

FOREST OIL CORP  
Form 10-Q  
August 07, 2013  
Table of Contents

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, 2013

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	25-0484900
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
707 17th Street, Suite 3600	80202
Denver, Colorado	(Zip Code)
(Address of principal executive offices)	

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/>	Smaller reporting company <input type="checkbox"/>

(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

Edgar Filing: FOREST OIL CORP - Form 10-Q

As of August 1, 2013 there were 120,078,373 shares of the registrant's common stock, par value \$.10 per share, outstanding.

---

Table of Contents

FOREST OIL CORPORATION  
INDEX TO FORM 10-Q  
June 30, 2013

<u>Part I—FINANCIAL INFORMATION</u>	<u>1</u>
<u>Item 1—Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations for the Three and Six Months Ended June 30, 2013 and 2012</u>	<u>2</u>
<u>Condensed Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2013 and 2012</u>	<u>3</u>
<u>Condensed Consolidated Statement of Shareholders' Equity for the Six Months Ended June 30, 2013</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2013 and 2012</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2—Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>25</u>
<u>Item 3—Quantitative and Qualitative Disclosures About Market Risk</u>	<u>38</u>
<u>Item 4—Controls and Procedures</u>	<u>40</u>
<u>Part II—OTHER INFORMATION</u>	<u>41</u>
<u>Item 1—Legal Proceedings</u>	<u>41</u>
<u>Item 1A—Risk Factors</u>	<u>41</u>
<u>Item 2—Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>41</u>
<u>Item 6—Exhibits</u>	<u>43</u>
<u>Signatures</u>	<u>45</u>

Table of Contents

## PART I—FINANCIAL INFORMATION

## Item 1. FINANCIAL STATEMENTS

FOREST OIL CORPORATION  
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In Thousands, Except Share Amounts)

	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$421	\$1,056
Accounts receivable	72,470	67,516
Derivative instruments	17,211	40,190
Other current assets	16,024	16,318
Total current assets	106,126	125,080
Property and equipment, at cost:		
Oil and natural gas properties, full cost method of accounting:		
Proved, net of accumulated depletion of \$8,326,395 and \$8,237,186	1,288,691	1,459,312
Unproved	195,118	277,798
Net oil and natural gas properties	1,483,809	1,737,110
Other property and equipment, net of accumulated depreciation and amortization of \$49,108 and \$46,908	14,613	17,128
Net property and equipment	1,498,422	1,754,238
Deferred income taxes	6,547	14,681
Goodwill	239,420	239,420
Derivative instruments	5,504	8,335
Other assets	57,726	60,108
	\$1,913,745	\$2,201,862
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$196,260	\$164,786
Accrued interest	14,850	23,407
Derivative instruments	3,829	9,347
Deferred income taxes	6,547	14,681
Current portion of long-term debt	—	12
Other current liabilities	14,038	14,092
Total current liabilities	235,524	226,325
Long-term debt	1,630,337	1,862,088
Asset retirement obligations	23,247	56,155
Derivative instruments	2,310	7,204
Other liabilities	89,713	92,914
Total liabilities	1,981,131	2,244,686
Shareholders' equity:		
Preferred stock, none issued and outstanding	—	—
Common stock, 120,107,896 and 118,245,320 shares issued and outstanding	12,011	11,825
Capital surplus	2,550,933	2,541,859
Accumulated deficit	(2,610,503)	(2,575,994)

Edgar Filing: FOREST OIL CORP - Form 10-Q

Accumulated other comprehensive loss	(19,827	)	(20,514	)
Total shareholders' equity (deficit)	(67,386	)	(42,824	)
	\$1,913,745		\$2,201,862	

See accompanying Notes to Condensed Consolidated Financial Statements.

1

---

Table of ContentsFOREST OIL CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In Thousands, Except Per Share Amounts)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Revenues:				
Oil, natural gas, and natural gas liquids sales	\$ 116,786	\$ 135,694	\$ 234,828	\$ 294,595
Interest and other	28	37	160	69
Total revenues	116,814	135,731	234,988	294,664
Costs, expenses, and other:				
Lease operating expenses	19,167	27,134	40,371	54,741
Production and property taxes	5,029	6,940	7,245	18,093
Transportation and processing costs	3,098	3,615	6,378	7,587
General and administrative	13,114	16,421	33,128	31,805
Depreciation, depletion, and amortization	43,804	72,987	92,347	139,957
Ceiling test write-down of oil and natural gas properties	—	348,976	—	383,793
Interest expense	29,392	34,317	65,520	67,709
Realized and unrealized gains on derivative instruments, net	(31,610)	(34,015)	(6,030)	(63,539)
Other, net	1,593	3,455	30,413	30,375
Total costs, expenses, and other	83,587	479,830	269,372	670,521
Earnings (loss) before income taxes	33,227	(344,099)	(34,384)	(375,857)
Income tax (benefit) expense	(212)	167,074	125	167,989
Net earnings (loss)	\$33,439	\$(511,173)	\$(34,509)	\$(543,846)
Basic earnings (loss) per common share	\$.28	\$(4.44)	\$(.30)	\$(4.75)
Diluted earnings (loss) per common share	\$.28	\$(4.44)	\$(.30)	\$(4.75)

See accompanying Notes to Condensed Consolidated Financial Statements.

2

---

Table of Contents

FOREST OIL CORPORATION  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
 (Unaudited)  
 (In Thousands)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net earnings (loss)	\$33,439	\$(511,173)	\$(34,509)	\$(543,846)
Other comprehensive income:				
Defined benefit postretirement plans - amortization of actuarial losses, net of tax	345	186	687	373
Total other comprehensive income	345	186	687	373
Total comprehensive income (loss)	\$33,784	\$(510,987)	\$(33,822)	\$(543,473)



See accompanying Notes to Condensed Consolidated Financial Statements.

3

---

Table of Contents

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

	Common Stock		Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity (Deficit)
	Shares	Amount				
Balances at December 31, 2012	118,245	\$11,825	\$2,541,859	\$(2,575,994)	\$ (20,514 )	\$(42,824 )
Employee stock purchase plan	115	11	431	—	—	442
Restricted stock issued, net of forfeitures	1,978	198	(198 )	—	—	—
Amortization of stock-based compensation	—	—	10,147	—	—	10,147
Other, net	(230 )	(23 )	(1,306 )	—	—	(1,329 )
Net loss	—	—	—	(34,509 )	—	(34,509 )
Other comprehensive income	—	—	—	—	687	687
Balances at June 30, 2013	120,108	\$12,011	\$2,550,933	\$(2,610,503)	\$ (19,827 )	\$(67,386 )

See accompanying Notes to Condensed Consolidated Financial Statements.

4

---

Table of Contents

FOREST OIL CORPORATION  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(In Thousands)

	Six Months Ended	
	June 30,	
	2013	2012
Operating activities:		
Net loss	\$(34,509	) \$(543,846 )
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation, depletion, and amortization	92,347	139,957
Deferred income tax	—	167,880
Unrealized losses (gains) on derivative instruments, net	15,398	(5,423 )
Ceiling test write-down of oil and natural gas properties	—	383,793
Stock-based compensation expense	6,479	9,257
Loss on debt extinguishment	25,223	—
Other, net	2,903	7,833
Changes in operating assets and liabilities:		
Accounts receivable	(4,168	) 19,077
Other current assets	(269	) 2,305
Accounts payable and accrued liabilities	17,956	(20,601 )
Accrued interest and other	(10,948	) 16,192
Net cash provided by operating activities	110,412	176,424
Investing activities:		
Capital expenditures for property and equipment:		
Exploration, development, and leasehold acquisition costs	(205,099	) (395,781 )
Other fixed assets	(1,115	) (4,910 )
Proceeds from sales of assets	338,977	1,102
Net cash provided (used) by investing activities	132,763	(399,589 )
Financing activities:		
Proceeds from bank borrowings	320,000	443,000
Repayments of bank borrowings	(255,000	) (200,000 )
Redemption of senior notes	(321,327	) —
Change in bank overdrafts	13,523	(20,666 )
Other, net	(1,006	) (1,501 )
Net cash (used) provided by financing activities	(243,810	) 220,833
Net decrease in cash and cash equivalents	(635	) (2,332 )
Cash and cash equivalents at beginning of period	1,056	3,012
Cash and cash equivalents at end of period	\$421	\$680
Cash paid during the period for:		
Interest (net of capitalized amounts)	\$70,428	\$61,622
Income taxes (net of refunded amounts)	1,070	915
Non-cash investing activities:		
(Decrease) increase in accrued capital expenditures	\$(4,259	) \$5,672
Common stock issued for acquisition of unproved oil and natural gas properties	—	36,431

See accompanying Notes to Condensed Consolidated Financial Statements.

5

---

Table of Contents

FOREST OIL CORPORATION  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)

(1) ORGANIZATION AND BASIS OF PRESENTATION

Organization

Forest Oil Corporation is an independent oil and gas company engaged in the acquisition, exploration, development, and production of oil, natural gas, and natural gas liquids (“NGLs”) primarily in North America. Forest was incorporated in New York in 1924, as the successor to a company formed in 1916, and has been a publicly held company since 1969. Forest holds assets in several exploration and producing areas in the United States and has exploratory and development interests in two other countries. Unless the context indicates otherwise, the terms “Forest,” the “Company,” “we,” “our,” and “us,” as used in this Quarterly Report on Form 10-Q, refer to Forest Oil Corporation and its subsidiaries.

Basis of Presentation

The Condensed Consolidated Financial Statements included herein are unaudited and include the accounts of Forest and its consolidated subsidiaries. All intercompany balances and transactions have been eliminated. In the opinion of management, all adjustments, which are of a normal recurring nature, have been made that are necessary for a fair presentation of the financial position of Forest at June 30, 2013, and the results of its operations, its comprehensive income, its cash flows, and changes in its shareholders’ equity for the periods presented. Interim results are not necessarily indicative of expected annual results because of the impact of fluctuations in the prices of oil, natural gas, and NGLs and the impact the prices have on Forest’s revenues and the fair values of its derivative instruments.

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, natural gas, and NGL 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, assessing investments in unproved properties and goodwill for impairment, determining the need for and the amount of deferred tax asset valuation allowances, 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 2013 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, 2012, previously filed with the Securities and Exchange Commission (“SEC”).

(2) EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share is computed using the two-class method by dividing net earnings (loss) attributable to common stock by the weighted average number of common shares outstanding during each period. The two-class method of computing earnings (loss) per share is required to be used since Forest has participating securities. The two-class method is an earnings allocation formula that determines earnings (loss) per share for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. Holders of restricted stock issued under Forest's stock incentive plans have the right to receive non-forfeitable cash and certain non-cash dividends, participating on an equal basis with common stock. Holders of phantom stock units issued to directors under Forest's stock incentive plans also have the right to receive non-forfeitable cash and certain non-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. Performance units issued under Forest's stock incentive plans do not participate in dividends in their current form. Holders of performance units participate in dividends paid during the performance units' vesting period only after the performance units vest and common shares are deliverable under the terms of the performance unit awards. Performance units may vest with no common shares being deliverable, depending on Forest's

Table of Contents

shareholder return over the performance units' vesting period in relation to the shareholder returns of specified peers. See Note 3 for more information on Forest's stock-based incentive awards. In summary, restricted stock issued to employees and directors and phantom stock units issued to directors are participating securities, and earnings are 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.

Diluted 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, increasing the denominator to include the number of additional common shares that would have been outstanding if the dilutive potential common shares (e.g. stock options, unvested restricted stock, unvested phantom stock units that may be settled in shares, and unvested performance units) had been issued. Additionally, the numerator is also adjusted for certain contracts that provide the issuer or holder with a choice between settlement methods. Diluted earnings per share is computed using the more dilutive of the treasury stock method or the two-class method. Under the treasury stock method, the dilutive effect of potential common shares is computed by assuming common shares are issued for these securities at the beginning of the period, with the assumed proceeds from exercise, which include average unamortized stock-based compensation costs, assumed to be used to purchase common shares at the average market price for the period, and the incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased) included in the denominator of the diluted earnings per share computation. The number of contingently issuable shares pursuant to the outstanding performance units is included in the denominator of the computation of diluted earnings per share based on the number of shares, if any, that would be issuable if the end of the reporting period were the end of the contingency period and if the result would be dilutive. Under the two-class method, the dilutive effect of non-participating potential common shares is determined and undistributed earnings are reallocated between common shares and participating securities. No potential common shares are included in the computation of any diluted per share amount when a net loss exists, as was the case for the six months ended June 30, 2013 and the three and six months ended June 30, 2012. Unvested restricted stock grants were not included in the calculation of diluted earnings per share for the three months ended June 30, 2013 as their inclusion would have an antidilutive effect.

The following reconciles net earnings (loss) as reported in the Condensed Consolidated Statements of Operations to net earnings (loss) used for computing basic and diluted earnings (loss) per share for the periods presented.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
	(In Thousands)			
Net earnings (loss)	\$33,439	\$(511,173)	\$(34,509)	\$(543,846)
Less: net earnings attributable to participating securities	(1,014)	—	—	—
Net earnings (loss) for basic and diluted earnings (loss) per share	\$32,425	\$(511,173)	\$(34,509)	\$(543,846)

The following reconciles basic weighted average common shares outstanding to diluted weighted average common shares outstanding for the periods presented.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
	(In Thousands)			
Weighted average common shares outstanding during the period for basic earnings (loss) per share	116,033	115,107	115,845	114,464
Dilutive effects of potential common shares	—	—	—	—



Edgar Filing: FOREST OIL CORP - Form 10-Q

Weighted average common shares outstanding during the period, including the effects of dilutive potential common shares, for diluted earnings (loss) per share	116,033	115,107	115,845	114,464
--	---------	---------	---------	---------

7

---

Table of Contents

## (3) STOCK-BASED COMPENSATION

## Stock-based Compensation Plans

Forest maintains the 2001 and 2007 Stock Incentive Plans (the “Plans”) under which qualified and non-qualified stock options, restricted stock, performance units, phantom stock units, and other awards may be granted to employees, consultants, and non-employee directors of Forest and its subsidiaries.

## Compensation Costs

The table below sets forth stock-based compensation for the three and six months ended June 30, 2013 and 2012, and the remaining unamortized amounts and weighted average amortization period as of June 30, 2013.

	Restricted Stock (In Thousands)	Performance Units	Phantom Stock Units	Total <sup>(1)(2)</sup>
Three Months Ended June 30, 2013:				
Total stock-based compensation costs	\$3,210	\$1,105	\$513	\$4,828
Less: stock-based compensation costs capitalized	(1,172)	) (241)	) (218)	) (1,631)
Stock-based compensation costs expensed	\$2,038	\$864	\$295	\$3,197
Six Months Ended June 30, 2013:				
Total stock-based compensation costs	\$7,445	\$2,733	\$1,775	\$11,953
Less: stock-based compensation costs capitalized	(2,994)	) (714)	) (887)	) (4,595)
Stock-based compensation costs expensed	\$4,451	\$2,019	\$888	\$7,358
Unamortized stock-based compensation costs <sup>(3)</sup>	\$20,149	\$11,252	\$8,562	\$39,963
Weighted average amortization period remaining	1.8 years	2.3 years	2.0 years	2.0 years
Three Months Ended June 30, 2012:				
Total stock-based compensation costs	\$4,943	\$3,145	\$(1,046)	) \$7,042
Less: stock-based compensation costs capitalized	(1,487)	) (477)	) 369	) (1,595)
Stock-based compensation costs expensed	\$3,456	\$2,668	\$(677)	) \$5,447
Six Months Ended June 30, 2012:				