

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

DEVON ENERGY CORP/DE  
Form 8-K  
October 03, 2002

UNITED STATES  
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 (Date of earliest event report): October 2, 2002

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

DELAWARE	000-30176	73-1567067
(State or Other Jurisdiction of Incorporation or Organization)	(Commission File Number)	(IRS Employer Identification Number)

20 NORTH BROADWAY, OKLAHOMA CITY, OK	73102
(Address of Principal Executive Offices)	(Zip Code)

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

Page 1 of 77 pages

ITEM 5. OTHER EVENTS

On April 18, 2002, Devon Energy Corporation ("Devon"), sold its Indonesian operations to PetroChina Company Limited for total cash consideration of \$262 million, including working capital. Devon received approximately \$250 million upon closing and could receive an additional \$12 million upon successful completion of certain events.

As of December 31, 2001, Devon's Indonesian oil and gas properties had estimated proved reserves of approximately 80 million equivalent barrels, of which approximately 20% were classified as proved developed producing.

Effective January 1, 2002, Devon was required to adopt SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Under the provisions of this accounting pronouncement, beginning with the 2002 second quarter Form 10-Q, Devon has reclassified its Indonesian activities as discontinued operations. This reclassification affects not only the 2002 second quarter presentation of financial results, but also the presentation of all

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

prior periods' results. Included herein are Items 6 and 8 from Devon's December 31, 2001 Form 10-K, reclassified to present the Indonesian operations as a discontinued operation.

### ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

23.1 Consent of KPMG LLP

23.2 Consent of PricewaterhouseCoopers LLP

### DEFINITIONS

As used in this document:

"Mcf" means thousand cubic feet

"MMcf" means million cubic feet

"Bcf" means billion cubic feet

"MMBtu" means million British thermal units, a measure of heating value "Bbl" means barrel

"MBbls" means thousand barrels

"MMBbls" means million barrels

"Boe" means equivalent barrels of oil

"MBoe" means thousand equivalent barrels of oil

"MMBoe" means million equivalent barrels of oil

"Oil" includes crude oil and condensate

"NGLs" means natural gas liquids

"Domestic" means the properties of the Company in the onshore continental United States and the offshore Gulf of Mexico

"Permian/Mid-Continent, Rocky Mountain and Gulf" means the divisions of the Company with properties in the onshore continental United States and the offshore properties in the Gulf of Mexico

"Canada" means the division of the Company encompassing oil and gas properties located in the Western Canadian Sedimentary Basin in Alberta and British Columbia

"International" means the division of the Company encompassing oil and gas properties that lie outside the United States and Canada

2

### SELECTED FINANCIAL DATA

The following selected financial information should be read in conjunction with the consolidated financial statements and the notes thereto included in "Financial Statements and Supplementary Data." Notes 2 and 19 to the consolidated financial statements included in this report contain information on mergers and acquisitions which occurred in 2002, 2001, 2000 and 1999, as well as unaudited pro forma financial data for the years 2001 and 2000.

		YEAR
		-----
	2001	2000
		-----
(MILLIONS, EXCEPT WHERE SHOWN OTHERWISE)		

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

OPERATING RESULTS

Oil sales	\$ 836	960
Gas sales	1,890	1,485
NGL sales	131	154
Marketing and midstream revenue	71	53
	-----	-----
Total revenues	2,928	2,652
	-----	-----
Lease operating expenses	490	404
Transportation costs	83	53
Production taxes	117	103
Marketing and midstream costs and expenses	47	28
Depreciation, depletion and amortization of property and equipment	855	673
Amortization of goodwill	34	41
General and administrative expenses	114	96
Expenses related to mergers	1	60
Reduction of carrying value of oil and gas properties	1,003	--
	-----	-----
Total production and operating costs and expenses	2,744	1,458
	-----	-----
Earnings (loss) from operations	184	1,194
Interest expense	(220)	(155)
Effects of changes in foreign currency exchange rates	(13)	(3)
Distributions on preferred securities of subsidiary trust	--	--
Change in fair value of financial instruments	(2)	--
Other income	69	40
	-----	-----
Net other expenses	(166)	(118)
	-----	-----
Earnings (loss) from continuing operations before income taxes, minority interest and cumulative effect of change in accounting principle	18	1,076
Income tax expense (benefit):		
Current	57	129
Deferred	(48)	259
	-----	-----
Total	9	388
	-----	-----
Earnings (loss) from continuing operations before minority interest, extraordinary item and cumulative effect of change in accounting principle	9	688
Results of discontinued operations before income taxes	66	66
Income tax expense (benefit)	21	24
	-----	-----
Net results of discontinued operations	45	42
	-----	-----
Earnings (loss) before minority interest, extraordinary item and cumulative effect of change in accounting principle	54	730
Minority interest in Monterey Resources, Inc.	--	--
	-----	-----
Earnings (loss) before extraordinary item and cumulative effect of change in accounting principle	54	730
Extraordinary loss	--	--

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

Earnings (loss) before cumulative effect of change in accounting principle	54	730
Cumulative effect of change in accounting principle	49	--
Net earnings (loss)	\$ 103	730
Net earnings (loss) applicable to common stockholders	\$ 93	720

3

	YEAR ENDED D		
	2001	2000	199
	(MILLIONS, EXCEPT PER		
Basic net earnings (loss) per share:			
Earnings (loss) from continuing operations	\$ 0.06	5.33	(1
Earnings from discontinued operations	\$ 0.28	0.33	0
Extraordinary item	\$ --	--	(0
Cumulative effect of change in accounting principle	\$ 0.39	--	
Net earnings (loss)	\$ 0.73	5.66	(1
Diluted net earnings (loss) per share:			
Earnings (loss) from continuing operations	\$ 0.06	5.17	(1
Earnings from discontinued operations	\$ 0.28	0.33	0
Extraordinary item	\$ --	--	(0
Cumulative effect of change in accounting principle	\$ 0.38	--	
Net earnings (loss)	\$ 0.72	5.50	(1
Cash dividends per common share (1)	\$ 0.20	0.17	0
Weighted average common shares outstanding:			
Basic	128	127	
Diluted	130	132	
Ratio of earnings to combined fixed charges and preferred stock dividends (2)	1.00	6.91	

	DECEMBER		
	2001	2000	1
	(MILL		

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

### BALANCE SHEET DATA

Total assets	\$ 13,184	6,860	6,
Debtures exchangeable into shares of ChevronTexaco Corporation common stock	\$ 649	760	
Other long-term debt	\$ 5,940	1,289	1,
Convertible preferred securities of subsidiary trust	\$ --	--	
Stockholders' equity	\$ 3,259	3,277	2,

YEAR ENDED D

-----  
2001                  2000                  1  
-----

(MILLIONS, EXC

### CASH FLOW DATA

Net cash provided by operating activities	\$ 1,902	1,596
Net cash used in investing activities	\$ (5,285)	(1,173)
Net cash provided by (used in) financing activities	\$ 3,370	(390)
Modified EBITDA (3,5)	\$ 2,232	2,034
Cash margin (4,5)	\$ 1,941	1,748

### PRODUCTION, PRICE AND OTHER DATA

Production:		
Oil (MMBbls)	39	39
Gas (Bcf)	498	426
NGL (MMBbls)	8	7
MMBoe(6)	130	117
Average prices:		
Oil (Per Bbl)	\$ 21.44	25.07
Gas (Per Mcf)	\$ 3.80	3.49
NGL (Per Bbl)	\$ 16.38	20.87
Per Boe (6)	\$ 21.98	22.28
Costs per Boe (6):		
Operating costs	\$ 5.31	4.80
Depreciation, depletion and amortization of oil and gas properties	\$ 6.29	5.51
General and administrative expenses	\$ 0.88	0.83

-----

- (1) Cash dividends per share are presented based on the combined amount of dividends paid by Devon, Santa Fe Snyder and Northstar in each year. The dividends per share are also based on the number of shares

outstanding in each year assuming the Santa Fe Snyder merger and the Northstar combination had been consummated as of the beginning of the earliest year presented. Santa Fe Snyder did not pay any dividends in any of the years presented. Northstar did not pay any dividends in 1997, or in 1998 prior to the closing of the Northstar combination. Because of these facts, the cash dividends per share presented for 1997

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

through 2000 are not representative of the actual amounts paid by Devon on an historical basis. For the years 1997 through 2000, Devon's historical cash dividends per share were \$0.20 in each year.

- (2) For purposes of calculating the ratio of earnings to combined fixed charges and preferred stock dividends, (i) earnings consist of earnings before income taxes, plus fixed charges; (ii) fixed charges consist of interest expense, distributions on preferred securities of subsidiary trust, amortization of costs relating to indebtedness and the preferred securities of subsidiary trust, and one-third of rental expense estimated to be attributable to interest; and (iii) preferred stock dividends consist of the amount of pre-tax earnings required to pay dividends on the outstanding preferred stock. For the years 1999, 1998 and 1997, earnings were insufficient to cover combined fixed charges and preferred stock dividends by \$249 million, \$375 million and \$350 million, respectively.
- (3) Modified EBITDA represents earnings before interest (including effects of changes in foreign currency exchange rates, change in fair value of financial instruments, and distributions on preferred securities of subsidiary trust), taxes, depreciation, depletion and amortization and reduction of carrying value of oil and gas properties.
- (4) "Cash margin" equals total revenues less cash expenses. Cash expenses are all expenses other than the non-cash expenses of depreciation, depletion and amortization, effects of changes in foreign currency exchange rates, change in fair value of financial instruments, reduction of carrying value of oil and gas properties and deferred income tax expense (benefit). Cash margin measures the net cash which is generated by a company's operations during a given period, without regard to the period such cash is actually physically received or spent by the company. This margin ignores the non-operational effect on a company's "net cash provided by operating activities", as measured by accounting principles generally accepted in the United States of America, from a company's activities as an operator of oil and gas wells. Such activities produce net increases or decreases in temporary cash funds held by the operator which have no effect on net earnings of the company.
- (5) Modified EBITDA is presented because it is commonly accepted in the oil and gas industry as a financial indicator of a company's ability to service or incur debt. Cash margin is presented because it is commonly accepted in the oil and gas industry as a financial indicator of a company's ability to fund capital expenditures or service debt. Modified EBITDA and cash margin are also presented because investors routinely request such information. Management interprets the trends of modified EBITDA and cash margin in a similar manner as trends in net earnings.

Modified EBITDA and cash margin should be used as supplements to, and not as substitutes for, net earnings and net cash provided by operating activities determined in accordance with accounting principles generally accepted in the United States of America as measures of Devon's profitability or liquidity. There may be operational or financial demands and requirements that reduce management's discretion over the use of modified EBITDA and cash margin. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." Modified EBITDA and cash margin may not be comparable to similarly titled measures used by other companies.

- (6) Gas volumes are converted to Boe or MMBoe at the rate of six Mcf of gas per barrel of oil, based upon the approximate relative energy content

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

of natural gas and oil, which rate is not necessarily indicative of the relationship of oil and gas prices. The respective prices of oil, gas and NGLs are affected by market and other factors in addition to relative energy content.

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

Independent Auditors' Reports.....

Consolidated Financial Statements:

    Consolidated Balance Sheets  
        December 31, 2001, 2000, and 1999.....

    Consolidated Statements of Operations  
        Years Ended December 31, 2001, 2000, and 1999.....

    Consolidated Statements of Stockholders' Equity  
        Years Ended December 31, 2001, 2000, and 1999.....

    Consolidated Statements of Cash Flows  
        Years Ended December 31, 2001, 2000, and 1999.....

Notes to Consolidated Financial Statements  
    December 31, 2001, 2000, and 1999.....

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Devon Energy Corporation:

We have audited the accompanying consolidated balance sheets of Devon Energy Corporation and subsidiaries (the Company) as of December 31, 2001, 2000 and 1999, and the related statements of operations, stockholders' equity and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our

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

audits. We did not audit the 1999 financial statements of Santa Fe Snyder Corporation, a wholly owned subsidiary, which statements reflect total assets constituting 24% in 1999 of the related consolidated totals, and which statements reflect total revenues constituting 41% in 1999 of the related consolidated totals. The 1999 financial statements of Santa Fe Snyder Corporation were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Santa Fe Snyder Corporation in 1999 is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Devon Energy Corporation and subsidiaries as of December 31, 2001, 2000 and 1999, and the results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, as of January 1, 2001, the Company changed its method of accounting for derivative instruments and hedging activities; effective July 1, 2001, adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations, and certain provisions of SFAS No. 142, Goodwill and Other Intangible Assets; and, as of January 1, 2002, adopted the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

/s/ KPMG LLP

Oklahoma City, Oklahoma  
February 5, 2002, except as to Note 1 - "Discontinued Operations", which is as of April 18, 2002

### REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of  
Santa Fe Snyder Corporation:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, comprehensive income, shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Santa Fe Snyder Corporation and its subsidiaries at December 31, 1999 and the results of their operations and their cash flows for the year ended December 31, 1999 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on



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

these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As further described in Note 2, these consolidated financial statements have been retroactively restated to the full cost method of accounting for the Company's oil and gas properties in order to conform to the accounting policies of Devon Energy Corporation.

As discussed in Note 1 - "Discontinued Operations," the Company adopted the provisions of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

/s/ PricewaterhouseCoopers LLP

Houston, Texas

January 28, 2000, except for Note 2 and the second paragraph above which are as of October 30, 2000 and Note 1 - "Discontinued Operations" and the third paragraph above which are as of September 25, 2002

8

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

	----- 2001 -----
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 185
Accounts receivable	503
Inventories	26
Deferred income taxes	--
Fair value of financial instruments	195
Income taxes receivable	68
Investments and other current assets	45
	-----
Total current assets	1,022
	-----
Property and equipment, at cost, based on the full cost method of	

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

accounting for oil and gas properties (\$1,938, \$314 and \$295 excluded from amortization in 2001, 2000 and 1999, respectively)	15,243
Less accumulated depreciation, depletion and amortization	6,360
	8,883
Investment in ChevronTexaco Corporation common stock, at fair value	636
Fair value of financial instruments	31
Goodwill	2,206
Assets of discontinued operations	212
Other assets	194
	13,184
Total assets	\$ 13,184
	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>	
Current liabilities:	
Accounts payable:	
Trade	440
Revenues and royalties due to others	170
Income taxes payable	17
Accrued interest payable	102
Merger related expenses payable	7
Fair value of financial instruments	15
Deferred income taxes	57
Accrued expenses	72
	880
Total current liabilities	880
	-----
Other liabilities	172
Debentures exchangeable into shares of ChevronTexaco Corporation common stock	649
Other long-term debt	5,940
Deferred revenue	51
Fair value of financial instruments	45
Liabilities of discontinued operations	77
Deferred income taxes	2,111
	-----
Stockholders' equity:	
Preferred stock of \$1.00 par value (\$100 liquidation value) Authorized 4,500,000 shares; issued 1,500,000 in 2001, 2000 and 1999	1
Common stock of \$.10 par value Authorized 400,000,000 shares; issued 129,886,000 in 2001, 128,638,000 in 2000 and 126,323,000 in 1999	13
Additional paid-in capital	3,610
Accumulated deficit	(147)
Accumulated other comprehensive loss	(28)
Unamortized restricted stock awards	--
Treasury stock, at cost: 3,754,000 shares in 2001 and 330,000 shares in 1999	(190)
	3,259
Total stockholders' equity	3,259
	-----
Commitments and contingencies (Notes 12 and 13)	
Total liabilities and stockholders' equity	\$ 13,184
	=====

See accompanying notes to consolidated financial statements.

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

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

	YEAR END
	2001
	-----
REVENUES	
Oil sales	\$ 836
Gas sales	1,890
NGL sales	131
Marketing and midstream revenue	71
	-----
Total revenues	2,928
	-----
COSTS AND EXPENSES	
Lease operating expenses	490
Transportation costs	83
Production taxes	117
Marketing and midstream costs and expenses	47
Depreciation, depletion and amortization of property and equipment	855
Amortization of goodwill	34
General and administrative expenses	114
Expenses related to mergers	1
Reduction of carrying value of oil and gas properties	1,003
	-----
Total production and operating costs and expenses	2,744
	-----
Earnings (loss) from operations	184
OTHER INCOME (EXPENSES)	
Interest expense	(220)
Effects of changes in foreign currency exchange rates	(13)
Distributions on preferred securities of subsidiary trust	--
Change in fair value of financial instruments	(2)
Other income	69
	-----
Net other expenses	(166)
	-----
Earnings (loss) from continuing operations before income taxes, extraordinary item and cumulative effect of change in accounting principle	18
INCOME TAX EXPENSE (BENEFIT):	
Current	57
Deferred	(48)
	-----
Total income tax expense (benefit)	9
	-----

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

Earnings (loss) from continuing operations before extraordinary item and cumulative effect of change in accounting principle		9
DISCONTINUED OPERATIONS:		
Results of discontinued operations before income taxes		66
Income tax expense		21
		-----
Net results of discontinued operations		45
		-----
Earnings (loss) before extraordinary item and cumulative effect of change in accounting principle		54
Extraordinary loss		--
		-----
Earnings (loss) before cumulative effect of change in accounting principle		54
Cumulative effect of change in accounting principle		49
		-----
Net earnings (loss)	\$	103
Preferred stock dividends		10
		-----
Net earnings (loss) applicable to common shareholders	\$	93
		=====

See accompanying notes to consolidated financial statements.

10

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

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
Basic net earnings (loss) per share:			
Earnings (loss) from continuing operations	\$ 0.06	5.33	(1.8)
Earnings from discontinued operations	\$ 0.28	0.33	0.2
Extraordinary loss	\$ --	--	(0.0)
Cumulative effect of change in accounting principle	\$ 0.39	--	--
	-----	-----	-----
Net earnings (loss)	\$ 0.73	5.66	(1.6)
	=====	=====	=====
Diluted net earnings (loss) per share:			
Earnings (loss) from continuing operations	\$ 0.06	5.17	(1.8)
Earnings from discontinued operations	\$ 0.28	0.33	0.2
Extraordinary loss	\$ --	--	(0.0)
Cumulative effect of change in accounting principle	\$ 0.38	--	--
	-----	-----	-----

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

Net earnings (loss)	\$ 0.72	5.50	(1.6)
	=====	=====	=====
Weighted average common shares outstanding:			
Basic	128	127	9
	=====	=====	=====
Diluted	130	132	9
	=====	=====	=====

See accompanying notes to consolidated financial statements.

11

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(IN MILLIONS)

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMU- LATED DEFICIT	ACCU- LAT- OTH- COMP- HENS- LOS
	-----	-----	-----	-----	-----
Balance as of December 31, 1998	\$ --	7	1,524	(737)	
Comprehensive loss:					
Net loss	--	--	--	(154)	
Other comprehensive earnings (loss), net of tax:					
Foreign currency translation adjustments	--	--	--	--	
Unrealized loss on marketable securities	--	--	--	--	
Other comprehensive loss	--	--	--	--	
Comprehensive loss					
Stock issued	1	6	1,967	(1)	
Stock repurchased	--	--	--	--	
Tax benefit related to employee stock options	--	--	1	--	
Dividends on common stock	--	--	--	(13)	
Dividends on preferred stock	--	--	--	(4)	
Amortization of restricted stock awards	--	--	--	--	
	-----	-----	-----	-----	-----
Balance as of December 31, 1999	1	13	3,492	(909)	
Comprehensive loss:					
Net earnings	--	--	--	730	
Other comprehensive earnings (loss), net of tax:					
Foreign currency translation adjustments	--	--	--	--	
Minimum pension liability adjustment	--	--	--	--	

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

Unrealized loss on marketable securities	--	--	--	--
Other comprehensive loss	--	--	--	--
Comprehensive earnings				
Stock issued	--	--	69	(4)
Stock repurchased	--	--	--	--
Tax benefit related to employee stock options	--	--	3	--
Dividends on common stock	--	--	--	(22)
Dividends on preferred stock	--	--	--	(10)
Grant of restricted stock awards	--	--	--	--
Amortization of restricted stock awards	--	--	--	--
	-----	-----	-----	-----
Balance as of December 31, 2000	1	13	3,564	(215)
Comprehensive earnings:				
Net earnings	--	--	--	103
Other comprehensive earnings (loss), net of tax:				
Foreign currency translation adjustments	--	--	--	--
Cumulative effect of change in Accounting principle	--	--	--	--
Reclassification adjustment for Derivative (gains) losses reclassified Into oil and gas sales	--	--	--	--
Change in fair value of financial instruments	--	--	--	--
Minimum pension liability adjustment	--	--	--	--
Unrealized gain on marketable securities	--	--	--	--
Other comprehensive earnings	--	--	--	--
Comprehensive earnings				
Stock issued	--	--	48	--
Stock repurchased	--	--	(14)	--
Tax benefit related to employee stock options	--	--	12	--
Dividends on common stock	--	--	--	(25)
Dividends on preferred stock	--	--	--	(10)
Amortization of restricted stock awards	--	--	--	--
	-----	-----	-----	-----
Balance as of December 31, 2001	\$ 1	13	3,610	(147)
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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

	YEAR EN
	----- 2001 -----
CASH FLOWS FROM OPERATING ACTIVITIES	
Earnings (loss) from continuing operations	\$ 9
Adjustments to reconcile earnings (loss) from continuing operations to net cash provided by operating activities:	
Depreciation, depletion and amortization of property and equipment	855
Amortization of goodwill	34
Accretion (amortization) of discounts (premiums) on long-term debt, net	26
Effects of changes in foreign currency exchange rates	13
Change in fair value of financial instruments	2
Reduction of carrying value of oil and gas properties	1,003
Operating cash flows from discontinued operations	102
Loss (gain) on sale of assets	2
Deferred income tax expense (benefit)	(48)
Extraordinary loss	--
Other	(3)
Changes in assets and liabilities, net of effects of acquisitions of businesses:	
Decrease (increase) in:	
Accounts receivable	197
Inventories	14
Income taxes receivable	(68)
Investments and other current assets	(5)
(Decrease) increase in:	
Accounts payable	32
Income taxes payable	(129)
Accrued interest and expenses	(47)
Deferred revenue	(63)
Long-term other liabilities	(24)
	-----
Net cash provided by operating activities	1,902
	-----
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of property and equipment	41
Proceeds from sale of investments	--
Capital expenditures, including acquisitions of businesses	(5,289)
Discontinued operations	(37)
(Increase) decrease in other assets	--
	-----
Net cash used in investing activities	(5,285)
	-----
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from borrowings of long-term debt, net of issuance costs	6,199
Principal payments on long-term debt	(2,638)
Issuance of common stock, net of issuance costs	48
Repurchase of common stock	(204)
Issuance of treasury stock	--
Dividends paid on common stock	(25)
Dividends paid on preferred stock	(10)
(Decrease) increase in long-term other liabilities	--
	-----
Net cash provided by (used in) financing activities	3,370
	-----

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

Effect of exchange rate changes on cash	(6)
	-----
Net (decrease) increase in cash and cash equivalents	(19)
Cash and cash equivalents at beginning of year	204
	-----
Cash and cash equivalents at end of year	\$ 185
	=====

See accompanying notes to consolidated financial statements.

13

### DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

#### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies used by Devon Energy Corporation and subsidiaries ("Devon") reflect industry practices and conform to accounting principles generally accepted in the United States of America. The more significant of such policies are briefly discussed below.

##### Basis of Presentation and Principles of Consolidation

Devon is engaged primarily in oil and gas exploration, development and production, and the acquisition of producing properties. Such activities domestically are managed in three divisions:

- the Gulf Division, which includes properties located primarily in the onshore South Texas and South Louisiana areas and offshore in the Gulf of Mexico;
- the Rocky Mountain Division, which includes properties located in the Rocky Mountains area of the United States stretching from the Canadian Border into northern New Mexico; and
- the Permian/Mid-Continent Division, which includes all domestic properties other than those included in the Gulf Division and the Rocky Mountain Division.

Devon's Canadian activities are located primarily in the Western Canadian Sedimentary Basin, and Devon's international activities -- outside of North America -- are located primarily in Argentina, Azerbaijan, China and Gabon. Devon's share of the assets, liabilities, revenues and expenses of affiliated partnerships and the accounts of its wholly-owned subsidiaries are included in the accompanying consolidated financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation.

##### Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of



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

assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

### Property and Equipment

Devon follows the full cost method of accounting for its oil and gas properties. Accordingly, all costs incidental to the acquisition, exploration and development of oil and gas properties, including costs of undeveloped leasehold, dry holes and leasehold equipment, are capitalized. Internal costs incurred that are directly identified with acquisition, exploration and development activities undertaken by Devon for its own account, and which are not related to production, general corporate overhead or similar activities are also capitalized. For the years 2001, 2000 and 1999, such internal costs capitalized totaled \$77 million, \$62 million and \$29 million, respectively.

14

### DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

Unproved properties are excluded from amortized capitalized costs until it is determined whether or not proved reserves can be assigned to such properties. Devon assesses its unproved properties for impairment at least annually.

Net capitalized costs are limited to the estimated future net revenues, discounted at 10% per annum, from proved oil, natural gas and natural gas liquids reserves plus the lower of cost or fair value of unproved properties. Such limitations are imposed separately on a country-by-country basis and are tested quarterly. Capitalized costs are depleted by an equivalent unit-of-production method, converting gas to oil at the ratio of six thousand cubic feet of natural gas to one barrel of oil. Depletion is calculated using the capitalized costs plus the estimated future expenditures (based on current costs) to be incurred in developing proved reserves, and the estimated dismantlement and abandonment costs, net of estimated salvage values. No gain or loss is recognized upon disposal of oil and gas properties unless such disposal significantly alters the relationship between capitalized costs and proved reserves. All costs related to production activities, including workover costs incurred solely to maintain or increase levels of production from an existing completion interval, are charged to expense as incurred.

Depreciation and amortization of other property and equipment, including leasehold improvements, are provided using the straight-line method based on estimated useful lives from three to 39 years.

### Marketable Securities and Other Investments

Devon accounts for certain investments in debt and equity securities by following the requirements of Statement of Financial Accounting Standards ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities. This standard requires that, except for debt securities classified as "held-to-maturity," investments in debt and equity securities must be reported at fair value. As a result, Devon's investment in ChevronTexaco Corporation common stock, which is classified as "available-for-sale," is

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

reported at fair value, with the tax effected unrealized gain or loss recognized in other comprehensive loss and reported as a separate component of stockholders' equity. Devon's investments in other short-term securities are also classified as "available-for-sale."

### Goodwill

Goodwill, which represents the excess of purchase price over the fair value of net assets acquired, acquired before June 30, 2001, is amortized by an equivalent unit-of-production method. Goodwill acquired after June 30, 2001, is not amortized. Devon assesses the recoverability of goodwill by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired properties. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting Devon's average cost of

15

### DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

Accumulated goodwill amortization was \$91 million, \$57 million and \$16 million at December 31, 2001, 2000 and 1999, respectively.

Effective January 1, 2002, Devon adopted the remaining provisions of SFAS No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, goodwill and intangible assets with indefinite useful lives are no longer amortized, but are instead tested for impairment at least annually. Also, Devon adopted the provisions of SFAS No. 141, Business Combinations, and certain provisions of SFAS No. 142 in July 2001. Under the provisions of SFAS No. 142, any goodwill and any intangible asset determined to have an indefinite useful life that were acquired in a purchase business combination completed after June 30, 2001 are not amortized, but are to be evaluated for impairment at December 31, 2001, in accordance with the appropriate pre-SFAS No. 142 accounting. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 continued to be amortized prior to the adoption of the remaining provisions of SFAS No. 142.

Devon will perform an assessment of whether there is an indication that goodwill is impaired as of January 1, 2002. Devon will identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill, to those reporting units as of January 1, 2002. Devon has until June 30, 2002, to determine the fair value of each reporting unit and compare such value to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and Devon must perform the second step of the transitional impairment test. In the second step, Devon must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141,

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

to its carrying amount, both of which would be measured as of January 1, 2002. This second step is required to be completed as soon as possible, but no later than the end of 2002. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in Devon's 2002 statement of operations.

As of January 1, 2002, Devon had unamortized goodwill in the amount of \$2.2 billion, which was subject to the transition provisions of SFAS Nos. 141 and 142. Devon has not completed its assessment of the impact on its financial statements of adopting SFAS Nos. 141 and 142. However, Devon does not believe that a transitional impairment loss will be required to be recognized.

### Revenue Recognition and Gas Balancing

Oil and gas revenues are recognized when sold. During the course of normal operations, Devon and other joint interest owners of natural gas reservoirs will take more or less than their respective ownership share of the natural gas volumes produced. These volumetric imbalances are

16

### DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

monitored over the lives of the wells' production capability. If an imbalance exists at the time the wells' reserves are depleted, cash settlements are made among the joint interest owners under a variety of arrangements.

Devon follows the sales method of accounting for gas imbalances. A liability is recorded when Devon's excess takes of natural gas volumes exceed its estimated remaining recoverable reserves. No receivables are recorded for those wells where Devon has taken less than its ownership share of gas production.

### Hedging Activities

Devon has periodically entered into oil and gas financial instruments and 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 and gas revenues that are predominantly based on U.S. dollar prices. The hedging instruments are usually placed with counterparties that Devon believes are minimal credit risks. It is Devon's policy to only enter into derivative contracts with investment grade rated counterparties deemed by management to be competent and competitive market makers. The oil and gas reference prices upon which the price hedging instruments are based reflect various market indices that have a high degree of historical correlation with actual prices received by Devon.

As of January 1, 2001, Devon adopted the provisions of 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 Nos. 133 and 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 \$37 million loss in

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

accumulated other comprehensive loss to recognize the fair value of all derivatives that were designated as cash-flow hedging instruments. Additionally, Devon recorded a net-of-tax cumulative-effect-type adjustment to net earnings of \$49 million gain (\$0.38 per basic share and \$0.37 per diluted share) related to the fair value of derivative instruments that did 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. The majority 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 or the date of a business combination which includes cash flow hedges. 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.

17

### DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

During 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 does not hold or issue derivative instruments for trading purposes. The majority of Devon's commodity price swaps and costless price collars, interest rate swaps, and foreign exchange rate swaps in place at January 1, 2001 through December 31, 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 or interest expense 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 No. 133, these derivative instruments were not considered hedges and, as such, the realized

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

gain of \$30 million from settling these contracts is included in the 2001 consolidated statement of operations as other revenues.

During the third quarter of 2001, Devon also entered into interest rate locks to reduce exposure to the variability in market interest rates, specifically U.S. Treasury rates, in anticipation of the sale of the debt securities discussed in Note 7. These derivative instruments were designated as cash flow hedges. A \$28 million loss was incurred on these interest rate locks. This loss will be amortized into interest expense using the effective interest method over the life of the debt securities.

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 year ended December 31, 2001, Devon recorded a net charge of approximately \$10 million which represented (i) the ineffectiveness of the various cash flow hedges and (ii) the component of the derivative instrument gain or loss excluded from the assessment of hedge effectiveness.

As of December 31, 2001, \$180 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

18

### DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

these derivatives' gains to earnings are primarily 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 34 months.

Devon recorded in its statements of operations a loss of \$2 million for the year ended December 31, 2001 for the change in fair value of derivative instruments that do not qualify for hedge accounting treatment.

#### Stock Options

Devon applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, in accounting for its fixed plan stock options. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, Devon has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123 which are included in Note 10.

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

### Major Purchasers

In 2001 and 2000, Enron Capital and Trade Resource Corporation accounted for 16% and 21%, respectively, of Devon's combined oil, gas and natural gas liquids sales. No purchaser accounted for over 10% of such revenues in 1999.

On December 2, 2001, Enron Corp. and certain of its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. Prior to this date, Devon had terminated substantially all of its agreements to sell oil or gas to Enron related entities. Devon incurred \$3 million of losses for sales to Enron related subsidiaries which were not collected prior to the bankruptcy filing.

### Income Taxes

Devon accounts for income taxes using the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, as well as the future tax consequences attributable to the future utilization of existing tax net operating loss and other types of carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. U.S. deferred income taxes have not been provided on Canadian earnings which are being permanently reinvested.

19

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

### General and Administrative Expenses

General and administrative expenses are reported net of amounts allocated to working interest owners of the oil and gas properties operated by Devon and net of amounts capitalized pursuant to the full cost method of accounting.

### Discontinued Operations

Effective January 1, 2002, Devon was required to adopt SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which supersedes both SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that Opinion).

On April 18, 2002, Devon, sold its Indonesian operations to PetroChina Company Limited for total cash consideration of \$262 million. Devon received

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

approximately \$250 million upon closing. An additional \$12 million could be received upon successful completion of certain events. In accordance with SFAS No. 144, Devon has reclassified the assets, liabilities and results of its Indonesian operations, which were included in Devon's International segment, as discontinued operations for each of the periods presented. The following tables include the major classes of assets and liabilities and the revenues that were reclassified.

20

### DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

	AS OF DECEMBER 31,		
	2001	2000	1999
	(IN MILLIONS)		
<b>MAJOR CLASSES OF ASSETS AND LIABILITIES</b>			
Cash	\$ 8	\$ 24	\$ 1
Accounts receivable	34	28	16
Inventories	15	16	16
Other current assets	2	9	11
Property and equipment, net of accumulated depreciation, depletion and amortization	145	136	106
Other assets	8	6	3
	-----	-----	-----
Total assets	212	219	153
	=====	=====	=====
Accounts payable - trade	25	28	20
Income taxes payable	13	1	1
Accrued expense	1	--	--
Other liabilities	7	6	4
Deferred income taxes	31	25	21
	-----	-----	-----
Total liabilities	77	60	46
	=====	=====	=====

### FOR THE YEAR ENDED DECEMBER 31,

	2001	2000	1999
	(IN MILLIONS)		
<b>REVENUES</b>			
Oil sales	\$ 122	119	93

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

NGL sales	1	--	--
	-----	-----	-----
Total revenues	\$ 123	119	93
	=====	=====	=====

### Net Earnings Per Common Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if Devon's dilutive outstanding stock options were exercised (calculated using the treasury stock method) and if Devon's zero coupon convertible senior debentures were converted to common stock.

The following table reconciles the net earnings and common shares outstanding used in the calculations of basic and diluted earnings per share for 2001 and 2000. The diluted loss per share calculations for 1999 produce results that are anti-dilutive. (The diluted calculation for 1999 reduced the net loss by \$4.3 million and increased the common shares outstanding by 5.7 million shares.) Therefore, the diluted loss per share amounts for 1999 reported in the accompanying consolidated statements of operations are the same as the basic loss per share amounts.

21

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

	Net Earnings Applicable To Common Stockholders	W Com Ou
	-----	-----
	(In Million)	
YEAR ENDED DECEMBER 31, 2001:		
Basic earnings per share	\$ 93	
Dilutive effect of potential common shares issuable upon the exercise of outstanding stock options	--	
	-----	
Diluted earnings per share	\$ 93	
	=====	
YEAR ENDED DECEMBER 31, 2000:		
Basic earnings per share	\$ 720	
Dilutive effect of:		
Potential common shares issuable upon conversion of senior convertible debentures (the increase in net		



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

earnings is net of income tax expense of \$3)	5
Potential common shares issuable upon the exercise of outstanding stock options	-- -----
Diluted earnings per share	\$ 725 =====

The senior convertible debentures were not included in the 2001 dilution calculation because the inclusion was anti-dilutive.

Options to purchase approximately three million shares of Devon's common stock with exercise prices ranging from \$48.13 per share to \$89.66 per share (with a weighted average price of \$56.11 per share) were outstanding at December 31, 2001, but were not included in the computation of diluted earnings per share for 2001 because the options' exercise price exceeded the average market price of Devon's common stock during the year. The excluded options for 2001 expire between February 18, 2002 and December 4, 2011. Options to purchase approximately one million shares of Devon's common stock with exercise prices ranging from \$55.54 per share to \$89.66 per share (with a weighted average price of \$66.64 per share) were outstanding at December 31, 2000, but were not included in the computation of diluted earnings per share for 2000 because the options' exercise price exceeded the average market price of Devon's common stock during the year. All options were excluded from the diluted earnings per share calculations for 1999.

Comprehensive Earnings or Loss

Devon's comprehensive earnings or loss information is included in the accompanying consolidated statements of stockholders' equity. A summary of accumulated other comprehensive earnings or loss as of December 31, 2001, 2000 and 1999, and changes during each of the years then ended, is presented in the following table.

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2001, 2000 AND 1999

	FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	CHANGE IN FAIR VALUE OF FINANCIAL INSTRU- MENTS	MINIMUM PENSION LIABILITY ADJUST- MENTS	UNREALIZED GAIN (LOS ON MARKET ABLE SECURITIE
	-----	-----	-----	-----
	(IN MILLIONS)			
Balance as of December 31, 1998	\$ (35)	\$ --	\$ (1)	\$ --
1999 activity	7	--	--	(60)
Deferred taxes	--	--	--	24

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

1999 activity, net of deferred taxes	7	--	--	(36)
Balance as of December 31, 1999	(28)	--	(1)	(36)
2000 activity	(10)	--	1	(18)
Deferred taxes	--	--	--	7
2000 activity, net of deferred taxes	(10)	--	1	(11)
Balance as of December 31, 2000	(38)	--	--	(47)
2001 activity	(107)	243	(28)	36
Deferred taxes	--	(84)	11	(14)
2001 activity, net of deferred taxes	(107)	159	(17)	22
Balance as of December 31, 2001	\$ (145)	\$ 159	\$ (17)	\$ (25)

Foreign Currency Translation Adjustments

The assets and liabilities of certain foreign subsidiaries are prepared in their respective local currencies and translated into U.S. dollars based on the current exchange rate in effect at the balance sheet dates, while income and expenses are translated at average rates for the periods presented. Translation adjustments have no effect on net income and are included in accumulated other comprehensive loss.

Dividends

Dividends on Devon's common stock were paid in 2001, 2000 and 1999 at a per share rate of \$0.05 per quarter. As adjusted for the pooling-of-interests method of accounting followed for the Santa Fe Snyder merger, annual dividends per share for 2001, 2000 and 1999 were \$0.20, \$0.17 and \$0.14, respectively.

Statements of Cash Flows

For purposes of the consolidated statements of cash flows, Devon considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation or other sources are recorded when it is probable that a liability

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

has been incurred and the amount can be reasonably estimated.

Environmental expenditures are expensed or capitalized in accordance with accounting principles generally accepted in the United States of America. Liabilities for these expenditures are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated. Reference is made to Note 13 for a discussion of amounts recorded for these liabilities.

### Reclassification

Certain of the 2000 and 1999 amounts in the accompanying consolidated financial statements have been reclassified to conform to the 2001 presentation.

## 2. BUSINESS COMBINATIONS AND PRO FORMA INFORMATION

### Mitchell Energy & Development Corp. Merger

On January 24, 2002, Devon completed its acquisition of Mitchell Energy & Development Corp. ("Mitchell") for cash and stock. For each Mitchell common share outstanding, Mitchell stockholders received \$31 cash and 0.585 of a share of Devon common stock. The purchase price was approximately \$3.2 billion. The \$1.6 billion cash portion of the purchase price was funded from the \$3.0 billion senior unsecured term loan credit facility (see Note 7).

Because the Mitchell merger was not closed until 2002, it had no effect on Devon's 2001 financial condition or results of operations. See Note 19 for unaudited pro forma information concerning the Mitchell merger and the October 2001 acquisition of Anderson Exploration Ltd. ("Anderson").

### Anderson Exploration Ltd. Acquisition

On October 15, 2001, Devon accepted all of the 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 7).

Devon acquired Anderson to increase the scope of its Canadian operations, for the exposure to north Canada's exploratory areas and to increase exposure to the North American natural gas market.

The calculation of the purchase price and the preliminary allocation to assets and liabilities as of October 15, 2001, are shown below. The purchase price allocation is preliminary because certain items such as the tax basis of

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

the assets and liabilities acquired and the allocation of fair value to undeveloped properties have not been completed.

(IN MILLIONS)  
EXCEPT SHARE

### Calculation and preliminary allocation of purchase price:

Number of Anderson common shares outstanding		\$ 2
Acquisition price per share		-----
Cash paid to Anderson stockholders		\$ 3
Cash paid to settle Anderson employees' stock options and appreciation rights		-----
		3
Plus estimated acquisition costs incurred		-----
		3
Plus fair value of liabilities assumed by Devon:		
Current liabilities		1
Long-term debt		-----
Other long-term liabilities		1
Fair value of financial instruments		-----
Deferred income taxes		1
		-----
Total purchase price plus liabilities assumed		\$ 6
		=====
Fair value of assets acquired by Devon:		
Current assets		2
Proved oil and gas properties		-----
Unproved oil and gas properties		1
Other property and equipment		-----
Goodwill (none deductible for income tax purposes)		1
		-----
Total fair value of assets acquired		\$ 6
		=====

See Note 19 for unaudited pro forma information concerning the Anderson acquisition and the Mitchell merger.

### Santa Fe Snyder Merger

Devon closed its merger with Santa Fe Snyder Corporation ("Santa Fe Snyder") on August 29, 2000. The merger was accounted for using the pooling-of-interests method of accounting for business combinations. Accordingly, all operational and financial information contained herein includes the combined amounts for Devon and Santa Fe Snyder for all periods presented.

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

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

Devon issued approximately 41 million shares of its common stock to the former stockholders of Santa Fe Snyder based on an exchange ratio of 0.22 shares of Devon common stock for each share of Santa Fe Snyder common stock. Because the merger was accounted for using the pooling-of-interests method, all combined share information has been retroactively restated to reflect the exchange ratio.

During 2000, Devon recorded a pre-tax charge of \$60 million (\$37 million net of tax) for direct costs related to the Santa Fe Snyder merger.

### PennzEnergy Merger

Devon closed its merger with PennzEnergy Company ("PennzEnergy") on August 17, 1999. The merger was accounted for using the purchase method of accounting for business combinations. Accordingly, the accompanying statement of operations for 1999 includes the effects of PennzEnergy operations since August 17, 1999.

Devon issued approximately 22 million shares of its common stock to the former stockholders of PennzEnergy. In addition, Devon assumed long-term debt and other obligations totaling approximately \$2.3 billion on August 17, 1999.

Additionally, \$347 million of deferred taxes were created as a result of the merger. Due to the tax-free nature of the merger, Devon's tax basis in the assets acquired and liabilities assumed are the same as PennzEnergy's tax basis. The \$347 million of deferred taxes recorded represent the deferred tax effect of the differences between the fair values assigned by Devon for financial reporting purposes to the former PennzEnergy assets and liabilities and their bases for income tax purposes.

### Snyder Merger

Santa Fe Snyder was formed on May 5, 1999, when the former Santa Fe Energy Resources, Inc. ("Santa Fe") closed its merger with Snyder Oil Corporation ("Snyder"). Because Devon's merger with Santa Fe Snyder was accounted for using the pooling-of-interests method, the accompanying consolidated financial statements are presented as though Devon merged with Snyder in May 1999.

The Snyder merger was accounted for using the purchase method of accounting for business combinations. Accordingly, the accompanying statement of operations for 1999 includes the effects of Snyder's operations since May 5, 1999.

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

As restated for the Devon-Santa Fe Snyder pooling, each share of Snyder common stock was exchanged for 0.451 shares of Devon common stock. This resulted

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

in the issuance of approximately 15 million shares of Devon stock in the Snyder merger. In addition, the Snyder merger also included the assumption of approximately \$219 million of Snyder's long-term debt as of May 5, 1999.

Additionally, \$135 million was added to oil and gas properties for deferred taxes created as a result of the Snyder merger. Due to the tax-free nature of the merger, Santa Fe's tax basis in the assets acquired and liabilities assumed were the same as Snyder's tax basis. The \$135 million of deferred taxes recorded represent the deferred tax effect of the differences between the fair values assigned by Santa Fe for financial reporting purposes to the former Snyder assets and liabilities and their bases for income tax purposes.

### 3. SAN JUAN BASIN TRANSACTION

At the beginning of 1995, Devon entered into a transaction (the "San Juan Basin Transaction") involving a volumetric production payment and a repurchase option. The San Juan Basin Transaction allowed Devon to monetize tax credits earned from certain of its coal seam gas production in the San Juan Basin. During 2000 and 1999, the San Juan Basin Transaction added approximately \$12 million and \$8 million, respectively, to Devon's gas revenues.

Under the terms of the San Juan Basin Transaction, Devon had a repurchase option which it could exercise at anytime. Devon exercised the repurchase option effective September 30, 2000. Devon had previously recorded a portion of the quarterly cash payments received pursuant to the San Juan Basin Transaction as a repurchase liability based upon the estimated eventual repurchase price. Devon also received cash payments in exchange for agreeing not to exercise its repurchase option for specific periods of time prior to 2000. These payments were also added to the repurchase liability. As a result, in addition to the cash flow recorded as revenues described in the previous paragraph, Devon also received \$17 million in 1999 which was added to the repurchase liability. The actual repurchase price as of September 30, 2000, was approximately \$36 million.

### 4. SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest in 2001, 2000 and 1999 were approximately \$118 million, \$155 million and \$116 million, respectively. Cash payments for federal, state and foreign income taxes in 2001, 2000 and 1999 were approximately \$192 million, \$82 million and \$16 million, respectively.

27

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

The 2001 Anderson acquisition and the 1999 PennzEnergy merger and Snyder merger involved non-cash consideration as presented below:

2001	1999
-----	-----
(IN MILLIONS)	

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

Value of common stock issued	\$ --	1,130
Value of preferred stock issued	--	150
Employee stock options assumed	--	18
Liabilities assumed	1,303	2,259
Deferred tax liability created	1,427	475
	-----	-----
Fair value of assets acquired with non-cash consideration	\$ 2,730	4,032
	=====	=====

During the fourth quarter of 1999, substantially all of the 6.5% Trust Convertible Preferred Securities were converted to Devon common stock (see Note 9).

5. ACCOUNTS RECEIVABLE

The components of accounts receivable included the following:

	DECEMBER 31,	
	2001	2000
	-----	-----
	(IN MILLIONS)	
Oil, gas and natural gas liquids revenue accruals	\$ 289	410
Joint interest billings	108	123
Other	110	41
	-----	-----
Allowance for doubtful accounts	507	574
	(4)	(4)
	-----	-----
Net accounts receivable	\$ 503	570
	=====	=====

28

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2001, 2000 AND 1999

6. PROPERTY AND EQUIPMENT

Property and equipment included the following:

	DECEMBER 3	
	2001	2000
	-----	-----
	(IN MILLIO	

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

Oil and gas properties:		
Subject to amortization	\$ 12,912	8,847
Not subject to amortization:		
Acquired in 2001	1,638	--
Acquired in 2000	74	74
Acquired in 1999	116	122
Acquired prior to 1999	110	118
Accumulated depreciation, depletion and amortization	(6,271)	(4,564)
	-----	-----
Net oil and gas properties	8,579	4,597
	-----	-----
Other property and equipment	393	224
Accumulated depreciation and amortization	(89)	(47)
	-----	-----
Net other property and equipment	304	177
	-----	-----
Property and equipment, net of accumulated depreciation, depletion and amortization	\$ 8,883	4,774
	=====	=====

The costs not subject to amortization relate to unproved properties, none of which are individually significant. Subject to industry conditions, evaluation of these properties is expected to be completed within five years.

Depreciation, depletion and amortization of property and equipment consisted of the following components:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
	(IN MILLIONS)		
Depreciation, depletion and amortization of oil and gas properties	\$ 817	643	371
Depreciation and amortization of other property and equipment	30	23	14
Amortization of other assets	8	7	2
	-----	-----	-----
Total	\$ 855	673	387
	=====	=====	=====



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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

## 7. LONG-TERM DEBT AND RELATED EXPENSES

A summary of Devon's long-term debt is as follows:

	2001
Borrowings under credit facilities with banks	\$ 50
Commercial paper borrowings	75
\$3 billion term loan credit facility	1,046
Debentures exchangeable into shares of	
ChevronTexaco Corporation common stock:	
4.90% due August 15, 2008	444
4.95% due August 15, 2008	316
Discount on exchangeable debentures	(111)
Zero coupon convertible senior debentures exchangeable into shares of	
Devon common stock, 3.875% due June 27, 2020	374
Other debentures:	
10.25% due November 1, 2005	236
10.125% due November 15, 2009	177
7.875% due September 30, 2031	1,250
Net premium on debentures	6
Senior notes:	
8.05% due June 15, 2004	125
7.25 % due July 18, 2005	110
6.76% due July 19, 2005	--
7.42% due October 1, 2005	23
7.57% due October 4, 2005	31
6.55% due August 2, 2006	126
8.75% due June 15, 2007	175
6.79% due March 2, 2009	--
6.75% due March 15, 2011	400
6.875% due September 30, 2011	1,750
Net discount on notes	(14)
	6,589
Less amount classified as current	--
Long-term debt	\$ 6,589

Maturities of long-term debt as of December 31, 2001, excluding the \$119 million of discounts net of premiums, are as follows (in millions):

2002	\$	--
2003		--
2004		358
2005		775
2006		689
2007 and thereafter		4,886

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

Total	----- \$ 6,708 =====
-------	----------------------------

30

## DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

### Credit Facilities With Banks

On August 13, 2001, Devon renewed its unsecured long-term credit facilities aggregating \$1 billion (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").

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 B facility can be increased to as high as \$625 million and reduced to as low as \$425 million by reallocating the amount available between the Tranche B facility and the Canadian Facility. 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.

Devon may borrow funds under the \$275 million Canadian Facility until August 12, 2002 (the "Canadian Facility Revolving Period"). As disclosed in the prior paragraph, the Canadian Facility can be increased to as high as \$375 million and reduced to as low as \$175 million by reallocating the amount available between the Tranche B facility and the Canadian Facility. 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.

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, and are tied to margins determined by Devon's corporate credit ratings. 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 weighted average interest rate on the \$50 million and \$147 million outstanding under the Credit Facilities at December 31, 2001 and 2000, was 4.8% and 6.1%, respectively. The average interest rate on bank debt outstanding under the previous facilities at December 31, 1999 was 6.8%.

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

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

December 31, 2001, Devon was in compliance with such covenants and restrictions.

31

### DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

#### Commercial Paper

On August 29, 2000, Devon entered into a commercial paper program. Devon may borrow up to \$725 million under the commercial paper program. Total borrowings under the U.S. Facility and the commercial paper program may not exceed \$725 million. The commercial paper borrowings may have terms of up to 365 days and bear interest at rates agreed to at the time of the borrowing. The interest rate is based on a standard index such as the Federal Funds Rate, London Interbank Offered Rate (LIBOR), or the money market rate as found on the commercial paper market. As of December 31, 2001, Devon had \$75 million of borrowings under its commercial paper program at an average rate of 3.5%. Because Devon had the intent and ability to refinance the balance due with borrowings under its U.S. Facility, the \$75 million outstanding under the commercial paper program was classified as long-term debt on the December 31, 2001 consolidated balance sheet.

#### \$3 Billion Term Loan Credit Facility

On October 12, 2001, Devon and its wholly-owned financing subsidiary Devon Financing Corporation, U.L.C. ("Devon Financing") entered into a new \$3 billion senior unsecured term loan credit facility. 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 LIBOR or on UBS Warburg LLC'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 for borrowings made subsequent to June 17, 2002. Prior to that time, the margin for borrowings based on LIBOR will be an additional 100 basis points. Based on LIBOR rates as of December 31, 2001, Devon's average interest rate was 2.9%. In addition, Devon incurred an availability fee on the daily average unused lending commitments through the date of the Mitchell closing on January 24, 2002, equal to a percentage determined by Devon's long-term senior unsecured debt rating.

Prior to December 31, 2001, Devon used proceeds of \$1 billion from borrowings on this facility to partially fund the Anderson acquisition. The remaining \$2 billion of availability was utilized upon the closing of the Mitchell acquisition on January 24, 2002.

32

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

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

The terms of this facility require repayment of the debt during the following years:

	(In Millions)
	-----
2002	\$ --
2003	--
2004	232
2005	1,200
2006	1,600
	-----
Total	\$ 3,032
	=====

The terms of this facility also provide that voluntary prepayments of the debt may be applied, at Devon's option, to the earliest scheduled maturities first. For example, if Devon were to prepay a portion of the \$3 billion of debt with proceeds from property sales or other cash sources, the amount of the prepayment would reduce, if so elected by Devon, 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. At December 31, 2001, Devon was in compliance with such covenants and restrictions.

### Exchangeable Debentures

The exchangeable debentures consist of \$444 million of 4.90% debentures and \$316 million of 4.95% debentures. The exchangeable debentures were issued on August 3, 1998 and mature August 15, 2008. The exchangeable debentures are callable beginning August 15, 2000, initially at 104.0% of principal and at prices declining to 100.5% of principal on or after August 15, 2007. The exchangeable debentures are exchangeable at the option of the holders at any time prior to maturity, unless previously redeemed, for shares of ChevronTexaco Corporation common stock. In lieu of delivering ChevronTexaco Corporation common stock, Devon may, at its option, pay to any holder an amount of cash equal to the market value of the ChevronTexaco Corporation common stock to satisfy the exchange request. However, at maturity, the holders will receive an amount at least equal to the face value of the debt outstanding. Such amount will either be in cash or in a combination of cash and ChevronTexaco Corporation common stock.

As of December 31, 2001, Devon beneficially owned approximately seven million shares of ChevronTexaco Corporation common stock. These shares have been deposited with an exchange agent for possible exchange for the exchangeable debentures. Each \$1,000 principal amount of the exchangeable debentures is exchangeable into 9.3283 shares of ChevronTexaco Corporation common stock, an exchange rate equivalent to \$107-7/32 per share of ChevronTexaco stock.

The exchangeable debentures were assumed as part of the PennzEnergy merger. The fair values of the exchangeable debentures were determined as of August 17, 1999, based on market quotations. The fair value approximated the

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

face value of the exchangeable debentures. As a result, no premium or discount was recorded on these exchangeable debentures. However,

33

### DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

pursuant to the adoption of SFAS No. 133 effective January 1, 2001, these debentures were revalued as of August 17, 1999. Under SFAS No. 133, the total fair value of the debentures was allocated between the interest-bearing debt and the option to exchange ChevronTexaco Corporation common stock that is embedded in the debentures. Accordingly, the debt portion of the debentures was reduced by \$140 million as of August 17, 1999. This discount is being accreted using the effective interest method, and has raised the effective interest rate on the debentures to 7.76% in 2001 compared to 4.92% prior to 2001.

#### Zero Coupon Convertible Debentures

In June 2000, Devon privately sold zero coupon convertible senior debentures. The debentures were sold at a price of \$464.13 per debenture with a yield to maturity of 3.875% per annum. Each of the 760,000 debentures is convertible into 5.7593 shares of Devon common stock. Devon may call the debentures at any time after five years, and a debenture holder has the right to require Devon to repurchase the debentures after five, 10 and 15 years, at the issue price plus accrued original issue discount and interest. Devon's proceeds were approximately \$346 million, net of debt issuance costs of approximately \$7 million. Devon used the proceeds from the sale of these debentures to pay down other domestic long-term debt.

#### Debt Securities

On October 3, 2001, Devon, through 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 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 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.

#### Other Debentures

The 10.25% and 10.125% debentures were assumed as part of the

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

PennzEnergy merger. The fair values of the respective debentures were determined using August 17, 1999, market interest rates. As a result, premiums were recorded on these debentures which lowered their effective interest rates to 8.3% and 8.9% on the \$236 million of 10.25% debentures and \$177

34

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

million of 10.125% debentures, respectively. The premiums are being amortized using the effective interest method.

During October 2001, Devon repurchased \$14 million and \$23 million of its 10.25% debentures and 10.125% debentures, respectively. Devon recorded a loss on the early retirement of debt of \$5 million related to this repurchase.

### Senior Notes

In connection with the Anderson acquisition, Devon assumed \$702 million of senior notes. The table below summarizes the debt assumed, the fair value of the debt at October 15, 2001, and the effective interest rate of the debt assumed after determining the fair values of the respective notes using October 15, 2001, market interest rates. The premiums and discounts are being amortized or accreted using the effective interest method. All of the notes are general unsecured obligations of Devon.

Debt assumed	Fair value of debt assumed	Effective rate of debt assumed
(In Millions)		
6.75% senior notes due 2011	\$ 400	6.8%
6.55% senior notes due 2006	129	6.5%
7.25% senior notes due 2005	116	6.3%
7.57% senior notes due 2005	33	5.7%
7.42% senior notes due 2005	24	5.7%

Devon recorded a \$2 million loss in 2001 related to the early retirement of the above 7.57% and 7.42% senior notes.

In connection with the Snyder merger, Devon assumed Snyder's \$175 million of 8.75% notes due in 2007. The notes are redeemable by Devon on or after June 15, 2002, initially at 104.375% of principal and at prices declining to 100% of principal on or after June 15, 2005. The notes are general unsecured obligations of Devon. In June 1999, Devon issued \$125 million of 8.05% notes due 2004. The notes were issued for 98.758% of face value and Devon received total proceeds of \$122 million after deducting related costs and expenses of \$2 million. The notes, which mature June 15, 2004, are redeemable, upon not less than thirty nor more than sixty days notice, as a whole or in part, at the option of Devon at a redemption price equal to the sum of (i) 100% of the

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

principal amount thereof, (ii) the applicable make-whole premium as determined by an independent investment banker and (iii) accrued and unpaid interest. The notes are general unsecured obligations of Devon. The indentures for these notes include covenants that restrict the ability of Devon SFS Operating, Inc., a wholly-owned subsidiary of Devon, to take certain actions, including the ability to incur additional indebtedness and to pay dividends or repurchase capital stock.

35

### DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

#### Interest Expense

Following are the components of interest expense for the years 2001, 2000 and 1999:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN MILLIONS)		
Interest based on debt outstanding	\$ 200	157	
Accretion (amortization) of debt discount (premium), net	10	(4)	
Facility and agency fees	1	3	
Amortization of capitalized loan costs	3	2	
Capitalized interest	(3)	(3)	
Loss on debt retirement	7	--	
Other	2	--	
	-----	-----	-----
Total interest expense	\$ 220	155	
	=====	=====	=====

#### Effects of Changes in Foreign Currency Exchange Rates

The 6.75% fixed-rate senior notes referred to in the first table of this note are payable by Devon Canada, a wholly-owned subsidiary of Devon. However, the notes are denominated in U.S. dollars. Until their retirement in mid-January 2000, the 6.76 % and 6.79% fixed-rate senior notes payable by Devon Canada were also denominated in U.S. dollars. Changes in the exchange rate between the U.S. dollar and the Canadian dollar from the dates the notes were issued to the dates of repayment increase or decrease the expected amount of Canadian dollars eventually required to repay the notes. Such changes in the Canadian dollar equivalent of the debt are required to be included in determining net earnings for the period in which the exchange rate changed. The rate of conversion of Canadian dollars to U.S. dollars declined in 2001 and 2000 and increased in 1999. Therefore, \$11 million and \$3 million of increased expense was recorded in 2001 and 2000, respectively, and \$13 million of reduced expense was recorded in 1999.

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

8. INCOME TAXES

At December 31, 2001, Devon had the following carryforwards available to reduce future income taxes:

TYPES OF CARRYFORWARD	YEARS OF EXPIRATION -----	CARRYFORWARD AMOUNTS ----- (IN MILLIONS)
Net operating loss - U.S. federal	2008 - 2021	\$ 22
Net operating loss - various states	2002 - 2014	\$ 60
Net operating loss - Canada	2002 - 2008	\$ 3
Net operating loss - International	Indefinite	\$ 86
Minimum tax credits	Indefinite	\$ 118

All of the carryforward amounts shown above have been utilized for financial purposes to reduce the deferred tax liability.

36

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

The earnings (loss) from continuing operations before income taxes and the components of income tax expense (benefit) for the years 2001, 2000 and 1999 were as follows:

	YEAR ENDED DECEMBER 31	
	2001	2000
	-----	-----
	(IN MILLIONS)	
Earnings (loss) from continuing operations before income taxes:		
U.S.	\$ 458	872
Canada	(357)	156
International	(83)	48
	-----	-----
Total	\$ 18	1,076
	=====	=====
Current income tax expense:		
U.S. federal	\$ 23	107
Various states	6	6
Canada	8	2
Other	20	14
	-----	-----
Total current tax expense	57	129
	-----	-----



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

Deferred income tax expense (benefit):		
U.S. federal	124	152
Various states	(32)	33
Canada	(145)	67
Other	5	7
	-----	-----
Total deferred tax expense (benefit)	(48)	259
	-----	-----
Total income tax expense (benefit)	\$ 9	388
	=====	=====

The taxes on the results of discontinued operations as presented in the accompanying consolidated statements of operations were all related to foreign operations.

Total income tax expense (benefit) differed from the amounts computed by applying the U.S. federal income tax rate to earnings (loss) from continuing operations before income taxes as a result of the following:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
Expected income tax (benefit) based on U.S. statutory tax rate of 35%	\$ 6	376	(85)
Benefit from disposition of certain foreign assets	--	(46)	--
Financial expenses not deductible for income tax purposes	12	15	16
Dividends received deduction	(5)	(5)	(1)
Nonconventional fuel source credits	(19)	(8)	(6)
State income taxes	4	15	1
Taxation on foreign operations	13	20	11
Other	(2)	21	(4)
	-----	-----	-----
Total income tax expense (benefit)	\$ 9	388	(68)
	=====	=====	=====

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and liabilities at December 31, 2001, 2000 and 1999 are presented below:

DECEMBER 31,

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

	2001	2000	1999
	(IN MILLIONS)		
Deferred tax assets:			
Net operating loss carryforwards	\$ 39	123	207
Minimum tax credit carryforwards	118	85	88
Production payments	--	--	21
Long-term debt	6	17	18
Fair value of financial instruments	7	--	--
Other	37	95	51
Total deferred tax assets	207	320	385
Deferred tax liabilities:			
Property and equipment, principally due to nontaxable business combinations, differences in depreciation, and the expensing of intangible drilling costs for tax purposes	(2,151)	(662)	(479)
ChevronTexaco Corporation common stock	(213)	(167)	(172)
Other	(11)	(84)	(32)
Total deferred tax liabilities	(2,375)	(913)	(683)
Net deferred tax liability	\$ (2,168)	(593)	(298)

As shown in the above table, Devon has recognized \$207 million of deferred tax assets as of December 31, 2001. Such amount consists primarily of \$157 million of various carryforwards available to offset future income taxes. The carryforwards include federal net operating loss carryforwards, the majority of which do not begin to expire until 2008, state net operating loss carryforwards which expire primarily between 2002 and 2014, Canadian carryforwards which expire primarily between 2002 and 2008, International carryforwards which have no expiration and minimum tax credit carryforwards which have no expiration. The tax benefits of carryforwards are recorded as an asset to the extent that management assesses the utilization of such carryforwards to be "more likely than not." When the future utilization of some portion of the carryforwards is determined not to be "more likely than not," a valuation allowance is provided to reduce the recorded tax benefits from such assets.

Devon expects the tax benefits from the net operating loss carryforwards to be utilized between 2002 and 2010. Such expectation is based upon current estimates of taxable income during this period, considering limitations on the annual utilization of these benefits as set forth by federal tax regulations. Significant changes in such estimates caused by variables such as future oil and gas prices or capital expenditures could alter the timing of the eventual utilization of such carryforwards. There can be no assurance that Devon will generate any specific level of continuing taxable earnings. However, management believes that Devon's future taxable income will more likely than not be sufficient to utilize substantially all its tax carryforwards prior to their expiration.

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

### DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

#### 9. TRUST CONVERTIBLE PREFERRED SECURITIES

On July 10, 1996, Devon, through its affiliate Devon Financing Trust, completed the issuance of \$149 million of 6.5% trust convertible preferred securities (the "TCP Securities"). Devon Financing Trust issued 2,990,000 shares of the TCP Securities at \$50 per share with a maturity date of June 15, 2026. Each TCP Security was convertible at the holder's option into 1.6393 shares of Devon common stock, which equated to a conversion price of \$30.50 per share of Devon common stock.

Devon Financing Trust invested the \$149 million of proceeds in 6.5% convertible junior subordinated debentures issued by Devon (the "Convertible Debentures"). In turn, Devon used the net proceeds from the issuance of the Convertible Debentures to retire debt outstanding under its credit lines.

On October 27, 1999, Devon issued notice to the holders of the TCP Securities that it was exercising its right to redeem such securities on November 30, 1999. Substantially all of the holders of the TCP Securities elected to exercise their conversion rights instead of receiving the redemption cash value. As a result, all but 950 shares of the TCP Securities were converted into approximately 4.9 million shares of Devon common stock. The redemption price for the 950 shares not converted was \$52.275 per share which included a 4.55% premium as required under the terms of the TCP Securities.

Devon owned all the common securities of Devon Financing Trust. As such, the accounts of Devon Financing Trust were included in Devon's consolidated financial statements after appropriate eliminations of intercompany balances and transactions. The distributions on the TCP Securities were recorded as a charge to pre-tax earnings on Devon's consolidated statements of operations, and such distributions were deductible by Devon for income tax purposes.

#### 10. STOCKHOLDERS' EQUITY

The authorized capital stock of Devon consists of 400 million shares of common stock, par value \$.10 per share (the "Common Stock"), and 4.5 million shares of preferred stock, par value \$1.00 per share. The preferred stock may be issued in one or more series, and the terms and rights of such stock will be determined by the Board of Directors.

Effective August 17, 1999, Devon issued 1.5 million shares of 6.49% cumulative preferred stock, Series A, to holders of PennzEnergy 6.49% cumulative preferred stock, Series A. Dividends on the preferred stock are cumulative from the date of original issue and are payable quarterly, in cash, when declared by the Board of Directors. The preferred stock is redeemable at the option of Devon at any time on or after June 2, 2008, in whole or in part, at a redemption price of \$100 per share, plus accrued and unpaid dividends to the redemption date.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

In late September and early October 1999, Devon received \$403 million from the sale of approximately 10 million shares of its common stock in a public offering. The price to the public for these shares was \$40.50 per share. Net of underwriters' discount and commissions, Devon received \$38.98 per share. Devon paid approximately \$1 million of expenses related to the equity offering, and these costs were recorded as reductions of additional paid-in capital.

As discussed in Note 2, there were approximately 22 million shares of Devon common stock issued on August 17, 1999, in connection with the PennzEnergy merger. Also, there were 16 million Exchangeable Shares issued on December 10, 1998, in connection with the Northstar Energy Corporation combination. As of year-end 2001, 14 million of the Exchangeable Shares had been exchanged for shares of Devon's common stock. The Exchangeable Shares have rights identical to those of Devon's common stock and are exchangeable at any time into Devon's common stock on a one-for-one basis.

Devon's Board of Directors has designated a certain number of shares of the preferred stock as Series A Junior Participating Preferred Stock (the "Series A Junior Preferred Stock") in connection with the adoption of the shareholder rights plan described later in this note. Effective January 22, 2002, the Board voted to increase the designated shares from one million to two million. At December 31, 2001, there were no shares of Series A Junior Preferred Stock issued or outstanding. The Series A Junior Preferred Stock is entitled to receive cumulative quarterly dividends per share equal to the greater of \$10 or 100 times the aggregate per share amount of all dividends (other than stock dividends) declared on Common Stock since the immediately preceding quarterly dividend payment date or, with respect to the first payment date, since the first issuance of Series A Junior Preferred Stock. Holders of the Series A Junior Preferred Stock are entitled to 100 votes per share (subject to adjustment to prevent dilution) on all matters submitted to a vote of the stockholders. The Series A Junior Preferred Stock is neither redeemable nor convertible. The Series A Junior Preferred Stock ranks prior to the Common Stock but junior to all other classes of Preferred Stock.

### Stock Option Plans

Devon has outstanding stock options issued to key management and professional employees under three stock option plans adopted in 1988, 1993 and 1997 (the "1988 Plan," the "1993 Plan" and the "1997 Plan"). Options granted under the 1988 Plan and 1993 Plan remain exercisable by the employees owning such options, but no new options will be granted under these plans. At December 31, 2001, there were 63,000 and 320,860 options outstanding under the 1988 Plan and the 1993 Plan, respectively.

On May 21, 1997, Devon's stockholders adopted the 1997 Plan and reserved two million shares of Common Stock for issuance thereunder. On December 9, 1998, Devon's stockholders voted to increase the reserved number of shares to three million. On August 17, 1999, Devon's stockholders voted to increase the reserved number of shares to six million. On August 29, 2000, Devon's stockholders voted to increase the reserved number of shares to 10 million.

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

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

The exercise price of stock options granted under the 1997 Plan may not be less than the estimated fair market value of the stock at the date of grant, plus 10% if the grantee owns or controls more than 10% of the total voting stock of Devon prior to the grant. Options granted are exercisable during a period established for each grant, which period may not exceed 10 years from the date of grant. Under the 1997 Plan, the grantee must pay the exercise price in cash or in Common Stock, or a combination thereof, at the time that the option is exercised. The 1997 Plan is administered by a committee comprised of non-management members of the Board of Directors. The 1997 Plan expires on April 25, 2007. As of December 31, 2001, there were 5,274,235 options outstanding under the 1997 Plan. There were 3,745,334 options available for future grants as of December 31, 2001.

In addition to the stock options outstanding under the 1988 Plan, 1993 Plan and 1997 Plan, there were approximately 1,053,807, 1,410,158 and 62,270 stock options outstanding at the end of 2001 that were assumed as part of the Santa Fe Snyder merger, the PennzEnergy merger and the Northstar combination, respectively. Santa Fe Snyder, PennzEnergy and Northstar had granted these options prior to the Santa Fe Snyder merger, the PennzEnergy merger and the Northstar combination. As part of the Santa Fe Snyder merger, the PennzEnergy merger and the Northstar combination, the options were assumed by Devon and converted to Devon options at the exchange rate of 0.22, 0.4475 and 0.235 Devon options for each Santa Fe Snyder, PennzEnergy and Northstar option, respectively.

A summary of the status of Devon's stock option plans as of December 31, 1999, 2000 and 2001, and changes during each of the years then ended, is presented below.

	OPTIONS OUTSTANDING		OPTIONS
	NUMBER OUTSTANDING	EXERCISE PRICE	NUMBER EXERCISABLE
Balance at December 31, 1998	5,520,656	\$ 31.768	4,079,125
Options granted	1,564,108	\$ 31.736	=====
Options assumed in the PennzEnergy merger	2,081,894	\$ 55.643	
Options assumed in the Snyder merger	979,220	\$ 35.182	
Options exercised	(1,139,231)	\$ 28.509	
Options forfeited	(452,746)	\$ 36.369	
	-----		
Balance at December 31, 1999	8,553,901	\$ 38.202	7,063,983
Options granted	1,624,800	\$ 51.430	=====
Options exercised	(2,488,756)	\$ 33.106	
Options forfeited	(333,991)	\$ 60.354	
	-----		
Balance at December 31, 2000	7,355,954	\$ 41.843	6,024,796
			=====

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

Options granted	2,600,650	\$ 35.427	
Options exercised	(1,504,691)	\$ 31.133	
Options forfeited	(267,583)	\$ 62.774	
	-----		
Balance at December 31, 2001	8,184,330	\$ 41.089	5,515,958
	=====		=====

41

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

The weighted average fair values of options granted during 2001, 2000 and 1999 were \$13.17, \$28.73 and \$12.80, respectively. The fair value of each option grant was estimated for disclosure purposes on the date of grant using the Black-Scholes Option Pricing Model with the following assumptions for 2001, 2000 and 1999, respectively: risk-free interest rates of 3.8%, 5.5% and 6%; dividend yields of 0.6%, 0.4% and 0.5%; expected lives of five, five and five years; and volatility of the price of the underlying common stock of 42.2%, 40.0% and 35.2%.

The following table summarizes information about Devon's stock options which were outstanding, and those which were exercisable, as of December 31, 2001:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING		OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE
\$8.375-\$26.501	442,204	2.38 Years	\$ 23.014	442,204
\$28.830-\$33.381	1,314,346	5.29 Years	\$ 30.726	1,239,114
\$34.375-\$39.773	3,445,957	7.04 Years	\$ 35.308	1,569,779
\$40.190-\$49.950	454,980	4.01 Years	\$ 45.941	444,996
\$50.142-\$59.813	2,028,308	6.66 Years	\$ 53.177	1,329,064
\$60.150-\$89.660	498,535	5.36 Years	\$ 70.788	490,801
	-----			-----
	8,184,330	6.15 Years	\$ 41.089	5,515,958
	=====			=====

Had Devon elected the fair value provisions of SFAS No. 123 and recognized compensation expense over the vesting period based on the fair value of the stock options granted as of their grant date, Devon's 2001, 2000 and 1999 pro forma net earnings (loss) and pro forma net earnings (loss) per share would have differed from the amounts actually reported as shown in the following table. The pro forma amounts shown below do not include the effects of stock options granted prior to January 1, 1995.

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

	YEAR ENDED DECEMBER 31,	
	2001	2000
	(IN MILLIONS, EXCEPT PER SHARE AMOU	
Net earnings (loss) available to common shareholders:		
As reported	\$ 93	720
Pro forma	\$ 79	702
Net earnings (loss) per share available to common shareholders:		
As reported:		
Basic	\$ 0.73	5.66
Diluted	\$ 0.72	5.50
Pro forma:		
Basic	\$ 0.62	5.51
Diluted	\$ 0.61	5.36

42

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

Shareholder Rights Plan

Under Devon's shareholder rights plan, stockholders have one right for each share of Common Stock held. The rights become exercisable and separately transferable ten business days after a) an announcement that a person has acquired, or obtained the right to acquire, 15% or more of the voting shares outstanding, or b) commencement of a tender or exchange offer that could result in a person owning 15% or more of the voting shares outstanding.

Each right entitles its holder (except a holder who is the acquiring person) to purchase either (a) 1/100 of a share of Series A Preferred Stock for \$75.00, subject to adjustment or, (b) Devon Common Stock with a value equal to twice the exercise price of the right, subject to adjustment to prevent dilution. In the event of certain merger or asset sale transactions with another party or transactions which would increase the equity ownership of a shareholder who then owned 15% or more of Devon, each Devon right will entitle its holder to purchase securities of the merging or acquiring party with a value equal to twice the exercise price of the right.

The rights, which have no voting power, expire on April 16, 2005. The rights may be redeemed by Devon for \$.01 per right until the rights become exercisable.

11. FINANCIAL INSTRUMENTS

The following table presents the carrying amounts and estimated fair values of Devon's financial instruments at December 31, 2001, 2000 and 1999.

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

	2001		2000	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALU
			(IN MILLIONS)	
Investments	\$ 644	644	606	
Oil and gas price hedge agreements	\$ 225	225	--	
Interest rate swap agreements	\$ (9)	(9)	--	
Electricity hedge agreements	\$ (12)	(12)	--	
Foreign exchange hedge agreements	\$ (4)	(4)	--	
Embedded option in exchangeable debentures	\$ (34)	(34)	--	
Long-term debt (including current portion)	\$ (6,589)	(6,699)	(2,049)	(2,

43

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

The following methods and assumptions were used to estimate the fair values of the financial instruments in the above table. None of Devon's financial instruments are held for trading purposes. The carrying values of cash and cash equivalents, accounts receivable and accounts payable (including income taxes payable and accrued expenses) included in the accompanying consolidated balance sheets approximated fair value at December 31, 2001, 2000 and 1999.

Investments - The fair values of investments are primarily based on quoted market prices.

Oil and Gas Price Hedge Agreements - The fair values of the oil and gas price hedges are based on either (a) an internal discounted cash flow calculation, (b) quotes obtained from the counterparty to the hedge agreement or (c) quotes provided by brokers.

Interest Rate Swap Agreements - The fair values of the interest rate swaps are based on quotes obtained from the counterparty to the swap agreement.

Electricity Hedge Agreements - The fair values of the electricity hedges are based on an internal discounted cash flow calculation.

Foreign Exchange Hedge Agreements - The fair values of the foreign exchange agreements are based on either (a) an internal discounted cash flow calculation or (b) quotes obtained from brokers.

Embedded Option in Exchangeable Debentures - The fair values of the embedded options are based on quotes obtained from brokers.

Long-term Debt - The fair values of the fixed-rate long-term debt have been estimated based on quotes obtained from brokers or by discounting the principal and interest payments at rates available for debt of similar terms and



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

maturity. The fair values of the floating-rate long-term debt are estimated to approximate the carrying amounts due to the fact that the interest rates paid on such debt are generally set for periods of three months or less.

Devon's total hedged positions as of January 31, 2002 are set forth in the following tables.

PRICE SWAPS Through various price swaps, Devon has fixed the price it will receive on a portion of its oil and natural gas production in 2002, 2003 and 2004. The following tables include information on this production. Where necessary, the prices have been adjusted for certain transportation costs that are netted against the price recorded by Devon, and the price has also been adjusted for the Btu content of the gas production that has been hedged.

44

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

OIL PRODUCTION

YEAR	Bbls/DAY	PRICE/Bbl
2002	26,350	\$ 23.27

GAS PRODUCTION

YEAR	Mcf/DAY	PRICE/Mcf
2002	242,128	\$ 2.99
2003	99,905	\$ 3.35
2004	4,164	\$ 2.36

COSTLESS PRICE COLLARS Devon has also entered into costless price collars that set a floor and ceiling price for a portion of its 2002 and 2003 oil and natural gas production. The following tables include information on these collars. The floor and ceiling prices related to domestic oil production are based on NYMEX. The NYMEX price is the monthly average of settled prices on each trading day for West Texas Intermediate Crude oil delivered at Cushing, Oklahoma. The gas prices shown in the following table have been adjusted to a NYMEX-based price, using Devon's estimates of differentials between NYMEX and the specific regional indices upon which the collars are based. The floor and ceiling prices related to the domestic collars are based on various regional first-of-the-month price indices as published monthly by Inside FERC. The floor and ceiling prices related to the Canadian collars are based on the AECO index as published by the Canadian Gas Price Reporter.

If the applicable monthly price indices are outside of the ranges set

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

by the floor and ceiling prices in the various collars, Devon and the counterparty to the collars will settle the difference. Any such settlements will either increase or decrease Devon's gas revenues for the period. Because Devon's gas volumes are often sold at prices that differ from the related regional indices, and due to differing Btu content of gas production, the floor and ceiling prices of the various collars do not reflect actual limits of Devon's realized prices for the production volumes related to the collars.

The floor and ceiling prices in the following table are weighted averages of all the various collars.

OIL PRODUCTION			
YEAR	Bbls/DAY	FLOOR PRICE PER Bbl	CEILING PRICE PER Bbl
2002	20,000	\$ 23.00	\$ 28.19

45

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

GAS PRODUCTION			
YEAR	Mcf/DAY	FLOOR PRICE PER Mcf	CEILING PRICE PER Mcf
2002	442,574	\$ 3.34	\$ 6.37
2003	345,000	\$ 3.20	\$ 4.19

**INTEREST RATE SWAPS** Devon assumed certain interest rate swaps as a result of the Anderson acquisition. Under these interest rate swaps, Devon has swapped a floating rate for a fixed rate. Under such swaps, Devon will record a fixed rate of 6.2% on \$132 million of debt in 2002, 6.3% on \$97 million of debt in 2003, 6.4% on \$79 million of debt in 2004 through 2006 and 6.3% on \$24 million of debt in 2007.

**FOREIGN CURRENCY EXCHANGE RATE SWAPS** Devon assumed certain foreign currency exchange rate swaps in the Anderson acquisition. These swaps require Devon to sell \$30 million and \$12 million at average Canadian-to-U.S. exchange rates of \$0.680 and \$0.676, and buy the same amount of dollars at the floating exchange rate, in 2002 and 2003, respectively.

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

### 12. RETIREMENT PLANS

Devon has non-contributory defined benefit retirement plans (the "Basic Plans") which include U.S. and Canadian employees meeting certain age and service requirements. The benefits are based on the employee's years of service and compensation. Devon's funding policy is to contribute annually the maximum amount that can be deducted for federal income tax purposes. Rights to amend or terminate the Basic Plans are retained by Devon.

Devon also has separate defined benefit retirement plans (the "Supplementary Plans") which are non-contributory and include only certain employees whose benefits under the Basic Plans are limited by income tax regulations. The Supplementary Plans' benefits are based on the employee's years of service and compensation. Devon's funding policy for the Supplementary Plans is to fund the benefits as they become payable. Rights to amend or terminate the Supplementary Plans are retained by Devon.

In 2000, Devon established a defined benefit postretirement plan, which is unfunded, and covers substantially all current employees including former Santa Fe Snyder and PennzEnergy employees who remained with Devon. Additionally, Devon assumed responsibility for the PennzEnergy sponsored defined benefit postretirement plans, which are unfunded. The plans provide medical and life insurance benefits and are, depending on the type of plan, either contributory or non-contributory. The accounting for the health care plan anticipates future cost-sharing changes that are consistent with Devon's expressed intent to increase, where possible, contributions for future retirees.

46

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

The following table sets forth the plans' benefit obligations, plan assets, reconciliation of funded status, amounts recognized in the consolidated balance sheets and the actuarial assumptions used as of December 31, 2001, 2000 and 1999.

	PENSION BENEFITS			
	2001	2000	1999	200
	(IN MILLIONS)			
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 165	156	64	\$
Service cost	5	7	5	
Interest cost	13	11	6	
Participant contributions	--	--	--	
Amendments	5	4	--	
Mergers and acquisitions	16	--	88	

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

Special termination benefits	3	--	--	
Settlement payments	(4)	--	--	
Curtailment gain	(1)	(3)	--	
Actuarial (gain) loss	17	(3)	(3)	
Benefits paid	(9)	(7)	(4)	
	-----	-----	-----	-----
Benefit obligation at end of year	210	165	156	
	-----	-----	-----	-----
Change in plan assets:				
Fair value of plan assets at beginning of year	155	158	42	
Actual return on plan assets	(9)	3	15	
Mergers and acquisitions	17	--	104	
Employer contributions	6	1	1	
Participant contributions	--	--	--	
Settlement payments	(4)	--	--	
Administrative expenses	--	--	--	
Benefits paid	(9)	(7)	(4)	
	-----	-----	-----	-----
Fair value of plan assets at end of year	156	155	158	
	-----	-----	-----	-----
Funded status	(54)	(10)	2	
Unrecognized net actuarial (gain) loss	35	10	(3)	
Unrecognized prior service cost	6	1	2	
Unrecognized net transition (asset) obligation	--	(6)	--	
	-----	-----	-----	-----
Net amount recognized	\$ (13)	(5)	1	\$
	=====	=====	=====	=====
The net amounts recognized in the consolidated balance sheets consist of:				
(Accrued) prepaid benefit cost	\$ (13)	(5)	1	\$
Additional minimum liability	(33)	(1)	(3)	
Intangible asset	5	1	1	
Accumulated other comprehensive loss	28	--	2	
	-----	-----	-----	-----
Net amount recognized	\$ (13)	(5)	1	\$
	=====	=====	=====	=====
Assumptions:				
Discount rate	7.10%	7.65%	7.34%	7
Expected return on plan assets	8.27%	8.50%	8.37%	
Rate of compensation increase	4.88%	5.00%	4.88%	5

The benefit obligation for the defined benefit pension plans with benefit obligations in excess of assets was \$201 million as of December 31, 2001. The plan assets for these plans at December 31, 2001 totaled \$138 million.

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

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2001, 2000 AND 1999

Net periodic benefit cost included the following components:

	PENSION BENEFITS			OTHER POS BEN
	2001	2000	1999	2001
	(IN MILLIONS)			
Service cost	\$ 5	7	5	\$ --
Interest cost	13	11	6	2
Expected return on plan assets	(13)	(13)	(7)	--
Amortization of prior service cost	1	--	--	--
Recognized net actuarial (gain) loss	1	--	--	--
	-----	-----	-----	-----
Net periodic benefit cost	\$ 7	5	4	\$ 2

For measurement purposes, a 9% annual rate of increase in the per capita cost of covered health care benefits was assumed in 2001. The rate was assumed to decrease on a pro-rata basis annually to 5% in the year 2005 and remain at that level thereafter. Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one percentage-point change in assumed health care cost trend rates would have the following effects:

	ONE-PERCENTAGE POINT INCREASE	ON PO
	(IN MILLIONS)	
Effect on total of service and interest cost components for 2001	\$ --	
Effect on year-end 2001 postretirement benefit obligation	\$ 1	

Devon has incurred certain postemployment benefits to former or inactive employees who are not retirees. These benefits include salary continuance, severance and disability health care and life insurance which are accounted for under SFAS No. 112, Employer's Accounting for Postemployment Benefits. The accrued postemployment benefit liability was approximately \$7 million, \$13 million and \$3 million at the end of 2001, 2000 and 1999, respectively.

Devon has a 401(k) Incentive Savings Plan which covers all domestic employees. At its discretion, Devon may match a certain percentage of the employees' contributions to the plan. The matching percentage is determined annually by the Board of Directors. Devon's matching contributions to the plan were \$5 million, \$5 million and \$4 million for the years ended December 31, 2001, 2000 and 1999, respectively.

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

Devon has defined contribution plans for its Canadian employees. Devon contributes between 6% and 10% of the employee's base compensation, depending upon the employee's classification. Such contributions are subject to maximum amounts allowed under the Income Tax Act (Canada).

Devon also has a savings plan for its Canadian employees. Under the savings plan, Devon contributes an amount equal to 2% of the base salary of each employee. The employees may elect to contribute up to 4% of their salary. If such employee contributions are made, they are matched by additional Devon contributions.

48

### DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

During the years 2001, 2000 and 1999, Devon's combined contributions to the Canadian defined contribution plan and the Canadian savings plan were \$3 million, \$2 million and \$2 million, respectively.

#### 13. 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 although actual amounts could differ from management's estimate.

#### 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 December 31, 2001, Devon's consolidated balance sheet included \$8 million of accrued liabilities, reflected in "Other liabilities,"

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

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

Numerous gas producers and related parties, including Devon, have been named in various lawsuits filed by private litigants alleging violation of the federal False Claims Act. The suits allege

49

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

that the producers and related parties used below-market prices, improper deductions, improper measurement techniques and transactions with affiliates which resulted in underpayment of royalties in connection with natural gas and natural gas liquids produced and sold from federal and Indian owned or controlled lands. The various suits have been consolidated by the United States Judicial Panel on Multidistrict Litigation for pre-trial proceedings in the matter of In re Natural Gas Royalties Qui Tam Litigation, MDL-1293, United States District Court for the District of Wyoming. Devon believes that it has acted reasonably, has legitimate and strong defenses to all allegations in the suits, and has paid royalties in good faith. Devon does not currently believe that it is subject to material exposure in association with these lawsuits and no liability has been recorded in connection therewith.

### Operating Leases

The following is a schedule by year of future minimum rental payments required under operating leases that have initial or remaining noncancelable lease terms in excess of one year as of December 31, 2001:

YEAR ENDING DECEMBER 31,	(IN MILLIONS)
2002	\$ 21
2003	20
2004	16
2005	14
2006	11
Thereafter	14
	-----
Total minimum lease payments required	\$ 96
	=====

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

Total rental expense for all operating leases is as follows for the years ended December 31:

	(IN MILLIONS)
	-----
2001	\$ 17
2000	\$ 19
1999	\$ 24

### Santa Fe Energy Trust

The Santa Fe Energy Trust (the "Trust") was formed in 1992 to hold 6.3 million Depository Units, each consisting of beneficial ownership of one unit of undivided interest in the Trust and a \$20 face amount beneficial ownership interest in a \$1,000 face amount zero coupon U.S. Treasury obligation maturing on or about February 15, 2008, when the Trust will be liquidated. The assets of the Trust consist of certain oil and gas properties conveyed to it by Santa Fe Snyder.

For any calendar quarter ending on or prior to December 31, 2002, the Trust will receive additional support payments from Devon to the extent that the Trust needs such payments to distribute \$0.38 per Depository Unit per quarter. The source of such support payments is limited

50

### DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

to Devon's remaining royalty interest in certain of the properties conveyed to the Trust. The aggregate amount of the additional royalty payments (net of any amounts recouped) is limited to \$19 million on a revolving basis. If such support payments are made, certain proceeds otherwise payable to the Trust in subsequent quarters may be reduced to recoup the amount of such support payments. Through the end of 2001, the Trust had received support payments totaling \$4 million and Devon had recouped all such payments.

Depending on various factors, such as sales volumes and prices and the level of operating costs and capital expenditures incurred, proceeds payable to the Trust with respect to operations in subsequent quarters may not be sufficient to make the required quarterly distributions. In such instances, Devon would be required to make support payments.

At December 31, 2001, 2000 and 1999, accounts payable as shown on the accompanying consolidated balance sheets included \$3 million, \$4 million and \$3 million, respectively, due to the Trust.

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



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

Under the full cost method of accounting, the net book value of oil and gas properties, less related deferred income taxes, may not exceed a calculated "ceiling." The ceiling limitation is the discounted estimated after-tax future net revenues from proved oil and gas properties plus the lower of cost or fair value of unproved properties. The ceiling is imposed separately by country. In calculating future net revenues, current prices and costs are generally held constant indefinitely. The net book value, less deferred tax liabilities, is compared to the ceiling on a quarterly and annual basis. Any excess of the net book value, less related deferred taxes, is written off as an expense. 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.

During 2001 and 1999, Devon reduced the carrying value of its oil and gas properties by \$916 and \$476 million, respectively, due to the full cost ceiling limitations. The after-tax effect of these reductions in 2001 and 1999 were \$556 million and \$310 million, respectively. The following table summarizes these reductions by country.

	YEAR ENDED DECEMBER 31,			
	2001		1999	
	Gross	Net of Taxes	Gross	Net of Taxes
	(IN MILLIONS)			
United States	\$ 449	281	464	302
Canada	434	252	--	--
Egypt	33	23	--	--
China	--	--	12	8
Total	\$ 916	556	476	310

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

The 2001 domestic and Canadian reductions were primarily the result of lower prices. Under the purchase method of accounting for business combinations, acquired oil and gas properties are recorded at fair value as of the date of purchase. Devon estimates such fair value using its estimates of future oil and gas prices. In contrast, the ceiling calculation dictates that prices in effect as of the last day of the applicable quarter are held constant indefinitely. Accordingly, the resulting value is not indicative of the true fair value of the reserves. The oil and gas properties added from the Anderson acquisition and other smaller acquisitions in 2001 were recorded at fair values that were based on expected future oil and gas prices higher than the year-end 2001 prices used to calculate the ceiling. The reduction in Egypt was the result of high finding

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

and development costs and negative revisions to proved reserves.

The 1999 domestic reduction was primarily the result of lower prices. The oil and gas properties added from the Snyder acquisition were recorded at fair values that were based on expected future oil and gas prices higher than the quarterly prices used to calculate the ceiling. The reduction in China was the result of high finding and development costs.

Additionally, during 2001, Devon elected to discontinue operations in Thailand, Malaysia, Qatar and on certain properties in Brazil. After meeting the drilling and capital commitments on these properties, Devon determined that these properties did not meet Devon's internal criteria to justify further investment. Accordingly, Devon recorded an \$87 million charge associated with the impairment of these properties. The after-tax effect of this reduction was \$69 million.

### 15. OIL AND GAS OPERATIONS

#### Costs Incurred

The following tables reflect the costs incurred in oil and gas property acquisition, exploration, and development activities:

	TOTAL YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN MILLIONS)		
Property acquisition costs:			
Proved, excluding deferred income taxes	\$ 2,975	273	3,002
Deferred income taxes	84	--	132
Total proved, including deferred income taxes	\$ 3,059	273	3,134
Unproved, excluding deferred income taxes:			
Business combinations	1,433	--	84
Other acquisitions	183	55	40
Deferred income taxes	27	--	--
Total unproved, including deferred income taxes	\$ 1,643	55	124
Exploration costs	\$ 348	210	158
Development costs	\$ 956	597	313

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

	DOMESTIC		
	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN MILLIONS)		
Property acquisition costs:			
Proved, excluding deferred income taxes	\$ 292	177	2,670
Deferred income taxes	79	--	132
Total proved, including deferred income taxes	\$ 371	177	2,802
Unproved, excluding deferred income taxes:			
Business combinations	--	--	82
Other acquisitions	158	35	28
Deferred income taxes	27	--	--
Total unproved, including deferred income taxes	\$ 185	35	110
Exploration costs	\$ 166	117	88
Development costs	\$ 726	466	228

	CANADA		
	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN MILLIONS)		
Property acquisition costs:			
Proved, excluding deferred income taxes	\$ 2,621	70	29
Deferred income taxes	5	--	--
Total proved, including deferred income taxes	\$ 2,626	70	29
Unproved, excluding deferred income taxes:			
Business combinations	1,433	--	--
Other acquisitions	24	17	9
Deferred income taxes	--	--	--
Total unproved, including deferred income taxes	\$ 1,457	17	9
Exploration costs	\$ 126	55	37
Development costs	\$ 168	57	30

	INTERNATIONAL		
	YEAR ENDED DECEMBER 31,		
	2001	2000	1999

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

(IN MILLIONS)

Property acquisition costs:			
Proved, excluding deferred income taxes	\$	62	26
Deferred income taxes		--	--
		-----	-----
Total proved, including deferred income taxes	\$	62	26
		=====	=====
Unproved, excluding deferred income taxes:			
Business combinations		--	--
Other acquisitions		1	3
Deferred income taxes		--	--
		-----	-----
Total unproved, including deferred income taxes	\$	1	3
		=====	=====
Exploration costs	\$	56	38
Development costs	\$	62	74

The preceding Total and International cost incurred tables exclude \$30 million, \$60 million and \$23 million in 2001, 2000 and 1999, respectively, related to discontinued operations.

53

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

Pursuant to the full cost method of accounting, Devon capitalizes certain of its general and administrative expenses which are related to property acquisition, exploration and development activities. Such capitalized expenses, which are included in the costs shown in the preceding tables, were \$77 million, \$62 million and \$29 million in the years 2001, 2000 and 1999, respectively.

Results of Operations for Oil and Gas Producing Activities

The following tables include revenues and expenses associated directly with Devon's oil and gas producing activities. They do not include any allocation of Devon's interest costs or general corporate overhead and, therefore, are not necessarily indicative of the contribution to net earnings of Devon's oil and gas operations. Income tax expense has been calculated by applying statutory income tax rates to oil and gas sales after deducting costs, including depreciation, depletion and amortization and after giving effect to permanent differences.

	TOTAL	
	YEAR ENDED DECEMBER	
	2001	2000
	(IN MILLIONS, EXCEPT PER EQUIVALENT)	
Oil, gas and natural gas liquids sales	\$ 2,857	2,599

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

Production and operating expenses	(690)	(560)
Depreciation, depletion and amortization	(817)	(643)
Amortization of goodwill	(34)	(41)
Reduction of carrying value of oil and gas properties	(1,003)	--
Income tax expense	(138)	(548)
	-----	-----
Results of operations for oil and gas producing activities	\$ 175	807
	=====	=====
Depreciation, depletion and amortization per equivalent barrel of production	\$ 6.29	5.51
	=====	=====

54

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

	DOMESTIC	
	YEAR ENDED DECEMBER	
	2001	2000
	(IN MILLIONS, EXCEPT PER EQUIVALENT)	
Oil, gas and natural gas liquids sales	\$ 2,260	2,168
Production and operating expenses	(512)	(463)
Depreciation, depletion and amortization	(615)	(541)
Amortization of goodwill	(34)	(41)
Reduction of carrying value of oil and gas properties	(449)	--
Income tax (expense) benefit	(267)	(446)
	-----	-----
Results of operations for oil and gas producing activities	\$ 383	677
	=====	=====
Depreciation, depletion and amortization per equivalent barrel of production	\$ 6.47	5.73
	=====	=====

	CANADA	
	YEAR ENDED DECEMBER	
	2001	2000
	(IN MILLIONS, EXCEPT PER EQUIVALENT)	

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

Oil, gas and natural gas liquids sales	\$	481	303
Production and operating expenses		(137)	(64)
Depreciation, depletion and amortization		(164)	(64)
Reduction of carrying value of oil and gas properties		(434)	--
Income tax benefit (expense)		99	(80)
		-----	-----
Results of operations for oil and gas producing activities	\$	(155)	95
		=====	=====
Depreciation, depletion and amortization per equivalent barrel of production	\$	5.74	4.05
		=====	=====

INTERNATIONAL

YEAR ENDED DECEMBER

2001

2000

(IN MILLIONS, EXCEPT PER EQUIVALENT)

Oil, gas and natural gas liquids sales	\$	116	128
Production and operating expenses		(41)	(33)
Depreciation, depletion and amortization		(38)	(38)
Amortization of goodwill		--	--
Reduction of carrying value of oil and gas properties		(120)	--
Income tax benefit (expense)		30	(22)
		-----	-----
Results of operations for oil and gas producing activities	\$	(53)	35
		=====	=====
Depreciation, depletion and amortization per equivalent barrel of production	\$	6.00	5.94
		=====	=====

The preceding Total and International results of oil and gas producing activities tables exclude \$40 million, \$38 million and \$20 million in 2001, 2000 and 1999, respectively, related to discontinued operations.

16. SUPPLEMENTAL INFORMATION ON OIL AND GAS OPERATIONS (UNAUDITED)

The following supplemental unaudited information regarding the oil and gas activities of Devon is presented pursuant to the disclosure requirements promulgated by the Securities and Exchange Commission and SFAS No. 69, "Disclosures About Oil and Gas Producing Activities."

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

### Quantities of Oil and Gas Reserves

Set forth below is a summary of the changes in the net quantities of crude oil, natural gas and natural gas liquids reserves for each of the three years ended December 31, 2001. Approximately 67%, 80% and 98%, of the respective year-end 2001, 2000 and 1999 domestic proved reserves were calculated by the independent petroleum consultants of LaRoche Petroleum Consultants, Ltd. and Ryder Scott Company Petroleum Consultants. The remaining percentages of domestic reserves are based on Devon's own estimates. Approximately 43% of the year-end 2001 Canadian proved reserves were calculated by the independent petroleum consultants of Paddock Lindstrom & Associates and Gilbert Laustsen Jung Associates, Ltd. The remaining percentage of Canadian reserves are based on Devon's own estimates. All of the year-end 2000 and 1999 Canadian proved reserves were calculated by the independent petroleum consultants Paddock Lindstrom & Associates. All of the international proved reserves other than Canada as of December 31, 2001, 2000 and 1999 were calculated by the independent petroleum consultants of Ryder Scott Company Petroleum Consultants.

	TOTAL		
	OIL (MMBLS)	GAS (BCF)	NATURAL GAS LIQUIDS (MMBLS)
Proved reserves as of December 31, 1998	186	1,477	21
Revisions of estimates	23	7	3
Extensions and discoveries	13	307	3
Purchase of reserves	273	1,418	33
Production	(27)	(304)	(5)
Sale of reserves	(5)	(54)	--
	463	2,851	55
Proved reserves as of December 31, 1999	463	2,851	55
Revisions of estimates	(3)	99	4
Extensions and discoveries	33	571	6
Purchase of reserves	24	225	--
Production	(39)	(426)	(7)
Sale of reserves	(48)	(67)	(8)
	430	3,253	50
Proved reserves as of December 31, 2000	430	3,253	50
Revisions of estimates	(14)	(294)	7
Extensions and discoveries	19	577	7
Purchase of reserves	166	2,267	52
Production	(39)	(498)	(8)
Sale of reserves	(12)	(14)	--
	550	5,291	108
	550	5,291	108
Proved developed reserves as of:			
December 31, 1998	140	1,282	19
December 31, 1999	277	2,501	52
December 31, 2000	243	2,631	46
December 31, 2001	308	3,948	88

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

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2001, 2000 AND 1999

	DOMESTIC		
	OIL (MMBLS)	GAS (BCF)	NATURAL GAS LIQUIDS (MMBLS)
Proved reserves as of December 31, 1998	101	838	16
Revisions of estimates	24	36	3
Extensions and discoveries	2	230	3
Purchase of reserves	143	1,400	33
Production	(18)	(221)	(4)
Sale of reserves	(3)	(8)	--
Proved reserves as of December 31, 1999	249	2,275	51
Revisions of estimates	(3)	101	4
Extensions and discoveries	21	504	5
Purchase of reserves	21	53	--
Production	(29)	(355)	(6)
Sale of reserves	(33)	(57)	(8)
Proved reserves as of December 31, 2000	226	2,521	46
Revisions of estimates	(25)	(262)	7
Extensions and discoveries	12	360	5
Purchase of reserves	15	170	--
Production	(26)	(376)	(6)
Sale of reserves	(11)	(14)	--
Proved reserves as of December 31, 2001	191	2,399	52
Proved developed reserves as of:			
December 31, 1998	93	664	15
December 31, 1999	214	1,960	48
December 31, 2000	192	2,087	42
December 31, 2001	167	1,988	48



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

CANADA			
	OIL (MMBBLs)	GAS (BCF)	NATURAL GAS LIQUIDS (MMBBLs)
Proved reserves as of December 31, 1998	39	602	5
Revisions of estimates	(3)	(41)	--
Extensions and discoveries	--	53	--
Purchase of reserves	3	12	--
Production	(5)	(74)	(1)
Sale of reserves	(2)	(46)	--
Proved reserves as of December 31, 1999	32	506	4
Revisions of estimates	3	(6)	--
Extensions and discoveries	3	65	1
Purchase of reserves	3	27	--
Production	(5)	(62)	(1)
Sale of reserves	--	(6)	--
Proved reserves as of December 31, 2000	36	524	4
Revisions of estimates	--	(22)	--
Extensions and discoveries	5	139	2
Purchase of reserves	133	2,097	52
Production	(8)	(113)	(2)
Sale of reserves	--	--	--
Proved reserves as of December 31, 2001	166	2,625	56
Proved developed reserves as of:			
December 31, 1998	33	583	4
December 31, 1999	29	501	4
December 31, 2000	30	508	4
December 31, 2001	124	1,923	40

INTERNATIONAL			
	OIL (MMBBLs)	GAS (BCF)	NATURAL GAS LIQUIDS (MMBBLs)
Proved reserves as of December 31, 1998	46	37	--
Revisions of estimates	2	12	--
Extensions and discoveries	11	24	--
Purchase of reserves	127	6	--
Production	(4)	(9)	--
Sale of reserves	--	--	--
Proved reserves as of December 31, 1999	182	70	--
Revisions of estimates	(3)	4	--
Extensions and discoveries	9	2	--
Purchase of reserves	--	145	--
Production	(5)	(9)	--

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

Sale of reserves	(15)	(4)	--
	-----	-----	-----
Proved reserves as of December 31, 2000	168	208	--
Revisions of estimates	11	(10)	--
Extensions and discoveries	2	78	--
Purchase of reserves	18	--	--
Production	(5)	(9)	--
Sale of reserves	(1)	--	--
	-----	-----	-----
Proved reserves as of December 31, 2001	193	267	
	=====	=====	=====
Proved developed reserves as of:			
December 31, 1998	14	35	--
December 31, 1999	34	40	--
December 31, 2000	21	36	--
December 31, 2001	17	37	--

58

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2001, 2000 AND 1999

The preceding Total and International quantities of oil and gas reserves tables exclude the following proved reserves and proved developed reserves related to discontinued operations.

	OIL (MMBLS)	GAS (BCF)	NATURAL GAS LIQUIDS (MMBLS)
	-----	-----	-----
Proved reserves as of:			
December 31, 1998	49	--	12
December 31, 1999	33	99	13
December 31, 2000	29	205	12
December 31, 2001	36	186	13
Proved developed reserves as of:			
December 31, 1998	40	--	--
December 31, 1999	24	--	--
December 31, 2000	18	--	--
December 31, 2001	16	--	--

Standardized Measure of Discounted Future Net Cash Flows

The accompanying tables reflect the standardized measure of discounted future net cash flows relating to Devon's interest in proved reserves:

TOTAL  
 DECEMBER 31,

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

	2001	2000	1999
	(IN MILLIONS)		
Future cash inflows	\$ 22,439	38,785	17,079
Future costs:			
Development	(2,050)	(1,432)	(1,309)
Production	(7,932)	(7,599)	(5,587)
Future income tax expense	(3,131)	(8,684)	(1,714)
Future net cash flows	9,326	21,070	8,469
10% discount to reflect timing of cash flows	(4,228)	(8,874)	(3,869)
Standardized measure of discounted future net cash flows	\$ 5,098	12,196	4,600

	DOMESTIC DECEMBER 31,		
	2001	2000	1999
	(IN MILLIONS)		
Future cash inflows	\$ 9,861	29,144	11,363
Future costs:			
Development	(793)	(916)	(751)
Production	(3,774)	(5,661)	(3,894)
Future income tax expense	(759)	(6,346)	(1,072)
Future net cash flows	4,535	16,221	5,646
10% discount to reflect timing of cash flows	(1,734)	(6,592)	(2,335)
Standardized measure of discounted future net cash flows	\$ 2,801	9,629	3,311

59

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

CANADA		
DECEMBER 31,		
2001	2000	1999



DEVON ENERGY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2001, 2000 AND 1999

Future income tax expenses are computed by applying the appropriate statutory tax rates to the future pre-tax net cash flows relating to proved reserves, net of the tax basis of the properties involved. The future income tax expenses give effect to permanent differences and tax credits, but do not reflect the impact of future operations.

The preceding Total and International standardized measure of discounted future net cash flows tables exclude \$216 million, \$276 million and \$168 million in 2001, 2000 and 1999, respectively, related to discontinued operations.

Changes Relating to the Standardized Measure of Discounted Future Net Cash Flows

Principal changes in the standardized measure of discounted future net cash flows attributable to Devon's proved reserves are as follows:

	YEAR ENDED DECEMBER	
	2001	2000
	-----	-----
	(IN MILLIONS)	
Beginning balance	\$ 12,196	4,600
Sales of oil, gas and natural gas liquids, net of production costs	(2,167)	(2,039)
Net changes in prices and production costs	(11,953)	9,594
Extensions, discoveries, and improved recovery, net of future development costs	613	2,704
Purchase of reserves, net of future development costs	2,483	553
Development costs incurred during the period which reduced future development costs	327	126
Revisions of quantity estimates	(337)	434
Sales of reserves in place	(86)	(818)
Accretion of discount	1,728	553
Net change in income taxes	3,366	(4,149)
Other, primarily changes in timing	(1,072)	638
	-----	-----
Ending balance	\$ 5,098	12,196
	=====	=====

The preceding table excludes \$216 million, \$276 million and \$168 million in 2001, 2000 and 1999, respectively, related to discontinued operations.

17. SEGMENT INFORMATION

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

Devon manages its business by country. As such, Devon identifies its segments based on geographic areas. Devon has three reportable 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. Certain information regarding such activities for each segment is included in Notes 15 and 16.

Following is certain financial information regarding Devon's segments for 2001, 2000 and 1999. The revenues reported are all from external customers.

61

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

	U.S.	CANADA	INTERNATIONAL
(IN MILLIONS)			
AS OF DECEMBER 31, 2001:			
Current assets	\$ 661	192	---
Property and equipment, net of accumulated depreciation, depletion and amortization	4,051	4,248	---
Goodwill, net of amortization	209	1,928	---
Assets of discontinued operations	--	--	--
Other assets	826	33	---
Total assets	\$ 5,747	6,401	---
Current liabilities	407	367	---
Long-term debt	1,987	4,602	---
Deferred tax liabilities	775	1,316	---
Liabilities of discontinued operations	--	--	--
Other liabilities	224	20	---
Stockholders' equity	2,354	96	---
Total liabilities and stockholders' equity	\$ 5,747	6,401	---

62

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

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

	U.S.	CANADA	I
	-----	-----	-----
			(IN MILLIO
YEAR ENDED DECEMBER 31, 2001:			
REVENUES			
Oil sales	\$ 586	146	
Gas sales	1,571	307	
Natural gas liquids sales	103	28	
Marketing and midstream revenue	64	7	
	-----	-----	
Total revenues	2,324	488	
	-----	-----	
COSTS AND EXPENSES			
Lease operating expenses	340	110	
Transportation costs	59	24	
Production taxes	113	3	
Marketing and midstream costs and expenses	43	4	
Depreciation, depletion and amortization of property and equipment	647	166	
Amortization of goodwill	34	--	
General and administrative expenses	98	15	
Expenses related to mergers	--	1	
Reduction in carrying value of oil and gas properties	449	434	
	-----	-----	
Total production and operating costs and expenses	1,783	757	
	-----	-----	
Earnings (loss) from operations	541	(269)	
OTHER INCOME (EXPENSES)			
Interest expense	(139)	(81)	
Effects of changes in foreign currency exchange rates	--	(11)	
Change in fair value of financial instruments	(1)	(1)	
Other income	57	5	
	-----	-----	
Net other income (expenses)	(83)	(88)	
	-----	-----	
Earnings (loss) from continuing operations before income taxes and cumulative effect of change in accounting principle	458	(357)	
INCOME TAX EXPENSE (BENEFIT)			
Current	29	8	
Deferred	92	(145)	
	-----	-----	
Total income tax expense (benefit)	121	(137)	
	-----	-----	
Earnings (loss) from continuing operations before cumulative effect of change in accounting principle	337	(220)	

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

DISCONTINUED OPERATIONS:

Results of discontinued operations before income taxes	--	--
Income tax expense	--	--
Net results of discontinued operations	--	--
Earnings (loss) before cumulative effect of change in accounting principle	337	(220)
Cumulative effect of change in accounting principle	49	--
Net earnings (loss)	\$ 386	(220)
Capital expenditures	\$ 1,356	3,774

63

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

	U.S.	CANADA	INTERNATIONAL
	(IN MILLIONS)		
AS OF DECEMBER 31, 2000:			
Current assets	\$ 645	79	
Property and equipment, net of accumulated depreciation, depletion and amortization	3,640	586	
Assets of discontinued operations	--	--	
Other assets	964	--	
Total assets	\$ 5,249	665	
Current liabilities	449	74	
Long-term debt	1,902	147	
Deferred tax liabilities (assets)	537	69	
Liabilities of discontinued operations	--	--	
Other liabilities	259	1	
Stockholders' equity	2,102	374	
Total liabilities and stockholders' equity	\$ 5,249	665	



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

64

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2001, 2000 AND 1999

	U.S.	CANADA
	-----	-----
		(IN MIL)
YEAR ENDED DECEMBER 31, 2000:		
REVENUES		
Oil sales	\$ 727	116
Gas sales	1,305	169
Natural gas liquids sales	136	18
Marketing and midstream revenue	47	6
	-----	-----
Total revenues	2,215	309
	-----	-----
COSTS AND EXPENSES		
Lease operating expenses	319	52
Transportation costs	42	11
Production taxes	102	1
Marketing and midstream costs and expenses	25	3
Depreciation, depletion and amortization of property and equipment	565	65
Amortization of goodwill	41	--
General and administrative expenses	81	10
Expenses related to mergers	60	--
	-----	-----
Total production and operating costs and expenses	1,235	142
	-----	-----
Earnings from operations	980	167
OTHER INCOME (EXPENSES)		
Interest expense	(144)	(10)
Effects of changes in foreign currency exchange rates	--	(3)
Other income	36	2
	-----	-----
Net other income (expenses)	(108)	(11)
	-----	-----
Earnings from continuing operations before income taxes	872	156
INCOME TAX EXPENSE		
Current	113	2
Deferred	185	67
	-----	-----
Total income tax expense	298	69
	-----	-----
Earnings from continuing operations	574	87

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

DISCONTINUED OPERATIONS:		
Results of discontinued operations before income taxes	--	--
Income tax expense	--	--
Net results of discontinued operations	--	--
Net earnings	\$ 574	87
Capital expenditures	\$ 893	203

65

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
DECEMBER 31, 2001, 2000 AND 1999

	U.S.	CANADA	INTERNATIONAL
	(IN MILLIONS)		
AS OF DECEMBER 31, 1999:			
Current assets	\$ 391	69	
Property and equipment, net of accumulated depreciation, depletion and amortization	3,425	468	
Assets of discontinued operations	--	--	
Other assets	944	--	
Total assets	\$ 4,760	537	
Current liabilities	357	45	
Long-term debt	2,077	339	
Deferred tax liabilities (assets)	340	2	
Liabilities of discontinued operations	--	--	
Other liabilities	318	3	
Stockholders' equity	1,668	148	
Total liabilities and stockholders' equity	\$ 4,760	537	

66

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

DECEMBER 31, 2001, 2000 AND 1999

	U.S.	CANADA
		(IN MIL)
YEAR ENDED DECEMBER 31, 1999:		
REVENUES		
Oil sales	\$ 332	80
Gas sales	502	114
Natural gas liquids sales	58	10
Marketing and midstream revenue	14	6
	906	210
COSTS AND EXPENSES		
Lease operating expenses	189	50
Transportation costs	22	12
Production taxes	43	1
Marketing and midstream costs and expenses	7	3
Depreciation, depletion and amortization of property and equipment	309	65
Amortization of goodwill	16	--
General and administrative expenses	69	12
Expenses related to mergers	17	--
Reduction in carrying value of oil and gas properties	464	--
	1,136	143
Earnings (loss) from operations	(230)	67
OTHER INCOME (EXPENSES)		
Interest expense	(84)	(24)
Effects of changes in foreign currency exchange rates	--	13
Distributions on preferred securities of subsidiary trust	(7)	--
Other income	8	2
	(83)	(9)
Earnings (loss) from continuing operations before income taxes and extraordinary item	(313)	58
INCOME TAX EXPENSE (BENEFIT)		
Current	15	3
Deferred	(119)	27
	(104)	30
Earnings (loss) from continuing operations before extraordinary item	(209)	28

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

DISCONTINUED OPERATIONS:

Results of discontinued operations before income taxes	--	--
Income tax expense	--	--
Net results of discontinued operations	--	--
Earnings (loss) before extraordinary item	(209)	28
Extraordinary loss	(4)	--
Net earnings (loss)	\$ (213)	28
Capital expenditures	\$ 686	92

67

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2001, 2000 AND 1999

18. SUPPLEMENTAL QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Following is a summary of the unaudited interim results of operations for the years ended December 31, 2001 and 2000.

	2001			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	Q FOURTH
	(IN MILLIONS, EXCEPT PER SHARE AMOU			
Oil, gas and natural gas liquids sales	\$ 975	684	541	
Total revenues	\$ 995	699	553	
Net earnings (loss)	\$ 400	136	85	
Net earnings (loss) per common share:				
Basic	\$ 3.08	1.03	0.65	
Diluted	\$ 2.96	1.01	0.64	

	2000			
	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	Q FOURTH

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

(IN MILLIONS, EXCEPT PER SHARE AMOU

Oil, gas and natural gas liquids sales	\$	523	607	662
Total revenues	\$	534	619	676
Net earnings	\$	105	153	165
Net earnings per common share:				
Basic	\$	0.81	1.19	1.27
Diluted	\$	0.80	1.17	1.22

The second, third and fourth quarters of 2001 include \$77 million, \$10 million and \$916 million, respectively, of reductions of carrying value of oil and gas properties. The after-tax effect of these expenses was \$62 million, \$7 million and \$556 million, respectively. The per share effect of these quarterly reductions was \$0.48, \$0.05 and \$4.42, respectively.

The third and fourth quarters of 2000 include \$57 million and \$3 million, respectively, of expenses incurred in connection with the Santa Fe Snyder merger. The after-tax effect of these expenses was \$35 million and \$2 million, respectively. The per share effect of these quarterly reductions was \$0.28 and \$0.01, respectively.

Oil, gas and natural gas liquids sales for the first, second, third and fourth quarters of 2001 exclude \$36 million, \$26 million, \$30 million and \$31 million, respectively, related to discontinued operations. Oil, gas and natural gas liquids sales for the first, second, third and fourth quarters of 2000 exclude \$25 million, \$29 million, \$33 million and \$32 million, respectively, related to discontinued operations.

68

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2001, 2000 AND 1999

19. SUBSEQUENT EVENT AND PRO FORMA FINANCIAL INFORMATION (UNAUDITED)

Mitchell Energy & Development Corp. Merger

On January 24, 2002, Devon completed its acquisition of Mitchell. Devon acquired Mitchell for the significant development and exploitation projects in each of Mitchell's core areas, increased gas services operations and increased exposure to the North American natural gas market. Assuming the Mitchell merger had closed on December 31, 2001, the calculation of the purchase price and the preliminary allocation to assets and liabilities are shown below.

(IN MILLIONS,  
 EXCEPT SHARE PRICE)

Calculation and preliminary allocation of purchase price:

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

Shares of Devon common stock issued to Mitchell stockholders	30
Average Devon stock price	\$ 50.95
	-----
Fair value of common stock issued	\$ 1,507
Cash paid to Mitchell stockholders, calculated at \$31 per outstanding common share of Mitchell	1,567
	-----
Fair value of Devon common stock and cash to be issued to Mitchell Stockholders	3,074
Plus estimated acquisition costs incurred	90
Plus fair value of Mitchell employee stock options assumed by Devon	25
	-----
Total purchase price	3,189
Plus fair value of liabilities assumed by Devon:	
Current liabilities	305
Long-term debt	363
Other long-term liabilities	76
Deferred income taxes	802
	-----
Total purchase price plus liabilities assumed	\$ 4,735
	=====
Fair value of assets acquired by Devon:	
Current assets	193
Proved oil and gas properties	1,456
Unproved oil and gas properties	696
Gas services facilities and equipment	840
Other property and equipment	3
Other assets	57
Goodwill (none deductible for income tax purposes)	1,490
	-----
Total fair value of assets acquired	\$ 4,735
	=====

### Pro Forma Information

Set forth in the following tables are certain unaudited pro forma financial information as of December 31, 2001, and for the years ended December 31, 2001 and 2000. The information as of December 31, 2001, assumes the Mitchell merger had closed on such date. The information for

the years ended December 31, 2001 and 2000, has been prepared assuming the Anderson acquisition and the Mitchell merger were consummated on January 1, 2000. All pro forma information is based on estimates and assumptions deemed

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

appropriate by Devon. The pro forma information is presented for illustrative purposes only. If the transactions had occurred in the past, Devon's operating results might have been different from those presented in the following table. The pro forma information should not be relied upon as an indication of the operating results that Devon would have achieved if the transactions had occurred on January 1, 2000. The pro forma information also should not be used as an indication of the future results that Devon will achieve after the transactions.

The following should be considered in connection with the pro forma financial information presented:

- In 2000, Devon recognized \$60 million of expenses related to its merger with Santa Fe Snyder Corporation. Devon accounted for the Santa Fe Snyder merger using the pooling-of-interests method of accounting and, therefore, the expenses incurred related to the merger were expensed. The after-tax effect of these expenses in 2000 was \$37 million.

- In 2000, Mitchell realized income tax savings of \$13 million related to prior years' Section 29 tax credits and \$6 million related to the reversal of prior years' deferred income taxes.

- In 2000, Mitchell recognized a \$5 million gain from the exchange of certain gas services assets. Also in 2000, Mitchell recognized an \$11 million impairment expense related to other gas services assets. Net of tax, these two events reduced Mitchell's 2000 net earnings by \$4 million.

- On May 17, 2000, Anderson acquired all the outstanding shares of Ulster Petroleum Ltd. The summary unaudited pro forma combined statements of operations do not include any results from Ulster's operations prior to May 17, 2000.

- On February 12, 2001, Anderson acquired all of the outstanding shares of Numac Energy Inc. The summary unaudited pro forma combined statements of operations do not include any results from Numac's operations prior to February 12, 2001.

- In 2001, Devon elected to discontinue operations in Malaysia, Qatar, Thailand and on certain properties in Brazil. Accordingly, in 2001, Devon recorded an \$87 million charge associated with the impairment of those properties. The after-tax effect of this reduction was \$69 million.

- In 2001, Devon reduced the carrying value of its oil and gas properties by \$916 million due to the full cost ceiling limitations. The after-tax effect of this reduction was \$556 million.

- Anderson had a compensation plan pursuant to which it periodically issued awards referred to as share appreciation rights under which employees could earn compensation based on increases in the market price of Anderson's stock. Anderson awarded these rights in lieu of stock

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

option grants. Pro forma general and administrative expenses reported in the accompanying unaudited pro forma statements of operations for the years ended December 31, 2001 and 2000 include \$6 million and \$5 million, respectively, of expenses related to these plans. After taxes, these plans had the effect of decreasing unaudited pro forma net earnings in the 2001 and 2000 periods by \$3 million and \$3 million, respectively. Devon acquired all outstanding rights as part of the Anderson acquisition. Accordingly, these rights will not affect Devon's net earnings subsequent to the closing of the Anderson acquisition.

- Mitchell has incentive compensation plans pursuant to which it has periodically issued awards referred to as bonus units under which employees can earn compensation based on increases in the market price of Mitchell common stock. Mitchell generally awards these bonus units in lieu of stock option grants. Pro forma general and administrative expenses reported in the accompanying unaudited pro forma statements of operations for the year 2000 include \$21 million of expense related to these plans. After taxes, these plans had the effect of decreasing unaudited pro forma net earnings in the 2000 period by \$14 million. Devon will not issue such bonus units after the merger.

- Devon's historical results of operations for the years 2001 and 2000 include \$34 million and \$41 million, respectively, of amortization expense for goodwill related to previous mergers. As of January 1, 2002, in accordance with new accounting pronouncements recently issued, such goodwill will cease to be amortized and, instead, will be tested for impairment at least annually. No goodwill amortization expense has been recognized in the pro forma statements of operations for the goodwill related to the Anderson acquisition and the Mitchell merger.

PRO FORMA INFORMATION  
AS OF  
DECEMBER 31, 2001  
-----  
(DOLLARS IN MILLION)

Balance sheet data:

Property and equipment, net	\$	11,727
Investment in common stock of ChevronTexaco Corporation		636
Goodwill		3,698
Total assets		17,784
Debentures exchangeable into shares of ChevronTexaco Corporation common stock		649
Other long-term debt		7,882
Stockholders' equity		4,694

Proved reserves:

Oil (MMBbls)		566
Gas (Bcf)		7,000
NGLs (MMBbls)		198
MMBoe		1,931
Standardized measure of discounted future net cash flows	\$	5,969



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

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2001, 2000 AND 1999

	PRO YEAR
	----- 2001 -----
	(IN MILLIONS, EXCEPT PER SHARE AMOUNTS)
REVENUES	
Oil sales	\$ 1,110
Gas sales	3,145
Natural gas liquids sales	307
Gas services revenue	1,169
	-----
Total revenues	5,731
	-----
COSTS AND EXPENSES	
Lease operating expenses	728
Transportation costs	155
Production taxes	149
Gas services costs and expenses	1,038
Depreciation, depletion and amortization of property and equipment	1,372
Amortization of goodwill	34
General and administrative expenses	205
Expenses related to mergers	1
Reduction of carrying value of oil and gas properties	1,155
	-----
Total production and operating costs and expenses	4,837
	-----
Earnings from operations	894
OTHER INCOME (EXPENSES)	
Interest expense	(508)
Effects of changes in foreign currency exchange rates	(21)
Change in fair value of financial instruments	(16)
Other income	90
	-----
Net other expenses	(455)
	-----
Earnings from continuing operations before income tax expense and cumulative effect of change in accounting principle	439
INCOME TAX EXPENSE	
Current	94
Deferred	61
	-----
Total income tax expense	155
	-----

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

Earnings from continuing operations before cumulative effect of change in accounting principle	284
DISCONTINUED OPERATIONS:	
Results of discontinued operations before income taxes	66
Income tax expense	21
Net results of discontinued operations	45
Earnings before cumulative effect of change in accounting principle	329
Cumulative effect of change in accounting principle	49
Net earnings	378
Preferred stock dividends	10
Net earnings applicable to common stockholders	\$ 368

72

DEVON ENERGY CORPORATION AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 DECEMBER 31, 2001, 2000 AND 1999

	PRO FORMA INFORMATION YEAR ENDED DECEMBER 31,	
	2001	2000
	(IN MILLIONS, EXCEPT PER SHARE PRODUCTION VOLUMES)	
Basic net earnings per share:		
Earnings from continuing operations	\$ 1.74	
Earnings from discontinued operations	\$ 0.29	
Cumulative effect of change in accounting principle	\$ 0.32	
Net earnings	\$ 2.35	
Diluted net earnings per share:		
Earnings from continuing operations	\$ 1.71	
Earnings from discontinued operations	\$ 0.29	
Cumulative effect of change in accounting principle	\$ 0.30	
Net earnings	\$ 2.30	
Weighted average common shares outstanding - basic	157	
Weighted average common shares outstanding - diluted	164	

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

## Production volumes:

Oil (MMBbls)	53
Gas (Bcf)	810
NGLs (MMBbls)	17
MMBoe	205

73

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

October 2, 2002

By /s/ Danny J. Heatly

-----  
Danny J. Heatly  
Vice President - Accounting

74

## INDEX TO EXHIBITS

EXHIBIT NUMBER -----	DESCRIPTION -----
23.1	Consent of KPMG LLP
23.2	Consent of PricewaterhouseCoopers LLP

75