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DEVON ENERGY CORP/DE
Form 10-Q/A
December 18, 2001

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the Quarterly Period Ended March 31, 2001

OR

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

Commission File No. 000-30176

DEVON ENERGY CORPORATION
(Exact Name of Registrant as Specified in its Charter)

DELAWARE
(State or Other Jurisdiction of
Incorporation or Organization)

73-1567067
(I.R.S. Employer
Identification Number)

20 NORTH BROADWAY, SUITE 1500
OKLAHOMA CITY, OKLAHOMA
(Address of Principal Executive Offices)

73102 -8260
(Zip Code)

Registrant's telephone number, including area code: (405) 235-3611

Not applicable

Former name, former address and former fiscal year, if changed from last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No .

The number of shares outstanding of Registrant's common stock, par value \$.10, as of April 30, 2001, was 129,420,000.

DEVON ENERGY CORPORATION

Index to Form 10-Q/A Quarterly Report
to the Securities and Exchange Commission

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and December 31, 2000

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For the Three Months Ended March 31, 2001 and 2000

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2001 and 2000

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For the Three Months Ended March 31, 2001 and 2000

Notes to Consolidated Financial Statements.

DEFINITIONS

As used in this document:

"Mcf" means thousand cubic feet

"MMcf" means million cubic feet

"Bcf" means billion cubic feet

"Bbl" means barrel

"MBbbls" means thousand barrels

"MMBbbls" means million barrels

"Boe" means equivalent barrels of oil

"Mboe" means thousand equivalent barrels of oil

"Oil" includes crude oil and condensate

"NGLs" means natural gas liquids

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DEVON ENERGY CORPORATION

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2001 AND 2000

(FORMING A PART OF FORM 10-Q QUARTERLY REPORT
TO THE SECURITIES AND EXCHANGE COMMISSION)

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DEVON ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE DATA)

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| | MARCH 31, 2001 | DECEMBER 31, 2000 |
|---|----------------------|----------------------|
| | ----- (UNAUDITED) | ----- |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 609,702 | 2,000,000 |
| Accounts receivable | 555,967 | 6,000,000 |
| Inventories | 40,256 | 1,000,000 |
| Deferred income taxes | 8,979 | 1,000,000 |
| Investments and other current assets | 35,199 | 1,000,000 |
| | ----- | ----- |
| Total current assets | 1,250,103 | 9,000,000 |
| | ----- | ----- |
| Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties | 9,966,413 | 9,700,000 |
| Less accumulated depreciation, depletion and amortization | 4,925,204 | 4,700,000 |
| | ----- | ----- |
| | 5,041,209 | 4,900,000 |
| Investment in Chevron Corporation common stock, at fair value | 622,715 | 5,000,000 |
| Goodwill, net of amortization | 286,227 | 2,000,000 |
| Other assets | 126,498 | 1,000,000 |
| | ----- | ----- |
| Total assets | \$ 7,326,752 | 6,800,000 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable: | | |
| Trade | 314,325 | 3,000,000 |
| Revenues and royalties due to others | 117,306 | 1,000,000 |
| Income taxes payable | 162,546 | 1,000,000 |
| Accrued interest payable | 31,690 | 1,000,000 |
| Merger related expenses payable | 23,799 | 1,000,000 |
| Accrued expenses and other current liabilities | 47,127 | 1,000,000 |
| | ----- | ----- |
| Total current liabilities | 696,793 | 6,000,000 |
| | ----- | ----- |
| Other liabilities | 180,429 | 1,000,000 |
| Debentures exchangeable into shares of Chevron Corporation common stock | 639,257 | 7,000,000 |
| Other long-term debt | 1,229,916 | 1,200,000 |
| Deferred revenue | 97,545 | 1,000,000 |
| Fair value of derivative instruments | 89,711 | 1,000,000 |
| Deferred income taxes | 728,552 | 6,000,000 |
| Stockholders' equity: | | |
| Preferred stock of \$1.00 par value (\$100 liquidation value) | | |
| Authorized 4,500,000 shares; issued 1,500,000 in 2001 and 2000 | 1,500 | 1,500,000 |
| Common stock of \$.10 par value | | |
| Authorized 400,000,000 shares; issued 129,414,000 in 2001 and 128,638,000 in 2000 | 12,941 | 12,941,000 |
| Additional paid-in capital | 3,582,982 | 3,500,000 |
| Retained earnings (accumulated deficit) | 176,654 | (2,000,000) |
| Accumulated other comprehensive loss | (108,961) | (1,000,000) |
| Unamortized restricted stock awards | (567) | (1,000,000) |
| | ----- | ----- |

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| | | |
|--|--------------|-------|
| Total stockholders' equity | 3,664,549 | 3,2 |
| | ----- | ----- |
| Total liabilities and stockholders' equity | \$ 7,326,752 | 6,8 |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

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MARCH 2001 10-Q

DEVON ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

| | THREE MONTHS ENDED | |
|---|--------------------|-----------|
| | 2001 | |
| | (UNAUDITED) | |
| REVENUES | | |
| Oil sales | \$ | 253,982 |
| Gas sales | | 725,164 |
| Natural gas liquids sales | | 32,337 |
| Other | | 12,104 |
| | | ----- |
| Total revenues | | 1,023,587 |
| | | ----- |
| COSTS AND EXPENSES | | |
| Lease operating expenses | | 122,648 |
| Transportation costs | | 17,404 |
| Production taxes | | 44,509 |
| Depreciation, depletion and amortization of property and equipment | | 182,892 |
| Amortization of goodwill | | 8,462 |
| General and administrative expenses | | 22,262 |
| Interest expense | | 34,538 |
| Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt | | -- |
| Change in fair value of derivative instruments | | 14,042 |
| | | ----- |
| Total costs and expenses | | 446,757 |
| | | ----- |
| Earnings before income tax expense and cumulative effect of change in accounting principle | | 576,830 |
| INCOME TAX EXPENSE | | |
| Current | | 144,096 |
| Deferred | | 81,919 |
| | | ----- |
| Total income tax expense | | 226,015 |
| | | ----- |
| Earnings before cumulative effect of change in accounting principle | | 350,815 |
| Cumulative effect of change in accounting principle, net of income tax | | |

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| | |
|---|------------|
| expense of \$31,617 | 49,452 |
| | ----- |
| Net earnings | 400,267 |
| Preferred stock dividends | 2,434 |
| | ----- |
| Net earnings applicable to common shareholders | \$ 397,833 |
| | ===== |
| Net earnings before cumulative effect of change in accounting principle per average common share outstanding: | |
| Basic | \$ 2.70 |
| | ===== |
| Diluted | \$ 2.59 |
| | ===== |
| Net earnings per average common share outstanding: | |
| Basic | \$ 3.08 |
| | ===== |
| Diluted | \$ 2.96 |
| | ===== |
| Weighted average common shares outstanding - basic | 129,030 |
| | ===== |
| Weighted average common shares outstanding - diluted | 135,361 |
| | ===== |

See accompanying notes to consolidated financial statements.

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DEVON ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE OPERATIONS
(IN THOUSANDS)

| | THREE MONTHS ENDED MARCH | |
|---|--------------------------|-------|
| | 2001 | 2000 |
| | ----- | |
| | (UNAUDITED) | |
| Net earnings | \$ 400,267 | 105, |
| Other comprehensive (loss) earnings, net of tax: | | |
| Foreign currency translation adjustments | (19,634) | (|
| Cumulative effect of change in accounting principle | (36,579) | |
| Reclassification adjustment for derivative losses reclassified into oil and gas sales | 4,643 | |
| Change in fair value of outstanding hedging positions | 13,459 | |
| Unrealized gains on marketable securities | 14,547 | 25, |
| | ----- | ----- |
| Comprehensive earnings | \$ 376,703 | 130, |
| | ===== | ===== |

See accompanying notes to consolidated financial statements.

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DEVON ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

| | THREE MONTHS ENDED |
|---|---------------------------------------|
| | ----- 2001 ----- (UNAUDITED) |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Net earnings | \$ 400,267 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | |
| Depreciation, depletion and amortization of property and equipment | 182,892 |
| Amortization of goodwill | 8,462 |
| Accretion of interest on zero-coupon convertible senior debentures | 3,483 |
| Amortization of discounts (premiums) on other long-term debt | 1,985 |
| Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt | -- |
| Gain on sale of assets | (49) |
| Change in fair value of derivative instruments | 14,042 |
| Cumulative effect of change in accounting principle | (49,452) |
| Deferred income taxes | 81,919 |
| Other | 302 |
| Changes in assets and liabilities: | |
| Decrease (increase) in: | |
| Accounts receivable | 79,130 |
| Inventories | 7,044 |
| Prepaid expenses | (24,416) |
| Other assets | (12,600) |
| Increase (decrease) in: | |
| Accounts payable | 2,319 |
| Income taxes payable | 96,977 |
| Accrued expenses and other current liabilities | (20,910) |
| Deferred revenue | (16,014) |
| Long-term other liabilities | 1,349 |
| Net cash provided by operating activities | ----- 756,730 ----- |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Proceeds from sale of property and equipment | 22,215 |
| Capital expenditures | (345,926) |
| Decrease in other assets | -- |
| Net cash used in investing activities | ----- (323,711) ----- |
| CASH FLOWS FROM FINANCING ACTIVITIES | |
| Proceeds from borrowings of long-term debt, net of issuance costs | 62,406 |
| Principal payments on long-term debt | (117,763) |
| Issuance of common stock, net of issuance costs | 32,403 |
| Repurchase of common stock | (13,337) |

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| | |
|--|------------|
| Issuance of treasury stock | -- |
| Dividends paid on common stock | (6,471) |
| Dividends paid on preferred stock | (2,434) |
| Decrease in long-term other liabilities | (5,163) |
| | ----- |
| Net cash used in financing activities | (50,359) |
| | ----- |
| Effect of exchange rate changes on cash | (1,008) |
| | ----- |
| Net increase (decrease) in cash and cash equivalents | 381,652 |
| Cash and cash equivalents at beginning of period | 228,050 |
| | ----- |
| Cash and cash equivalents at end of period | \$ 609,702 |
| | ===== |

See accompanying notes to consolidated financial statements.

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DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

On August 29, 2000, Devon Energy Corporation ("Devon") and Santa Fe Snyder Corporation ("Santa Fe Snyder") completed a merger of the two companies (the "Santa Fe Snyder merger"). At that date, Santa Fe Snyder became a wholly-owned subsidiary of Devon. The Santa Fe Snyder merger was accounted for under the pooling-of-interests method of accounting for business combinations. All operational and financial information contained herein includes the combined amounts of Devon and Santa Fe Snyder for all periods presented.

The accompanying consolidated financial statements and notes thereto have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in Devon's 2000 Annual Report on Form 10-K.

In the opinion of Devon's management, all adjustments (all of which are normal and recurring) have been made which are necessary to fairly state the consolidated financial position of Devon and its subsidiaries as of March 31, 2001, and the results of their operations and their cash flows for the three month periods ended March 31, 2001 and 2000. Certain of the 2000 amounts in the accompanying consolidated financial statements have been reclassified to conform to the 2001 presentation.

2. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

As of January 1, 2001, Devon adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of SFAS No. 133." SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. In accordance with the transition provisions of SFAS No. 133, Devon recorded a

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net-of-tax cumulative-effect-type adjustment of a \$36.6 million loss in accumulated other comprehensive loss to recognize at fair value all derivatives that are designated as cash-flow hedging instruments. Additionally, Devon recorded a net-of-tax cumulative-effect-type adjustment to net earnings for a \$49.5 million gain (\$0.38 per basic share and \$0.37 per diluted share) related to the fair value of derivative instruments that do not qualify as hedges. This gain related principally to the option embedded in Devon's debentures that are exchangeable into shares of Chevron Corporation common stock.

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All derivatives are recognized on the balance sheet at their fair value. All of Devon's derivatives that qualify for hedge accounting treatment are either "cash flow" hedges or "foreign currency cash flow" hedges (collectively, "cash flow hedges"). Devon designates its cash flow hedge derivatives as such on the date the derivative contract is entered into. Devon formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. Devon also assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

During the first quarter of 2001, there were no gains or losses reclassified into earnings as a result of the discontinuance of hedge accounting treatment for any of Devon's derivatives.

By using derivative instruments to hedge exposures to changes in commodity prices and exchange rates, Devon exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. To mitigate this risk, the hedging instruments are usually placed with counterparties that Devon believes are minimal credit risks.

Market risk is the adverse effect on the value of a derivative instrument that results from a change in interest rates, commodity prices, or currency exchange rates. The market risk associated with commodity price and foreign exchange contracts is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

Devon periodically enters into financial hedging activities with respect to a portion of its projected oil and natural gas production through various financial transactions to manage its exposure to oil and gas price volatility. These transactions include financial price swaps whereby Devon will receive a fixed price for its production and pay a variable market price to the contract counterparty. These transactions also include costless price collars that set a floor and ceiling price for the hedged production. If the applicable monthly price indices are outside of the ranges set by the floor and ceiling prices in the various collars, Devon and the counterparty to the collars will settle the difference. These financial hedging activities are intended to support oil and natural gas prices at targeted levels and to manage Devon's exposure to oil and gas price fluctuations. The oil and gas reference prices upon which these price hedging instruments are based reflect various market indices that have a high degree of historical correlation with actual prices received by Devon.

Devon also periodically enters into foreign exchange rate swaps to manage its exposure to oil and gas price volatility. The foreign exchange rate swaps mitigate the effect of volatility in the Canadian-to-U.S. dollar exchange rate on Canadian oil revenues that are predominantly based on U.S. dollar prices.

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Devon does not hold or issue derivative instruments for trading purposes. All of Devon's commodity price financial swaps and costless price collars and foreign exchange rate swaps in place at January 1, 2001 and March 31, 2001 have been designated as cash flow hedges. Changes in the

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fair value of these derivatives are reported on the balance sheet in "Accumulated other comprehensive loss" ("AOCL"). These amounts are reclassified to oil and gas sales when the forecasted transaction takes place.

Devon assesses the effectiveness of its hedges based on changes in the derivative's intrinsic value. The change in the time value of the derivative is excluded from the assessment of hedge effectiveness and, along with any ineffectiveness, is recorded on the statement of operations in "Change in fair value of derivative instruments." For the quarter ended March 31, 2001, Devon recorded a net charge of less than \$0.1 million which represented the ineffectiveness of the various cash flow hedges.

As of January 1, 2001, \$31.9 million of net deferred losses on derivative instruments accumulated in AOCL as a result of the \$36.6 million transition adjustment are expected to be reclassified to earnings during the next 12 months.

As of March 31, 2001, \$16.1 million of net deferred losses on derivative instruments accumulated in AOCL are expected to be reclassified to earnings during the next 12 months. Transactions and events expected to occur over the next 12 months that will necessitate reclassifying these derivatives' losses to earnings are the production and sale of oil and gas which includes the production hedged under the various derivative instruments. The maximum term over which the Company is hedging exposures to the variability of cash flows for commodity price risk is 21 months.

Devon recorded an expense of \$14.0 million in the first quarter of 2001 for the change in fair value of derivative instruments. Substantially all of this expense related to the fair value change in the option that is embedded in Devon's debentures which are exchangeable into shares of Chevron Corporation common stock.

3. EARNINGS PER SHARE

The following tables reconcile the net earnings and common shares outstanding used in the calculations of basic and diluted earnings per share for the three-month periods ended March 31, 2001 and 2000.

Options to purchase approximately 0.8 million shares of Devon's common stock with exercise prices ranging from \$58.84 per share to \$89.66 per share (with a weighted average price of \$66.49 per share) were outstanding at March 31, 2001, but were not included in the computation of diluted earnings per share for the first quarter of 2001 because the options' exercise price exceeded the average market price of Devon's common stock during the first quarter. Similarly, options to purchase approximately 2.6 million shares of Devon's common stock with exercise prices ranging from \$39.44 per share to \$92.78 per share (with a weighted average price of \$59.96 per share) were excluded from the diluted earnings per share calculation for the first quarter of 2000. The excluded options for the 2001 period expire between May 22, 2001 and February 22, 2011.

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3. EARNINGS PER SHARE (CONTINUED)

| | NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS ----- | COMMON SHARES OUTSTANDING ----- |
|--|--|--|
| | (IN THOUSANDS) | |
| THREE MONTHS ENDED MARCH 31, 2001: | | |
| Basic earnings per share | \$397,833 | 129,030 |
| Dilutive effect of: | | |
| Potential common shares issuable upon conversion of senior convertible debentures (the increase in net earnings is net of income tax expense of \$1,380,000) | 2,159 | 4,377 |
| Potential common shares issuable upon the exercise of outstanding stock options | -- | 1,954 |
| | ----- | ----- |
| Diluted earnings per share | \$399,992 ===== | 135,361 ===== |
| THREE MONTHS ENDED MARCH 31, 2000: | | |
| Basic earnings per share | \$102,753 | 126,336 |
| Dilutive effect of potential common shares issuable upon the exercise of outstanding stock options | -- | 1,331 |
| | ----- | ----- |
| Diluted earnings per share | \$102,753 ===== | 127,667 ===== |

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4. SEGMENT INFORMATION

Devon manages its business by country. As such, Devon identifies its segments based on geographic areas. Devon has three segments: its operations in the U.S., its operations in Canada and its international operations outside of North America. Substantially all of these segments' operations involve oil and gas producing activities. Following is certain financial information regarding Devon's segments for the first quarters of 2001 and 2000. The revenues reported are all from external customers.

| U.S. | CANADA | INTE NATIO ----- |
|----------------|--------|------------------------|
| (IN THOUSANDS) | | |

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AS OF MARCH 31, 2001:

| | | | |
|--|-------------|---------|-------|
| Current assets | \$ 928,456 | 83,797 | 237 |
| Property and equipment, net of accumulated depreciation, depletion and amortization | 3,679,823 | 597,381 | 764 |
| Investment in Chevron Corporation common stock | 622,715 | -- | 47 |
| Goodwill, net of amortization | 238,880 | -- | 3 |
| Other assets | 123,152 | 82 | 3 |
| | ----- | ----- | ----- |
| Total assets | \$5,593,026 | 681,260 | 1,052 |
| | ===== | ===== | ===== |
| Current liabilities | 460,627 | 105,336 | 130 |
| Other liabilities | 144,423 | 796 | 35 |
| Debentures exchangeable into shares of Chevron Corporation common stock | 639,257 | -- | |
| Other long-term debt | 1,144,326 | 85,590 | |
| Deferred revenue | 96,325 | 729 | |
| Fair value of derivative instruments | 63,822 | 25,889 | |
| Deferred income taxes | 616,451 | 83,327 | 28 |
| Stockholders' equity | 2,427,795 | 379,593 | 857 |
| | ----- | ----- | ----- |
| Total liabilities and stockholders' equity | \$5,593,026 | 681,260 | 1,052 |
| | ===== | ===== | ===== |

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4. SEGMENT INFORMATION (CONTINUED)

| | U.S. | CANADA | IN NAT |
|---|----------------|---------|-----------|
| | ----- | ----- | ----- |
| | (IN THOUSANDS) | | |
| THREE MONTHS ENDED MARCH 31, 2001: | | | |
| REVENUES | | | |
| Oil sales | \$ 166,548 | 27,787 | |
| Gas sales | 643,181 | 79,465 | |
| Natural gas liquids sales | 27,163 | 5,124 | |
| Other | 13,581 | 1,053 | |
| | ----- | ----- | ----- |
| Total revenues | 850,473 | 113,429 | |
| | ----- | ----- | ----- |
| COSTS AND EXPENSES | | | |
| Lease operating expenses | 88,463 | 15,337 | |
| Transportation costs | 14,636 | 2,768 | |
| Production taxes | 43,916 | 418 | |
| Depreciation, depletion and amortization of property and equipment | 149,134 | 19,285 | |
| Amortization of goodwill | 8,451 | -- | |
| General and administrative expenses | 20,443 | 1,910 | |
| Interest expense | 32,168 | 2,115 | |
| Change in fair value of derivative instruments | 14,042 | -- | |
| | ----- | ----- | ----- |
| Total costs and expenses | 371,253 | 41,833 | |
| | ----- | ----- | ----- |

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| | | | |
|--|------------|--------|--|
| Earnings before income tax expense and cumulative effect of change in accounting principle | 479,220 | 71,596 | |
| INCOME TAX EXPENSE | | | |
| Current | 139,877 | 936 | |
| Deferred | 43,634 | 30,712 | |
| Total income tax expense | 183,511 | 31,648 | |
| Earnings before cumulative effect of change in accounting principle | 295,709 | 39,948 | |
| Cumulative effect of change in accounting principle | 49,452 | -- | |
| Net earnings | 345,161 | 39,948 | |
| Preferred stock dividends | 2,434 | -- | |
| Net earnings applicable to common shareholders | \$ 342,727 | 39,948 | |
| Capital expenditures | \$ 230,754 | 61,364 | |

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4. SEGMENT INFORMATION (CONTINUED)

| | U.S. | CANADA | INTER-NATIONAL |
|---|----------------|--------|----------------|
| | ----- | ----- | ----- |
| | (IN THOUSANDS) | | |
| THREE MONTHS ENDED MARCH 31, 2000: | | | |
| REVENUES | | | |
| Oil sales | \$189,834 | 29,473 | 50,850 |
| Gas sales | 206,869 | 31,348 | 2,600 |
| Natural gas liquids sales | 33,001 | 4,376 | -- |
| Other | 11,450 | 1,091 | (476) |
| Total revenues | 441,154 | 66,288 | 52,974 |
| COSTS AND EXPENSES | | | |
| Lease operating expenses | 77,418 | 12,304 | 16,985 |
| Transportation costs | 9,025 | 2,788 | -- |
| Production taxes | 19,071 | 227 | 100 |
| Depreciation, depletion and amortization of property and equipment | 139,976 | 15,994 | 9,282 |
| Amortization of goodwill | 10,326 | -- | 6 |
| General and administrative expenses | 22,027 | 2,254 | 569 |
| Interest expense | 37,348 | 2,428 | 300 |
| Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt | -- | 2,408 | -- |
| Total costs and expenses | 315,191 | 38,403 | 27,242 |

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| | | | |
|--|-----------|--------|--------|
| Earnings before income tax expense | 125,963 | 27,885 | 25,732 |
| INCOME TAX EXPENSE | | | |
| Current | 31,947 | 700 | 3,500 |
| Deferred | 16,496 | 12,910 | 8,840 |
| Total income tax expense | 48,443 | 13,610 | 12,340 |
| Net earnings | 77,520 | 14,275 | 13,392 |
| Preferred stock dividends | 2,434 | -- | -- |
| Net earnings applicable to common shareholders | \$ 75,086 | 14,275 | 13,392 |
| Capital expenditures | \$339,727 | 36,026 | 60,302 |

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5. COMMITMENTS AND CONTINGENCIES

Devon is party to various legal actions arising in the normal course of business. Matters that are probable of unfavorable outcome to Devon and which can be reasonably estimated are accrued. Such accruals are based on information known about the matters, Devon's estimates of the outcomes of such matters and its experience in contesting, litigating and settling similar matters. None of the actions are believed by management to involve future amounts that would be material to Devon's financial position or results of operations after consideration of recorded accruals.

Environmental Matters

Devon is subject to certain laws and regulations relating to environmental remediation activities associated with past operations, such as the Comprehensive Environmental Response, Compensation, and Liability Act ("CERCLA") and similar state statutes. In response to liabilities associated with these activities, accruals have been established when reasonable estimates are possible. Such accruals primarily include estimated costs associated with remediation. Devon has not used discounting in determining its accrued liabilities for environmental remediation, and no claims for possible recovery from third party insurers or other parties related to environmental costs have been recognized in Devon's consolidated financial statements. Devon adjusts the accruals when new remediation responsibilities are discovered and probable costs become estimable, or when current remediation estimates must be adjusted to reflect new information.

Certain of Devon's subsidiaries acquired in the PennzEnergy merger are involved in matters in which it has been alleged that such subsidiaries are potentially responsible parties ("PRPs") under CERCLA or similar state legislation with respect to various waste disposal areas owned or operated by third parties. As of March 31, 2001, Devon's consolidated balance sheet included \$7.8 million of accrued liabilities, reflected in "Other liabilities," for environmental remediation. Devon does not currently believe there is a reasonable possibility of incurring additional material costs in excess of the current accruals recognized for such environmental remediation activities. With respect to the sites in which Devon subsidiaries are PRPs, Devon's conclusion is based in large part on (i) the availability of defenses to liability, including the availability of the "petroleum exclusion" under CERCLA and similar state

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laws, and/or (ii) Devon's current belief that its share of wastes at a particular site is or will be viewed by the Environmental Protection Agency or other PRPs as being de minimis. As a result, Devon's monetary exposure is not expected to be material.

Royalty Matters

More than 30 oil companies, including Devon, are involved in disputes in which it is alleged that such companies and related parties underpaid royalty, overriding royalty and working interests owners in connection with the production of crude oil. The proceedings include suits in federal court in Texas, Louisiana, Mississippi and Wyoming that have been consolidated into one proceeding in Texas. To avoid expensive and protracted litigation, certain parties, including Devon, have entered into a global settlement agreement which provides for a settlement of all claims of all members of the settlement class. The court held a fairness hearing and issued an Amended Final Judgment approving

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5. COMMITMENTS AND CONTINGENCIES (CONTINUED)

the settlement on September 10, 1999. However, certain entities have appealed their objections to the settlement. Devon's share of the proposed settlement, which was accrued at March 31, 2001, is not material to its financial position, results of operations or liquidity.

Also, pending in federal court in Texas is a similar suit alleging underpaid royalties to the United States in connection with natural gas and natural gas liquids produced and sold from United States owned and/or controlled lands. The claims were filed by private litigants against Devon and numerous other producers, under the federal False Claims Act. The United States served notice of its intent to intervene as to certain defendants, but not Devon. Devon and certain other defendants are challenging the constitutionality of whether a claim under the federal False Claims Act can be maintained absent government intervention. Devon believes that it has acted reasonably and paid royalties in good faith. Devon does not currently believe that it is subject to material exposure in association with this litigation. As a result, Devon's monetary exposure in this suit is not expected to be material.

Maersk Rig Contract

In December 1997, the working interest owner partner of Pennzoil Venezuela Corporation, S.A. ("PVC"), a subsidiary of Devon as a result of the PennzEnergy merger, entered into a contract with Maersk Jupiter Drilling, S.A. ("Maersk") for the provision of a rig for drilling services relative to the anticipated drilling program associated with Devon's Block 70/80 in Lake Maracaibo, Venezuela. The rig was assembled and delivered by Maersk to Lake Maracaibo where it performed an abbreviated drilling program for both Blocks 68/79 and 70/80. It is currently stacked in Lake Maracaibo. The contract, which expires October 1, 2001, provides for early termination, with a charge for such termination which is currently estimated at \$42,000 per day with certain escalation factors for the balance of the term. As of March 31, 2001, Devon's consolidated balance sheet included accrued liabilities, reflected in "Other liabilities," for the expected cost to terminate/settle the contract. Devon does not currently believe there is a reasonable possibility of incurring additional material costs in excess of the liability recognized for such termination/settlement of the contract.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

DEVON ENERGY CORPORATION

Date: December 18, 2001

/s/ Danny J. Heatly

Danny J. Heatly
Vice President - Accounting

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