	
	2005	2004
	(In Thousands Except Per Share Amounts)	
Earnings from continuing operations	$ 38,871	19,637
Weighted average common shares outstanding during the period	60,209	53,684
Add dilutive effects of stock options and unvested restricted stock grants[1]	947	317
Add dilutive effects of warrants[2]	932	748
Weighted average common shares outstanding including the effects of dilutive securities	62,088	54,749
Basic earnings per share from continuing operations	$ .65	.37
Diluted earnings per share from continuing operations	$ .63	.36

(1) For the three months ended March 31, 2005 and 2004, options to purchase 30,000 and 1,590,400 shares of common stock, respectively, were not included in the computation of diluted earnings per share because the exercise prices of these options were greater than the average market price of the common stock during the period.

(2) At March 31, 2005, Forest had outstanding 1,751,855 subscription warrants ("Subscription Warrants"). Each Subscription Warrant entitles the holder to purchase 0.8 shares of Common Stock for $10.00, or an equivalent per share price of $12.50. The Subscriptions Warrants were originally scheduled to expire on March 20, 2010 or earlier upon notice of expiration. On April 8, 2005, Forest gave notice that it was accelerating the expiration of the Subscription Warrants to May 9, 2005.

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 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 months ended March 31, 2005 and 2004 are foreign currency gains (losses) related to the translation of the assets and liabilities of Forest's Canadian operations, changes in the unfunded pension liability, and unrealized gains (losses) related to the change in fair value of derivative instruments designated as cash flow hedges.

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

	Three Months Ended March 31,	
	2005	2004
	(In Thousands)	
Net earnings	$ 38,871	19,062
Other comprehensive loss:		
Foreign currency translation losses	(2,879)	(3,042)
Unfunded pension liability, net of tax	(149)	6
Unrealized loss on derivative instruments, net of tax	(75,509)	(22,726)
Total comprehensive loss	$ (39,666)	(6,700)

(4) STOCK-BASED COMPENSATION

Forest applies APB Opinion 25, *Accounting for Stock Issued to Employees*, and related Interpretations to account for its stock-based compensation plans. Accordingly, no compensation cost is recognized for options granted at a price equal to or greater than the fair market value of the common stock. Compensation cost is recognized over the vesting period of options granted at a price less than the fair market value of the common stock at the date of the grant. No compensation cost is recognized for stock purchase rights that qualify under Section 423 of the Internal Revenue Code as a non-compensatory plan. Had compensation cost for Forest's stock option grants and stock purchase rights been determined using the fair value of the options at the grant date as prescribed by Statement of Financial Accounting Standards No. 123, *Accounting for Stock-Based Compensation*, Forest's pro forma net earnings and earnings per common share would have been as follows:

	Three Months Ended March 31,	
	2005	2004
	(In Thousands Except Per Share Amounts)	
Net earnings attributable to common stockholders, as reported	$ 38,871	$ 19,062
Add: Stock-based employee compensation included in reported net earnings, net of tax	132	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(1,284)	(2,656)
Pro forma net earnings	$ 37,719	$ 16,406
Earnings per share:		
Basic earnings per common share:		
As reported	$ .65	$ .36
Pro forma	$ .63	$ .31
Diluted earnings per common share:		
As reported	$ .63	$ .35
Pro forma	$ .61	$ .30

	Three Months Ended March 31,	

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(5) LONG-TERM DEBT

Components of long-term debt are as follows:

	March 31, 2005				December 31, 2004			
	Principal	Unamortized Premium (Discount)	Other(1)	Total	Principal	Unamortized Premium (Discount)	Other(1)	Total
	(In Thousands)							
U.S. Credit Facility	$ 39,000			39,000	152,000			152,000
Canadian Credit Facility								
8% Senior Notes Due 2008	265,000	(317)	7,385	272,068	265,000	(341)	7,952	272,611
8% Senior Notes Due 2011	285,000	8,719	5,623	299,342	285,000	9,042	5,829	299,871
7 3/4% Senior Notes Due 2014	150,000	(2,169)	16,182	164,013	150,000	(2,228)	16,565	164,337
	$ 739,000	6,233	29,190	774,423	852,000	6,473	30,346	888,819

(1) Represents the unamortized portion of gains realized upon termination of interest rate swaps that were accounted for as fair value hedges. The gains are being amortized as a reduction of interest expense over the terms of the note issues.

(6) PROPERTY AND EQUIPMENT

Forest uses the full cost method of accounting for oil and gas properties. Separate cost centers are maintained for each country in which Forest has operations. During the periods presented, Forest's primary oil and gas operations were conducted in the United States and Canada. All costs incurred in the acquisition, exploration, and development of properties (including costs of surrendered and abandoned leaseholds, delay lease rentals, dry holes, and overhead related to exploration and development activities) and the fair value of estimated future costs of site restoration, dismantlement, and abandonment activities are capitalized. For the three months ended March 31, 2005 and 2004, Forest capitalized $6.2 million and $5.8 million, respectively, of general and administrative costs related to exploration and development activity. Costs associated with production and general corporate activities are expensed in the period incurred.

Investments in unproved properties, including related capitalized interest costs, are not depleted pending determination of the existence of proved reserves. Unproved properties are assessed periodically to ascertain whether impairment has occurred. Unproved properties whose costs are individually significant are assessed individually by considering the primary lease terms of the properties, the holding period of the properties, and geographic and geologic data obtained relating to the properties. Where it is not practicable to assess individually the amount of impairment of properties for which costs are not individually significant, such properties are grouped for purposes of assessing impairment. The amount of impairment assessed is added to the costs to be amortized, or is reported as a period expense, as appropriate.

Pursuant to full cost accounting rules, capitalized costs less related accumulated depletion and deferred income taxes for each cost center may not exceed the sum of (1) the present value of future net revenue from estimated production of proved oil and gas reserves using current prices, including the effects of derivative instruments but excluding the future cash outflows associated with settling asset retirement obligations that have been accrued on the balance sheet, and a discount factor of 10%; plus

(2) the cost of properties not being amortized, if any; plus (3) the lower of cost or estimated fair value of unproved properties included in the costs being amortized, if any; less (4) income tax effects related to differences in the book and tax basis of oil and gas properties. There were no such provisions for impairment of oil and gas properties in the periods presented, although our Canadian full cost pool, in particular, could be adversely impacted by moderate declines in commodity prices. Gain or loss is not recognized on the sale of oil and gas properties unless the sale significantly alters the relationship between capitalized costs and estimated proved oil and gas reserves attributable to a cost center.

Depletion of proved oil and gas properties is computed on the units-of-production method, whereby capitalized costs, as adjusted for future development costs and asset retirement obligations, are amortized over the total estimated proved reserves. Furniture and fixtures, computer hardware and software, and other equipment are de