

FOREST OIL CORP  
Form DEF 14A  
April 04, 2006

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of  
the Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

**Forest Oil Corporation**

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(Name of Registrant as Specified In Its Charter)

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**Forest Oil Corporation**

**707 Seventeenth Street, Suite 3600  
Denver, Colorado 80202**

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April 4, 2006

Dear Fellow Shareholder:

We cordially invite you to the annual meeting of shareholders of Forest Oil Corporation to be held on Wednesday, May 10, 2006, at 9:00 a.m., M.D.T., at the Marriott Hotel, 1701 California Street, Denver, Colorado.

At this year's meeting, you will be asked to elect three Class III directors and ratify the appointment of KPMG LLP as our independent registered public accountants. Details regarding each of the proposals are described in the accompanying Notice of Annual Meeting of Shareholders and Proxy Statement.

Your vote is important. Whether or not you plan to attend the annual meeting, we hope that you will vote as soon as possible. You may vote by Internet, by telephone, or by mailing a proxy or voting instruction card. Please review the instructions on the proxy or voting instruction card regarding each of these voting options.

Thank you for your continued interest in Forest Oil.

Sincerely,

H. Craig Clark  
*President and Chief Executive Officer*

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## Forest Oil Corporation

707 Seventeenth Street, Suite 3600  
Denver, Colorado 80202

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### NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

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The annual meeting of shareholders of Forest Oil Corporation will be held at the Marriott Hotel, 1701 California Street, Denver, Colorado 80202, on Wednesday, May 10, 2006, beginning at 9:00 a.m., M.D.T. The items of business are:

1. Election of three Class III directors;
2. Ratification of the appointment of KPMG LLP as Forest's independent registered public accountants for the year ending December 31, 2006; and
3. Consideration of such other business as may be properly brought before the meeting.

Shareholders of record of Forest common stock at the close of business on March 22, 2006 are entitled to vote at the meeting and any postponements or adjournments of the meeting.

**Your vote is important. Whether or not you plan to attend the annual meeting, we encourage you to read this proxy statement and submit your proxy or voting instructions as soon as possible. You may submit your proxy by completing, signing, dating and returning your proxy or voting instruction card in the pre-addressed envelope provided, or by following the Internet or telephone voting instructions on the proxy card. For specific instructions about how to vote your shares, please refer to the section General Information How To Vote of this proxy statement and the instructions on the proxy or voting instruction card.**

By Order of the Board of Directors,

Cyrus D. Marter IV

*Vice President, General Counsel and Secretary*

*This notice of annual meeting and proxy statement and form of proxy are first being mailed to our shareholders on or about April 4, 2006.*

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**PROXY STATEMENT**

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**ANNUAL MEETING OF SHAREHOLDERS**

**To Be Held Wednesday, May 10, 2006**

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**Forest Oil Corporation**

**707 Seventeenth Street, Suite 3600**

**Denver, Colorado 80202**

*www.forestoil.com*

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**GENERAL INFORMATION**

**Proxy Solicitation**

These proxy materials are furnished to you in connection with the solicitation of proxies by the Board of Directors (the "Board") of Forest Oil Corporation ("Forest"), a New York corporation, for Forest's annual meeting of shareholders to be held at 9:00 a.m., M.D.T., on Wednesday, May 10, 2006, at the Marriott Hotel, 1701 California Street, Denver, Colorado. The proxies also may be voted at any adjournments or postponements of the meeting. In addition to solicitation by mail, certain of our directors, officers, and employees may solicit proxies by mail, telephone, personal contact, or other means of communication. They will not receive any additional compensation for these activities. Also, brokers, banks and other nominees will be requested to solicit proxies or authorizations from beneficial owners. Forest will bear all costs incurred in connection with the preparation, assembly, and mailing of the proxy materials and the solicitation of proxies and will reimburse brokers, banks, and other nominees, fiduciaries, and custodians for reasonable expenses incurred by them in forwarding proxy materials to beneficial owners of Forest common stock. As of the mailing of these proxy materials, we have not engaged anyone to assist with the solicitation of proxies, although we may later choose to do so. If, after the mailing of this proxy statement and prior to the annual meeting, we retain a proxy solicitation firm, we will pay the cost, which we estimate will not exceed approximately \$7,000, plus out-of-pocket expenses.

**Shareholders Entitled to Vote**

Shareholders of record at the close of business on March 22, 2006, the record date, are entitled to notice of and to vote at the meeting, or at adjournments or postponements of the meeting. Each owner of record on the record date is entitled to one vote for each share of Forest common stock held. On March 22, 2006, there were 62,760,928 shares of Forest common stock issued and outstanding.

**How to Vote**

Whether you hold shares directly as a shareholder of record, or beneficially in street name, you may direct how your shares are voted without attending the annual meeting. If you are a shareholder of record, you may vote by submitting a proxy and if you hold your shares beneficially in street name, you may vote by submitting voting instructions to your broker or trustee or nominee. You may cast your vote by proxy as follows:

By Internet you may vote using the Internet and voting at the website listed on the enclosed proxy/voting instruction card (the "proxy card");

By telephone you may vote by using the toll-free telephone number listed on the enclosed proxy card; or

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By mailing the proxy card you may vote by completing, signing, dating, and mailing the enclosed proxy card in the enclosed pre-addressed postage-paid envelope.

Please refer to the proxy card forwarded by your bank, broker, or other nominee to see which voting options are available to you and directions on how to vote. If you vote by Internet or by telephone, you do not need to return your proxy card.

If you provide specific voting instructions, your shares will be voted as you instruct. If you sign the proxy card but do not provide instructions, your shares will be voted "FOR" the election of all director nominees and "FOR" the ratification of the appointment of KPMG LLP as our independent registered public accountants for the year ending December 31, 2006.

If you sign the proxy card of your broker, trustee, or other nominee but do not provide instructions, your shares will not be voted unless your broker, trustee, or other nominee has discretionary authority to vote. When a broker, trustee, or other nominee holding shares for a beneficial owner does not vote on a particular proposal because the broker does not have authority to vote in the absence of timely instructions from the beneficial owner, this is referred to as a "broker non-vote." Brokers who are members of the NYSE have discretionary authority to vote the shares of a beneficial owner in the election of our directors and the ratification of KPMG LLP as our independent registered public accountants.

Participants in the Retirement Savings Plan of Forest Oil Corporation ("401(k) Plan") will receive a proxy card for all shares that are owned through the 401(k) Plan. That proxy card will serve as a voting instruction card for the trustee of the 401(k) Plan. If you do not vote this proxy, the trustee will not vote the shares credited to your 401(k) Plan account. In order to be timely processed, your voting instructions must be received by 11:59 p.m. (Eastern Time) on May 7, 2006.

### **Revocation of Proxies**

A proxy may be revoked at any time before it is voted by (i) sending written notice to our Secretary at the address set forth above, (ii) by delivering a revised proxy (by one of the methods described above) bearing a later date, or (iii) by voting in person at the annual meeting. If you have instructed a broker, trustee, or other nominee to vote your shares, you must follow the directions received from your broker, trustee, or other nominee to change those instructions. You may change your telephone or Internet vote as often as you wish following the procedures for telephone or Internet voting, as applicable.

### **Quorum; Vote Required**

A majority of the outstanding shares entitled to vote at the meeting must be present or represented by proxy at the meeting in order to have a quorum. All shares that are voted "for" or "against" any matter, votes that are "withheld" for Class III nominees, abstentions, and "broker non-votes" are counted as present for the purpose of determining a quorum. If a quorum is not present at the meeting, a vote for adjournment will be taken among the shareholders present or represented by proxy. If a majority of the shareholders present or represented by proxy vote for adjournment, it is our intention to adjourn the meeting until a later date and to vote proxies received at such adjourned meeting.

Under the laws of New York, our state of incorporation, "votes cast" at a meeting of shareholders by the holders of shares entitled to vote are determinative of the outcome of the matter subject to vote. Although they are considered in determining the presence of a quorum, abstentions and "broker non-votes" will not be considered "votes cast" and, accordingly, will have no effect on the outcome of the vote.

Directors are elected by a plurality of the votes cast at the meeting (that is, the three nominees receiving the greatest number of votes cast will be elected). Votes that are "withheld" will not have an effect on the outcome of the vote. The proposal to ratify the appointment of KPMG LLP as our independent registered public accountants and any other matter that may properly come before the

meeting, requires the affirmative vote of a majority of the votes cast at the meeting. Abstentions and "broker non-votes" will not be treated as votes cast and, therefore, will have no effect on the outcome of the vote.

In the event there is an insufficient number of shares of our common stock present in person or by proxy at the annual meeting to approve the two proposals set forth in this Proxy Statement, the Board will request approval to adjourn the meeting to a later date. The place and date to which the annual meeting would be adjourned would be announced at the meeting, but would in no event be more than 30 days after the date of the annual meeting.

We intend to announce preliminary voting results at the meeting and publish final results in our quarterly report on Form 10-Q for the second quarter of 2006.

#### **Other Matters**

The Board knows of no matter, other than those referred to in this notice of meeting and proxy statement, which will be presented at the meeting. If any other matters are properly brought before the meeting or any of its adjournments or postponements, the persons named in the proxy will vote them in accordance with their judgment on such matters.

#### **Recommendations of the Board of Directors**

Our Board of Directors recommends a vote "FOR" the election of each of the Class III nominees and "FOR" the ratification of the appointment of KPMG LLP as Forest's independent registered public accountants for the year ending December 31, 2006.

#### **Delivery of Documents to Security Holders Sharing an Address**

The Securities and Exchange Commission ("SEC") permits companies and intermediaries, such as brokers and banks, to satisfy delivery requirements for proxy statements with respect to two or more shareholders sharing the same address by delivering a single proxy statement and annual report to those shareholders. This method of delivery, often referred to as "householding," is meant to reduce the amount of duplicate information that shareholders receive and lower printing and mailing costs for companies. We are not householding proxy materials for our shareholders of record in connection with the annual meeting, but we have been notified that certain intermediaries may household proxy materials. If you hold your shares of our common stock through a broker or bank that has determined to household proxy materials, only one proxy statement and 2005 Annual Report to Shareholders will be delivered to multiple shareholders sharing an address unless you notify your broker or bank to the contrary. If your household is receiving multiple copies of our proxy statement and annual report, you can request delivery from your bank or broker of only a single copy of our proxy statement and annual report.

We will promptly deliver to you a separate copy of the proxy statement and 2005 Annual Report to Shareholders if you so request by calling us at 303.812.1400, or by writing, in care of the Secretary, Forest Oil Corporation, 707 Seventeenth Street, Suite 3600, Denver, Colorado 80202. You may also contact your bank or broker to make a similar request.

#### **Access to Annual Report**

We refer you to our 2005 Annual Report to Shareholders enclosed with these proxy materials, which includes our Annual Report on Form 10-K for the year ended December 31, 2005, filed with the SEC. Our Annual Report on Form 10-K, including our financial statements, and any amendments and any documents incorporated by reference in our Annual Report on Form 10-K, will be sent to you without charge upon written request. If you would like to receive any additional information, please contact us in care of the Secretary, Forest Oil Corporation, 707 Seventeenth Street, Suite 3600, Denver, Colorado 80202, or contact us by telephone at 303.812.1400. Alternatively, you may access the 2005 Annual Report on Forest's website at [www.forestoil.com](http://www.forestoil.com). The 2005 Annual Report to Shareholders is not considered a part of the proxy solicitation materials.



**CORPORATE GOVERNANCE PRINCIPLES AND  
INFORMATION ABOUT THE BOARD AND ITS COMMITTEES**

**Board Independence**

Forest's Corporate Governance Guidelines provide that a majority of the Board will consist of independent directors. The Board has determined that William L. Britton, Cortlandt S. Dietler, Dod A. Fraser, Forrest E. Hoglund, James H. Lee, James D. Lightner, and Patrick R. McDonald are independent. Only directors who have been determined to be independent serve on our Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. The Board uses the independence standards as adopted by the New York Stock Exchange ("NYSE") and the SEC in making these determinations and, based on information provided by the members, has determined that the members of each of these committees have no material relationship with Forest (either directly or indirectly as a partner, shareholder, or officer of an organization that has a relationship with Forest) that may interfere with the exercise of their independence and meet the independence standards. Such independence standards are reflected in our Corporate Governance Guidelines.

**Board Structure and Committee Composition**

As of the date of this proxy statement, our Board has eight members and the following four standing committees: (1) Audit Committee, (2) Compensation Committee, (3) Executive Committee, and (4) Nominating and Corporate Governance Committee. The membership and function of each of the committees are described below. Each of the committees operates under a written charter adopted by the Board. All of the committee charters are available on Forest's website at [www.forestoil.com](http://www.forestoil.com). During 2005 the Board held eight meetings. Each director attended at least 75% of the aggregate of all meetings of the Board and the standing committees on which he served during 2005. Directors are encouraged to attend the annual meeting of shareholders. All of the directors attended the last annual meeting of shareholders. The following table identifies the members of the Board and the standing committees of the Board on which they serve as of the date of this proxy statement.

Name of Director	Audit Committee	Compensation Committee	Executive Committee	Nominating and Corporate Governance Committee
<b>Independent Directors:</b>				
William L. Britton				Member
Cortlandt S. Dietler		Member		Chair
Dod A. Fraser <sup>(1)</sup>	Chair			Member
Forrest E. Hoglund <sup>(2)</sup>		Member	Chair	
James H. Lee	Member		Member	
James D. Lightner		Chair		
Patrick R. McDonald	Member			
<b>Employee Director:</b>				
H. Craig Clark			Member	
<b>Number of Meetings in 2005</b>	7	5	6	3

(1) The Board has determined that Mr. Fraser is an "audit committee financial expert" as defined under the applicable SEC rules.

(2) Mr. Hoglund serves as non-executive Chairman of the Board.

**Audit Committee.** The Audit Committee assists the Board in fulfilling its responsibilities for general oversight of the integrity of Forest's financial statements, Forest's compliance with legal and regulatory requirements, the independence and qualifications of Forest's independent registered public accountants, and the performance of Forest's internal audit function and independent registered public accountants. The Audit Committee has the authority to obtain advice and assistance, and receive appropriate funding, from Forest for outside legal counsel, or other advisers as the Audit Committee deems necessary, to carry

out its duties. As set forth in the Corporate Governance Guidelines, no member of the Audit Committee may serve on more than three audit committees of public companies, including the Audit Committee of Forest. Among other things, the Audit Committee: appoints and determines the compensation of our independent registered public accountants; pre-approves audit services and non-audit services by our independent registered public accountants; reviews the scope of, process for, and results of the annual independent audit engagement; reviews and discusses with management and the independent registered public accountants our annual and quarterly financial statements; reviews with management our major financial risk exposures; reviews major changes, if any, to our accounting principles and practices; reviews our disclosure controls and procedures, internal controls and internal audit function, which reports to the Committee, and reviews the significant reports prepared by our internal auditors; consults with the independent registered public accountants regarding internal control matters and the procedures for our financial reporting processes; meets with management and our independent petroleum engineers to review the estimates of our oil and gas reserves; establishes and maintains procedures for the receipt, retention, and treatment of complaints concerning financial matters; prepares an annual report for inclusion in our proxy statement; and annually reviews and reassesses the Audit Committee charter. The Audit Committee consults separately and jointly with the independent registered public accountants, persons responsible for internal audit, and management. The Audit Committee also meets separately with our independent petroleum engineers to review our reserve estimates and the methodologies used in preparing these estimates. The report of the Audit Committee is included in this proxy statement under the caption "Report of the Audit Committee." The Audit Committee charter is available on our website.

*Compensation Committee.* The Compensation Committee discharges the Board's responsibilities relating to compensation of Forest's executive officers and directors, establishes Forest's overall compensation philosophy, prepares an annual report on executive compensation for inclusion in the annual proxy statement, and retains and approves the compensation of any compensation and benefits consultants. The principal functions of the Compensation Committee include: reviewing the compensation strategies for the officers and other Forest employees; determining the individual elements and compensation of the President and Chief Executive Officer; reviewing and approving the corporate goals and objectives relevant to executive officer compensation; and evaluating the performance of executive officers (either as a committee or with the other independent directors) and determining the elements and total compensation of these officers in accordance with the corporate goals and objectives. The Compensation Committee also administers and determines awards under our stock option, bonus, and other incentive and benefit programs. The report of the Compensation Committee is included in this proxy statement under the caption "Report of the Compensation Committee on Executive Compensation." The Compensation Committee charter is available on our website.

*Executive Committee.* The Executive Committee, between meetings of the Board, exercises the powers of our Board, except as prohibited by law. From time to time, the Board delegates responsibility for specific matters to the Executive Committee.

*Nominating and Corporate Governance Committee.* The Nominating and Corporate Governance Committee assists the Board in fulfilling its responsibilities by taking a leadership role in shaping the governance structure of the Company. The Nominating and Corporate Governance Committee oversees the Company's corporate governance principles and recommends candidates to be nominated for election to the Board. The Nominating and Corporate Governance Committee identifies qualified candidates and makes recommendations to the Board for selection of the candidates for all directorships to be filled by the Board or by the shareholders at an annual or special meeting. The Nominating and Corporate Governance Committee will consider other candidates provided they are presented in accordance with the requirements of Forest's Bylaws or with the procedures outlined below, under the caption "Consideration of Director Nominees *Shareholder Nominees.*" The Committee also reviews and assists with the structure and composition of other Board committees. The Nominating and Corporate Governance Committee is also responsible for overseeing the evaluation of the Board, our President and Chief Executive Officer, and

other executive officers. As it deems appropriate, the Nominating and Corporate Governance Committee has authority to retain search firms to identify director candidates and approve their compensation. The Nominating and Corporate Governance Committee charter is available on our website.

*Non-Executive Chairman.* Mr. Hoglund serves as Forest's non-executive Chairman of the Board and presides at meetings of the Board. The Corporate Governance Guidelines provide for a non-executive independent Presiding Director in the event that the Chairman of the Board also holds the position of Chief Executive Officer.

### **Consideration of Director Nominees**

*Director Qualifications.* The Corporate Governance Guidelines contain Board membership criteria that apply to nominees recommended by the Nominating and Corporate Governance Committee for a position on Forest's Board. Under these criteria, all candidates must possess the following personal characteristics: integrity and accountability; informed judgment; financial literacy; mature confidence; and high performance standards. In addition, the Board looks for recognized achievement and reputation, an ability to contribute to specific aspects of Forest's activities, and the willingness to commit the time and effort required, including attendance at all Board meetings and committee meetings of which he or she is a member.

Forest's Corporate Governance Guidelines also contain standards with respect to the determination of director independence, and the Nominating and Corporate Governance Committee considers the independence standards as part of its process. In accordance with these standards, a director must have no material relationship with Forest, other than as a director, to be considered independent. The standards specify the criteria by which the independence of our directors will be determined, including strict guidelines for directors and their immediate families with respect to past employment or affiliation with us or our independent registered public accountants.

*Identifying and Evaluating Nominees for Directors.* The Nominating and Corporate Governance Committee is responsible for leading the search for individuals qualified to serve on the Board. The Nominating and Corporate Governance Committee will evaluate candidates for nomination to the Board, including those recommended by shareholders, and will conduct appropriate inquiries into the backgrounds and qualifications of possible candidates. The Nominating and Corporate Governance Committee may retain outside consultants to assist in identifying director candidates in its sole discretion, but it did not engage any outside consultants in connection with selecting the nominees for election at the 2006 annual meeting. The Nominating and Corporate Governance Committee is responsible for recommending to the Board director nominees to be presented for election at meetings of the shareholders or of the Board. Shareholders may recommend possible director nominees for consideration by the Nominating and Corporate Governance Committee as indicated below. Shareholders may also nominate candidates for election to the Board at the annual meeting of shareholders by following the provisions set forth in Forest's Bylaws. The Corporate Governance Guidelines include the qualifications and skills required for directors and are available on Forest's website at [www.forestoil.com](http://www.forestoil.com).

*Shareholder Recommendations.* The Nominating and Corporate Governance Committee will consider all properly submitted shareholder recommendations of candidates for election to the Board as described above. In evaluating the recommendations of shareholders for director nominees, as with all other possible director nominees, the Nominating and Corporate Governance Committee will address the director qualification criteria described above. Any shareholder recommendations for director nominees should include the candidate's name and qualifications, as well as the shareholder's name, and should be sent in writing to Forest, in care of the Secretary, Forest Oil Corporation, 707 Seventeenth Street, Suite 3600, Denver, Colorado 80202, or faxed to 303.812.1445.

*Shareholder Nominees.* Forest's Bylaws permit shareholders to nominate candidates for election to the Board at an annual meeting of shareholders. In order to nominate candidates, Forest's Bylaws provide that the proposal must be submitted in writing, in advance of the next annual meeting, in accordance with the deadlines established in the Bylaws. The nomination process is described below, under the caption "SHAREHOLDER PROPOSALS FOR 2007 ANNUAL MEETING."

#### **Executive Sessions**

The Board holds executive sessions in connection with each regular meeting of the Board outside the presence of the Chief Executive Officer or any other management directors. The Chairman of the Board (or in the event that the Chairman also holds the position of Chief Executive Officer, the Presiding Director) leads the executive sessions.

#### **Communications with the Board**

Individuals may communicate with the Board by contacting the Chairman of the Board (or in the event that the Chairman also holds the position of Chief Executive Officer, the Presiding Director), in writing, in care of the Secretary, Forest Oil Corporation, 707 Seventeenth Street, Suite 3600, Denver, Colorado 80202. If any shareholder or third party has a complaint or concern regarding accounting, internal accounting controls, or auditing matters at Forest, they should send their complaint in writing to the Chairman of the Audit Committee in care of the Secretary at the address noted above.

#### **Director Compensation**

Each non-employee director is entitled to receive an annual cash retainer of \$50,000. In addition, each non-employee member of the Board who serves on the standing committees of the Board receives a cash retainer for such services. The Audit Committee members receive an annual retainer of \$15,000 and the Chairman of the Audit Committee receives \$30,000. Members of the other standing committees of the Board receive an annual cash retainer in the amount of \$5,000 and the Chairmen of the other committees receive an amount equal to \$10,000; however, members of the Executive Committee who are not Denver-area residents are paid a retainer of \$15,000 instead of the other fees that would apply.

In addition, each non-employee director receives a fully-vested stock option grant to purchase 5,000 shares of Forest common stock either on the date of his initial election or on the date of the annual meeting of shareholders, provided that no director may receive more than one option grant per year. Options to purchase 5,000 shares of our common stock were granted on May 10, 2005 to each of the non-employee directors under the 2001 Stock Incentive Plan, in each case with an exercise price of \$38.24 per share. All non-employee directors are reimbursed by Forest for all costs incurred by them in their capacities as directors, including the costs of attending Board meetings and committee meetings.

The following table provides information concerning compensation paid to non-employee directors during 2005. Mr. Clark, the only employee director, did not receive separate compensation for his service as a director.

**Non-Employee Director Compensation Table for Fiscal 2005**

<b>Name</b>	<b>Board Cash Retainer</b>	<b>Chair Cash Retainer</b>	<b>Committee Cash Retainer</b>	<b>Total Cash Retainer</b>	<b>Equity Retainer (# Options)</b>	<b>\$ Value of Option Grant<sup>(1)</sup></b>
William L. Britton	\$ 50,000	\$ 0	\$ 5,000	\$ 55,000	5,000	\$ 101,700
Cortlandt S. Dietler <sup>(2)</sup>	50,000	15,000	2,500	67,500	5,000	101,700
Dod A. Fraser	50,000	30,000	5,000	85,000	5,000	101,700
Forrest E. Hoglund	50,000	15,000	5,000	70,000	5,000	101,700
James H. Lee	50,000	0	30,000	80,000	5,000	101,700
James D. Lightner <sup>(2)</sup>	50,000	5,000	2,500	57,500	5,000	101,700
Patrick R. McDonald	50,000	0	15,000	65,000	5,000	101,700

(1) Monetary value is based on the Black-Scholes option pricing value on the date of grant. The annual stock option grants vest on the date of grant, have a term of 10 years, and are issued under Forest's 2001 Stock Incentive Plan. On March 2, 2006, Forest completed a spin-off transaction involving a wholly-owned subsidiary, which was subsequently merged with a subsidiary of Mariner Energy, Inc. The number and the exercise price of all outstanding stock options granted under Forest's equity incentive plans were adjusted to reflect the spin-off. The adjustment factor was based on average trading prices during 5-day periods immediately preceding and following the spin-off.

(2) Mr. Dietler was Chairman of the Compensation Committee through May 9, 2005. Mr. Lightner became Chairman of the Compensation Committee on May 10, 2005.

**Corporate Governance Guidelines and Code of Business Conduct**

Forest is committed to adhering to sound corporate governance principles. Forest has adopted codes of ethics and conduct for the directors and for the officers and employees, known as the Code of Business Conduct and Ethics for Members of the Board and the Proper Business Practices Policy, respectively. Forest has also adopted Corporate Governance Guidelines, which, in conjunction with the Certificate of Incorporation, Bylaws, and Board Committee charters, form the governance framework for Forest. The Corporate Governance Guidelines are reviewed annually by the Nominating and Corporate Governance Committee. Each of these policies, the committee charters, and the governance guidelines, is available on Forest's website at [www.forestoil.com](http://www.forestoil.com). We also post on our website amendments to these policies and any waivers from these policies for our principal executive, financial, and accounting officers.

**Director Indemnification and Insurance**

Forest's Restated Certificate of Incorporation limits the personal liability of our directors to the fullest extent permitted by the New York Business Corporation Law, as currently formulated or as it might be revised in the future. The Restated Certificate of Incorporation provides that a director will not be liable for damages for any breach of duty unless it is finally established that (a) the director's acts or omissions were in bad faith or involved intentional misconduct or a knowing violation of law, (b) the director personally gained a financial profit or other advantages to which he was not legally entitled, or (c) the director's acts violated Section 719 of the Business Corporation Law, which provides that directors who vote for, or concur in, certain types of corporate action proscribed by the Business Corporation Law will be jointly and severally liable for any injury resulting from such action.

Forest carries directors and officers liability coverage designed to insure the directors and officers of Forest and its subsidiaries against certain liabilities incurred by them in the performance of their duties. The coverage is also designed to provide reimbursement in certain cases to Forest and its subsidiaries for sums paid by them to directors and officers as indemnification for similar liability. This coverage was originally purchased by Forest on May 24, 1978 and was most recently renewed on August 7, 2005, for a period of one year. The current program is led by the Hartford Insurance Group. In addition to the directors and officers liability program, Forest carries fiduciary liability and commercial crime coverage. We paid aggregate premiums of \$765,637 for this insurance during 2005. No claims have been filed and no payments have been made to Forest or its subsidiaries or to any of their directors under these policies.



**COMMON STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

We currently have one class of voting securities outstanding. On March 22, 2006, there were 62,760,928 shares of our common stock outstanding, with each such share being entitled to one vote.

**Security Ownership of Beneficial Owners**

The following table sets forth information as of March 15, 2006, concerning persons known to Forest to be the beneficial owner of more than 5% of outstanding shares of Forest common stock. This information is based on information filed with the SEC and information provided to Forest. The number of shares beneficially owned by each person is determined by SEC rules, and the information is not necessarily indicative of beneficial ownership for other purposes. Under these rules, beneficial ownership includes any shares as to which the person has sole or shared voting power or investment power and also shares that the person has the right to acquire as of May 14, 2006 (60 days after March 15, 2006), through the exercise of stock options or other rights.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class <sup>(1)</sup>
FMR Corporation 82 Devonshire Street Boston, MA 02109	9,315,035 <sup>(2)</sup>	14.84%
The Anschutz Corporation 2400 Qwest Tower 555 17 <sup>th</sup> Street Denver, CO 80202	7,905,575 <sup>(3)</sup>	12.60%
Wachovia Corporation One Wachovia Center Charlotte, NC 28288-0137	3,838,821 <sup>(4)</sup>	6.12%
T. Rowe Price Associates, Inc. 100 East Pratt Street Baltimore, MD 21202	3,759,288 <sup>(5)</sup>	5.99%

- (1) Based on 62,756,223 shares of common stock outstanding as of March 15, 2006.
- (2) FMR Corporation has shared investment and sole dispositive power with respect to these shares, and sole voting power with respect to 1,049,000 of these shares.
- (3) Based on information included in Forms 4 filed with the SEC through March 15, 2006, there were 5,704,394 shares held by The Anschutz Corporation subject to prepaid forward sales contracts, which are scheduled to terminate in 2009 and 2010. Anschutz retains sole voting power with respect to the shares covered by these contracts.
- (4) Wachovia Corporation has shared investment and shared dispositive power with respect to these shares.
- (5) T. Rowe Price Associates, Inc. has sole dispositive power with respect to all of these shares, and sole voting power with respect to 930,699 of these shares.

**Security Ownership of Management**

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The following table shows, as of March 15, 2006, the number of shares of Forest common stock beneficially owned by:

Forest's directors and the director nominees;

the executive officers of Forest named in the Summary Compensation Table set forth below (under the caption "Executive Compensation"); and

all Forest directors and executive officers as a group.



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Beneficial ownership is determined in accordance with the rules of the SEC. As described above, under these rules, beneficial ownership includes any shares as to which the person has shared or sole voting power or investment power and also any shares that such person has the right to acquire as of May 14, 2006 (60 days after March 15, 2006) through the exercise of any option or other rights.

Name of Beneficial Owner	Aggregate Number of Shares			Percent of Class <sup>(3)</sup>
	Beneficially Owned <sup>(1)</sup>	Acquirable Within 60 Days <sup>(2)</sup>	Total	
William L. Britton	2,720	37,150	39,870	*
H. Craig Clark	131,106	598,041	729,147	1.51
Cecil N. Colwell	16,665	78,128	94,793	*
Cortlandt S. Dietler	2,970	37,150	40,120	*
Dod A. Fraser	2,950	37,150	40,100	*
Forrest E. Hogle	75,000	81,730	156,730	*
David H. Keyte	42,444	352,925	395,369	*
James H. Lee	6,185	37,150	43,335	*
James D. Lightner	5,650	14,860	20,510	*
Patrick R. McDonald	2,000	14,860	16,860	*
J.C. Ridens	15,582	21,548	37,130	*
Matthew A. Wurtzbacher	18,399	122,075	140,474	*
All current directors and executive officers as a group (16 persons, including 12 named above)	371,158	1,526,685	1,897,843	2.95%

\*

The percentage of shares beneficially owned does not exceed one percent of the outstanding shares of the class.

(1)

Amounts reported also include shares held for the benefit of certain executive officers by the trustee of Forest's 401(k) Plan as of March 15, 2006.

(2)

Reflects the number of shares that could be acquired as of May 14, 2006 (60 days after March 15, 2006) through the exercise of stock options under the terms of Forest's stock option plans. On March 2, 2006, Forest completed a spin-off transaction involving a wholly-owned subsidiary, which was subsequently merged with a subsidiary of Mariner Energy, Inc. The number and the exercise price of all outstanding stock options granted under Forest's equity incentive plans were adjusted to reflect the spin-off. The adjustment factor was based on average trading prices during 5-day periods immediately preceding and following the spin-off.

(3)

Based on 62,756,223 shares of common stock outstanding as of March 15, 2006.

**PROPOSAL NO. 1 ELECTION OF DIRECTORS**

Forest's Bylaws provide that the members of the Board shall be divided into three classes, Class I, Class II, and Class III, whose terms of office expire at different times in annual succession. The Bylaws allow the Board to establish the number of directors from time to time by resolution passed by a majority of the whole Board, provided that the number of directors shall not be less than six nor more than 15. Currently, our Board has eight members.

Generally, each class of directors is elected for a term expiring at the annual meeting of shareholders to be held three years after the date of their election. There are three nominees for election as Class III directors at the annual meeting. Mr. Clark and Mr. Britton were elected at the 2003 annual meeting of shareholders, and Mr. Lightner was elected by the Board to serve as a director on July 16, 2004. Messrs. Clark, Britton, and Lightner have each been nominated to stand for re-election at the annual meeting to hold office until our 2009 annual meeting of shareholders and until their successors are elected and qualified. Information regarding the business experience of each of the nominees is provided below.

Each nominee has indicated that they will be available to serve as a director. In the event any nominee should become unavailable to serve as a director, any shares represented by a proxy will be voted for the remaining nominees and for any substitute nominee designated by the Board, unless the Board chooses to reduce the number of directors serving on the Board.

The persons named as proxies in the enclosed proxy, who have been so designated by the Board, intend to vote "FOR" the election of each of the three Class III nominees unless otherwise instructed in the proxy.

Information concerning the director nominees and each of our other directors who will hold office following the annual meeting, as of March 15, 2006, is set forth below:

**Class III Nominees For Election to Terms Expiring at the Annual Meeting of Shareholders in 2009**

Name/Director Since/Age	Principal Occupation, Positions with Company, and Business Experience During Last Five Years
<p><b>H. Craig Clark</b>  <i>Director since 2003</i>                      Age 49</p>	<p>Mr. Clark has served as our President and Chief Executive Officer, and as a director of Forest since July 2003. Mr. Clark joined Forest in September 2001 and served as President and Chief Operating Officer through July 2003. Mr. Clark was employed by Apache Corporation, an oil and gas exploration and production company, from 1989 to 2001, where he served in various management positions, including Executive Vice President U.S. Operations and Chairman and Chief Executive Officer of Pro Energy, an affiliate of Apache. Mr. Clark is a member of our Executive Committee.</p>
<p><b>William L. Britton</b>  <i>Director since 1996</i>                      Age 71</p>	<p>Mr. Britton is a consultant with the law firm of Bennett Jones LLP. He served as a partner of Bennett Jones LLP from 1962 until December 2004, and was Managing Partner and Chairman from 1981 to 1997. Mr. Britton is Vice Chairman and Lead Director of ATCO Ltd. and Canadian Utilities Limited and Deputy Chairman of Akita Drilling Ltd. He is a director of ATCO Gas and Pipeline Ltd., Barking Power Limited, Thames Power Limited, Hanzell Vineyards, Limited, and The Denver Broncos Football Club. He is a member of our Nominating and Corporate Governance Committee.</p>
<p><b>James D. Lightner</b>  <i>Director since 2004</i>                      Age 53</p>	<p>Mr. Lightner is a Partner and Chief Executive Officer of Orion Energy Partners, an oil and gas exploration and production company. From 1999 to 2004, Mr. Lightner served in various capacities with Tom Brown, Inc., an oil and gas exploration and production company, including Director, Chairman, Chief Executive Officer and President. Prior to 1999, he served as Vice President and General Manager of EOG Resources, Inc. Mr. Lightner is a director of W.H. Energy Services Inc., an oil field services company. He is the Chairman of our Compensation Committee.</p>

**Vote Required**

A plurality of the votes cast is required to elect the Class III nominees as directors.

**THE BOARD RECOMMENDS A VOTE "FOR" EACH OF THE CLASS III NOMINEES SET FORTH ABOVE.**

**CONTINUING MEMBERS OF THE BOARD:****Class II Directors Terms Expiring at the Annual Meeting of Shareholders in 2008**

Name/Director Since/Age	Principal Occupation, Positions with Company, and Business Experience During Last Five Years
<b>Forrest E. Hoglund</b> Director since 2000 Age 72	Mr. Hoglund joined the Board of Directors in 2000 and has served as our non-executive Chairman of the Board since September 2003. Mr. Hoglund has served as Chairman and Chief Executive Officer of SeaOne Maritime Corp., a natural gas transportation company, since December 2004. Mr. Hoglund has served as Chairman and Chief Executive Officer of Arctic Resources Company, Ltd., a natural gas pipeline company, since 2000. He served as Chairman of the Board of EOG Resources, Inc. from 1987 to 1999 and President from 1990 to 1996. Mr. Hoglund serves as Chairman of our Executive Committee and is a member of our Compensation Committee.
<b>James H. Lee</b> Director since 1991 Age 57	Mr. Lee has served as the Managing General Partner of Lee, Hite & Wisda Ltd., an oil and gas consulting firm, since 1984. Mr. Lee is a director of Frontier Oil Corporation, a crude oil refining and wholesale marketing company. He is a member of our Audit Committee and our Executive Committee.

**Class I Directors Terms Expiring at the Annual Meeting of Shareholders in 2007**

Name/Director Since/Age	Principal Occupation, Positions with Company, and Business Experience During Last Five Years
<b>Cortlandt S. Dietler</b> Director since 1996 Age 84	Mr. Dietler has served as Chairman of the Board of TransMontaigne Inc., an independent provider of supply chain management for fuel, since April 1995 and served as Chief Executive Officer from 1995 to 1999. Mr. Dietler is a director of Hallador Petroleum Company, an oil and gas exploration and production company. Mr. Dietler is also a director of Cimarex Energy Co., an oil and gas exploration and production company. He is the Chairman of our Nominating and Corporate Governance Committee and is a member of our Compensation Committee.
<b>Dod A. Fraser</b> Director since 2000 Age 55	Mr. Fraser is President of Sackett Partners Incorporated, a consulting company, and member of corporate boards, since 2000. Previously, Mr. Fraser was an investment banker; a General Partner of Lazard Freres & Co. and most recently a managing Director and Group Executive of Chase Manhattan Bank, now JP Morgan Chase, where he led the global oil and gas group. Mr. Fraser is a board member of Smith International, Inc., an oilfield service company, and Terra Industries, Inc., a nitrogen-based fertilizer company. Mr. Fraser serves as Chairman of our Audit Committee and is a member of our Nominating and Corporate Governance Committee.
<b>Patrick R. McDonald</b> Director since 2004 Age 48	Mr. McDonald has served as Chief Executive Officer, President and Director of Nytis Exploration Company, an oil and gas exploration company, since April 2003. From 1998 to 2003, Mr. McDonald served as President, Chief Executive Officer, and Director of Carbon Energy Corporation, an oil and gas exploration and production company. From 1987 to 1997, he served as Chairman, Chief Executive Officer, and President of a company that he founded, Interenergy Corporation, a natural gas gathering, processing, and marketing company. Mr. McDonald is a member of our Audit Committee.

**PROPOSAL NO. 2 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the Board has appointed KPMG LLP, 707 Seventeenth Street, Suite 2700, Denver, Colorado 80202 as the independent registered public accounting firm to audit Forest's consolidated financial statements for the year 2006. Services provided to Forest by KPMG LLP during 2005 are described under "Principal Accountant Fees and Services" below. A representative of KPMG LLP will be present at the annual meeting with the opportunity to make a statement if he or she desires to do so and will also be available to respond to appropriate questions.

Although ratification by the shareholders is not required by law, the Board has determined that it is desirable to seek shareholder ratification of this appointment in light of the critical role played by independent registered public accountants in maintaining the integrity of financial controls and reporting. Notwithstanding its selection, the Board, in its discretion, may appoint new independent registered public accountants at any time during the year if the Board believes that such a change would be in the best interest of Forest and its shareholders.

**Vote Required**

Ratification of the appointment of KPMG LLP as Forest's independent registered public accounting firm for 2006 requires the affirmative vote of a majority of the votes cast.

**THE BOARD RECOMMENDS A VOTE "FOR" THE RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS FOREST'S INDEPENDENT PUBLIC ACCOUNTING FIRM.** If the appointment is not ratified, the Board may consider whether it should select another independent public accounting firm.

**PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The Audit Committee has appointed KPMG LLP as Forest's independent registered public accounting firm for 2006.

The following table shows the fees paid or accrued by Forest for audit and other services provided by KPMG LLP for 2005 and 2004.

	<b>2005</b>	<b>2004</b>
Audit fees <sup>(1)</sup>	\$ 1,667,705	\$ 1,532,532
Audit-related fees <sup>(2)</sup>	381,450	222,561
Tax fees <sup>(3)</sup>		48,834
<b>Total all fees</b>	<b>\$ 2,049,155</b>	<b>\$ 1,803,927</b>

- (1) Audit fees for 2004 and 2005 consist of fees for professional services provided in connection with the audit of the consolidated financial statements, the audit of internal control over financial reporting reviews of our quarterly financial statements, statutory audits, reviews of registration statements, and issuance of consents, issuances of letters to underwriters.
- (2) Audit-related fees consist principally of transaction due diligence services, audits of carve-out financial information, employee benefit plan audits, and audits of statements of compliance with agreements.
- (3) Tax fees include fees for tax compliance, tax examination assistance, and tax consulting on sales transactions.

The Audit Committee has delegated to the Chairman of the Audit Committee the authority to pre-approve, when the Audit Committee is not in session, audit-related services and non-audit services not prohibited by law to be performed by Forest's independent registered public accounting firm and associated fees for any individual engagement not to exceed \$40,000. Any such pre-approval of services and fees by the

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Chairman shall be reported to the full Audit Committee at its next regular meeting. All fees set forth in the foregoing table were pre-approved by the Audit Committee or the Chairman of the Audit Committee under the noted delegation of authority.

**REPORT OF THE AUDIT COMMITTEE**

The Audit Committee assists the Board in fulfilling its responsibilities for the oversight of the integrity of Forest's financial statements, its compliance with legal and regulatory requirements, the performance of the internal audit function and independent audit, and the independence and qualifications of Forest's independent registered public accountants who report directly to the Audit Committee. The Audit Committee operates under a charter approved by the Board. The full text of the Audit Committee charter is available on Forest's website at [www.forestoil.com](http://www.forestoil.com). As of the date of this report, the Audit Committee was comprised of three directors, each of whom has been determined to be independent within the meaning of rules adopted by the SEC, the listing standards of the NYSE, and Forest's Corporate Governance Guidelines.

Forest's management has responsibility for preparing Forest's financial statements and the financial reporting process, including the system of internal controls. Forest's independent auditor, KPMG LLP, is responsible for performing an independent audit of the consolidated financial statements in accordance with the standards established by the Public Company Accounting Oversight Board (United States), and for issuing a report on the results of that independent audit.

In this context, the Audit Committee hereby reports as follows:

1. The Audit Committee has met with management and KPMG LLP, and has reviewed and discussed the audited consolidated financial statements;
2. The Audit Committee has discussed with KPMG LLP the matters required by *Statement on Auditing Standards No. 61 (Codification of Statements on Auditing Standards, AU 380)*;
3. The Audit Committee has received from and discussed with KPMG LLP the written disclosures and the letter required by *Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees)*, as modified and supplemented, regarding the firm's independence; and
4. Based upon the review and discussions described in the preceding paragraphs (1) through (3) above, and the Audit Committee's review of the representations of management and KPMG LLP, the Audit Committee recommended to the Board, and the Board approved, that the audited consolidated financial statements be included in Forest's Annual Report on Form 10-K for the year ended December 31, 2005, for filing with the SEC.

The undersigned members of the Audit Committee have submitted this report to the Board.

Dod A. Fraser, Chairman  
James H. Lee  
Patrick R. McDonald

March 22, 2006

**EXECUTIVE COMPENSATION**

The following table discloses compensation received by Forest's Chief Executive Officer and Forest's other most highly paid executive officers at the end of 2005 (collectively, the "named executive officers") and their compensation from Forest for each of the years ending December 31, 2005, 2004 and 2003.

**Summary Compensation Table**