

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

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 June 30, 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)  
20 NORTH BROADWAY, SUITE 1500  
OKLAHOMA CITY, OKLAHOMA  
(Address of Principal Executive Offices)

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

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 July 31, 2001, was 125,984,000.

# Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

DEVON ENERGY CORPORATION

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

## Part I. Financial Information

### Item 1. Consolidated Financial Statements

Consolidated Balance Sheets, June 30, 2001 (Unaudited)  
and December 31, 2000

Consolidated Statements of Operations (Unaudited)  
for the Three Months and Six Months Ended June 30, 2001  
and 2000

Consolidated Statements of Comprehensive Operations  
(Unaudited) for the Three Months and Six Months Ended  
June 30, 2001 and 2000

Consolidated Statements of Cash Flows (Unaudited)  
for the Six Months Ended June 30, 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

"NGL" means natural gas liquids

DEVON ENERGY CORPORATION

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

PART I. FINANCIAL INFORMATION  
 ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS  
 JUNE 30, 2001 AND 2000

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

3

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

	JUNE 30, 2001	DECEMBER 2000
	----- (UNAUDITED)	-----
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 477,822	228
Accounts receivable	550,661	615
Inventories	40,193	47
Deferred income taxes	8,979	8
Investments and other current assets	33,858	34
	-----	-----
Total current assets	1,111,513	934
	-----	-----
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties	10,865,921	9,709
Less accumulated depreciation, depletion and amortization	5,225,784	4,799
	-----	-----
Investment in Chevron Corporation common stock, at fair value	5,640,137	4,909
Goodwill, net of amortization	641,865	598
Other assets	277,767	289
	132,756	128
	-----	-----
Total assets	\$ 7,804,038	6,860
	=====	=====

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Accounts payable:

Trade	296,516	305
Revenues and royalties due to others	125,012	151
Income taxes payable	48,649	65
Accrued interest payable	23,488	23
Merger related expenses payable	19,013	36
Accrued expenses and other current liabilities	75,159	45

Total current liabilities

587,837

628

Other liabilities

167,977

164

Debentures exchangeable into shares of Chevron

Corporation common stock

642,329

760

Other long-term debt

1,438,819

1,288

Deferred revenue

81,472

113

Fair value of derivative instruments

17,979

Deferred income taxes

1,010,384

626

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

Common stock of \$.10 par value

Authorized 400,000,000 shares; issued 129,628,000 in 2001 and 128,638,000 in 2000

12,963

12

Additional paid-in capital

3,590,233

3,563

Retained earnings (accumulated deficit)

304,130

(214)

Accumulated other comprehensive loss

(43,313)

(85)

Unamortized restricted stock awards

(487)

Treasury stock, at cost; 153,000 shares in 2001

(7,785)

Total stockholders' equity

3,857,241

3,277

Total liabilities and stockholders' equity

\$ 7,804,038

6,860

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED	
	JUNE 30,	
	2001	2000
REVENUES		
Oil sales	\$ 234,574	274,778

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

Gas sales	443,014	327,460
Natural gas liquids sales	31,964	33,539
Other	15,610	12,707
	-----	-----
Total revenues	725,162	648,484
	-----	-----
COSTS AND EXPENSES		
Lease operating expenses	115,455	111,100
Transportation costs	18,419	12,932
Production taxes	29,549	22,473
Depreciation, depletion and amortization of property and equipment	184,702	172,251
Amortization of goodwill	8,461	10,361
General and administrative expenses	24,628	24,023
Interest expense	34,402	40,875
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	--	--
Change in fair value of derivative instruments	(7,460)	--
Reduction of carrying value of oil and gas properties	76,942	--
	-----	-----
Total costs and expenses	485,098	394,015
	-----	-----
Earnings before income tax expense and cumulative effect of change in accounting principle	240,064	254,469
INCOME TAX EXPENSE (BENEFIT)		
Current	(1,204)	36,358
Deferred	104,878	64,777
	-----	-----
Total income tax expense	103,674	101,135
	-----	-----
Earnings before cumulative effect of change in accounting principle	136,390	153,334
Cumulative effect of change in accounting principle, net of income tax expense of \$31,617	--	--
	-----	-----
Net earnings	136,390	153,334
Preferred stock dividends	2,434	2,434
	-----	-----
Net earnings applicable to common shareholders	\$ 133,956	150,900
	=====	=====
Net earnings before cumulative effect of change in accounting principle per average common share outstanding:		
Basic	\$ 1.03	1.19
	=====	=====
Diluted	\$ 1.01	1.17
	=====	=====
Net earnings per average common share outstanding:		
Basic	\$ 1.03	1.19
	=====	=====
Diluted	\$ 1.01	1.17
	=====	=====

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

Weighted average common shares outstanding-basic	129,488	126,994
	=====	=====
Weighted average common shares outstanding-diluted	135,403	129,455
	=====	=====

See accompanying notes to consolidated financial statements.

5

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

	THREE MONTHS ENDED JUNE 30,		SIX
	2001	2000	2
	-----	-----	-----
	(UNAUDITED)		
Net earnings	\$136,360	153,334	536,
Other comprehensive earnings (loss), net of tax:			
Foreign currency translation adjustments	15,882	(5,420)	(3,
Cumulative effect of change in accounting principle	--	--	(36,
Reclassification adjustment for derivative losses reclassified into oil and gas sales	10,320	--	14,
Change in fair value of outstanding hedging positions	27,766	--	41,
Unrealized gains (losses) on marketable securities	11,682	(31,489)	26,
	-----	-----	-----
Comprehensive earnings	\$202,010	116,425	578,
	=====	=====	=====

See accompanying notes to consolidated financial statements.

6

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

	SIX MONTHS ENDED
	-----
	2001
	-----
	(UNAUDITED)
CASH FLOWS FROM OPERATING ACTIVITIES	

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

Net earnings	\$ 536,657
Adjustments to reconcile net earnings to net cash provided by operating activities:	
Depreciation, depletion and amortization of property and equipment	367,594
Amortization of goodwill	16,923
Reduction of carrying value of oil and gas properties	76,942
Accretion of interest on zero coupon convertible senior debentures	7,007
Amortization of discounts (premiums) on other long-term debt	4,027
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	--
Gain on sale of assets	327
Change in fair value of derivative instruments	6,582
Cumulative effect of change in accounting principle	(49,452)
Deferred income taxes	186,797
Other	1,042
Changes in assets and liabilities:	
Decrease (increase) in:	
Accounts receivable	54,393
Inventories	8,088
Prepaid expenses	17,755
Other assets	(15,806)
(Decrease) increase in:	
Accounts payable	(12,423)
Income taxes payable	(17,007)
Accrued expenses and other current liabilities	(10,779)
Deferred revenue	(32,269)
Long-term other liabilities	(19,680)
	-----
Net cash provided by operating activities	1,126,718
	-----
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of property and equipment	25,940
Capital expenditures	(1,018,759)
Decrease in other assets	--
	-----
Net cash used in investing activities	(992,819)
	-----
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from borrowings of long-term debt, net of issuance costs	365,668
Principal payments on long-term debt	(257,667)
Issuance of common stock, net of issuance costs	39,674
Repurchase of common stock	(13,337)
Issuance of treasury stock	--
Dividends paid on common stock	(12,951)
Dividends paid on preferred stock	(4,868)
Decrease in long-term other liabilities	(60)
	-----
Net cash provided by financing activities	116,459
	-----
Effect of exchange rate changes on cash	(587)
	-----
Net increase in cash and cash equivalents	249,771
Cash and cash equivalents at beginning of period	228,050
	-----
Cash and cash equivalents at end of period	\$ 477,822
	=====

## Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

See accompanying notes to consolidated financial statements.

7

### 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 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 June 30, 2001, and the results of their operations and their cash flows for the three-month and six-month periods ended June 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 ACQUISITION

On August 14, 2001, Devon and Mitchell Energy & Development Corporation ("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 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 June 30, 2001 proved oil and gas reserves totaled 2.5 trillion cubic feet of gas 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 between \$800 million and \$1 billion.

#### 3. 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



## Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

accordance with the transition provisions of SFAS No. 133, Devon recorded a 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.

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

8

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 half 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

## Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

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 June 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.

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

9

operations in "Change in fair value of derivative instruments." For the three- and six-month periods ended June 30, 2001, Devon recorded a net charge of less than \$0.1 million which represented the ineffectiveness of the various cash flow hedges.

As of June 30, 2001, \$14.2 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' 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 Devon is hedging exposures to the variability of cash flows for commodity price risk is 18 months.

Devon recorded a gain of \$7.5 million and an expense of \$6.6 million in the three-month and six-month periods ended June 30, 2001, respectively, 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.

#### 4. 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 six-month periods ended June 30, 2001 and 2000.

	NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	COMMON SHARES OUTSTANDING	N EARN P SH
	-----		-----
	(IN THOUSANDS)		
THREE MONTHS ENDED JUNE 30, 2001:			
Basic earnings per share	\$133,956	129,488	\$
Dilutive effect of:			
Potential common shares issuable upon conversion			===

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

of senior convertible debentures (the increase in net earnings is net of income tax expense of \$1,382)	2,161	4,377	
Potential common shares issuable upon the exercise of outstanding stock options	--	1,538	
	-----	-----	
Diluted earnings per share	\$136,117	135,403	\$
	=====	=====	=====

10

4. EARNINGS PER SHARE (CONTINUED)

THREE MONTHS ENDED JUNE 30, 2000:			
Basic earnings per share	\$150,900	126,994	\$ 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 \$46)	71	192	
Potential common shares issuable upon the exercise of outstanding stock options	--	2,269	
	-----	-----	
Diluted earnings per share	\$150,971	129,455	\$ 1.
	=====	=====	=====
SIX MONTHS ENDED JUNE 30, 2001:			
Basic earnings per share	\$531,789	129,260	\$ 4.
			=====
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 \$2,762)	4,321	4,377	
Potential common shares issuable upon the exercise of outstanding stock options	--	1,765	
	-----	-----	
Diluted earnings per share	\$536,110	135,402	\$ 3.
	=====	=====	=====
SIX MONTHS ENDED JUNE 30, 2000:			
Basic earnings per share	\$253,653	126,675	\$ 2.
			=====
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 \$46)	71	96	
Potential common shares issuable upon the exercise of outstanding stock options	--	1,910	
	-----	-----	

## Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

Diluted earnings per share	\$253,724	128,681	\$ 1.
	=====	=====	=====

11

#### 4. EARNINGS PER SHARE (CONTINUED)

Options to purchase approximately 1.0 million shares of Devon's common stock with exercise prices ranging from \$56.76 per share to \$89.66 per share (with a weighted average price of \$65.31 per share) were outstanding at June 30, 2001, but were not included in the computation of diluted earnings per share for the second quarter of 2001 because the options' exercise price exceeded the average market price of Devon's common stock during the second quarter. Similarly, options to purchase approximately 1.4 million shares of Devon's common stock with exercise prices ranging from \$55.53 per share to \$92.78 per share (with a weighted average price of \$65.97 per share) were excluded from the diluted earnings per share calculation for the second quarter of 2000.

Options to purchase approximately 1.0 million shares of Devon's common stock, with exercise prices from \$57.72 to \$89.66 per share (with a weighted average price of \$65.34 per share), were excluded from the diluted earnings per share calculation for first six months of 2001. Similarly, options to purchase approximately 1.8 million shares of Devon's common stock with exercise prices ranging from \$49.94 per share to \$92.78 per share (with a weighted average price of \$62.08 per share) were excluded from the diluted earnings per share calculation for the first six months of 2000. The excluded options for each of the 2001 periods expire between September 13, 2001 and May 17, 2011.

#### 5. 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. During the second quarter of 2001, Devon repurchased 153,000 shares of common stock at an aggregate cost of \$7.8 million or \$51.05 per share. As of July 31, 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.

#### 6. LONG-TERM DEBT

As of June 30, 2001, Devon had borrowings outstanding under its unsecured long-term credit facilities (the "Credit Facilities") of \$92.2 million at an average rate of 4.8%. Also, as of June 30, 2001, Devon had \$199.8 million of borrowings under its commercial paper program at an average rate of 4.2%. Because Devon had the intent and ability to refinance the balance due with borrowings under its Credit Facilities, the \$199.8 million outstanding under the commercial paper program was classified as long-term debt on the June 30, 2001 consolidated balance sheet.

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

12

7. REDUCTION OF CARRYING VALUE OF OIL AND GAS PROPERTIES

During the second quarter of 2001, Devon elected to discontinue operations in Malaysia, Qatar and on certain properties in Brazil. Accordingly, during the second quarter of 2001, Devon recorded a \$76.9 million charge associated with the impairment of these properties. The after-tax effect of this reduction was \$62.1 million.

8. 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	INTER- NATIONAL
	-----	-----	-----
	(IN THOUSANDS)		
AS OF JUNE 30, 2001:			
Current assets	\$ 755,110	68,761	287,642
Property and equipment, net of accumulated depreciation, depletion and amortization	4,280,010	650,731	709,396
Investment in Chevron Corporation common stock	641,865	--	--
Goodwill, net of amortization	230,431	--	47,336
Other assets	119,123	82	13,551
	-----	-----	-----
Total assets	\$6,026,539	719,574	1,057,925
	=====	=====	=====
Current liabilities	366,257	73,644	147,936
Other liabilities	132,246	888	34,843
Debentures exchangeable into shares of Chevron Corporation common stock 642,329	--	--	642,329
Other long-term debt	1,346,573	92,246	--
Deferred revenue	80,444	537	491
Fair value of derivative instruments	12,110	5,869	--
Deferred income taxes	874,839	113,475	22,070
Stockholders' equity	2,571,741	432,915	852,585
	-----	-----	-----
Total liabilities and stockholders' equity	\$6,026,539	719,574	1,057,925
	=====	=====	=====

13

8. SEGMENT INFORMATION (CONTINUED)

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

	U.S.	CANADA	INTER- NATIONAL
	-----	-----	-----
	(IN THOUSANDS)		
THREE MONTHS ENDED JUNE 30, 2001:			
REVENUES			
Oil sales	\$ 144,352	28,977	61,245
Gas sales	387,627	52,104	3,283
Natural gas liquids sales	27,472	4,197	295
Other	10,362	637	4,611
	-----	-----	-----
Total revenues	569,813	85,915	69,434
	-----	-----	-----
COSTS AND EXPENSES			
Lease operating expenses	79,343	16,782	19,330
Transportation costs	15,414	3,005	--
Production taxes	28,910	475	164
Depreciation, depletion and amortization of property and equipment	147,444	20,000	17,258
Amortization of goodwill	8,450	--	11
General and administrative expenses	25,266	1,914	(2,552)
Interest expense	32,750	1,397	255
Change in fair value of derivative instruments	(7,460)	--	--
Reduction of carrying value of oil and gas properties	--	--	76,942
	-----	-----	-----
Total costs and expenses	330,117	43,573	111,408
	-----	-----	-----
Earnings (loss) before income tax expense	239,696	42,342	(41,974)
INCOME TAX EXPENSE (BENEFIT)			
Current	(8,790)	974	6,612
Deferred	97,114	14,892	(7,128)
	-----	-----	-----
Total income tax expense (benefit)	88,324	15,866	(516)
	-----	-----	-----
Net earnings (loss)	151,372	26,476	(41,458)
Preferred stock dividends	2,434	--	--
	-----	-----	-----
Net earnings (loss) applicable to common shareholders	\$ 148,938	26,476	(41,458)
	=====	=====	=====
Capital expenditures	\$ 565,937	48,477	58,419
	=====	=====	=====

14

8. SEGMENT INFORMATION (CONTINUED)

	U.S.	CANADA	INTER- NATIONAL	TOTAL
	-----	-----	-----	-----
	(IN THOUSANDS)			

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

THREE MONTHS ENDED JUNE 30, 2000:

REVENUES				
Oil sales	\$187,842	27,695	59,241	274,7
Gas sales	287,964	36,496	3,000	327,4
Natural gas liquids sales	29,270	4,169	100	33,5
Other	10,466	1,231	1,010	12,7
	-----	-----	-----	-----
Total revenues	515,542	69,591	63,351	648,4
	-----	-----	-----	-----
COSTS AND EXPENSES				
Lease operating expenses	79,802	12,921	18,377	111,1
Transportation costs	9,992	2,940	--	12,9
Production taxes	22,076	297	100	22,4
Depreciation, depletion and amortization of property and equipment	144,836	16,359	11,056	172,2
Amortization of goodwill	10,355	--	6	10,3
General and administrative expenses	20,725	2,541	757	24,0
Interest expense	38,007	2,568	300	40,8
	-----	-----	-----	-----
Total costs and expenses	325,793	37,626	30,596	394,0
	-----	-----	-----	-----
Earnings before income tax expense	189,749	31,965	32,755	254,4
INCOME TAX EXPENSE				
Current	32,379	279	3,700	36,3
Deferred	39,751	14,353	10,673	64,7
	-----	-----	-----	-----
Total income tax expense	72,130	14,632	14,373	101,1
	-----	-----	-----	-----
Net earnings	117,619	17,333	18,382	153,3
Preferred stock dividends	2,434	--	--	2,4
	-----	-----	-----	-----
Net earnings applicable to common shareholders	\$115,185	17,333	18,382	150,9
	=====	=====	=====	=====
Capital expenditures	\$206,744	42,131	34,097	282,9
	=====	=====	=====	=====

15

8. SEGMENT INFORMATION (CONTINUED)

	U.S.	CANADA	INTER-NATIONAL
	-----	-----	-----
	(IN THOUSANDS)		
SIX MONTHS ENDED JUNE 30, 2001:			
REVENUES			
Oil sales	\$ 310,900	56,764	120,
Gas sales	1,030,808	131,569	5,
Natural gas liquids sales	54,635	9,321	

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

Other	23,943	1,690	2,
	-----	-----	-----
Total revenues	1,420,286	199,344	129,
	-----	-----	-----
COSTS AND EXPENSES			
Lease operating expenses	167,806	32,119	38,
Transportation costs	30,050	5,773	
Production taxes	72,826	893	
Depreciation, depletion and amortization of property and equipment	296,578	39,285	31,
Amortization of goodwill	16,901	--	
General and administrative expenses	45,709	3,824	(2,
Interest expense	64,918	3,512	
Change in fair value of derivative instruments	6,582	--	
Reduction of carrying value of oil and gas properties	--	--	76,
	-----	-----	-----
Total costs and expenses	701,370	85,406	145,
	-----	-----	-----
Earnings (loss) before income tax expense and cumulative effect of change in accounting principle	718,916	113,938	(15,
	-----	-----	-----
INCOME TAX EXPENSE			
Current	131,087	1,910	9,
Deferred	140,748	45,604	
	-----	-----	-----
Total income tax expense	271,835	47,514	10,
	-----	-----	-----
Earnings (loss) before cumulative effect of change in accounting principle	447,081	66,424	(26,
Cumulative effect of change in accounting principle	49,452	--	
	-----	-----	-----
Net earnings (loss)	496,533	66,424	(26,
Preferred stock dividends	4,868	--	
	-----	-----	-----
Net earnings (loss) applicable to common shareholders	\$ 491,665	66,424	(26,
	=====	=====	=====
Capital expenditures	\$ 796,691	109,841	112,
	=====	=====	=====

16

8. SEGMENT INFORMATION (CONTINUED)

U.S.	CANADA	INTER- NATIONAL
-----	-----	-----
(IN THOUSANDS)		

SIX MONTHS ENDED JUNE 30, 2000:



Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

REVENUES			
Oil sales	\$ 377,676	57,168	110,091
Gas sales	494,833	67,844	5,600
Natural gas liquids sales	62,271	8,545	100
Other	21,916	2,322	534
	-----	-----	-----
Total revenues	956,696	135,879	116,325
	-----	-----	-----
COSTS AND EXPENSES			
Lease operating expenses	157,220	25,225	35,362
Transportation costs	19,017	5,728	--
Production taxes	41,147	524	200
Depreciation, depletion and amortization of property and equipment	284,812	32,353	20,338
Amortization of goodwill	20,681	--	12
General and administrative expenses	42,752	4,795	1,326
Interest expense	75,355	4,996	600
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	--	2,408	--
	-----	-----	-----
Total costs and expenses	640,984	76,029	57,838
	-----	-----	-----
Earnings before income tax expense	315,712	59,850	58,487
INCOME TAX EXPENSE			
Current	64,326	979	7,200
Deferred	56,247	27,263	19,513
	-----	-----	-----
Total income tax expense	120,573	28,242	26,713
	-----	-----	-----
Net earnings	195,139	31,608	31,774
Preferred stock dividends	4,868	--	--
	-----	-----	-----
Net earnings applicable to common shareholders	\$ 190,271	31,608	31,774
	=====	=====	=====
Capital expenditures	\$ 546,471	78,157	94,399
	=====	=====	=====

17

9. 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

## Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

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 June 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.

### 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 have appealed their objections to the settlement. Devon's share of the proposed settlement, which was accrued at June 30, 2001, is not material to its financial position, results of operations or liquidity.

### 9. COMMITMENTS AND CONTINGENCIES (CONTINUED)

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

Edgar Filing: DEVON ENERGY CORP/DE - Form 10-Q/A

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 June 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.

19

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

20