

Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

DEVON ENERGY CORP/DE  
Form 8-K  
November 01, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report: OCTOBER 31, 2001

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

DELAWARE  
(State or Other Jurisdiction of  
Incorporation or Organization)

000-30176  
(Commission File Number)

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

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

73102  
(Zip Code)

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

ITEM 5. Other Events and Regulation FD Disclosure

Included herein are the consolidated financial statements and notes thereto of Devon Energy Corporation as of September 30, 2001 and for the three-month and nine-month periods ended September 30, 2001 and 2000. These 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.

Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

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

	SEPTEMBER 30, 2001
	----- (UNAUDITED)
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 239,265
Accounts receivable	491,099
Inventories	42,618
Deferred income taxes	8,979
Investments and other current assets	37,941
	-----
Total current assets	819,902
	-----
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties (\$453,667 and \$315,260 excluded from amortization in 2001 and 2000, respectively)	11,131,091
Less accumulated depreciation, depletion and amortization	5,387,568
	-----
Investment in ChevronTexaco Corporation common stock, at fair value	5,743,523
Goodwill, net of amortization	601,083
Fair value of derivative instruments	269,305
Other assets	151,415
	147,262
	-----
Total assets	\$ 7,732,490
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable:	
Trade	337,577
Revenues and royalties due to others	115,131
Income taxes payable	17,402
Accrued interest payable	32,269
Merger related expenses payable	11,602
Accrued expenses and other current liabilities	47,817
	-----
Total current liabilities	561,798
	-----
Other liabilities	162,318
Debentures exchangeable into shares of ChevronTexaco Corporation common stock	645,461
Other long-term debt	1,339,316
Deferred revenue	65,330
Deferred income taxes	1,112,822
Fair value of derivative instruments	76,440
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
Common stock of \$.10 par value	
Authorized 400,000,000 shares; issued 129,768,000 in 2001 and	

Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

128,638,000 in 2000	12,977
Additional paid-in capital	3,594,814
Retained earnings (accumulated deficit)	380,049
Accumulated other comprehensive loss	(29,542)
Unamortized restricted stock awards	(406)
Treasury stock, at cost; 3,754,000 shares in 2001	(190,387)
	-----
Total stockholders' equity	3,769,005
	-----
Total liabilities and stockholders' equity	\$ 7,732,490
	=====

See accompanying notes to consolidated financial statements.

3

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

	THREE MONTHS END SEPTEMBER 30,	
	2001	2000
	-----	-----
REVENUES		
Oil sales	\$ 234,116	234,116
Gas sales	306,808	306,808
Natural gas liquids sales	30,445	30,445
Other	15,346	15,346
	-----	-----
Total revenues	586,715	586,715
	-----	-----
COSTS AND EXPENSES		
Lease operating expenses	124,781	124,781
Transportation costs	16,113	16,113
Production taxes	20,967	20,967
Depreciation, depletion and amortization of property and equipment	205,345	205,345
Amortization of goodwill	8,461	8,461
General and administrative expenses	26,977	26,977
Expenses related to prior merger	--	--
Interest expense	35,885	35,885
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	--	--
Change in fair value of derivative instruments	(2,738)	(2,738)
Reduction of carrying value of oil and gas properties	10,911	10,911
	-----	-----
Total costs and expenses	446,702	446,702
	-----	-----
Earnings before income tax expense and cumulative effect of change in accounting principle	140,013	140,013

Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

INCOME TAX EXPENSE (BENEFIT)		
Current	(25,679)	
Deferred	80,960	
	-----	-----
Total income tax expense	55,281	1
	-----	-----
Earnings before cumulative effect of change in accounting principle	84,732	1
Cumulative effect of change in accounting principle, net of income tax expense of \$31,617	--	
	-----	-----
Net earnings	84,732	1
Preferred stock dividends	2,433	
	-----	-----
Net earnings applicable to common stockholders	\$ 82,299	1
	=====	=====
Net earnings before cumulative effect of change in accounting principle per average common share outstanding:		
Basic	\$ 0.65	
	=====	=====
Diluted	\$ 0.64	
	=====	=====
Net earnings per average common share outstanding:		
Basic	\$ 0.65	
	=====	=====
Diluted	\$ 0.64	
	=====	=====
Weighted average common shares outstanding-basic	126,335	1
	=====	=====
Weighted average common shares outstanding-diluted	131,573	1
	=====	=====

See accompanying notes to consolidated financial statements.

4

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
	-----	-----
Net earnings	\$ 84,732	164,9

Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

Other comprehensive earnings (loss):		
Foreign currency translation adjustments	(17,068)	(6,4
Cumulative effect of change in accounting principle	--	
Reclassification adjustment for derivative (gains) losses reclassified into oil and gas sales	(8,285)	
Change in fair value of outstanding hedging positions	64,001	
Unrealized losses on marketable securities, net of tax benefit	(24,877)	(1,2
	-----	-----
Comprehensive earnings	\$ 98,503	157,1
	=====	=====

See accompanying notes to consolidated financial statements.

5

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

	NINE MONTHS E
	-----
	2001
	-----
	(UNA
CASH FLOWS FROM OPERATING ACTIVITIES	
Net earnings	\$ 621,389
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation, depletion and amortization of property and equipment	572,939
Amortization of goodwill	25,384
Reduction of carrying value of oil and gas properties	87,853
Accretion of interest on long-term debt	11,598
Amortization of discounts (premiums) on other long-term debt	6,130
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	--
Loss (gain) on sale of assets	247
Change in fair value of derivative instruments	3,844
Cumulative effect of change in accounting principle	(49,452)
Deferred income taxes	267,757
Other	965
Changes in assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	113,769
Inventories	5,723
Prepaid expenses	14,298
Other assets	(28,923)
(Decrease) increase in:	
Accounts payable	17,463
Income taxes payable	(48,176)
Accrued expenses and other current liabilities	(51,711)
Deferred revenue	(48,394)

## Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

Long-term other liabilities	(22,195)
	-----
Net cash provided by operating activities	1,500,508
	-----
 CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of property and equipment	41,395
Capital expenditures	(1,351,492)
	-----
Net cash used in investing activities	(1,310,097)
	-----
 CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from borrowings of other long-term debt	1,271,746
Principal payments on revolving lines of credit	(1,263,995)
Issuance of common stock, net of issuance costs	30,932
Treasury stock purchased	(190,387)
Treasury stock issued	--
Dividends paid on common stock	(19,331)
Dividends paid on preferred stock	(7,301)
Decrease in long-term other liabilities	--
	-----
Net cash used in financing activities	(178,336)
	-----
Effect of exchange rate changes on cash	(860)
	-----
Net increase in cash and cash equivalents	11,215
Cash and cash equivalents at beginning of period	228,050
	-----
Cash and cash equivalents at end of period	\$ 239,265
	=====

See accompanying notes to consolidated financial statements.

6

### DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 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

## Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

normal and recurring) have been made which are necessary to fairly state the consolidated financial position of Devon and its subsidiaries as of September 30, 2001, and the results of their operations and their cash flows for the three-month and nine-month periods ended September 30, 2001 and 2000. Certain of the 2000 amounts in the accompanying consolidated financial statements have been reclassified to conform to the 2001 presentation.

### 2. PENDING ACQUISITIONS

Mitchell Energy & Development Corp.

On August 14, 2001, Devon and Mitchell Energy & Development Corp. ("Mitchell Energy") announced that Devon will acquire Mitchell Energy for cash and stock. In the transaction, Mitchell Energy stockholders would receive, for each Mitchell common share, \$31 cash and 0.585 of a share of Devon common stock. The purchase price will approximate \$3.2 billion. The cash portion of the purchase price will be funded from a new \$3.0 billion senior unsecured term loan credit facility (see Note 3). The transaction is subject to approval by the stockholders of both companies, as well as certain regulatory approvals. If approved, the transaction is expected to be consummated shortly after the stockholder meetings.

Mitchell Energy's estimated September 30, 2001 proved oil and gas reserves totaled 408 million barrels of oil equivalent located in the United States. In the transaction, Devon would also acquire Mitchell Energy's natural gas processing plants, pipelines and other midstream assets valued at approximately \$840 million.

7

### 2. PENDING ACQUISITIONS (CONTINUED)

Anderson Exploration Ltd.

On October 12, 2001, Devon accepted all of the Anderson Exploration Ltd. ("Anderson") common shares tendered by Anderson stockholders in the tender offer, which represented approximately 97% of the outstanding Anderson common shares. On October 17, 2001, Devon completed its acquisition of Anderson by a compulsory acquisition under the Canada Business Corporations Act of the remaining 3% of Anderson common shares. The cost to Devon of acquiring Anderson's outstanding common shares and paying for the intrinsic value of Anderson's outstanding options and appreciation rights was approximately \$3.5 billion, which was funded from the sale of \$3.0 billion of debt securities and borrowings under the \$3.0 billion senior unsecured term loan credit facility (see Note 3).

Proved reserves acquired by Devon in the Anderson transaction totaled approximately 522 million barrels of oil equivalent, all of which are located in Canada.

### 3. LONG-TERM DEBT

Debt Securities

On October 3, 2001, Devon, through its wholly-owned financial subsidiary Devon Financing Corporation, U.L.C. ("Devon Financing"), sold \$1.75 billion of 6.875% notes due September 30, 2011 and \$1.25 billion of 7.875% debentures due September 30, 2031. The debt securities are unsecured and unsubordinated obligations of Devon Financing. Devon has fully and

## Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

unconditionally guaranteed on an unsecured and unsubordinated basis the obligations of Devon Financing under the debt securities. The proceeds from the issuance of these debt securities were used to fund a portion of the Anderson acquisition.

The \$3.0 billion of debt securities were structured in a manner that results in an expected weighted average after-tax borrowing rate of approximately 1.76%.

Interest on the debt securities will be payable by Devon Financing semiannually on March 30 and September 30 of each year, beginning on March 30, 2002. The indenture governing the debt securities limits both Devon Financing's and Devon's ability to incur liens or enter into mergers or consolidations, or transfer all or substantially all of their respective assets, unless the successor company assumes Devon Financing's or Devon's obligations under the indenture.

8

### 3. LONG-TERM DEBT (CONTINUED)

#### New Term Loan Credit Facility

On October 12, 2001, Devon and Devon Financing entered into a new \$3.0 billion senior unsecured term loan credit facility arranged by UBS Warburg LLC and Banc of America Securities LLC. The facility has a term of five years. Devon and Devon Financing may borrow funds under this facility subject to conditions usual in commercial transactions of this nature, including the absence of any default under this facility. Interest on borrowings under this facility may be based, at the borrower's option, on the London Interbank Offered Rate ("LIBOR") or on UBS Warburg's base rate (which is the higher of UBS Warburg's prime commercial lending rate and the weighted average of rates on overnight Federal funds transactions with members of the Federal Reserve System plus 0.50%).

The interest rates will include a margin determined by Devon's long-term senior unsecured debt rating. Notwithstanding the current debt rating, the margin for borrowings based on LIBOR will be an additional 1.0% for the six-month period following completion of the syndication of this facility to a broader group of lenders, which is expected to occur in November 2001. Based on LIBOR rates as of October 30, 2001, Devon's rate would be 3.17%. In addition, the lenders under this facility will be charging Devon a per annum availability fee on their daily average unused lending commitments equal to a percentage determined by Devon's long-term senior unsecured debt rating.

On October 15, 2001, Devon used proceeds of \$0.8 billion from borrowings on this facility, along with the \$3.0 billion of proceeds from the debt securities referred to previously, to complete the Anderson acquisition, and to pay down Anderson's outstanding bank debt and other related fees and expenses. Devon expects substantially all of the remaining \$2.2 billion of availability to be utilized upon the closing of the Mitchell acquisition. No borrowings under this facility may be made after September 13, 2002.

On a pro forma basis, assuming that \$3.0 billion were drawn against this facility, the terms of this facility would require repayment of the debt during the following years:



## Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

(millions)

2001	\$ -
2002	\$ -
2003	\$ -
2004	\$ 0.2
2005	\$ 1.2
2006	\$ 1.6

9

### 3. LONG-TERM DEBT (CONTINUED)

The terms of this facility also provide that voluntary prepayments of the debt are allocated to the earliest scheduled maturities first. For example, if Devon were to prepay a portion of the \$3.0 billion of debt with proceeds from property sales, the amount of the prepayment would reduce the amounts otherwise due first in 2004, then 2005 and finally 2006.

This credit facility contains certain covenants and restrictions, including a maximum allowed debt-to-capitalization ratio as defined in the credit facility.

#### Amendment of Existing Credit Facilities

On August 13, 2001, Devon renewed its unsecured long-term credit facilities (the "Credit Facilities"). The Credit Facilities include a U.S. facility of \$725 million (the "U.S. Facility") and a Canadian facility of \$275 million (the "Canadian Facility").

Amounts borrowed under the Credit Facilities bear interest at various fixed rate options that Devon may elect for periods up to six months. Such rates are generally less than the prime rate. Devon may also elect to borrow at the prime rate. The Credit Facilities provide for an annual facility fee of \$0.9 million that is payable quarterly.

The \$725 million U.S. Facility consists of a Tranche A facility of \$200 million and a Tranche B facility of \$525 million. The Tranche A facility matures on October 15, 2004. Devon may borrow funds under the Tranche B facility until August 12, 2002 (the "Tranche B Revolving Period"). Devon may request that the Tranche B Revolving Period be extended an additional 364 days by notifying the agent bank of such request between 30 and 60 days prior to the end of the Tranche B Revolving Period. Debt borrowed under the Tranche B facility matures two years and one day following the end of the Tranche B Revolving Period. On September 30, 2001, there were no borrowings outstanding under the \$725 million U.S. Facility.

Devon may borrow funds under the \$275 million Canadian Facility until August 12, 2002 (the "Canadian Facility Revolving Period"). Devon may request that the Canadian Facility Revolving Period be extended an additional 364 days by notifying the agent bank of such request between 45 and 90 days prior to the end of the Canadian Facility Revolving Period. Debt outstanding as of the end of the Canadian Facility Revolving Period is payable in semi annual installments of 2.5% each for the following five years, with the final installment due five years and one day following the end of the Canadian Facility Revolving Period. On September 30, 2001, there was \$60.2 million borrowed under the \$275 million

## Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

Canadian facility at an average interest rate of 3.9%.

Under the terms of the Credit Facilities, Devon has the right to reallocate up to \$100 million of the unused Tranche B facility maximum credit amount to the Canadian Facility. Conversely, Devon also has the right to reallocate up to \$100 million of unused Canadian Facility maximum credit amount to the Tranche B Facility.

10

### 3. LONG-TERM DEBT (CONTINUED)

The agreements governing the Credit Facilities contain certain covenants and restrictions, including a maximum allowed debt-to-capitalization ratio as defined in the agreements.

#### Commercial Paper

As of September 30, 2001, Devon had \$129.8 million of borrowings under its commercial paper program at an average rate of 3.2%. Because Devon had the intent and ability to refinance the balance due with borrowings under its Credit Facilities, the \$129.8 million outstanding under the commercial paper program was classified as long-term debt on the September 30, 2001 consolidated balance sheet.

### 4. 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 net-of-tax cumulative-effect-type adjustment of \$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 of \$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 ChevronTexaco Corporation common stock.

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 nine months of 2001, there were no gains or losses reclassified into earnings as a result of the discontinuance of hedge accounting

## Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

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

11

hedging instruments are usually placed with counterparties that Devon believes are minimal credit risks.

#### 4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

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.

Devon does not hold or issue derivative instruments for trading purposes. All of Devon's commodity price swaps and costless price collars and foreign exchange rate swaps in place at January 1, 2001 and September 30, 2001 have been designated as cash flow hedges. Changes in the 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.

During the third quarter of 2001, Devon entered into foreign exchange forward contracts to mitigate the effect of volatility in the Canadian-to-U.S. dollar exchange rate on the Anderson acquisition. Under SFAS 133, these derivative instruments were not considered hedges and, as such, the change in fair value of these contracts is included in the statements of operations as part of the change in fair value of derivative instruments.

During the third quarter of 2001, Devon also entered into interest rate locks to reduce exposure to the variability in market interest rates,

## Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

specifically U.S. Treasury rates, in anticipation of the sale of the debt securities discussed in Note 3. These derivative instruments were designated as cash flow hedges and, as such, the change in fair value of these contracts is included on the balance sheet in AOCL.

12

#### 4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

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 three- and nine-month periods ended September 30, 2001, Devon recorded a net charge of approximately \$1.4 million which represented the ineffectiveness of the various cash flow hedges.

As of September 30, 2001, \$79.7 million of net deferred gains 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' gains 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 Devon is hedging exposures to the variability of cash flows for commodity price risk is 15 months.

Devon recorded in its statements of operations a gain of \$4.1 million and a loss of \$2.4 million in the three-month and nine-month periods ended September 30, 2001, respectively, for the change in fair value of derivative instruments that do not qualify for hedge accounting treatment.

#### 5. 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 and nine-month periods ended September 30, 2001 and 2000.

	NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	COMM SHAR OUTSTA
	-----	-----
	(IN THOUSANDS)	
THREE MONTHS ENDED SEPTEMBER 30, 2001:		
Basic earnings per share	\$ 82,299	1
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 \$1,408,000)	2,201	
Potential common shares issuable upon the exercise of outstanding stock options	--	
	-----	-----

Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

Diluted earnings per share	\$ 84,500	1
	=====	=====

13

5. EARNINGS PER SHARE (CONTINUED)

	NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	COMM SHAR OUTSTA
	-----	-----
THREE MONTHS ENDED SEPTEMBER 30, 2000:		
Basic earnings per share	\$ 162,479	1
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 \$1,355,000)	2,119	
Potential common shares issuable upon the exercise of outstanding stock options	--	
	-----	-----
Diluted earnings per share	\$ 164,598	1
	=====	=====
NINE MONTHS ENDED SEPTEMBER 30, 2001:		
Basic earnings per share	\$ 614,088	1
Dilutive effect of:		
Potential common shares issuable upon the conversion of senior convertible debentures (the increase in net earnings is net of income tax expense of \$4,170,000)	6,522	
Potential common shares issuable upon the exercise of outstanding stock options	--	
	-----	-----
Diluted earnings per share	\$ 620,610	1
	=====	=====
NINE MONTHS ENDED SEPTEMBER 30, 2000:		
Basic earnings per share	\$ 416,132	1
Dilutive effect of:		
Potential common shares issuable upon the conversion of senior convertible debentures (the increase in net earnings is net of income tax expense of \$1,399,000)	2,189	
Potential common shares issuable upon the		

## Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

exercise of outstanding stock options	--	
	-----	-----
Diluted earnings per share	\$ 418,321	1
	=====	=====

14

### 5. EARNINGS PER SHARE (CONTINUED)

Options to purchase approximately 3.0 million shares of Devon's common stock with exercise prices ranging from \$45.49 per share to \$89.66 per share (with a weighted average price of \$55.58 per share) were excluded from the diluted earnings per share calculation for the third quarter of 2001 because the options' exercise price exceeded the average market price of Devon's common stock during the third quarter. Similarly, options to purchase approximately 1.1 million shares of Devon's common stock with exercise prices ranging from \$56.19 per share to \$89.66 per share (with a weighted average price of \$66.14 per share) were excluded from the diluted earnings per share calculation for the third quarter of 2000.

Options to purchase approximately 1.1 million shares of Devon's common stock, with exercise prices from \$52.39 to \$89.66 per share (with a weighted average price of \$63.44 per share), were excluded from the diluted earnings per share calculation for the first nine months of 2001 because the options' exercise price exceeded the average market price of Devon's common stock during the period. Similarly, options to purchase approximately 1.2 million shares of Devon's common stock with exercise prices ranging from \$52.89 per share to \$89.66 per share (with a weighted average price of \$66.09 per share) were excluded from the diluted earnings per share calculation for the first nine months of 2000. The excluded options for each of the 2001 periods expire between November 8, 2001 and June 30, 2011.

### 6. STOCK BUYBACK

Effective June 27, 2001, the board of directors authorized the repurchase of up to \$1 billion of Devon's common stock. The repurchase program also applies to securities that are convertible into, or otherwise equity-linked to, Devon's common stock. Under the repurchase program, share purchases may be made from time to time depending upon market conditions and may be made in the open market and in privately negotiated transactions. The repurchase program may be discontinued at any time. Devon currently has suspended the share repurchase program.

During the third quarter of 2001, Devon repurchased 3,601,000 shares of common stock at an aggregate cost of \$182.6 million or \$50.70 per share. As of September 30, 2001, Devon had repurchased 3,754,000 shares of common stock at an aggregate cost of \$190.4 million or \$50.71 per share.

In addition to the aforementioned share repurchase program begun in the second quarter of 2001, Devon also repurchased shares of its common stock in the first quarter of 2001 under an odd-lot repurchase program. Pursuant to this program, Devon purchased and retired 232,000 shares of its common stock for a total cost of \$13.3 million, or \$57.40 per share.

15

## Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

### 7. REDUCTION OF CARRYING VALUE OF OIL AND GAS PROPERTIES

Under the full cost method of accounting, the net book value of oil and gas properties less related deferred income taxes (the "costs to be recovered"), may not exceed a calculated "full cost ceiling." The ceiling limitation is the discounted estimated after-tax future net revenues from oil and gas properties. The ceiling is imposed separately by country. In calculating future net revenues, current prices and costs are generally held constant indefinitely. The costs to be recovered are compared to the ceiling on a quarterly basis. If the costs to be recovered exceed the ceiling, the excess is written off as an expense, except as discussed in the following paragraph.

If, subsequent to the end of the quarter but prior to the applicable financial statements being published, prices increase to levels such that the ceiling would exceed the costs to be recovered, a write down otherwise indicated at the end of the quarter is not required to be recorded. A write down indicated at the end of a quarter is also not required if the value of additional reserves proved up on properties after the end of the quarter but prior to the publishing of the financial statements would result in the ceiling exceeding the costs to be recovered, as long as the properties were owned at the end of the quarter.

An expense recorded in one period may not be reversed in a subsequent period even though higher oil and gas prices may have increased the ceiling applicable to the subsequent period.

Based on oil and natural gas cash market prices as of September 30, 2001, Devon's domestic and Canadian costs to be recovered exceeded the related ceiling values by \$497.5 million, and \$45.1 million, respectively. These after-tax amounts would have resulted in pre-tax reductions of the carrying values of Devon's domestic and Canadian oil and gas properties of \$815.5 million and \$78.6 million, respectively, in the third quarter of 2001. However, the cash market prices of natural gas increased significantly during the month of October 2001. Based on cash market prices of oil and natural gas as of October 31, 2001, when the accompanying consolidated financial statements were published, Devon's domestic and Canadian ceilings as of September 30, 2001 exceeded the related costs to be recovered by \$414.2 million and \$173.9 million, respectively. Accordingly, Devon did not record a reduction of the carrying value of its domestic and Canadian oil and gas properties in the quarter ended September 30, 2001.

During the third quarter of 2001, Devon elected to discontinue operations in Thailand. During the second quarter of 2001, Devon elected to discontinue operations in Malaysia, Qatar and on certain properties in Brazil. After meeting the drilling and capital commitments on these properties, Devon determined that the properties did not meet Devon's internal criteria to justify further investment. Accordingly, during the third quarter and first nine months of 2001, Devon recorded a \$10.9 million and \$87.9 million charge associated with the impairment of these properties, respectively. The after-tax effect of these reductions was \$6.7 million and \$68.8 million, respectively.

16

### 8. SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest in the first nine months of 2001 and 2000 were approximately \$78.1 million and \$150.5 million, respectively. Cash payments for federal, state and foreign income taxes in the first nine months of 2001 and

## Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

2000 were approximately \$165.5 million and \$52.3 million, respectively.

### 9. 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. The revenues reported are all from external customers.

	U.S.	CANADA	N
(IN THOUSANDS)			
AS OF SEPTEMBER 30, 2001:			
Current assets	\$ 468,566	50,000	---
Property and equipment, net of accumulated depreciation, depletion and amortization	4,395,745	632,877	---
Investment in ChevronTexaco Corporation common stock	601,083	--	---
Goodwill, net of amortization	217,730	--	---
Fair value of derivative instruments	149,437	1,978	---
Other assets	135,172	75	---
	-----	-----	-----
Total assets	\$5,967,733	684,930	1
	=====	=====	=====
Current liabilities	362,143	68,428	---
Debentures exchangeable into shares of ChevronTexaco Corporation common stock	645,461	--	---
Other long-term debt	1,279,143	60,173	---
Deferred revenue	64,533	306	---
Deferred tax liabilities	950,695	126,691	---
Other liabilities	130,300	912	---
Fair value of derivative instruments	76,172	268	---
Stockholders' equity	2,459,286	428,152	---
	-----	-----	-----
Total liabilities and stockholders' equity	\$5,967,733	684,930	1
	=====	=====	=====

17

### 9. SEGMENT INFORMATION (CONTINUED)

	U.S.	CANADA	N
(IN T			
THREE MONTHS ENDED SEPTEMBER 30, 2001:			



Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

REVENUES		
Oil sales	\$ 147,753	28,333
Gas sales	269,367	33,558
Natural gas liquids sales	26,747	3,150
Other	10,197	476
	-----	-----
Total revenues	454,064	65,517
	-----	-----
COSTS AND EXPENSES		
Lease operating expenses	89,509	17,056
Transportation costs	13,262	2,851
Production taxes	20,381	450
Depreciation, depletion and amortization of property and equipment	168,452	21,439
Amortization of goodwill	8,451	--
General and administrative expenses	24,780	1,630
Interest expense	34,602	1,028
Change in fair value of derivative instruments	(2,738)	--
Reduction of carrying value of oil and gas properties	--	--
	-----	-----
Total costs and expenses	356,699	44,454
	-----	-----
Earnings before income tax expense	97,365	21,063
INCOME TAX EXPENSE (BENEFIT)		
Current	(26,931)	507
Deferred	59,505	12,345
	-----	-----
Total income tax expense	32,574	12,852
	-----	-----
Net earnings	64,791	8,211
Preferred stock dividends	2,433	--
	-----	-----
Net earnings applicable to common shareholders	\$ 62,358	8,211
	=====	=====
Capital expenditures	\$ 277,148	44,279
	=====	=====

18

9. SEGMENT INFORMATION (CONTINUED)

	U.S.	CANADA
	-----	-----
		(IN T

THREE MONTHS ENDED SEPTEMBER 30, 2000:

Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

REVENUES		
Oil sales	\$ 173,130	31,860
Gas sales	351,237	38,202
Natural gas liquids sales	30,985	4,356
Other	28,304	1,181
	-----	-----
Total revenues	583,656	75,599
	-----	-----
COSTS AND EXPENSES		
Lease operating expenses	80,889	13,315
Transportation costs	11,115	2,792
Production taxes	27,356	295
Depreciation, depletion and amortization of property and equipment	143,587	15,633
Amortization of goodwill	10,358	--
General and administrative expenses	23,063	2,263
Expenses related to merger	57,233	--
Interest expense	37,463	2,902
	-----	-----
Total costs and expenses	391,064	37,200
	-----	-----
Earnings before income tax expense	192,592	38,399
INCOME TAX EXPENSE		
Current	46,168	595
Deferred	24,124	17,579
	-----	-----
Total income tax expense	70,292	18,174
	-----	-----
Net earnings	122,300	20,225
Preferred stock dividends	2,433	--
	-----	-----
Net earnings applicable to common stockholders	\$ 119,867	20,225
	=====	=====
Capital expenditures	\$ 173,542	29,449
	=====	=====

19

9. SEGMENT INFORMATION (CONTINUED)

	U.S.	CANADA
	-----	-----
		(IN T
NINE MONTHS ENDED SEPTEMBER 30, 2001:		
REVENUES		
Oil sales	\$ 458,653	85,097

Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

Gas sales	1,300,175	165,127
Natural gas liquids sales	81,382	12,471
Other	34,140	2,166
	-----	-----
Total revenues	1,874,350	264,861
	-----	-----
COSTS AND EXPENSES		
Lease operating expenses	257,315	49,175
Transportation costs	43,312	8,624
Production taxes	93,207	1,343
Depreciation, depletion and amortization of property and equipment	465,030	60,724
Amortization of goodwill	25,352	--
General and administrative expenses	70,489	5,454
Interest expense	99,519	4,541
Change in fair value of derivative instruments	3,844	--
Reduction of carrying value of oil and gas properties	--	--
	-----	-----
Total costs and expenses	1,058,068	129,861
	-----	-----
Earnings before income tax expense and cumulative effect of change in accounting principle	816,282	135,000
INCOME TAX EXPENSE		
Current	104,156	2,417
Deferred	200,252	57,950
	-----	-----
Total income tax expense	304,408	60,367
	-----	-----
Earnings (loss) before cumulative effect of change in accounting principle	511,874	74,633
Cumulative effect of change in accounting principle	49,452	--
	-----	-----
Net earnings (loss)	561,326	74,633
Preferred stock dividends	7,301	--
	-----	-----
Net earnings (loss) applicable to common shareholders	\$ 554,025	74,633
	=====	=====
Capital expenditures	\$1,073,839	154,120
	=====	=====

20

9. SEGMENT INFORMATION (CONTINUED)

U.S.	CANADA
-----	-----
	(IN T

## Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

NINE MONTHS ENDED SEPTEMBER 30, 2000:

### REVENUES

Oil sales	\$ 550,806	89,028
Gas sales	846,070	106,046
Natural gas liquids sales	93,256	12,901
Other	50,220	3,503
	-----	-----
Total revenues	1,540,352	211,478
	-----	-----

### COSTS AND EXPENSES

Lease operating expenses	238,109	38,540
Transportation costs	30,132	8,520
Production taxes	68,503	819
Depreciation, depletion and amortization of property and equipment	428,399	47,986
Amortization of goodwill	31,039	--
General and administrative expenses	65,815	7,058
Expenses related to merger	57,233	--
Interest expense	112,818	7,898
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	--	2,408
	-----	-----
Total costs and expenses	1,032,048	113,229
	-----	-----

Earnings before income tax expense	508,304	98,249
------------------------------------	---------	--------

### INCOME TAX EXPENSE

Current	110,494	1,574
Deferred	80,371	44,842
	-----	-----
Total income tax expense	190,865	46,416
	-----	-----

Net earnings	317,439	51,833
Preferred stock dividends	7,301	--
	-----	-----

Net earnings applicable to common stockholders	\$ 310,138	51,833
	=====	=====

Capital expenditures	\$ 720,013	107,606
	=====	=====

### 10. 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

## Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

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 September 30, 2001, Devon's consolidated balance sheet included \$7.7 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 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.

22

### 10. COMMITMENTS AND CONTINGENCIES (CONTINUED)

#### 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 the settlement on September 10, 1999. However, certain entities appealed their objections to the settlement terms. The appeals were recently withdrawn and we expect to close the matter with payment expected to occur November 15, 2001. Devon's share of the settlement, which is accrued in the September 30, 2001 consolidated balance sheet, is not material to its financial position, results of operations or liquidity.

Also, pending in federal court in Texas is a similar suit alleging

## Edgar Filing: DEVON ENERGY CORP/DE - Form 8-K

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. No liability has been recorded in connection with this dispute.

### 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 expires in the fourth quarter of 2001. As of September 30, 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.

23

### SIGNATURES

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

DEVON ENERGY CORPORATION

By: /s/ Danny J. Heatly

-----  
Danny J. Heatly  
Vice President

Date: October 31, 2001

24