FOREST OIL CORP
Form 10-Q
August 09, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

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 (State or other jurisdiction of incorporation or organization)	**25-0484900** (I.R.S. Employer Identification No.)
707 17th Street, Suite 3600 **Denver, Colorado** (Address of principal executive offices)	**80202** (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. x Yes o 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). x Yes o 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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of August 2, 2011 there were 114,368,834 shares of the registrant s common stock, par value $.10 per share, outstanding.

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June 30, 2011

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PART I FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

FOREST OIL CORPORATION

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In Thousands, Except Share Amounts)

		June 30, 2011		December 31, 2010
ASSETS				
Current assets:				
Cash and cash equivalents	$	479,149	$	218,145
Accounts receivable		99,390		135,730
Derivative instruments		52,607		60,182
Inventory		24,391		32,633
Other current assets		32,816		34,993
Total current assets		688,353		481,683
Property and equipment, at cost:				
Oil and gas properties, full cost method of accounting:				
Proved, net of accumulated depletion of $7,985,396 and $7,813,494		2,209,505		1,850,459
Unproved		780,214		751,784
Net oil and gas properties		2,989,719		2,602,243
Other property and equipment, net of accumulated depreciation and amortization of $55,106 and $50,491		117,951		113,435
Net property and equipment		3,107,670		2,715,678
Deferred income taxes		259,408		284,021
Goodwill		257,386		256,842
Derivative instruments		18,342		8,244
Other assets		46,554		38,920
	$	4,377,713	$	3,785,388
LIABILITIES AND EQUITY				
Current liabilities:				
Accounts payable and accrued liabilities	$	313,619	$	252,200
Accrued interest		23,059		23,630
Derivative instruments		42,428		36,413
Deferred income taxes				6,911
Current portion of long-term debt		286,031		287,092
Asset retirement obligations		3,934		561
Other current liabilities		25,378		22,567

Total current liabilities	694,449	629,374
Long-term debt	1,866,111	1,582,280
Asset retirement obligations	87,139	86,752
Derivative instruments	5,390	
Deferred income taxes	69,031	57,560
Other liabilities	75,882	76,635
Total liabilities	2,798,002	2,432,601
Equity:		
Forest Oil Corporation shareholders equity:		
Preferred stock, none issued and outstanding		
Common stock, 114,412,436 and 113,594,788 shares issued and outstanding	11,441	11,359
Capital surplus	2,799,155	2,684,269
Accumulated deficit	(1,389,325)	(1,424,905)
Accumulated other comprehensive income	74,316	82,064
Total Forest Oil Corporation shareholders equity	1,495,587	1,352,787
Noncontrolling interest	84,124	
Total equity	1,579,711	1,352,787
	$ 4,377,713	$ 3,785,388

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In Thousands, Except Per Share Amounts)

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Revenues:				
Oil, natural gas, and natural gas liquids sales	$ 237,848	$ 207,954	$ 440,419	$ 429,683
Interest and other	286	141	850	277
Total revenues	238,134	208,095	441,269	429,960
Costs, expenses, and other:				
Lease operating expenses	32,463	28,422	64,320	57,524
Production and property taxes	13,278	12,487	25,487	23,915
Transportation and processing costs	7,805	6,020	15,081	10,879
General and administrative	15,737	17,781	34,771	36,534
Depreciation, depletion, and amortization	73,322	62,446	140,885	114,758
Interest expense	38,842	37,109	76,722	75,152
Realized and unrealized gains on derivative instruments, net	(46,047)	(25,031)	(9,801)	(118,242)
Other, net	12,052	14,549	8,169	6,555
Total costs, expenses, and other	147,452	153,783	355,634	207,075
Earnings before income taxes	90,682	54,312	85,635	222,885
Income tax	51,708	21,058	49,991	80,469
Net earnings	$ 38,974	$ 33,254	$ 35,644	$ 142,416
Less: net earnings attributable to noncontrolling interest	64		64	
Net earnings attributable to Forest Oil Corporation	$ 38,910	$ 33,254	$ 35,580	$ 142,416
Basic earnings per common share attributable to Forest Oil Corporation	$ .34	$ .29	$ .31	$ 1.26
Diluted earnings per common share attributable to Forest Oil Corporation	$ .34	$ .29	$ .31	$ 1.26

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF EQUITY

(Unaudited)

(In Thousands)

	Common Stock		Capital	Accumulated	Accumulated Other Comprehensive	Forest Oil Corporation Shareholders	Noncontrolling	Total Shareholders
	Shares	Amount	Surplus	Deficit	Income	Equity	Interest	Equity
Balances at December 31, 2010	113,595	$ 11,359	$ 2,684,269	$ (1,424,905)	$ 82,064	$ 1,352,787	$	$ 1,352,787
Issuance of Lone Pine Resources Inc. common stock			112,879		(18,007)	94,872	83,630	178,502
Exercise of stock options	18	2	347			349		349
Employee stock purchase plan	31	3	828			831		831
Restricted stock issued, net of cancellations	949	95	(95)					
Amortization of stock-based compensation			13,346			13,346		13,346
Other, net	(181)	(18)	(12,419)			(12,437)		(12,437)
Comprehensive earnings:								
Net earnings				35,580		35,580	64	35,644
Unfunded postretirement benefits, net of tax					218	218		218
Foreign currency translation					10,041	10,041	430	10,471
Total comprehensive earnings						45,839	494	46,333
Balances at June 30, 2011	114,412	$ 11,441	$ 2,799,155	$ (1,389,325)	$ 74,316	$ 1,495,587	$ 84,124	$ 1,579,711

See accompanying Notes to Condensed Consolidated Financial Statements.

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FOREST OIL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In Thousands)

	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
Operating activities:		
Net earnings	$ 35,644	$ 142,416
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, depletion, and amortization	140,885	114,758
Deferred income tax	20,548	75,744
Unrealized losses (gains) on derivative instruments, net	8,880	(73,748)
Unrealized foreign currency exchange losses, net	28,540	3,954
Realized foreign currency exchange gains	(33,892)	
Stock-based compensation expense	8,128	9,731
Accretion of asset retirement obligations	3,511	3,748
Other, net	4,551	(708)
Changes in operating assets and liabilities:		
Accounts receivable	37,229	5,900
Other current assets	13,199	14,357
Accounts payable and accrued liabilities	(12,453)	(46,577)
Accrued interest and other current liabilities	(3,887)	(3,616)
Net cash provided by operating activities	250,883	245,959
Investing activities:		
Capital expenditures for property and equipment:		
Exploration, development, acquisition, and leasehold costs	(570,021)	(461,307)
Other fixed assets	(13,918)	(2,791)
Proceeds from sales of assets	121,102	107,198
Net cash used by investing activities	(462,837)	(356,900)
Financing activities:		
Proceeds from bank borrowings	610,089	92,480
Repayments of bank borrowings	(329,116)	(92,480)
Proceeds from issuance of Lone Pine Resources Inc. common stock, net of issuance costs	178,502	
Redemption of 73/4% senior notes		(151,938)
Proceeds from the exercise of options and from employee stock purchase plan	1,180	4,979
Payment of debt issue costs	(12,152)	
Change in bank overdrafts	26,645	(2,387)
Other, net	1,160	(5,538)
Net cash provided (used) by financing activities	476,308	(154,884)
Effect of exchange rate changes on cash	(3,350)	(610)
Net increase (decrease) in cash and cash equivalents	261,004	(266,435)
Cash and cash equivalents at beginning of period	218,145	467,221

Cash and cash equivalents at end of period	$ 479,149	$ 200,786
Cash paid during the period for:		
Interest	$ 76,979	$ 77,645
Income taxes	31,029	68,048

See accompanying Notes to Condensed Consolidated Financial Statements.

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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 is active in several of the major exploration and producing areas in the United States and in Canada and has exploratory and development interests in two other countries. Forest conducts its Canadian operations through its subsidiary Lone Pine Resources Inc. (Lone Pine). In December 2010, Forest announced its intention to separate its Canadian operations through an initial public offering of up to 19.9% of the common stock of Lone Pine, followed by a distribution, or spin-off, of the remaining shares of Lone Pine held by Forest to its shareholders. On June 1, 2011, Lone Pine completed an initial public offering of 15 million shares of common stock. As of June 30, 2011, Forest held the remaining 70 million shares of common stock, approximately 82% of the outstanding shares, of Lone Pine. The spin-off of the remaining shares of Lone Pine held by Forest is expected to occur on or about September 30, 2011; however, Forest retains the right to decide whether to consummate the spin-off at its discretion. See Note 10 for more information regarding the initial public offering of Lone Pine. 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, including Lone Pine 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, including Lone Pine. In the opinion of management, all adjustments, consisting of normal recurring accruals, have been made that are necessary for a fair presentation of the financial position of Forest at June 30, 2011, and the results of its operations, 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 price of oil, natural gas, and natural gas liquids and the impact the prices have on our revenues and fair values of our 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 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 2011 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, 2010, previously filed with the Securities and Exchange Commission (SEC).

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(2) EARNINGS PER SHARE AND COMPREHENSIVE EARNINGS

Earnings per Share

Basic earnings per share is computed using the two-class method by dividing net earnings attributable to common stock by the weighted average number of common shares outstanding during each period. 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 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. Holders of restricted stock issued under Forest s stock incentive plans have the right to receive non-forfeitable 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 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 with common shares being earned by the holders of the performance units. Performance units may vest with no common shares being earned, depending on Forest s 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.

Under the treasury stock method, diluted earnings per share is computed by dividing (a) net earnings, adjusted for the effects of certain contracts that provide the issuer or holder with a choice between settlement methods, by (b) the weighted average number of common shares outstanding, adjusted for the dilutive effect, if any, of potential common shares (e.g., stock options, unvested restricted stock grants, unvested phantom stock units that may be settled in shares, and unvested performance units). No potential common shares shall be included in the computation of any diluted per share amount when a net loss exists. Unvested restricted stock grants were not included in the calculation of diluted earnings per share for the three and six months ended June 30, 2011 and 2010 as their inclusion would have an antidilutive effect. Unvested performance stock units were not included in the calculation of diluted earnings per share for the three and six months ended June 30, 2011 as no shares would be issuable under the performance stock unit agreements if June 30, 2011 had been the end of the contingency period under these agreements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In Thousands, Except Per Share Amounts)			
Net earnings attributable to Forest Oil Corporation	$ 38,910	$ 33,254	$ 35,580	$ 142,416
Net earnings attributable to participating securities	(725)	(656)	(687)	(2,685)
Net earnings attributable to common stock for basic earnings per share	38,185	32,598	34,893	139,731
Adjustment for liability-classified stock-based compensation awards	(145)	151	(102)	177
Net earnings for diluted earnings per share	$ 38,040	$ 32,749	$ 34,791	$ 139,908

Weighted average common shares outstanding during the period for basic earnings per share		111,636		110,660		111,490		110,538
Dilutive effects of potential common shares		540		796		570		671
Weighted average common shares outstanding during the period, including the effects of dilutive potential common shares, for diluted earnings per share		112,176		111,456		112,060		111,209
Basic earnings per common share attributable to Forest Oil Corporation	$	.34	$	.29	$	.31	$	1.26
Diluted earnings per common share attributable to Forest Oil Corporation	$	.34	$	.29	$	.31	$	1.26

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Comprehensive Earnings

Comprehensive earnings is a term used to refer to net earnings plus other comprehensive income. Other comprehensive income 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. Items included in Forest s other comprehensive income for the three and six months ended June 30, 2011 and 2010 are net foreign currency gains and losses related to the translation of the assets and liabilities of Lone Pine s Canadian operations and changes in unfunded postretirement benefits.

The components of comprehensive earnings are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In Thousands)			
Consolidated net earnings	$ 38,974	$ 33,254	$ 35,644	$ 142,416
Other comprehensive income:				
Foreign currency translation gains (losses)	2,545	(12,988)	10,471	(3,846)
Unfunded postretirement benefits, net of tax	(71)	290	218	685
Total comprehensive earnings	$ 41,448	$ 20,556	$ 46,333	$ 139,255
Less: total comprehensive earnings attributable to noncontrolling interest	494		494	
Total comprehensive earnings attributable to Forest Oil Corporation	$ 40,954	$ 20,556	$ 45,839	$ 139,255

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(3) STOCK-BASED COMPENSATION

Equity Incentive Plans

In April 2011, Lone Pine adopted the Lone Pine Resources Inc. 2011 Stock Incentive Plan (the Lone Pine Plan) under which qualified and non-qualified stock options, restricted stock, performance, and phantom stock awards may be granted by Lone Pine to its employees, consultants, and non-employee directors. Forest continues to maintain its 2001 and 2007 Stock Incentive Plans (the Forest Oil Plans) under which similar awards may be granted to the employees, consultants and non-employee directors of Forest and its subsidiaries.

Compensation Costs

The table below sets forth total stock-based compensation recorded during the three and six months ended June 30, 2011 and 2010, and the remaining unamortized amounts and weighted average amortization period as of June 30, 2011.

	Stock Options	Restricted Stock	Performance Units (In Thousands)	Phantom Stock Units	Total(1)(2)
Three months ended June 30, 2011:					
Total stock-based compensation costs	$ 278	$ 4,782	$ 799	$ (1,588)	$ 4,271
Less: stock-based compensation costs capitalized	(155)	(1,937)	(265)	902	(1,455)
Stock-based compensation costs expensed	$ 123	$ 2,845	$ 534	$ (686)	$ 2,816
Six months ended June 30, 2011:					
Total stock-based compensation costs	$ 441	$ 11,151	$ 1,470	$ (270)	$ 12,792
Less: stock-based compensation costs capitalized	(226)	(4,528)	(457)	277	(4,934)
Stock-based compensation costs expensed	$ 215	$ 6,623	$ 1,013	$ 7	$ 7,858
Unamortized stock-based compensation costs	$	$ 40,084	$ 10,491	$ 8,912(3)	$ 59,487
Weighted average amortization period remaining		2.4 years	2.2 years	1.7 years	2.2 years
Three months ended June 30, 2010:					
Total stock-based compensation costs	$ 8	$ 5,892	$ 741	$ 1,261	$ 7,902
Less: stock-based compensation costs capitalized	(3)	(1,806)	(230)	(543)	(2,582)
Stock-based compensation costs expensed	$ 5	$ 4,086	$ 511	$ 718	$ 5,320
Six months ended June 30, 2010:					
Total stock-based compensation costs	$ 230	$ 12,713	$ 741	$ 2,529	$ 16,213
Less: stock-based compensation costs capitalized	(96)	(4,497)	(230)	(1,132)	(5,955)
Stock-based compensation costs expensed	$ 134	$ 8,216	$ 511	$ 1,397	$ 10,258

(1) The Company also maintains an employee stock purchase plan (which is not included in the table) under which $.1 million and $.3 million of compensation cost was recognized for the three and six month periods ended June 30, 2011, respectively, and $.1 million and

$.3 million of compensation cost was recognized for the three and six month periods ended June 30, 2010, respectively.

(2) In addition to the compensation costs set forth in the table above, in June 2011 the Company granted a cash-based long-term incentive award under which $9,000 in compensation cost was recognized and $.5 million remains as unamortized stock-based compensation costs at June 30, 2011. The award is comprised of time-based and performance-based components. Under the time-based component, a cash payment will be made after three years dependent on the change in value of Forest s common stock during the three-year period, and under the performance-based component, a cash payment will be made after three years dependent on the total shareholder return on Forest s common stock in comparison to that of a peer group during the three-year period.

(3) $4.6 million of the unamortized stock-based compensation cost is based on the closing price of Forest s common stock on June 30, 2011, and $4.3 million of the unamortized stock-based compensation cost is based on the closing price of Lone Pine s common stock on June 30, 2011.

If Forest proceeds with the spin-off of its remaining shares of Lone Pine common stock to its shareholders, Lone Pine s employees will be deemed to have been involuntarily terminated under the terms of their phantom stock unit and performance unit agreements awarded under the Forest Oil Plans, and their awards under those agreements will vest in full and be paid, subject to adjustment to account for the distribution, in accordance with those terms.

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Stock Options

The following table summarizes stock option activity in the Forest Oil Plans for the six months ended June 30, 2011. No stock options have been granted under the Lone Pine Plan as of June 30, 2011.

	Number of Options	Weighted Average Exercise Price	Aggregate Intrinsic Value (In Thousands)(1)	Number of Options Exercisable
Outstanding at January 1, 2011	1,327,695	$ 21.67	$ 22,531	1,283,232
Granted				
Exercised	(18,306)	19.05	303	
Cancelled	(1,200)	42.41		
Outstanding at June 30, 2011	1,308,189	$ 21.69	$ 9,381	1,308,189

(1) The intrinsic value of a stock option is the amount by which the market value of the underlying stock, as of the date outstanding or exercised, exceeds the exercise price of the option.

Restricted Stock, Performance Stock Units, and Phantom Stock Units

The following table summarizes the restricted stock, performance stock unit, and phantom stock unit activity in the Company s stock-based compensation plans for the six months ended June 30, 2011.

	Restricted Stock			Performance Units			Phantom Stock Units		
	Number of Shares	Weighted Average Grant Date Fair Value	Vest Date Fair Value (In Thousands)	Number of Units(1)	Weighted Average Grant Date Fair Value	Vest Date Fair Value (In Thousands)	Number of Units(2)	Weighted Average Grant Date Fair Value	Vest Date Fair Value (In Thousands)
Unvested at January 1, 2011	2,272,321	$ 32.71		264,500	$ 31.63		510,609	$ 24.79	
Awarded	1,006,514	27.28		226,000	27.53		460,885	12.38	
Vested	(593,581)	61.92	$ 18,042			$	(39,787)	62.65	$ 1,203
Forfeited	(38,205)	26.62					(3,122)	18.06	
Unvested at June 30, 2011	2,647,049	$ 24.18		490,500	$ 29.74		928,585	$ 17.03	

(1) Forest granted 226,000 performance units on June 10, 2011, with a grant date fair value of $27.53 each. Under the terms of the award agreements, each performance unit represents a contractual right to receive one share of Forest s common stock; provided that the actual number of shares that may be deliverable under an award will range from 0% to 200% of the number of performance units awarded, depending on Forest s relative total shareholder return in comparison to an identified peer group during the thirty-six month performance period ending on March 31, 2014.

(2) Of the unvested phantom stock units at June 30, 2011, 248,321 units can be settled in cash, shares of common stock, or a combination of both, while the remaining 680,264 units can only be settled in cash. The phantom stock units have been accounted for as a liability within the Condensed Consolidated Financial Statements. Of the 39,787 phantom stock units that vested during the six months ended June 30, 2011, 5,500 units were settled in shares of common stock and 34,287 units were settled in cash. Of the 460,885 phantom stock units granted, 460,385 were granted under the Lone Pine Plan and the remaining 500 were granted to a Lone Pine employee under the Forest Oil Plans.

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(4) DEBT

The components of debt are as follows:

	June 30, 2011				December 31, 2010			
	Principal	Unamortized Premium (Discount)	Other(1)	Total	Principal	Unamortized Premium (Discount)	Other(1)	Total
	(In Thousands)							
U.S. Credit Facility	$	$	$	$	$	$	$	$
Canadian Credit Facility	280,973			280,973				
8% Senior Notes due 2011(2)	285,000	646	385	286,031	285,000	1,292	800	287,092
7% Senior Subordinated Notes due 2013	12			12	12			12
81/2% Senior Notes due 2014	600,000	(15,323)		584,677	600,000	(18,210)		581,790
71/4% Senior Notes due 2019	1,000,000	449		1,000,449	1,000,000	478		1,000,478
Total debt	2,165,985	(14,228)	385	2,152,142	1,885,012	(16,440)	800	1,869,372
Less: current portion of debt(2)	(285,000)	(646)	(385)	(286,031)	(285,000)	(1,292)	(800)	(287,092)
Long-term portion of debt	$ 1,880,985	$ (14,874)	$	$ 1,866,111	$ 1,600,012	$ (17,732)	$	$ 1,582,280

(1) Represents the unamortized portion of deferred gains realized upon termination of interest rate swaps in 2002 that were accounted for as fair value hedges. The gains are being amortized as a reduction of interest expense over the term of the notes.

(2) Due December 2011.

Bank Credit Facilities

As of June 30, 2011, the Company had two separate credit facilities, one in the U.S. and one in Canada.

U.S. Credit Facility

On June 30, 2011, the Company entered into the Third Amended and Restated Credit Facility with a syndicate of banks led by JPMorgan Chase Bank, N.A. (the U.S. Credit Facility), consisting of a $1.5 billion credit facility maturing in June 2016. Subject to the agreement of Forest and the applicable lenders, the size of the U.S. Credit Facility may be increased by $300 million, to a total of $1.8 billion.

Forest s availability under the U.S. Credit Facility is governed by a borrowing base. As of June 30, 2011, the borrowing base under the U.S. Credit Facility was $1.25 billion. The determination of the borrowing base is made by the lenders in their sole discretion, on a semi-annual basis, taking into consideration the estimated value of Forest s oil and gas properties based on pricing models determined by the lenders at such time, in accordance with the lenders customary practices for oil and gas loans. The available borrowing amount under the U.S. Credit Facility could increase or decrease based on such redetermination. In addition to the scheduled semi-annual redeterminations, Forest and the lenders each have discretion at any time, but not more often than once during a calendar year, to have the borrowing base redetermined. The borrowing base is also subject to automatic adjustments if certain events occur. The next scheduled redetermination of the borrowing base will occur on or about November 1, 2011.

The borrowing base is also subject to change in the event (i) Forest or its Restricted Subsidiaries issue senior unsecured notes, in which case the borrowing base will immediately be reduced by an amount equal to 25% of the stated principal amount of such issued senior notes, excluding any senior unsecured notes that Forest or any of its Restricted Subsidiaries may issue to refinance then-existing senior notes, or (ii) Forest sells oil and natural gas properties included in the borrowing base having a fair market value in excess of 10% of the borrowing base then in effect. A lowering of the borrowing base could require Forest to repay indebtedness in excess of the borrowing base in order to cover the deficiency.

Borrowings under the U.S. Credit Facility bear interest at one of two rates as may be elected by the Company. Borrowings bear interest at:

(i) the greatest of (a) the prime rate announced by JPMorgan Chase Bank, N.A., (b) the federal funds effective rate from time to time plus ½ of 1%, and (c) the one-month rate applicable to dollar deposits in the London interbank market for one, two, three or six months (as selected by Forest) (the LIBO Rate) plus 1%, plus, in the case of each of clauses (a), (b), and (c), 50 to 150 basis points depending on borrowing base utilization; or

(ii) the LIBO Rate as adjusted for statutory reserve requirements (the Adjusted LIBO Rate), plus 150 to 250 basis points, depending on borrowing base utilization.

The U.S. Credit Facility includes terms and covenants that place limitations on certain types of activities, including restrictions or requirements with respect to additional debt, liens, asset sales, hedging activities, investments, dividends, mergers, and acquisitions, and also includes a financial covenant. The U.S. Credit Facility provides that Forest will not permit its ratio of total debt outstanding to consolidated EBITDA (as adjusted for non-cash charges) for a trailing twelve-month period to be greater than 4.50 to 1.00 at any time.

Under certain conditions, amounts outstanding under the U.S. Credit Facility may be accelerated. Bankruptcy and insolvency events with respect to Forest or certain of its subsidiaries will result in an automatic acceleration of the indebtedness under the U.S. Credit Facility. Subject to notice and cure periods, certain events of default under the U.S. Credit Facility will result in acceleration of the indebtedness under the facility at the option of the lenders. Such other events of default include non-payment, breach of warranty, non-performance of obligations under the U.S. Credit Facility (including the financial covenants), default on other indebtedness, certain pension plan events, certain adverse judgments, change of control, a failure of the liens securing the credit facility, and an event of default under the Canadian Credit Facility (as defined below).

The U.S. Credit Facility is collateralized by Forest s assets. Under the U.S. Credit Facility, Forest is required to mortgage and grant a security interest in 75% of the present value of the proved oil and gas properties and related assets of Forest and its U.S. subsidiaries. Forest is required to pledge, and has pledged, the stock of certain subsidiaries to secure the U.S. Credit Facility. If Forest s corporate credit rating by Moody s and S&P meet pre-established levels, the security requirements would cease to apply and, at Forest s request, the banks would release their liens and security interest on Forest s properties.

Of the $1.5 billion total nominal amount under the U.S. Credit Facility, JPMorgan and eleven other banks hold approximately 68% of the total commitments, with each of these twelve lenders holding an equal share. With respect to the other 32% of the total commitments, no single lender holds more than 3.3% of the total commitments.

At June 30, 2011, there were no borrowings and $2.1 million in letters of credit outstanding under the U.S. Credit Facility.

Prior to entering into the U.S. Credit Facility, the previous combined credit facility, dated as of June 6, 2007, consisting of U.S. and Canadian facilities (the Combined Credit Facility) was amended on May 25, 2011, to, among other things, remove any collateral owned by Lone Pine or any of its subsidiaries from the collateral securing the U.S. portion of the Combined Credit Facility, terminate the previous Canadian portion of the Combined Credit Facility, terminate various guaranties securing the Canadian portion of the Combined Credit Facility, release collateral securing the Canadian portion of the Combined Credit Facility, and terminate certain liens and mortgages securing the Canadian portion of the Combined Credit Facility. The lender commitments and borrowing base were also reset at this time to $1.65 billion and $1.155 billion, respectively.

Canadian Credit Facility

On March 18, 2011, Lone Pine entered into a stand-alone, CDN$500 million credit facility among Lone Pine, as parent, Lone Pine Resources Canada Ltd. (LPR Canada, formerly Canadian Forest Oil Ltd.), as borrower, and a syndicate of banks led by JPMorgan Chase Bank, N.A., Toronto Branch (the Canadian Credit Facility). The Canadian Credit Facility became effective upon the closing of Lone Pine s initial public offering, and replaced the Canadian portion of the Combined Credit Facility at such time. The Canadian Credit Facility will mature in March 2016. Availability under the Canadian Credit Facility is governed by a borrowing base, which is currently CDN$350 million. The determination of the borrowing base is made by the lenders, in their sole discretion, taking into consideration the estimated value of LPR Canada s oil and gas properties in accordance with the lenders customary practices for oil and gas loans. The borrowing base will be redetermined semi-annually, and the available borrowing amount under the Canadian Credit Facility could increase or decrease based on such redetermination. In April 2011, the lenders set the borrowing base at CDN$350 million, and the first redetermination of the borrowing base will occur on or about October 1, 2011. In addition to the scheduled semi-annual redeterminations, LPR Canada and the lenders each have discretion at any time, but not more often than once during any calendar year, to have the borrowing base redetermined.

The borrowing base is also subject to change in the event (1) Lone Pine or any of its subsidiaries issue senior unsecured notes, in which case the borrowing base will immediately be reduced by an amount equal to 25% of the stated principal amount of such issued senior unsecured notes, excluding any senior unsecured notes that Lone Pine or any of its subsidiaries may issue to refinance then-existing senior notes, or (2) LPR Canada sells oil and gas properties included in the borrowing base having a fair market value in excess of 10% of the borrowing base then in effect. The borrowing base is subject to other automatic adjustments under the Canadian Credit Facility. A lowering of the borrowing base could require LPR Canada and Lone Pine to repay indebtedness in excess of the borrowing base in order to cover a deficiency.

Borrowings under the Canadian Credit Facility bear interest at one of two rates that may be elected by LPR Canada. Borrowings bear interest at a rate that may be based on:

(i) the sum of the applicable bankers acceptance rate and a stamping fee of between 175 to 275 basis points, depending on borrowing base utilization; or

(ii) the Canadian Prime Rate plus 75 to 175 basis points, depending on borrowing base utilization.

The Canadian Credit Facility includes terms and covenants that place limitations on certain types of activities, including restrictions, or requirements with respect to additional debt, liens, asset sales, hedging activities, investments, dividends, mergers, and acquisitions, and also includes a financial covenant. The Canadian Credit Facility provides that LPR Canada will not permit its ratio of total debt outstanding to consolidated EBITDA (as adjusted for non-cash charges) for a trailing twelve-month period to be greater than 4.00 to 1.00.

Under certain conditions, amounts outstanding under the Canadian Credit Facility may be accelerated. Bankruptcy and insolvency events with respect to Lone Pine, LPR Canada, or certain of Lone Pine s or LPR Canada s subsidiaries will result in an automatic acceleration of the indebtedness under the Canadian Credit Facility. Subject to notice and cure periods, certain events of default under the Canadian Credit Facility will result in acceleration of the indebtedness under the facility at the option of the lenders. Such other events of default include non-payment, breach of warranty, non-performance of obligations under the Canadian Credit Facility (including the financial covenant), default on other indebtedness, certain pension plan events, certain adverse judgments, change of control, a failure of the liens securing the Canadian Credit Facility, and, until completion of the spin-off, an event of default under Forest s U.S. Credit Facility.

The Canadian Credit Facility is collateralized by Lone Pine s assets. Under the Canadian Credit Facility, LPR Canada is required to mortgage and grant a security interest in 75% of the present value of the proved oil and gas properties and related assets of LPR Canada and its subsidiaries. LPR Canada is required to pledge, and has pledged, the stock of its subsidiary to the lenders to secure the Canadian Credit Facility. Under certain circumstances, LPR Canada could be obligated to pledge additional assets as collateral. Upon completion of the spin-off, the stock of all of Lone Pine s subsidiaries will be pledged to the lenders to secure the Canadian Credit Facility. Until the spin-off is completed, Forest will guarantee the obligations of LPR Canada under the Canadian Credit Facility. Following the spin-off, Lone Pine and certain of its other subsidiaries will guarantee the obligations of LPR Canada under the Canadian Credit Facility.

Of the CDN$500 million total nominal amount under the Canadian Credit Facility, JPMorgan Chase Bank and 10 other banks hold 100% of the total commitments, with JPMorgan Chase holding 13.3% of the total commitments, two lenders holding 11.7% each of the total commitments, three lenders holding 10% each of the total commitments, and the other lenders holding 6.7% each of the total commitments.

At June 30, 2011, there were outstanding borrowings of $281 million (CDN$271 million) under the Canadian Credit Facility.

(5) PROPERTY AND EQUIPMENT

Full Cost Method of Accounting

The Company uses the full cost method of accounting for oil and gas properties. Separate cost centers are maintained for each country in which the Company has operations. During the periods presented, the Company s primary oil

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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. During the three months ended June 30, 2011 and 2010, Forest capitalized $10.2 million and $10.5 million of general and administrative costs (including stock-based compensation), respectively. During the six months ended June 30, 2011 and 2010, Forest capitalized $23.6 million and $22.6 million of general and administrative costs (including stock-based compensation), respectively. Interest costs related to significant unproved properties that are under development are also capitalized to oil and gas properties. During the three months ended June 30, 2011 and 2010, Forest capitalized $2.8 million and $3.1 million, respectively, of interest costs attributed to unproved properties. During the six months ended June 30, 2011 and 2010, Forest capitalized $5.0 million and $5.9 million, respectively, of interest costs attributed to unproved properties.

Investments in unproved properties, including 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, geographic and geologic data obtained relating to the properties, and estimated discounted future net cash flows from the properties. Estimated discounted future net cash flows are based on discounted future net revenues associated with probable and possible reserves, risk adjusted as appropriate. 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.

The Company performs a ceiling test each quarter on a country-by-country basis under the full cost method of accounting. The ceiling test is a limitation on capitalized costs prescribed by SEC Regulation S-X Rule 4-10. The ceiling test is not a fair value based measurement. Rather, it is a standardized mathematical calculation. The ceiling test provides that 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, excluding the future cash outflows associated with settling asset retirement obligations that have been accrued on the balance sheet, at 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. Should the net capitalized costs for a cost center exceed the sum of the components noted above, a ceiling test write-down would be recognized to the extent of the excess capitalized costs.

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. The Company uses its quarter-end reserves estimates to calculate depletion for the current quarter.

(6) INCOME TAXES

A reconciliation of income tax computed by applying the United States statutory federal income tax rate is as follows:

	Three Months Ended June 30, 2011	Three Months Ended June 30, 2010	Six Months Ended June 30, 2011	Six Months Ended June 30, 2010
	(In Thousands)			
Federal income tax at 35% of earnings before income taxes	$ 31,739	$ 19,009	$ 29,972	$ 78,010
State income taxes, net of federal income tax benefits	909	634	762	2,306
Change in valuation allowance for deferred tax assets	4,177	512	4,116	(178)
Canadian dividend tax, net of U.S. tax benefit	18,460		18,460	
Initial public offering cost deductions	(2,660)		(2,660)	
Effect of differing tax rates in Canada	(1,131)	175	(1,767)	(1,154)
Adjustments for statutory rate reductions and other	214	728	1,108	1,485
Total income tax	$ 51,708	$ 21,058	$ 49,991	$ 80,469

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(7) FAIR VALUE MEASUREMENTS

The Company s assets and liabilities measured at fair value on a recurring basis at June 30, 2011 are set forth in the table below.

Description		Using Significant Other Observable Inputs (Level 2)(1) (In Thousands)
Assets:		
Derivative instruments(2)		
Commodity	$	50,176
Interest rate		20,773
Total assets	$	70,949
Liabilities:		
Derivative instruments(2)		
Commodity	$	47,818
Interest rate		
Total liabilities	$	47,818

(1) The authoritative accounting guidance regarding fair value measurements for assets and liabilities measured at fair value establishes a three-tier fair value hierarchy, which prioritizes the inputs used to measure fair value. These tiers consist of: Level 1, defined as unadjusted quoted prices in active markets for identical assets or liabilities; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs for use when little or no market data exists, therefore requiring an entity to develop its own assumptions.

(2) The Company s derivative assets and liabilities include commodity and interest rate derivatives (see Note 8 for more information on these instruments). The Company utilizes present value techniques and option-pricing models for valuing its derivatives. Inputs to these valuation techniques include published forward prices, volatilities, and credit risk considerations, including the incorporation of published interest rates and credit spreads. All of the significant inputs are observable, either directly or indirectly; therefore, the Company s derivative instruments are included within the Level 2 fair value hierarchy.

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The fair values and carrying amounts of the Company s financial instruments are summarized below as of the dates indicated.

	June 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value(1)	Carrying Amount	Fair Value(1)
	(In Thousands)			
Assets:				
Cash and cash equivalents	$ 479,149	$ 479,149	$ 218,145	$ 218,145
Derivative instruments	70,949	70,949	68,426	68,426
Liabilities:				
Derivative instruments	47,818	47,818	36,413	36,413
8% senior notes due 2011	286,031	293,051	287,092	300,658
7% senior subordinated notes due 2013	12	12	12	12
81/2% senior notes due 2014	584,677	653,250	581,790	660,000
71/4% senior notes due 2019	1,000,449	1,022,480	1,000,478	1,022,670
Canadian Credit Facility	280,973	280,973		

(1) The Company used various assumptions and methods in estimating the fair values of its financial instruments. The carrying amount of cash and cash equivalents approximated fair value due to the short original maturities (three months or less) and high liquidity of the cash equivalents. The fair values of the senior notes and senior subordinated notes were estimated based on quoted market prices. The carrying amount of the Canadian Credit Facility approximates fair value since borrowings under the credit facility bear interest at variable market rates. The methods used to determine the fair values of the derivative instruments are discussed above. See also Note 8 to the Condensed Consolidated Financial Statements for more information on the derivative instruments.

(8) DERIVATIVE INSTRUMENTS

Commodity Derivatives

Forest periodically enters into derivative instruments such as swap and collar agreements as an attempt to moderate the effects of wide fluctuations in commodity prices on Forest s cash flow and to manage the exposure to commodity price risk. Forest s commodity derivative instruments generally serve as effective economic hedges of commodity price exposure; however, Forest has elected not to designate its derivatives as hedging instruments for accounting purposes. As such, Forest recognizes all changes in fair value of its derivative instruments as unrealized gains or losses on derivative instruments in the Condensed Consolidated Statement of Operations.

The table below sets forth Forest s outstanding commodity swaps and costless collars as of June 30, 2011.

Commodity Swaps and Collars

	Natural Gas (NYMEX HH)		Oil (NYMEX WTI)		NGLs (OPIS Refined Products)	
Remaining Term	**Bbtu Per Day**	**Weighted Average Hedged Price per MMBtu**	**Barrels Per Day**	**Weighted Average Hedged Price per Bbl**	**Barrels Per Day**	**Weighted Average Hedged Price per Bbl**
Swaps:						
July 2011 - December 2011(1)	180	$ 5.38	1,000	$ 85.00	5,000	$ 38.15
Calendar 2012(2)	130	5.26	500	104.25	2,000	45.22
Collars:						
July 2011 - December 2011			3,000	75.00/90.20(3)		

(1) Includes derivative agreements entered into by LPR Canada for 30 Bbtu per day of gas swaps at a weighted average hedged price per MMBtu of $4.85.

(2) Includes derivative agreements entered into by LPR Canada for (i) 25 Bbtu per day of gas swaps at a weighted average hedged price per MMBtu of $5.09 and (ii) 500 barrels per day of oil swaps at a hedged price per barrel of $104.25.

(3) Represents the weighted average hedged floor and ceiling price per Bbl.

In connection with several natural gas swaps Forest has entered into, Forest granted option instruments (several commodity swaptions and one oil call option) to the natural gas swap counterparties in exchange for Forest receiving premium hedged prices on the natural gas swaps. The table below sets forth the outstanding options as of June 30, 2011 (as of August 2, 2011, none of the options in the table have been exercised by the counterparties).

Commodity Options

			Natural Gas (NYMEX HH)		Oil (NYMEX WTI)	
Instrument	**Option Expiration**	**Underlying Swap Term**	**Underlying Swap Bbtu Per Day**	**Underlying Swap Weighted Average Hedged Price per MMBtu**	**Underlying Swap Barrels Per Day**	**Underlying Swap Hedged Price per Bbl**
Gas Swaptions	December 2011	Calendar 2012	50	$ 5.28		$
Oil Swaptions	December 2011	Calendar 2012			3,000	90.00
Oil Swaptions	December 2012	Calendar 2013			2,000	120.00
Oil Call Option	Monthly in 2011	Monthly in 2011			1,000	90.00

Subsequent to June 30, 2011, through August 2, 2011, LPR Canada entered into the following swaps:

Commodity Swaps

	Oil (NYMEX WTI)	
Swap Term	**Barrels Per Day**	**Weighted Average Hedged Price per Bbl**
August 2011 - December 2011	2,000	$ 100.29
Calendar 2012	1,500	101.72

Interest Rate Derivatives

Forest periodically enters into interest rate derivative agreements in an attempt to manage the mix of fixed and floating interest rates within its debt portfolio. The Company has elected not to designate its derivatives as hedging instruments. As such, the Company recognizes all changes in fair value of its derivative instruments as unrealized gains or losses on derivative instruments in the Condensed Consolidated Statement of Operations. The table below sets forth Forest s outstanding fixed-to-floating interest rate swaps as of June 30, 2011.

Interest Rate Swaps

Remaining Swap Term		Notional Amount (In Thousands)	Weighted Average Floating Rate	Weighted Average Fixed Rate
July 2011 - February 2014	$	500,000	1 month LIBOR + 5.89%	8.50%

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Fair Value and Gains and Losses

The table below summarizes the location and fair value amounts of Forest s derivative instruments reported in the Condensed Consolidated Balance Sheets as of the dates indicated. These derivative instruments are not designated as hedging instruments for accounting purposes. For financial reporting purposes, Forest does not offset asset and liability fair value amounts recognized for derivative instruments with the same counterparty under its master netting arrangements. See Note 7 to the Condensed Consolidated Financial Statements for more information on the fair values of Forest s derivative instruments.

	June 30, 2011	December 31, 2010
	(In Thousands)	
Assets:		
Commodity derivatives:		
Current assets: derivative instruments	$ 41,713	$ 49,415
Derivative instruments	8,463	
Interest rate derivatives:		
Current assets: derivative instruments	10,894	10,767
Derivative instruments	9,879	8,244
Total assets	70,949	68,426
Liabilities:		
Commodity derivatives:		
Current liabilities: derivative instruments	42,428	36,413
Derivative instruments	5,390	
Total liabilities	47,818	36,413
Net derivative fair value	$ 23,131	$ 32,013

The table below summarizes the amount of derivative instrument gains and losses reported in the Condensed Consolidated Statements of Operations as Realized and unrealized gains on derivative instruments, net, for the periods indicated. These derivative instruments are not designated as hedging instruments for accounting purposes.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In Thousands)			
Commodity derivatives:				
Realized gains	$ (2,271)	$ (31,215)	$ (12,839)	$ (37,663)
Unrealized (gains) losses	(35,716)	25,005	10,642	(54,617)
Interest rate derivatives:				
Realized gains	(2,872)	(3,310)	(5,842)	(6,831)
Unrealized gains	(5,188)	(15,511)	(1,762)	(19,131)
Realized and unrealized gains on derivative instruments, net	$ (46,047)	$ (25,031)	$ (9,801)	$ (118,242)

Due to the volatility of natural gas and liquids prices, the estimated fair values of Forest s commodity derivative instruments are subject to large fluctuations from period to period. Forest has experienced the effects of these commodity price fluctuations in both the current period and prior periods and expects that volatility in commodity prices will continue.

Credit Risk

Forest executes with each of its derivative counterparties an International Swap and Derivatives Association, Inc. (ISDA) Master Agreement, which is a standard industry form contract containing general terms and conditions applicable to many types of derivative transactions. Additionally, Forest executes, with each of its derivative counterparties, a Schedule, which modifies the terms and conditions of the ISDA Master Agreement according to the parties requirements and the specific types of derivatives to be traded. As of June 30, 2011, all of the derivative counterparties are lenders, or affiliates of lenders, under either the U.S. Credit Facility or the Canadian Credit Facility (collectively, the Credit Facilities and each a Credit Facility). The terms of each Credit Facility provide that any security granted by Forest under the Credit Facilities shall also extend to and be available to those lenders that are counterparties to derivative transactions. None of these counterparties require collateral beyond that already pledged under the Credit Facilities. Derivatives related to U.S. oil, natural gas, and NGL production, or related to U.S. interest rates, are entered into by Forest Oil Corporation and security therefore is provided by the U.S. Credit Facility. Derivatives related to Canadian oil and gas production, or Canadian interest rates, are entered into by LPR Canada and security therefore is provided by the Canadian Credit Facility.

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The ISDA Master Agreements and Schedules contain cross-default provisions whereby a default under the applicable Credit Facility will also cause a default under the derivative agreements. Such events of default include non-payment, breach of warranty, non-performance of financial covenants, default on other indebtedness, certain pension plan events, certain adverse judgments, change of control, and a failure of the liens securing the Credit Facilities. In addition, bankruptcy and insolvency events with respect to Forest or certain of its U.S. subsidiaries, in the United States, or Lone Pine and its subsidiaries, in Canada, will result in an automatic acceleration of the indebtedness under the Credit Facilities. None of these events of default are specifically credit-related, but some could arise if there were a general deterioration of Forest s or LPR Canada s credit. The ISDA Master Agreements and Schedules contain a further credit-related termination event that would occur if Forest, on the one hand, or Lone Pine, on the other hand, were to merge with another entity and the creditworthiness of the resulting entity was materially weaker than that of Forest or Lone Pine, respectively.

The derivative counterparties are all financial institutions that are engaged in similar activities and have similar economic characteristics that, in general, could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. Forest does not require the posting of collateral for its benefit under its derivative agreements. However, the ISDA Master Agreements and Schedules generally contain netting provisions whereby if on any date amounts would otherwise be payable by each party to the other, then on such date the party that owes the larger amount will pay the excess of that amount over the smaller amount owed by the other party, thus satisfying each party s obligations. These provisions generally apply to all derivative transactions, or all derivative transactions of the same type (e.g., commodity, interest rate, etc.), with the particular counterparty. If all counterparties failed, Forest would be exposed to a risk of loss equal to this net amount owed to Forest, the fair value of which was $29.1 million at June 30, 2011. If Forest suffered an event of default, each counterparty could demand immediate payment, subject to notification periods, of the net obligations due to it under the derivative agreements. At June 30, 2011, Forest owed a net derivative liability to four counterparties, the fair value of which was $6.0 million. In the absence of netting provisions, at June 30, 2011, Forest would be exposed to a risk of loss of $70.9 million under its derivative agreements and Forest s derivative counterparties would be exposed to a risk of loss of $47.8 million.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) was enacted which, as part of a broader financial regulatory reform, includes derivatives reform that may impact Forest s business. Congress delegated many of the details of the Dodd-Frank Act to federal regulatory agencies, which are in the process of writing and implementing new rules. Forest is monitoring the impact, if any, that the Dodd-Frank Act and related rules will have on its existing derivative transactions under its outstanding ISDA Master Agreements and Schedules, as well as its ability to enter into such transactions and agreements in the future.

(9) COSTS, EXPENSES, AND OTHER

The table below sets forth the components of Other, net in the Condensed Consolidated Statements of Operations for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
	(In Thousands)			
Unrealized foreign currency exchange losses, net	$ 36,360	$ 10,604	$ 28,540	$ 3,954
Realized foreign currency exchange gains	(33,892)		(33,892)	
Accretion of asset retirement obligations	1,787	1,909	3,511	3,748
Legal proceeding settlement	6,500		6,500	

Other, net	1,297	2,036	3,510	(1,147)
	$ 12,052	$ 14,549	$ 8,169	$ 6,555

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(10) LONE PINE RESOURCES INC. INITIAL PUBLIC OFFERING

In December 2010, Forest announced its intention to separate its Canadian operations through an initial public offering of up to 19.9% of the common stock of its wholly-owned subsidiary, Lone Pine, which would hold Forest s ownership interests in its Canadian operations, followed by a distribution, or spin-off, of the remaining shares of Lone Pine held by Forest to its shareholders. In May 2011, as part of a corporate restructuring in anticipation of Lone Pine s initial public offering, LPR Canada declared a stock dividend to Forest which resulted in Forest incurring a dividend tax payable to Canadian federal tax authorities of $28.9 million, which Forest paid in June 2011. This dividend tax is classified within Income Tax on the Condensed Consolidated Statement of Operations. On June 1, 2011, Lone Pine completed an initial public offering of 15 million shares of its common stock at a price of $13.00 per share ($12.22 per share, net of underwriting discounts and commissions). Upon completion of the offering, Forest retained controlling interest in Lone Pine, owning 82% of the outstanding shares of Lone Pine s common stock. The net proceeds from the offering received by Lone Pine, after deducting underwriting discounts and commissions and offering expenses, were $178.5 million. Lone Pine used the net proceeds to pay $29.2 million to Forest as partial consideration for Forest s contribution to Lone Pine of Forest s direct and indirect interest in its Canadian operations. Additionally, Lone Pine used the remaining net proceeds and borrowings under the Canadian Credit Facility to repay Lone Pine s outstanding indebtedness owed to Forest, consisting of a note payable, intercompany advances, and accrued interest, of $400.5 million. The spin-off of the remaining shares of Lone Pine held by Forest is expected to occur on or about September 30, 2011; however, Forest retains the right to decide whether to consummate the spin-off at its sole discretion.

The table below sets forth the effects of changes in Forest s ownership interest in Lone Pine on Forest s equity.

	Three Months Ended June 30, 2011	Six Months Ended June 30, 2011
	(In Thousands)	
Net earnings attributable to Forest Oil Corporation	$ 38,910	$ 35,580
Transfers from the noncontrolling interest:		
Increase in Forest Oil Corporation s capital surplus for sale of 15,000,000 Lone Pine Resources Inc. common shares	112,879	112,879
Change from net earnings attributable to Forest Oil Corporation and transfers from noncontrolling interest	$ 151,789	$ 148,459

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(11) GEOGRAPHICAL SEGMENTS

At June 30, 2011, Forest conducted operations in one industry segment oil and gas exploration and production and had three reportable geographical business segments United States, Canada, and International. Forest s remaining activities were not significant and therefore were not reported as a separate segment, but have been included as a reconciling item in the information below. The segments were determined based upon the geographical location of operations in each business segment. The segment data presented below was prepared on the same basis as the Condensed Consolidated Financial Statements.

	Oil and Gas Exploration and Production							
	Three Months Ended June 30, 2011				Six Months Ended June 30, 2011			
	United States	Canada	International	Total Company	United States	Canada	International	Total Company
	(In Thousands)							
Oil, natural gas, and NGL sales	$ 186,593	$ 51,255	$	$ 237,848	$ 352,903	$ 87,516	$	$ 440,419
Costs and expenses:								
Lease operating expenses	23,483	8,980		32,463	47,113	17,207		64,320
Production and property taxes	12,655	623		13,278	24,261	1,226		25,487
Transportation and processing costs	3,415	4,390		7,805	7,066	8,015		15,081
Depletion	50,545	20,601		71,146	97,349	39,196		136,545
Accretion of asset retirement obligations	1,480	279	28	1,787	2,903	554	54	3,511
Segment earnings (loss)	$ 95,015	$ 16,382						