

# DEVON ENERGY CORP/DE

## FORM 10-Q (Quarterly Report)

Filed 08/04/06 for the Period Ending 06/30/06

Address	333 W. SHERIDAN AVENUE OKLAHOMA CITY, OK 73102
Telephone	4055528183
CIK	0001090012
Symbol	DVN
SIC Code	1311 - Crude Petroleum and Natural Gas
Fiscal Year	12/31

# DEVON ENERGY CORP/DE

## FORM 10-Q (Quarterly Report)

Filed 8/4/2006 For Period Ending 6/30/2006

Address	20 N BROADWAY STE 1500 OKLAHOMA CITY, Oklahoma 73102
Telephone	405-235-3611
CIK	0001090012
Industry	Oil & Gas Operations
Sector	Energy
Fiscal Year	12/31

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

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2006

or

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

Commission File No. 001-32318

**Devon Energy Corporation**

*(Exact Name of Registrant as Specified in its Charter)*

**Delaware**

*(State or Other Jurisdiction of  
Incorporation or Organization)*

**73-1567067**

*(I.R.S. Employer  
Identification Number)*

**20 North Broadway**

**Oklahoma City, Oklahoma**

*(Address of Principal Executive Offices)*

**73102-8260**

*(Zip Code)*

Registrant's telephone number, including area code:

(405) 235-3611

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

Not applicable

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares outstanding of Registrant's common stock, par value \$0.10, as of June 30, 2006, was 441,051,000.

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**DEVON ENERGY CORPORATION**  
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to the Securities and Exchange Commission

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**DEFINITIONS**

As used in this document:

“Bbl” or “Bbls” means barrel or barrels.

“Bcf” means billion cubic feet.

“Boe” means barrel of oil equivalent, determined by using the ratio of one Bbl of oil or NGLs to six Mcf of gas.

“MMBbls” means million barrels.

“MMBoe” means million Boe.

“Mcf” means thousand cubic feet.

“NGL” or “NGLs” means natural gas liquids.

“Oil” includes crude oil and condensate.

“SEC” means United States Securities and Exchange Commission.

“Domestic” means the properties of Devon in the onshore continental United States and the offshore Gulf of Mexico.

“United States Onshore” means the properties of Devon in the continental United States.

“United States Offshore” means the properties of Devon in the Gulf of Mexico.

“Canada” means the division of Devon encompassing oil and gas properties located in Canada.

“International” means the division of Devon encompassing oil and gas properties that lie outside the United States and Canada.

## PART I. Financial Information

## Item 1. Financial Statements

**DEVON ENERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	June 30, 2006 <u>(Unaudited)</u>	December 31, 2005 <u></u>
(In millions, except share data)		
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,030	1,606
Short-term investments	332	680
Accounts receivable	1,404	1,601
Deferred income taxes	90	158
Other current assets	189	161
Total current assets	<u>3,045</u>	<u>4,206</u>
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties (\$3,890 and \$2,747 excluded from amortization in 2006 and 2005, respectively)	39,773	34,246
Less accumulated depreciation, depletion and amortization	<u>16,454</u>	<u>15,114</u>
	23,319	19,132
Investment in Chevron Corporation common stock, at fair value	880	805
Goodwill	5,823	5,705
Other assets	451	425
Total assets	<u>\$ 33,518</u>	<u>30,273</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable:		
Trade	\$ 1,137	947
Revenues and royalties due to others	492	666
Income taxes payable	147	293
Short-term debt	2,098	662
Accrued interest payable	127	127
Current portion of asset retirement obligation	73	50
Accrued expenses and other current liabilities	124	189
Total current liabilities	<u>4,198</u>	<u>2,934</u>
Debentures exchangeable into shares of Chevron Corporation common stock	718	709
Other long-term debt	5,238	5,248
Fair value of derivative financial instruments	183	125
Asset retirement obligation, long-term	766	618
Other liabilities	370	372
Deferred income taxes	5,552	5,405
Stockholders' equity:		
Preferred stock of \$1.00 par value		
Authorized 4,500,000 shares; issued 1,500,000 (\$150 million aggregate liquidation value)	1	1
Common stock of \$0.10 par value		
Authorized 800,000,000 shares; issued 441,358,000 in 2006 and 443,488,000 in 2005	44	44
Additional paid-in capital	6,762	6,928
Retained earnings	7,932	6,477
Accumulated other comprehensive income	1,772	1,414
Treasury stock, at cost: 307,000 shares in 2006 and 37,000 shares in 2005	<u>(18)</u>	<u>(2)</u>
Total stockholders' equity	16,493	14,862
Total liabilities and stockholders' equity	<u>\$ 33,518</u>	<u>30,273</u>

See accompanying notes to consolidated financial statements.



**DEVON ENERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(Unaudited)			
	(In millions, except per share amounts)			
<b>Revenues:</b>				
Oil sales	\$ 857	650	1,572	1,265
Gas sales	1,170	1,272	2,534	2,447
NGL sales	193	157	369	302
Marketing and midstream revenues	397	389	859	805
Total revenues	<u>2,617</u>	<u>2,468</u>	<u>5,334</u>	<u>4,819</u>
<b>Expenses and other income, net:</b>				
Lease operating expenses	362	338	711	686
Production taxes	86	75	169	153
Marketing and midstream operating costs and expenses	288	296	627	627
Depreciation, depletion and amortization of oil and gas properties	556	494	1,063	1,035
Depreciation and amortization of non-oil and gas properties	43	41	85	79
Accretion of asset retirement obligation	13	11	24	23
General and administrative expenses	90	78	180	136
Interest expense	102	146	203	264
Effects of changes in foreign currency exchange rates	—	11	(1)	11
Change in fair value of derivative financial instruments	47	(18)	59	34
Reduction of carrying value of oil and gas properties	16	—	101	—
Other income, net	(30)	(14)	(58)	(152)
Total expenses and other income, net	<u>1,573</u>	<u>1,458</u>	<u>3,163</u>	<u>2,896</u>
Earnings before income tax expense	1,044	1,010	2,171	1,923
<b>Income tax expense (benefit):</b>				
Current	198	277	502	629
Deferred	(13)	80	110	78
Total income tax expense	<u>185</u>	<u>357</u>	<u>612</u>	<u>707</u>
Net earnings	859	653	1,559	1,216
Preferred stock dividends	3	3	5	5
Net earnings applicable to common stockholders	<u>\$ 856</u>	<u>650</u>	<u>1,554</u>	<u>1,211</u>
<b>Net earnings per average common share outstanding:</b>				
Basic	<u>\$ 1.94</u>	<u>1.40</u>	<u>3.52</u>	<u>2.57</u>
Diluted	<u>\$ 1.92</u>	<u>1.38</u>	<u>3.47</u>	<u>2.53</u>
<b>Weighted average common share outstanding:</b>				
Basic	<u>440</u>	<u>464</u>	<u>441</u>	<u>472</u>
Diluted	<u>446</u>	<u>471</u>	<u>447</u>	<u>479</u>

See accompanying notes to consolidated financial statements.

**DEVON ENERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME**  
(Unaudited)

	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Treasury Stock</u>	<u>Total Stockholders' Equity</u>
	(In millions)						
<b>Six Months Ended June 30, 2006</b>							
Balance as of December 31, 2005	\$ 1	44	6,928	6,477	1,414	(2)	14,862
Comprehensive income:							
Net earnings	—	—	—	1,559	—	—	1,559
Other comprehensive income (loss), net of tax:							
Foreign currency translation adjustments	—	—	—	—	311	—	311
Change in fair value of derivative financial instruments	—	—	—	—	(1)	—	(1)
Unrealized gain on marketable securities	—	—	—	—	48	—	48
Other comprehensive income	—	—	—	—	47	—	47
Comprehensive income	—	—	—	1,559	47	—	1,606
Stock issued	—	—	27	—	—	—	27
Stock repurchased	—	—	(238)	—	—	(15)	(253)
Dividends on common stock	—	—	—	(99)	—	—	(99)
Dividends on preferred stock	—	—	—	(5)	—	—	(5)
Grant of restricted stock awards, net of cancellations	—	—	1	—	—	(1)	—
Stock option and restricted stock expense	—	—	37	—	—	—	37
Excess tax benefits related to share-based compensation	—	—	7	—	—	—	7
Balance as of June 30, 2006	<u>\$ 1</u>	<u>44</u>	<u>6,762</u>	<u>7,932</u>	<u>1,772</u>	<u>(18)</u>	<u>16,493</u>
<b>Six Months Ended June 30, 2005</b>							
Balance as of December 31, 2004	\$ 1	48	9,002	3,693	930	—	13,674
Comprehensive income:							
Net earnings	—	—	—	1,216	—	—	1,216
Other comprehensive income (loss), net of tax:							
Foreign currency translation adjustments	—	—	—	—	(100)	—	(100)
Reclassification adjustment for derivative losses reclassified into oil and gas sales	—	—	—	—	192	—	192
Change in fair value of derivative financial instruments	—	—	—	—	(171)	—	(171)
Unrealized gain on marketable securities	—	—	—	—	31	—	31
Other comprehensive loss	—	—	—	—	(40)	—	(40)
Comprehensive income	—	—	—	1,216	(9)	—	1,207
Stock issued	—	—	81	—	—	—	81
Stock repurchased and retired	—	(3)	(1,559)	—	—	—	(1,562)
Dividends on common stock	—	—	—	(70)	—	—	(70)
Dividends on preferred stock	—	—	—	(5)	—	—	(5)
Restricted stock expense	—	—	13	—	—	—	13
Balance as of June 30, 2005	<u>\$ 1</u>	<u>45</u>	<u>7,537</u>	<u>4,834</u>	<u>882</u>	<u>—</u>	<u>13,299</u>

See accompanying notes to consolidated financial statements.

**DEVON ENERGY CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<u>Six Months Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
	(Unaudited)	
	(In millions)	
<b>Cash flows from operating activities:</b>		
Net earnings	\$ 1,559	1,216
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, depletion and amortization	1,148	1,114
Deferred income tax expense	110	78
Net gain on sales of non-oil and gas property and equipment	(5)	(150)
Reduction of carrying value of oil and gas properties	101	—
Other non-cash charges	112	95
Changes in assets and liabilities:		
(Increase) decrease in:		
Accounts receivable	269	9
Other current assets	(17)	(6)
Long-term other assets	(6)	35
Increase (decrease) in:		
Accounts payable	(168)	112
Income taxes payable	(156)	(75)
Debt, including current maturities	—	(67)
Accrued interest and expenses	(108)	46
Long-term other liabilities	(21)	(22)
Net cash provided by operating activities	<u>2,818</u>	<u>2,385</u>
<b>Cash flows from investing activities:</b>		
Proceeds from sales of property and equipment	26	2,161
Capital expenditures	(4,715)	(1,976)
Purchases of short-term investments	(1,698)	(2,765)
Sales of short-term investments	2,046	3,183
Net cash (used in) provided by investing activities	<u>(4,341)</u>	<u>603</u>
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings of debt, net of issuance costs	1,452	—
Principal payments on debt, including current maturities	(208)	(354)
Proceeds from exercise of stock options	27	81
Repurchase of common stock	(253)	(1,562)
Excess tax benefits related to share-based compensation	7	—
Dividends paid on common stock	(99)	(70)
Dividends paid on preferred stock	(5)	(5)
Net cash provided by (used in) financing activities	<u>921</u>	<u>(1,910)</u>
Effect of exchange rate changes on cash	26	(3)
Net (decrease) increase in cash and cash equivalents	(576)	1,075
Cash and cash equivalents at beginning of period	1,606	1,152
Cash and cash equivalents at end of period	<u>\$ 1,030</u>	<u>2,227</u>

See accompanying notes to consolidated financial statements.

**DEVON ENERGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**1. Summary of Significant Accounting Policies**

The accompanying consolidated financial statements and notes thereto of Devon Energy Corporation (“Devon”) have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission. Accordingly, certain disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in Devon’s 2005 Annual Report on Form 10-K.

In the opinion of Devon’s management, all adjustments (all of which are normal and recurring) have been made which are necessary to fairly state the consolidated financial position of Devon and its subsidiaries as of June 30, 2006, and the results of their operations and their cash flows for the three-month and six-month periods ended June 30, 2006 and 2005.

Certain prior period amounts have been reclassified to conform to the current period presentation.

**Earnings Per Share**

The following table reconciles the net earnings and common shares outstanding used in the calculations of basic and diluted earnings per share for the three-month and six-month periods ended June 30, 2006 and 2005.

	<u>Net Earnings Applicable to Common Stockholders</u>	<u>Weighted Average Common Shares Outstanding</u>	<u>Net Earnings Per Share</u>
(In millions, except per share amounts)			
<b>Three Months Ended June 30, 2006:</b>			
Basic earnings per share	\$ 856	440	<u>\$ 1.94</u>
Dilutive effect of potential common shares issuable upon the exercise of outstanding stock options	—	6	
Diluted earnings per share	<u>\$ 856</u>	<u>446</u>	<u>\$ 1.92</u>
<b>Three Months Ended June 30, 2005:</b>			
Basic earnings per share	\$ 650	464	<u>\$ 1.40</u>
Dilutive effect of potential common shares issuable upon the exercise of outstanding stock options	—	7	
Diluted earnings per share	<u>\$ 650</u>	<u>471</u>	<u>\$ 1.38</u>

**DEVON ENERGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

	<u>Net Earnings Applicable to Common Stockholders</u>	<u>Weighted Average Common Shares Outstanding</u>	<u>Net Earnings Per Share</u>
(In millions, except per share amounts)			
<b>Six Months Ended June 30, 2006:</b>			
Basic earnings per share	\$ 1,554	441	<u>\$ 3.52</u>
Dilutive effect of potential common shares issuable upon the exercise of outstanding stock options	—	6	
Diluted earnings per share	<u>\$ 1,554</u>	<u>447</u>	<u>\$ 3.47</u>
<b>Six Months Ended June 30, 2005:</b>			
Basic earnings per share	\$ 1,211	472	<u>\$ 2.57</u>
Dilutive effect of potential common shares issuable upon the exercise of outstanding stock options	—	7	
Diluted earnings per share	<u>\$ 1,211</u>	<u>479</u>	<u>\$ 2.53</u>

Certain options to purchase shares of Devon's common stock are excluded from the dilution calculations because the options are antidilutive. During both the three-month and six-month periods ended 2006, 2.6 million shares were excluded from the diluted earnings per share calculations. During the three-months and six-months ended 2005, 36,000 shares and 84,000 shares, respectively, were excluded from the diluted earnings per share calculations.

#### ***Change in Accounting Principle***

Effective January 1, 2006, Devon adopted Statement of Financial Accounting Standard No. 123(R), *Share-Based Payment*, ("SFAS No. 123(R)"), using the modified prospective transition method. SFAS No. 123(R) requires equity-classified share-based payments to employees, including grants of employee stock options, to be valued at fair value on the date of grant and to be expensed over the applicable vesting period. Under the modified prospective transition method, share-based awards granted or modified on or after January 1, 2006, are recognized in compensation expense over the applicable vesting period. Also, any previously granted awards that are not fully vested as of January 1, 2006 are recognized as compensation expense over the remaining vesting period. No retroactive or cumulative effect adjustments were required upon Devon's adoption of SFAS No. 123(R).

Prior to adopting SFAS No. 123(R), Devon accounted for its fixed-plan employee stock options using the intrinsic-value based method prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, ("APB No. 25") and related interpretations. This method required compensation expense to be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price.

Had Devon elected the fair value provisions of SFAS No. 123(R), Devon's 2005 net earnings and net earnings per share would have differed from the amounts actually reported as shown in the following table.

**DEVON ENERGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

	<u>Three Months</u> <u>Ended June 30,</u> <u>2005</u>	<u>Six Months</u> <u>Ended June 30,</u> <u>2005</u>
	(In millions, except per share amounts)	
Net earnings available to common stockholders, as reported	\$ 650	1,211
Add share-based employee compensation expense included in reported earnings, net of related tax expense	5	9
Deduct total share-based employee compensation expense determined under fair value based method for all awards, net of related tax expense	(10)	(20)
Net earnings available to common stockholders, pro forma	<u>\$ 645</u>	<u>1,200</u>
Net earnings per share available to common stockholders:		
As reported:		
Basic	\$ 1.40	2.57
Diluted	\$ 1.38	2.53
Pro forma:		
Basic	\$ 1.39	2.54
Diluted	\$ 1.37	2.52

As a result of adopting SFAS No. 123(R) on January 1, 2006, Devon's earnings before income tax expense for the three-month and six-month periods ended June 30, 2006 were \$5 million and \$11 million lower, respectively, than if Devon had continued to account for share-based compensation under APB No. 25. Also as a result of the adoption, net earnings for the three-month and six-month periods ended June 30, 2006 were \$3 million and \$7 million lower, respectively, and the related basic and diluted earnings per share were approximately \$0.01 per share lower for each 2006 period. Prior to the adoption of SFAS No. 123(R), Devon presented all tax benefits of deductions resulting from the exercise of stock options as operating cash inflows in the statement of cash flows. SFAS No. 123(R) requires the cash inflows resulting from tax deductions in excess of the compensation expense recognized for those stock options ("excess tax benefits") to be classified as financing cash inflows. As required by SFAS No. 123(R), Devon recognized \$7 million of excess tax benefits as financing cash inflows for the six months ended June 30, 2006.

***Impact of Recently Issued Accounting Standards Not Yet Adopted***

In June 2006, the FASB issued FASB Interpretation Number 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109." This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This Interpretation is effective for fiscal years beginning after December 15, 2006. Devon is currently assessing the effect of this Interpretation on its financial statements.

**2. Comprehensive Income or Loss**

Devon's comprehensive income or loss information is included in the accompanying consolidated statements of stockholders' equity and comprehensive income. A summary of accumulated other comprehensive income as of June 30, 2006 and 2005, and changes during each of the six months then ended, is presented in the following table.

**DEVON ENERGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

	<u>Foreign Currency Translation Adjustments</u>	<u>Change in Fair Value of Financial Instruments</u>	<u>Minimum Pension Liability Adjustments</u> (In millions)	<u>Unrealized Gain on Marketable Securities</u>	<u>Total</u>
Balance as of December 31, 2005	\$ 1,217	3	(18)	212	1,414
2006 activity	304	(1)	—	75	378
Deferred taxes	7	—	—	(27)	(20)
2006 activity, net of deferred taxes	311	(1)	—	48	358
Balance as of June 30, 2006	<u>\$ 1,528</u>	<u>2</u>	<u>(18)</u>	<u>260</u>	<u>1,772</u>
Balance as of December 31, 2004	\$ 1,055	(286)	(13)	174	930
2005 activity	(110)	35	—	48	(27)
Deferred taxes	10	(14)	—	(17)	(21)
2005 activity, net of deferred taxes	(100)	21	—	31	(48)
Balance as of June 30, 2005	<u>\$ 955</u>	<u>(265)</u>	<u>(13)</u>	<u>205</u>	<u>882</u>

### 3. Supplemental Cash Flow Information

Cash payments for interest and income taxes in the first six months of 2006 and 2005 are presented below:

	<u>Six Months Ended June 30,</u>	
	<u>2006</u>	<u>2005</u>
	(In millions)	
Interest paid	\$232	353
Income taxes	\$608	663

### 4. Property and Equipment and Asset Retirement Obligations

#### *Chief Acquisition*

On June 29, 2006, Devon completed its acquisition of privately-owned Chief Holdings LLC (“Chief”). Devon paid \$2.0 billion in cash and assumed approximately \$0.2 billion of net liabilities in the transaction for a total purchase price of \$2.2 billion. Devon funded the acquisition price, and the immediate retirement of \$180 million of assumed debt, with \$718 million of cash on hand and approximately \$1.4 billion of borrowings issued under its commercial paper program. Devon estimates that the acquired properties include proved reserves of 598.2 billion cubic feet of natural gas equivalent and leasehold totaling 169,000 net acres located in the Barnett Shale area of Texas. Devon preliminarily allocated approximately \$1.0 billion of the purchase price to proved reserves and approximately \$1.2 billion to unproved properties.

#### *Asset Retirement Obligations*

The following is a summary of the changes in Devon’s asset retirement obligation for the first half of 2006 and 2005.

**DEVON ENERGY CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2006</b>	<b>2005</b>
	(In millions)	
Asset retirement obligation as of beginning of period	\$ 668	739
Liabilities incurred	25	23
Liabilities settled	(29)	(23)
Liabilities assumed by others	—	(115)
Revision of estimated obligation	138	74
Accretion expense on discounted obligation	24	23
Foreign currency translation adjustment	13	(5)
Asset retirement obligation as of end of period	839	716
Less current portion	73	49
Asset retirement obligation, long-term	<u>\$ 766</u>	<u>667</u>

## 5. Debt

### *New Credit Facility*

In April 2006, Devon replaced its existing \$1.5 billion five-year unsecured revolving credit facility with a \$2.0 billion five-year, syndicated, unsecured revolving line of credit (the "Senior Credit Facility"). In June 2006, Devon amended its Senior Credit Facility to increase the aggregate commitment amount under the Senior Credit Facility from \$2.0 billion to \$2.5 billion. The amendment also added the right to increase the aggregate commitment further to \$3.0 billion, under the same terms and conditions, should Devon deem any additional increase necessary.

The Senior Credit Facility includes a five-year revolving Canadian subfacility in a maximum amount of U.S. \$500 million.

The Senior Credit Facility matures on April 7, 2011, and all amounts outstanding will be due and payable at that time unless the maturity is extended. Prior to each April 7 anniversary date, Devon has the option to extend the maturity of the Senior Credit Facility for one year, subject to the approval of the lenders.

Amounts borrowed under the Senior Credit Facility may, at Devon's election, bear interest at various fixed rate options for periods of up to twelve months. Such rates are generally less than the prime rate. Devon may also elect to borrow at the prime rate. The Senior Credit Facility currently provides for an annual facility fee of \$2.3 million that is payable quarterly in arrears.

As of June 30, 2006, there were no borrowings under the Senior Credit Facility. The available capacity under the Senior Credit Facility as of June 30, 2006, net of \$287 million of outstanding letters of credit and \$1.4 billion of outstanding commercial paper, was approximately \$788 million.

The Senior Credit Facility contains only one material financial covenant. This covenant requires Devon to maintain a ratio of total funded debt to total capitalization, as defined in the credit agreement, of no more than 65%. As of June 30, 2006, Devon was in compliance with such covenants and restrictions. Devon's debt-to-capitalization ratio at June 30, 2006, as calculated pursuant to the terms of the agreement, was 29.3%.



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**Commercial Paper**

On June 28, 2006, Devon commenced issuing commercial paper under its program. Devon may borrow up to \$2.0 billion under the commercial paper program. Also, any borrowings under the commercial paper program reduce available capacity under the Senior Credit Facility on a dollar-for-dollar basis. Commercial paper debt generally has a maturity of between one to 90 days, although it can have a maturity of up to 365 days, and bears 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 in the commercial paper market. As of June 30, 2006, Devon had \$1.4 billion of commercial paper outstanding at an average rate of 5.45%. The \$1.4 billion of commercial paper is classified as current in the accompanying consolidated balance sheet.

**6. Income Taxes**

During the second quarter of 2006, the Canadian Federal and Alberta provincial governments enacted statutory rate reductions. As a result of these rate reductions, Devon recorded a \$243 million deferred tax benefit in such quarter. Also during the second quarter of 2006, the state of Texas enacted a new income-based tax that replaces a previous franchise tax. The new tax is effective January 1, 2007. As a result of the enactment of the new tax in the second quarter of 2006, Devon recorded \$39 million of deferred tax expense in such quarter.

**7. Stockholders' Equity**

The following is a summary of the changes in Devon's common shares outstanding for the first half of 2006 and 2005.

	Six Months Ended June 30,	
	2006	2005
	(In millions)	
Shares outstanding, beginning of period	443	484
Exercise of stock options	1	3
Shares repurchased and retired	(4)	(34)
Grant of restricted stock awards	1	—
Shares outstanding, end of period	<u>441</u>	<u>453</u>

The shares repurchased in 2006 were repurchased at a cost of \$253 million, or \$59.61, per share. The shares repurchased in 2005 were repurchased at a cost of \$1.6 billion, or \$45.62, per share.

On August 3, 2005, Devon announced that its board of directors had authorized the repurchase of up to 50 million shares of our common stock. As of August 1, 2006, Devon had repurchased 6.5 million shares under this program for \$387 million, or \$59.80 per share. As a result of the Chief acquisition (see Note 4), this repurchase program has been suspended and will be reevaluated at a later date.

**Share-Based Compensation Plans**

As discussed in Note 1, on January 1, 2006, Devon changed its method of accounting for share-based compensation from the APB No. 25 intrinsic value accounting method to the fair value recognition provisions of SFAS No. 123(R). Currently, Devon's share-based compensation includes amounts related to grants of nonqualified and incentive stock options, restricted stock awards and restricted stock units.

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The following table is a summary of the effects of share-based compensation included in Devon's accompanying statement of operations.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In millions)			
Gross general and administrative expense	\$17	7	37	14
Share-based compensation expense capitalized pursuant to the full cost method of accounting for oil and gas properties	\$ 5	—	10	—
Related income tax benefit	\$ 5	3	10	5

Devon estimates the fair values of stock options granted using a Black-Scholes option valuation model, which requires Devon to make several assumptions. The volatility of Devon's common stock is based on the historical volatility of the market price of Devon's common stock over a period of time equal to the expected term of the option and ending on the grant date. The dividend yield is based on Devon's historical and current yield in effect at the date of grant. The risk-free interest rate is based on the U.S. Treasury yield for the expected term of the option at the date of grant. The expected term of the options is based on historical exercise and termination experience for various groups of employees and directors. Each group is determined based on the similarity of their historical exercise and termination behavior.

Included in the following table is a summary of the grant-date fair values of stock options granted and the related assumptions. All such amounts represent the weighted-average amounts for each period.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
Grant-date fair value	\$20.63	15.68	19.94	15.04
Volatility factor	33.2%	34.0%	31.8%	33.7%
Dividend yield	0.5%	0.7%	0.4%	0.7%
Risk-free interest rate	5.2%	3.8%	5.0%	3.9%
Expected term (in years)	5.0	4.9	4.5	4.6

Devon estimates the fair values of restricted stock awards and units as the closing price of Devon's common stock on the grant date of the award or unit.

A summary of Devon's outstanding stock options as of June 30, 2006, including changes during the six months then ended, is presented below.

	Options (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value (In millions)
Outstanding at December 31, 2005	16,732	\$32.74		
Granted	152	\$60.25		
Exercised	(1,102)	\$24.95		
Forfeited	(298)	\$49.08		
Outstanding at June 30, 2006	<u>15,484</u>	\$33.25	4.3	\$435
Vested and expected to vest at June 30, 2006	<u>15,026</u>	\$32.65	4.3	\$430
Exercisable at June 30, 2006	<u>9,853</u>	\$25.19	4.0	\$348

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A summary of Devon's unvested restricted stock awards as of June 30, 2006, including changes during the six months then ended, is presented below.

	Restricted Stock Awards	Weighted Average Grant-Date Fair Value
	(In thousands)	
Unvested at December 31, 2005	3,187	\$46.80
Granted	831	\$55.96
Vested	(87)	\$27.01
Forfeited	(106)	\$47.43
Unvested at June 30, 2006	<u>3,825</u>	\$49.22

The aggregate intrinsic value of options exercised and the aggregate fair value of restricted stock awards vested are summarized in the table below.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In millions)			
Intrinsic value of stock options exercised	\$11	25	43	80
Fair value of restricted stock awards vested	\$ 1	1	7	5

As of June 30, 2006, Devon's unrecognized compensation costs related to unvested stock options and restricted stock awards were \$55 million and \$160 million, respectively. Such costs are expected to be recognized over weighted-average periods of 1.9 years and 2.7 years, respectively.

## 8. Other Income

The components of other income include the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In millions)			
Interest and dividend income	\$ 28	25	56	51
Net gain on sales of non-oil and gas property and equipment	1	—	5	150
Loss on derivative financial instruments	—	(16)	—	(55)
Other	1	5	(3)	6
Other income, net	<u>\$ 30</u>	<u>14</u>	<u>58</u>	<u>152</u>

## 9. Retirement Plans

Devon has various non-contributory defined benefit pension plans, including qualified plans ("Qualified Plans") and nonqualified plans ("Supplemental Plans"). The Qualified Plans provide retirement benefits for U.S. and Canadian employees meeting certain age and service requirements. The Supplemental Plans provide retirement benefits for certain employees whose benefits under the Qualified Plans are limited by income tax regulations. Devon also has defined benefit postretirement plans ("Postretirement Plans") which provide benefits for substantially all employees. The Postretirement Plans provide medical and, in some cases, life insurance benefits and are, depending on the type of plan, either contributory or non-contributory.

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**Net Periodic Cost**

The following table presents the plans' net periodic benefit cost for the three-month and six-month periods ended June 30, 2006 and 2005.

	Pension Benefits				Other Post Retirement Benefits			
	Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005	2006	2005	2006	2005
	(In millions)							
Components of net periodic benefit cost:								
Service cost	\$ 6	5	12	10	—	—	—	—
Interest cost	10	8	20	16	1	1	2	2
Expected return on plan assets	(11)	(9)	(22)	(18)	—	—	—	—
Recognized net actuarial loss	3	2	6	4	—	—	—	—
Net periodic benefit cost	<u>\$ 8</u>	<u>6</u>	<u>16</u>	<u>12</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>2</u>

**Employer Contributions**

Devon previously disclosed in its financial statements for the year ended December 31, 2005, that it expected to contribute \$7 million to the Qualified and Supplemental Plans in 2006 and \$5 million to the Postretirement Plans in 2006. As of June 30, 2006, Devon has contributed \$3 million to the Qualified and Supplemental Plans and \$3 million to the Postretirement Plans.

**10. Commitments and Contingencies**

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

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June 30, 2006, Devon's consolidated balance sheet included \$5 million of non-current accrued liabilities, reflected in "Other liabilities," related to these and other environmental remediation liabilities. 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) Devon's participation in consent decrees with both other PRPs and the Environmental Protection Agency, which provide for performing the scope of work required for remediation and contain covenants not to sue as protection to the PRPs, (ii) participation in groups as a *de minimis* PRP, and (iii) the availability of other defenses to liability. 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 alleging violation of the federal False Claims Act. The suits allege 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 principal suit in which Devon is a defendant is *United States ex rel. Wright v. Chevron USA, Inc. et al.* (the "Wright case"). The suit was originally filed in August 1996 in the United States District Court for the Eastern District of Texas, but was consolidated in October 2000 with the other suits for pre-trial proceedings in the United States District Court for the District of Wyoming. On July 10, 2003, the District of Wyoming remanded the *Wright* case back to the Eastern District of Texas to resume proceedings. On February 1, 2006, the Court entered a scheduling order in which trial is set for November 2007 if the suit continues to advance. Devon believes that it has acted reasonably, has legitimate and strong defenses to all allegations in the suit, and has paid royalties in good faith. Devon does not currently believe that it is subject to material exposure in association with this lawsuit and no liability has been recorded in connection therewith.

In 1995, the United States Congress passed the Deep Water Royalty Relief Act (the "DWRRA"). The intent of the DWRRA was to encourage deep water exploration in the Gulf of Mexico by providing relief from the obligation to pay royalties on certain federal leases. The DWRRA granted royalty relief, without regard to the market prices of oil or natural gas, with respect to leases issued between November 28, 1995 and November 28, 2000. However, in regulations promulgated by the Minerals Management Service (the "MMS") subsequent to the passage of the DWRRA, the MMS imposed price thresholds on certain of these deep water leases issued in 1996, 1997 and 2000, such that if the market prices for oil or natural gas exceeded the thresholds for a given year, royalty relief would not be granted for that year.

The MMS has issued an order to Devon and other oil and gas producers to pay royalties on production from these leases issued in 1996, 1997 and 2000 due to market prices exceeding the price thresholds in recent years. Devon and certain other oil and gas producers have filed Administrative Appeals with the MMS contesting the MMS' orders. In March 2006, one oil and gas producer filed suit in Federal court against the Department of Interior challenging the MMS' authority to suspend royalty relief on the subject leases. Subsequently, in June 2006, such producer announced that it and the Department of Interior had agreed to ask the court to postpone the entry of a scheduling order while the two parties undertake efforts to mediate the disagreement.

Devon does not believe that the MMS has the legal authority to suspend the royalty relief granted by the DWRRA. This is based in part on prior successful litigation against the Department of Interior and the MMS involving similar issues related to the DWRRA. Accordingly, Devon has not accrued for any

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such royalties in its consolidated financial statements. If it were to be found that the MMS' regulations are valid, Devon estimates that as of June 30, 2006, it would owe royalties and interest totaling \$14 million for production from properties obtained in the leases issued in 1996, 1997 and 2000.

Deep water leases issued in 1998 and 1999 did not include price thresholds. However, numerous government officials have recently called for the renegotiation of the leases issued in 1998 and 1999, with the renegotiated terms to include price thresholds. Legislation has been discussed that would prohibit companies from bidding on new leases if they have not paid royalties on properties obtained in 1998 and 1999 leases. In June and July 2006, the MMS issued letters to Devon and other oil and gas producers who acquired leases issued in 1998 and 1999. In such letters, the MMS acknowledges that the 1998 and 1999 leases do not include price thresholds, but maintains that such omission was an error on its part and was not its intention. While the MMS has confirmed that it will continue to honor the terms of these leases as issued, it notes the concerns being expressed by Congress and has invited Devon and the other affected oil and gas producers to renegotiate the terms and conditions of the 1998 and 1999 leases to add price threshold provisions. Devon has not yet met with the MMS on this issue and will not determine its course of action until such a meeting takes place. However, if Devon were to agree to renegotiate the terms of its 1998 and 1999 leases to include price threshold provisions, Devon would expect that such provisions would only be effective on a prospective basis.

***Equatorial Guinea Investigation***

The SEC has been conducting an inquiry into payments made to the government of Equatorial Guinea, and to officials and persons affiliated with officials of the government of Equatorial Guinea. On August 9, 2005, Devon received a subpoena issued by the SEC pursuant to a formal order of investigation. Devon has cooperated fully with the SEC's previous requests for information in this inquiry and plans to continue to work with the SEC in connection with its formal investigation.

***Hurricane Contingencies***

Devon maintains a comprehensive insurance program that includes coverage for physical damage to its offshore facilities caused by hurricanes. Devon's insurance program also includes substantial business interruption coverage which Devon expects to utilize to recover costs associated with the suspended production related to hurricanes that struck the Gulf of Mexico in the third quarter of 2005. Under the terms of the insurance program, Devon is entitled to be reimbursed for the portion of production suspended longer than forty-five days, subject to upper limits to oil and natural gas prices. Also, the terms of the insurance include a standard, per-event deductible of \$1 million for offshore losses as well as a \$15 million aggregate annual deductible. Based on current estimates of physical damage and the anticipated length of time Devon will have production suspended, Devon expects its policy recoveries will exceed repair costs and deductible amounts. This expectation is based upon several variables, including the amount of partial settlements that have been agreed to in July 2006. Should Devon's total policy recoveries exceed repair costs and deductible amounts, the excess will be recognized as other income in the statement of operations.

The policy underlying the insurance program terms described above expires on August 31, 2006. Devon is currently working with its insurers to renew this policy and continue an insurance program that includes comprehensive coverage, including business interruption and physical damage coverage, for its business. Although Devon has not finalized the exact terms of its new coverage, it expects the new policy terms related to damage from named windstorms in the Gulf of Mexico will be materially different from the terms of its existing coverage. Devon expects the new coverage will include reduced coverage limits and higher deductibles and retention amounts as compared to those currently in effect.

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**Other Matters**

Devon is involved in other various routine legal proceedings incidental to its business. However, to Devon's knowledge as of the date of this report, there were no other material pending legal proceedings to which Devon is a party or to which any of its property is subject.

**11. Reduction of Carrying Value of Oil and Gas Properties**

During the second quarter of 2006, Devon drilled two unsuccessful exploratory wells in Brazil and determined that the capitalized costs related to these two wells should be impaired. Therefore, in the second quarter of 2006, Devon recognized a \$16 million impairment of its investment in Brazil equal to the costs to drill the two dry holes and a proportionate share of block-related costs. There is no tax benefit related to this impairment. The two wells were unrelated to Devon's Polvo development project in Brazil.

Devon has committed to drill four wells in Nigeria. The first two wells were unsuccessful. After drilling the second unsuccessful well in the first quarter of 2006, Devon determined that the capitalized costs related to these two wells should be impaired. Therefore, in the first quarter of 2006, Devon recognized an \$85 million impairment of its investment in Nigeria equal to the costs to drill the two dry holes and a proportionate share of block-related costs. There is no tax benefit related to this impairment.

**12. Segment Information**

Following is certain financial information regarding Devon's reporting segments. The revenues reported are all from external customers.

	<u>U.S.</u>	<u>Canada</u>	<u>International</u>	<u>Total</u>
	(In millions)			
<b>As of June 30, 2006:</b>				
Current assets	\$ 1,097	892	1,056	3,045
Property and equipment, net of accumulated depreciation, depletion and amortization	14,048	6,873	2,398	23,319
Goodwill	3,057	2,698	68	5,823
Other assets	1,291	16	24	1,331
Total assets	<u>\$19,493</u>	<u>10,479</u>	<u>3,546</u>	<u>33,518</u>
Current liabilities	\$ 3,159	815	224	4,198
Long-term debt	2,984	2,972	—	5,956
Asset retirement obligation, long-term	360	364	42	766
Other liabilities	522	11	20	553
Deferred income taxes	3,271	1,892	389	5,552
Stockholders' equity	9,197	4,425	2,871	16,493
Total liabilities and stockholders' equity	<u>\$19,493</u>	<u>10,479</u>	<u>3,546</u>	<u>33,518</u>

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	<u>U.S.</u>	<u>Canada</u>	<u>International</u>	<u>Total</u>
	(In millions)			
<b>Three Months Ended June 30, 2006:</b>				
Revenues:				
Oil sales	\$ 334	167	356	857
Gas sales	802	358	10	1,170
NGL sales	139	54	—	193
Marketing and midstream revenues	383	8	6	397
Total revenues	<u>1,658</u>	<u>587</u>	<u>372</u>	<u>2,617</u>
Expenses and other income, net:				
Lease operating expenses	198	134	30	362
Production taxes	58	1	27	86
Marketing and midstream operating costs and expenses	283	2	3	288
Depreciation, depletion and amortization of oil and gas properties	304	170	82	556
Depreciation and amortization of non-oil and gas properties	38	4	1	43
Accretion of asset retirement obligation	6	6	1	13
General and administrative expenses	71	21	(2)	90
Interest expense	46	56	—	102
Effects of changes in foreign currency exchange rates	—	1	(1)	—
Change in fair value of derivative financial instruments	47	—	—	47
Reduction of carrying value of oil and gas properties	—	—	16	16
Other income, net	(17)	(6)	(7)	(30)
Total expenses and other income, net	<u>1,034</u>	<u>389</u>	<u>150</u>	<u>1,573</u>
Earnings before income tax expense (benefit)	624	198	222	1,044
Income tax expense (benefit):				
Current	84	37	77	198
Deferred	199	(196)	(16)	(13)
Total income tax expense (benefit)	<u>283</u>	<u>(159)</u>	<u>61</u>	<u>185</u>
Net earnings	341	357	161	859
Preferred stock dividends	3	—	—	3
Net earnings applicable to common stockholders	<u>\$ 338</u>	<u>357</u>	<u>161</u>	<u>856</u>
Capital expenditures	<u>\$ 3,094</u>	<u>324</u>	<u>102</u>	<u>3,520</u>



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	<u>U.S.</u>	<u>Canada</u>	<u>International</u>	<u>Total</u>
	(In millions)			
<b>Three Months Ended June 30, 2005:</b>				
Revenues:				
Oil sales	\$ 278	83	289	650
Gas sales	862	400	10	1,272
NGL sales	110	45	2	157
Marketing and midstream revenues	386	3	—	389
Total revenues	<u>1,636</u>	<u>531</u>	<u>301</u>	<u>2,468</u>
Expenses and other income, net:				
Lease operating expenses	174	128	36	338
Production taxes	59	2	14	75
Marketing and midstream operating costs and expenses	295	1	—	296
Depreciation, depletion and amortization of oil and gas properties	282	134	78	494
Depreciation and amortization of non-oil and gas properties	35	4	2	41
Accretion of asset retirement obligation	7	4	—	11
General and administrative expenses	62	17	(1)	78
Interest expense	80	66	—	146
Effects of changes in foreign currency exchange rates	—	12	(1)	11
Change in fair value of derivative financial instruments	(18)	—	—	(18)
Other income, net	(22)	9	(1)	(14)
Total expenses and other income, net	<u>954</u>	<u>377</u>	<u>127</u>	<u>1,458</u>
Earnings before income tax expense	682	154	174	1,010
Income tax expense (benefit):				
Current	189	12	76	277
Deferred	42	51	(13)	80
Total income tax expense	<u>231</u>	<u>63</u>	<u>63</u>	<u>357</u>
Net earnings	451	91	111	653
Preferred stock dividends	3	—	—	3
Net earnings applicable to common stockholders	<u>\$ 448</u>	<u>91</u>	<u>111</u>	<u>650</u>
Capital expenditures	<u>\$ 544</u>	<u>477</u>	<u>37</u>	<u>1,058</u>

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	<u>U.S.</u>	<u>Canada</u>	<u>International</u>	<u>Total</u>
	(In millions)			
<b>Six Months Ended June 30, 2006:</b>				
Revenues:				
Oil sales	\$ 628	289	655	1,572
Gas sales	1,721	793	20	2,534
NGL sales	263	106	—	369
Marketing and midstream revenues	833	15	11	859
Total revenues	<u>3,445</u>	<u>1,203</u>	<u>686</u>	<u>5,334</u>
Expenses and other income, net:				
Lease operating expenses	394	258	59	711
Production taxes	124	3	42	169
Marketing and midstream operating costs and expenses	618	5	4	627
Depreciation, depletion and amortization of oil and gas properties	585	320	158	1,063
Depreciation and amortization of non-oil and gas properties	75	8	2	85
Accretion of asset retirement obligation	12	10	2	24
General and administrative expenses	141	42	(3)	180
Interest expense	88	115	—	203
Effects of changes in foreign currency exchange rates	—	1	(2)	(1)
Change in fair value of derivative financial instruments	61	(2)	—	59
Reduction of carrying value of oil and gas properties	—	—	101	101
Other income, net	(33)	(12)	(13)	(58)
Total expenses and other income, net	<u>2,065</u>	<u>748</u>	<u>350</u>	<u>3,163</u>
Earnings before income tax expense (benefit)	1,380	455	336	2,171
Income tax expense (benefit):				
Current	266	88	148	502
Deferred	295	(153)	(32)	110
Total income tax expense (benefit)	<u>561</u>	<u>(65)</u>	<u>116</u>	<u>612</u>
Net earnings	819	520	220	1,559
Preferred stock dividends	5	—	—	5
Net earnings applicable to common stockholders	<u>\$ 814</u>	<u>520</u>	<u>220</u>	<u>1,554</u>
Capital expenditures	<u>\$ 3,826</u>	<u>970</u>	<u>258</u>	<u>5,054</u>

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	<u>U.S.</u>	<u>Canada</u>	<u>International</u>	<u>Total</u>
	(In millions)			
<b>Six Months Ended June 30, 2005:</b>				
Revenues:				
Oil sales	\$ 569	161	535	1,265
Gas sales	1,651	775	21	2,447
NGL sales	213	85	4	302
Marketing and midstream revenues	799	6	—	805
Total revenues	<u>3,232</u>	<u>1,027</u>	<u>560</u>	<u>4,819</u>
Expenses and other income, net:				
Lease operating expenses	364	253	69	686
Production taxes	124	4	25	153
Marketing and midstream operating costs and expenses	625	2	—	627
Depreciation, depletion and amortization of oil and gas properties	589	278	168	1,035
Depreciation and amortization of non-oil and gas properties	69	7	3	79
Accretion of asset retirement obligation	14	8	1	23
General and administrative expenses	117	27	(8)	136
Interest expense	131	133	—	264
Effects of changes in foreign currency exchange rates	—	13	(2)	11
Change in fair value of derivative financial instruments	36	(2)	—	34
Other income, net	(152)	3	(3)	(152)
Total expenses and other income, net	<u>1,917</u>	<u>726</u>	<u>253</u>	<u>2,896</u>
Earnings before income tax expense	1,315	301	307	1,923
Income tax expense (benefit):				
Current	462	39	128	629
Deferred	13	84	(19)	78
Total income tax expense	<u>475</u>	<u>123</u>	<u>109</u>	<u>707</u>
Net earnings	840	178	198	1,216
Preferred stock dividends	5	—	—	5
Net earnings applicable to common stockholders	<u>\$ 835</u>	<u>178</u>	<u>198</u>	<u>1,211</u>
Capital expenditures	<u>\$ 1,035</u>	<u>962</u>	<u>90</u>	<u>2,087</u>

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion addresses material changes in results of operations for the three-month and six-month periods ended June 30, 2006, compared to the three-month and six-month periods ended June 30, 2005, and in financial condition since December 31, 2005. It is presumed that readers have read or have access to Devon's 2005 Annual Report on Form 10-K which includes disclosures regarding critical accounting policies as part of Management's Discussion and Analysis of Financial Condition and Results of Operations. Unless otherwise stated, all dollar amounts are expressed in U.S. dollars.

#### **Overview**

We continued to execute our strategy to increase value per share. On June 29, 2006, we completed our acquisition of privately-owned Chief Holdings LLC ("Chief"). We paid \$2.0 billion in cash and assumed approximately \$0.2 billion of net liabilities in the transaction. We funded the acquisition price, and the immediate retirement of \$180 million of assumed debt, with \$718 million of cash on hand and approximately \$1.4 billion of borrowings issued under our commercial paper program. We estimate that the acquired properties include proved reserves of 598.2 billion cubic feet of natural gas equivalent and leasehold totaling 169,000 net acres located in the Barnett Shale area of Texas. We preliminarily allocated approximately \$1.0 billion of the purchase price to proved reserves and approximately \$1.2 billion to unproved properties. The Chief acquisition had a minimal impact on our second quarter 2006 results of operations since it closed on June 29, 2006.

The following summarizes our performance for the three-months and six-months ended 2006 compared to the three-months and six-months ended 2005:

- Net earnings for the second quarter and first half of 2006 increased 31% and 28%, respectively
- Earnings per diluted share for the second quarter and first half of 2006 rose 39% and 37%, respectively
- Net cash provided by operating activities for the first half of 2006 increased 18% to \$2.8 billion
- Combined realized price for oil, gas and NGLs for the second quarter and first half of 2006 climbed 18% and 27%, respectively
- Marketing and midstream operating profit for the second quarter and first half of 2006 rose 17% and 30%, respectively
- Production decreased 2% for the second quarter, and was unchanged for the first half of 2006, excluding the effects of our 2005 sales of non-core properties and production suspended due to hurricanes
- Per unit operating costs increased 18% and 17% for the second quarter and first half of 2006, respectively, due to cost inflation driven by commodity price increases and due to the weakened U.S. dollar compared to the Canadian dollar
- Deferred income taxes in the second quarter and first half of 2006 include a \$204 million net benefit due to the effects of statutory rate reductions enacted by the Canadian Federal and Alberta provincial governments, partially offset by a new income-based tax enacted by the state of Texas

A more complete overview and discussion of full year expectations can be found in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in Devon's 2005 Annual Report on Form 10-K and in a Form 8-K dated August 2, 2006 that includes certain updated 2006 estimates.

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### Results of Operations

Oil, gas and NGL revenues increased \$141 million, or 7%, for the second quarter of 2006 compared to the second quarter of 2005, and \$461 million, or 11%, for the first half of 2006 compared to the first half of 2005. The three-month and six-month comparisons of production and price changes are shown in the following tables.

	Total					
	Three Months Ended June 30,			Six Months Ended June 30,		
	2006	2005	Change <sup>2</sup>	2006	2005	Change <sup>2</sup>
<b>Production</b>						
Oil (MMBbls)	14	17	-23%	27	35	-24%
Gas (Bcf)	201	209	-4%	392	423	-7%
NGLs (MMBbls)	6	6	-6%	12	12	-4%
Oil, Gas and NGLs (MMBoe) <sup>1</sup>	53	59	-10%	104	118	-12%
<b>Average Prices</b>						
Oil (Per Bbl)	\$ 63.69	37.28	+71%	\$ 58.53	35.86	+63%
Gas (Per Mcf)	5.83	6.09	-4%	6.46	5.79	+12%
NGLs (Per Bbl)	33.83	25.99	+30%	31.98	25.15	+27%
Oil, Gas and NGLs (Per Boe) <sup>1</sup>	42.19	35.66	+18%	43.14	34.09	+27%
<b>Revenues (\$ in millions)</b>						
Oil	\$ 857	650	+32%	\$ 1,572	1,265	+24%
Gas	1,170	1,272	-8%	2,534	2,447	+4%
NGLs	193	157	+23%	369	302	+22%
Combined	<u>\$ 2,220</u>	<u>2,079</u>	+7%	<u>\$ 4,475</u>	<u>4,014</u>	+11%

	Domestic					
	Three Months Ended June 30,			Six Months Ended June 30,		
	2006	2005	Change <sup>2</sup>	2006	2005	Change <sup>2</sup>
<b>Production</b>						
Oil (MMBbls)	5	7	-27%	10	15	-32%
Gas (Bcf)	136	140	-3%	266	285	-7%
NGLs (MMBbls)	4	5	-3%	10	10	-2%
Oil, Gas and NGLs (MMBoe) <sup>1</sup>	32	35	-8%	63	72	-11%
<b>Average Prices</b>						
Oil (Per Bbl)	\$ 66.05	40.18	+64%	\$ 62.39	38.70	+61%
Gas (Per Mcf)	5.91	6.17	-4%	6.47	5.80	+12%
NGLs (Per Bbl)	30.88	23.73	+30%	28.86	22.95	+26%
Oil, Gas and NGLs (Per Boe) <sup>1</sup>	39.61	35.88	+10%	41.14	34.07	+21%
<b>Revenues (\$ in millions)</b>						
Oil	\$ 334	278	+20%	\$ 628	569	+10%
Gas	802	862	-7%	1,721	1,651	+4%
NGLs	139	110	+26%	263	213	+23%
Combined	<u>\$ 1,275</u>	<u>1,250</u>	+2%	<u>\$ 2,612</u>	<u>2,433</u>	+7%

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	Canada					
	Three Months Ended June 30,			Six Months Ended June 30,		
	2006	2005	Change <sup>2</sup>	2006	2005	Change <sup>2</sup>
<b>Production</b>						
Oil (MMBbls)	3	3	-12%	6	6	-7%
Gas (Bcf)	63	67	-6%	122	133	-8%
NGLs (MMBbls)	1	1	-9%	2	2	-5%
Oil, Gas and NGLs (MMBoe) <sup>1</sup>	15	16	-8%	29	31	-8%
<b>Average Prices</b>						
Oil (Per Bbl)	\$ 54.52	24.05	+127%	\$ 46.14	23.98	+92%
Gas (Per Mcf)	5.70	5.98	-5%	6.51	5.83	+12%
NGLs (Per Bbl)	44.87	34.28	+31%	43.70	33.16	+32%
Oil, Gas and NGLs (Per Boe) <sup>1</sup>	39.31	33.20	+18%	40.99	32.50	+26%
<b>Revenues (\$ in millions)</b>						
Oil	\$ 167	83	+101%	\$ 289	161	+80%
Gas	358	400	-11%	793	775	+2%
NGLs	54	45	+20%	106	85	+25%
Combined	<u>\$ 579</u>	<u>528</u>	+9%	<u>\$ 1,188</u>	<u>1,021</u>	+16%
<b>International</b>						
	Three Months Ended June 30,			Six Months Ended June 30,		
	2006	2005	Change <sup>2</sup>	2006	2005	Change <sup>2</sup>
	<b>Production</b>					
Oil (MMBbls)	6	7	-25%	11	14	-24%
Gas (Bcf)	2	2	-8%	4	5	-13%
NGLs (MMBbls)	—	—	N/M	—	—	N/M
Oil, Gas and NGLs (MMBoe) <sup>1</sup>	6	8	-25%	12	15	-24%
<b>Average Prices</b>						
Oil (Per Bbl)	\$ 66.72	40.91	+63%	\$ 62.22	38.59	+61%
Gas (Per Mcf)	4.65	4.08	+14%	4.43	3.95	+12%
NGLs (Per Bbl)	—	21.16	N/M	—	24.56	N/M
Oil, Gas and NGLs (Per Boe) <sup>1</sup>	64.17	39.82	+61%	59.86	37.58	+59%
<b>Revenues (\$ in millions)</b>						
Oil	\$ 356	289	+23%	\$ 655	535	+22%
Gas	10	10	+5%	20	21	-2%
NGLs	—	2	N/M	—	4	N/M
Combined	<u>\$ 366</u>	<u>301</u>	+22%	<u>\$ 675</u>	<u>560</u>	+21%

<sup>1</sup> 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 of natural gas and oil, which rate is not necessarily indicative of the relationship of oil and gas prices. NGL volumes are converted to Boe on a one-to-one basis with oil.

<sup>2</sup> All percentage changes included in this table are based on actual figures and are not calculated using the rounded figures included in this table.

N/M Not meaningful.

The 2005 average sales prices per unit of production shown in the preceding tables include the effect of our hedging activities. All of our commodity hedges expired prior to the beginning of 2006. Included below is a comparison of our average sales prices with and without the effect of hedges for the three-months and six-months ended June 30, 2005.

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	Three Months Ended June 30, 2005		Six Months Ended June 30, 2005	
	With Hedges	Without Hedges	With Hedges	Without Hedges
Oil (per Bbl)	\$37.28	46.00	35.86	44.19
Gas (per Mcf)	\$ 6.09	6.18	5.79	5.87
NGLs (per Bbl)	\$25.99	25.99	25.15	25.15
Oil, Gas and NGLs (per Boe)	\$35.66	38.61	34.09	36.89

### *Oil Revenues*

Oil revenues increased \$207 million in the second quarter of 2006. Oil revenues increased \$355 million due to a \$26.41 per barrel increase in our realized average price of oil. A three million barrel decrease in production caused oil revenues to decrease by \$148 million. Production lost from the 2005 property divestitures accounted for one million barrels of the decrease. We also suspended certain domestic oil production in 2005 and 2006 due to the effects of Hurricanes Katrina, Rita, Dennis and Ivan. Compared to the second quarter of 2005, there were one million additional barrels of suspended production in the second quarter of 2006 due to the hurricanes. The remaining one million barrel decrease in 2006 is primarily due to certain international properties for which we are receiving fewer volumes after recovering our costs under the production sharing contracts. Operating issues also contributed to the decrease.

Oil revenues increased \$307 million in the first half of 2006. Oil revenues increased \$609 million due to a \$22.67 per barrel increase in our realized average price of oil. An eight million barrel decrease in production caused oil revenues to decrease by \$302 million. Production lost from the 2005 property divestitures caused a decrease of three million barrels. Compared to the first half of 2005, there were one million additional barrels of suspended production in the first half of 2006 due to the previously mentioned hurricanes. In addition, production decreased due to certain international properties for which we are receiving fewer volumes after recovering our costs under applicable production sharing contracts. Operating issues also contributed to the decrease.

### *Gas Revenues*

Gas revenues decreased \$102 million in the second quarter of 2006. Gas revenues decreased \$52 million due to a \$0.26 per Mcf decrease in our realized average price of gas. A decrease in production of eight Bcf caused gas revenues to decrease by \$50 million. Production lost from the 2005 property divestitures caused a decrease of eight Bcf. Compared to the second quarter of 2005, there was an additional seven Bcf of suspended production in the second quarter of 2006 due to the previously mentioned hurricanes. This decrease was partially offset by new drilling and development and increased performance in U.S. offshore and onshore properties.

Gas revenues increased \$87 million in the first half of 2006. Gas revenues increased \$264 million due to a \$0.67 per Mcf increase in our realized average price of gas. A decrease in production of 31 Bcf caused gas revenues to decrease by \$177 million. Production lost from the 2005 property divestitures caused a decrease of 33 Bcf. Compared to the first half of 2005, there was an additional 17 Bcf of suspended production in the first half of 2006 due to the previously mentioned hurricanes. These decreases were partially offset by production increases resulting from new drilling and development in U.S. offshore and onshore properties.

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### *NGL Revenues*

NGL revenues increased \$36 million in the second quarter of 2006. A \$7.84 per barrel increase in our realized average NGL price in the second quarter of 2006 increased NGL revenues by \$45 million. A slight decrease in production caused NGL revenues to decrease by \$8 million.

NGL revenues increased \$67 million in the first half of 2006. A \$6.83 per barrel increase in our realized average NGL price in the first half of 2006 increased NGL revenues by \$79 million. A slight decrease in production caused NGL revenues to decrease by \$12 million.

### *Marketing and Midstream Revenues*

Marketing and midstream revenues increased \$8 million, in the second quarter of 2006. Revenues increased \$11 million primarily due to higher NGL prices. This increase was partially offset by lower gas sales volumes, which caused revenues to decrease \$3 million.

Marketing and midstream revenues increased \$54 million in the first half of 2006. Revenues increased \$96 million primarily due to higher NGL and gas prices. This was partially offset by lower gas sales volumes, which caused revenues to decrease \$42 million.

### *Oil, Gas and NGL Production and Operating Expenses*

The components of oil, gas and NGL production and operating expenses are set forth in the following tables.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2006	2005	Change <sup>1</sup>	2006	2005	Change <sup>1</sup>
<b>Expenses (\$ in millions)</b>						
Lease operating expenses	\$ 362	338	+7%	\$ 711	686	+4%
Production taxes	<u>86</u>	<u>75</u>	+15%	<u>169</u>	<u>153</u>	+11%
Total production and operating expenses	<u>\$ 448</u>	<u>413</u>	+8%	<u>\$ 880</u>	<u>839</u>	+5%
<b>Expenses Per Boe</b>						
Lease operating expenses	\$ 6.87	5.80	+18%	\$ 6.85	5.83	+17%
Production taxes	<u>1.65</u>	<u>1.29</u>	+28%	<u>1.63</u>	<u>1.30</u>	+25%
Total production and operating expenses	<u>\$ 8.52</u>	<u>7.09</u>	+20%	<u>\$ 8.48</u>	<u>7.13</u>	+19%

<sup>1</sup> All percentage changes included in this table are based on actual figures and are not calculated using the rounded figures included in this table.

Lease operating expenses increased \$24 million in the second quarter of 2006. The increase in lease operating expense was largely caused by higher commodity prices. With the overall increase in oil, gas and NGL prices, more well workovers and repairs and maintenance costs were performed to either maintain or improve production volumes. Such costs also increased due to inflationary pressure driven by higher commodity prices. Commodity price increases also caused such operating costs as ad valorem taxes, power and fuel costs to rise. Additionally, changes in the Canadian-to-U.S. dollar exchange rate resulted in a \$13 million increase in costs. Partially offsetting these increases was a decrease of \$20 million in lease operating expenses related to properties that were sold in 2005.

Lease operating expenses increased \$25 million in the first half of 2006. As discussed in the previous paragraph, the increase in lease operating expense for the first half of 2006 was largely caused by higher commodity prices. Additionally, changes in the Canadian-to-U.S. dollar exchange rate resulted



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in a \$20 million increase in costs. Partially offsetting these increases was a decrease of \$76 million in lease operating expenses related to properties that were sold in 2005.

The increases described above were also the primary factors causing lease operating expenses per Boe to increase during the second quarter and first half of 2006. Although we divested properties that had higher per-unit operating costs, the cost escalation largely related to higher commodity prices and the weaker U.S. dollar compared to the Canadian dollar had a greater effect on our per unit costs than the property divestitures.

Production taxes increased \$11 million in the second quarter of 2006 and \$16 million in the first half of 2006. The majority of our production taxes are assessed on our onshore domestic properties. In the U.S., most of the production taxes are based on a fixed percentage of revenues. Therefore, the 2% and 7% increases in domestic oil, gas and NGL revenues in the second quarter and first half of 2006, respectively, were the primary causes of the production tax increases. The remainder of the increase was primarily due to a new Chinese “Special Petroleum Gain” tax based on higher oil prices. In the second quarter of 2006, we recorded \$9 million from this new tax.

### ***Marketing and Midstream Operating Costs and Expenses***

Marketing and midstream operating costs and expenses decreased \$8 million in the second quarter of 2006. Expenses decreased \$12 million primarily due to lower gas sales volumes. This was partially offset by an \$4 million increase in costs and expenses primarily due to higher NGL prices.

Marketing and midstream operating costs and expenses remained consistent in the first half of 2006. Expenses increased \$45 million primarily due to higher NGL and gas purchase prices. This was completely offset by lower gas sales volumes.

### ***Depreciation, Depletion and Amortization Expenses (“DD&A”)***

DD&A of oil and gas properties is calculated as the percentage of total proved reserve volumes produced during the year, multiplied by the net capitalized investment plus future development costs in those reserves (the “depletable base”). Generally, if reserve volumes are revised up or down, then the DD&A rate per unit of production will change inversely. However, if the depletable base changes, then the DD&A rate moves in the same direction. The per unit DD&A rate is not affected by production volumes. Absolute or total DD&A, as opposed to the rate per unit of production, generally moves in the same direction as production volumes. Oil and gas property DD&A is calculated separately on a country-by-country basis.

Oil and gas property DD&A increased \$62 million in the second quarter of 2006. DD&A increased \$109 million due to an increase in the combined U.S., Canadian and international DD&A rate from \$8.48 per Boe in the second quarter of 2005 to \$10.56 per Boe in the second quarter of 2006. This increase was partially offset by a 10% decrease in the combined oil, gas and NGL production in the second quarter of 2006 which caused oil and gas property DD&A to decrease by \$47 million. The primary factors contributing to the DD&A rate increase were changes in the Canadian-to-U.S. dollar exchange rate and inflationary pressure on both the costs incurred in the prior twelve months as well as the estimated development costs to be spent in future periods on proved undeveloped reserves. In addition, the DD&A rate also increased as a result of unproved costs which, in the second quarter of 2005, were not being amortized but were subsequently transferred to the depletable base as a result of drilling activities.

Oil and gas property DD&A increased \$28 million in the first half of 2006. DD&A increased \$151 million due to an increase in the combined U.S., Canadian and international DD&A rate from \$8.79 per Boe in the first half of 2005 to \$10.25 per Boe in the first half of 2006. This increase was partially

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offset by a 12% decrease in the combined oil, gas and NGL production in the first half of 2006 which caused oil and gas property DD&A to decrease by \$123 million. The primary factors contributing to the DD&A rate increase were changes in the Canadian-to-U.S. dollar exchange rate and inflationary pressure on both the costs incurred in the prior twelve months as well as the estimated development costs to be spent in future periods on proved undeveloped reserves. In addition, the DD&A rate also increased as a result of unproved costs which, in the first half of 2005, were not being amortized but were subsequently transferred to the depletable base as a result of drilling activities.

### General and Administrative Expenses (“G&A”)

Devon’s net G&A consists of three primary components. The largest of these components is the gross amount of expenses incurred for personnel costs, office expenses, professional fees and other G&A items. The gross amount of these expenses is partially reduced by two components. One is the amount of G&A capitalized pursuant to the full cost method of accounting related to exploration and development activities. The other is the amount of G&A reimbursed by working interest owners of properties for which Devon serves as the operator. These reimbursements are received during both the drilling and operational stages of a property’s life. The gross amount of G&A incurred, less the amounts capitalized and reimbursed, is recorded as net G&A in the consolidated statements of operations. Net G&A includes expenses related to oil, gas and NGL exploration and production activities, as well as marketing and midstream activities. See the following table for a summary of G&A expenses by component.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In millions)			
Gross G&A	\$ 175	148	348	280
Capitalized G&A	(62)	(45)	(119)	(92)
Reimbursed G&A	(23)	(25)	(49)	(52)
Net G&A	<u>\$ 90</u>	<u>78</u>	<u>180</u>	<u>136</u>

Gross G&A increased \$27 million in the second quarter of 2006 compared to the same period of 2005. Higher employee compensation and benefits costs caused gross G&A to increase \$21 million. Of this increase, \$7 million represented stock option expense recognized pursuant to our adoption of Statement of Financial Accounting Standard No. 123(R), *Share Based Payment*, in the first quarter of 2006, and \$3 million represented an increase in restricted stock expense due to our grants subsequent to the second quarter of 2005. In addition, changes in the Canadian-to-U.S. dollar exchange rate caused a \$4 million increase in costs.

Gross G&A increased \$68 million from the first half of 2006 compared to the same period of 2005. Higher employee compensation and benefits costs caused gross G&A to increase \$47 million. Of this increase, \$15 million represented stock option expense recognized pursuant to our adoption of Statement of Financial Accounting Standard No. 123(R), *Share Based Payment*, in the first quarter of 2006, and \$8 million represented an increase in restricted stock expense due to our grants subsequent to the second quarter of 2005. In addition, changes in the Canadian-to-U.S. dollar exchange rate caused a \$7 million increase in costs.

Capitalized G&A increased \$17 million and \$27 million in the second quarter and first half of 2006, respectively, primarily due to increases in capitalizable salaries and benefits.

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### Interest Expense

The following schedule includes the components of interest expense for the second quarter and first half of 2006 and 2005.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In millions)			
Interest based on debt outstanding	\$ 118	133	233	265
Amortization of discounts/premiums	2	—	4	1
Facility and agency fees	1	1	1	1
Amortization of capitalized loan costs	—	5	1	6
Capitalized interest	(20)	(18)	(36)	(37)
Loss on extinguishment of debt	—	25	—	25
Other	1	—	—	3
Total interest expense	<u>\$ 102</u>	<u>146</u>	<u>203</u>	<u>264</u>

The average debt balance decreased from \$7.8 billion in the second quarter of 2005 to \$6.7 billion in the second quarter of 2006 due to debt repayments during 2005. This decrease in debt outstanding caused interest expense to decrease \$20 million. This decrease in interest expense was partially offset by \$5 million of additional interest due to higher floating rates in 2006. The average interest rate on outstanding debt increased from 6.8% in the second quarter of 2005 to 7.0% in the second quarter of 2006.

The average debt balance decreased from \$7.9 billion in the first half of 2005 to \$6.7 billion in the first half of 2006 due to debt repayments during 2005. This decrease in debt outstanding caused interest expense to decrease \$43 million. This decrease in interest expense was partially offset by \$11 million of additional interest due to higher floating rates in 2006. The average interest rate on outstanding debt increased from 6.8% in the first half of 2005 to 7.0% in the first half of 2006.

Other items included in interest expense that are not related to the debt balance outstanding were \$29 million lower in the second quarter and the first half of 2006. Of this decrease, \$25 million related to the loss on the early redemption of the zero coupon convertible senior debentures during the second quarter of 2005. In conjunction with this early redemption, Devon also expensed \$5 million in remaining unamortized issuance costs during the second quarter of 2005.

### Changes in Fair Value of Derivative Financial Instruments

The following schedule includes the components of the change in fair value of derivative financial instruments for the second quarter and first half of 2006 and 2005.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In millions)			
Change in fair value of the option embedded in debentures exchangeable into shares of Chevron Corporation common stock	\$ 47	(22)	61	29
Ineffectiveness of commodity hedges	—	3	—	6
Other	—	1	(2)	(1)
Total	<u>\$ 47</u>	<u>(18)</u>	<u>59</u>	<u>34</u>

The fair value of the option embedded in debentures exchangeable into shares of Chevron Corporation common stock is driven primarily by the price of Chevron Corporation's common stock. As

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a result, increases or decreases in the price of such common stock generally will cause the fair value of this embedded option to increase or decrease in a like manner.

### *Reduction of Carrying Value of Oil and Gas Properties*

During the second quarter of 2006, we drilled two unsuccessful exploratory wells in Brazil and determined that the capitalized costs related to these two wells should be impaired. Therefore, in the second quarter of 2006, we recognized a \$16 million impairment of our investment in Brazil equal to the costs to drill the two dry holes and a proportionate share of block-related costs. There is no tax benefit related to this impairment. The two wells were unrelated to our Polvo development project in Brazil.

We have committed to drill four wells in Nigeria. The first two wells were unsuccessful. After drilling the second unsuccessful well in the first quarter of 2006, we determined that the capitalized costs related to these two wells should be impaired. Therefore, in the first quarter of 2006, we recognized an \$85 million impairment of our investment in Nigeria equal to the costs to drill the two dry holes and a proportionate share of block-related costs. There is no tax benefit related to this impairment.

### *Other Income, net*

The following schedule includes the components of other income for the three and six months periods ended June 30.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
	(In millions)			
Interest and dividend income	\$ 28	25	56	51
Net gain on sales of non-oil and gas property and equipment	1	—	5	150
Loss on derivative financial instruments	—	(16)	—	(55)
Other	1	5	(3)	6
Other income, net	<u>\$ 30</u>	<u>14</u>	<u>58</u>	<u>152</u>

The increases in interest and dividend income in the second quarter and first half of 2006 were primarily due to an increase in interest rates on cash and short-term investment balances.

The increase in the net gain on sales of non-oil and gas property and equipment in the first half of 2005 is related to the sale of certain midstream assets in January 2005.

The losses on derivative financial instruments in the second quarter and first half of 2005 related to hedges that no longer qualified for hedge accounting and were settled prior to the end of their original term. These commodity hedges related to 5,000 barrels per day of U.S. oil production and 3,000 barrels per day of Canadian oil production from properties sold as part of our property divestiture program.

### *Income Taxes*

During interim periods, income tax expense is based on the estimated effective income tax rate that is expected for the entire fiscal year. The estimated effective tax rate was 18% in the second quarter of 2006 and 35% in the second quarter of 2005. The estimated effective tax rate was 28% in the first half of 2006 and 37% in the first half of 2005.

The rates for the second quarter and first half of 2006 were lower than the statutory federal tax rate primarily due to the effects of tax law changes. During the second quarter of 2006, the Canadian Federal and Alberta provincial governments enacted statutory rate reductions. As a result, we recorded a

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\$243 million deferred tax benefit in such quarter. Also during the second quarter of 2006, the state of Texas enacted a new income-based tax that replaces a previous franchise tax. The new tax is effective January 1, 2007. As a result of the enactment of the tax in the second quarter of 2006, we recorded \$39 million of deferred tax expense in such quarter. Excluding the effects of these statutory tax rate changes and the effects of the oil and gas property impairments with no related tax benefits which were previously discussed, the effective rates were 36% for both the second quarter and first half of 2006.

### Capital Resources, Uses and Liquidity

The following discussion of liquidity and capital resources should be read in conjunction with the consolidated statements of cash flows included in Part 1, Item 1.

#### Sources and Uses of Cash

	Six Months Ended June 30,	
	2006	2005
	(In millions)	
Cash provided by (used in):		
Operating activities	\$ 2,818	2,385
Investing activities	(4,341)	603
Financing activities	921	(1,910)
Effect of exchange rate changes	26	(3)
Net (decrease) increase in cash and cash equivalents	<u>\$ (576)</u>	<u>1,075</u>
Cash and cash equivalents at end of period	<u>\$ 1,030</u>	<u>2,227</u>
Short-term investments at end of period	<u>\$ 332</u>	<u>549</u>

#### Cash Flows from Operating Activities

Net cash provided by operating activities (“operating cash flow”) continued to be a primary source of capital and liquidity in the first half of 2006. The increase in operating cash flow in the first half of 2006 was primarily caused by the increase in net earnings as discussed in the “Results of Operations” section of this report.

#### Cash Flows from Investing Activities

*Capital Expenditures.* Cash used for capital expenditures in the first half of 2006 was \$4.7 billion. This total includes \$4.5 billion for the acquisition, drilling or development of oil and gas properties, including \$2.0 billion related to the acquisition of the Chief properties. These amounts compare to cash used for capital expenditures of \$2.0 billion in the first half of 2005 which included \$1.9 billion for the acquisition, drilling or development of oil and gas properties.

*Proceeds from the Sale of Property and Equipment.* We generated sale proceeds of \$26 million and \$2.2 billion in the first half of 2006 and 2005, respectively. The decrease in proceeds in 2006 was largely due to our 2005 divesture program in which we sold non-core oil and gas properties as well as non-core midstream assets.

#### Cash Flows from Financing Activities

*Debt Borrowings.* During the second quarter of 2006, we issued \$1.4 billion of commercial paper to partially fund the Chief acquisition.

*Debt Repayments.* During the first half of 2006, we paid \$180 million to retire the debt assumed through the Chief acquisition and made other payments totaling \$28 million. During the first half of

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2005, we paid \$452 million to redeem the zero coupon convertible debentures.

*Stock Repurchases.* During the first half of 2006, we repurchased 4.2 million shares at a cost of \$253 million. This compares to the repurchase of 34.2 million shares for \$1.6 billion in the first half of 2005.

*Issuance of Common Stock.* We received proceeds of \$27 million and \$81 million from shares issued primarily from the exercise of employee stock options in the first half of 2006 and 2005, respectively.

*Dividends.* Devon's common stock dividends were \$99 million and \$70 million in the first half of 2006 and 2005, respectively. We also paid \$5 million of preferred stock dividends in 2006 and 2005. The increase in common stock dividends from 2005 to 2006 was primarily related to a 50% increase in the quarterly dividend rate which was partially offset by a decrease in the number of shares outstanding. Effective with the first quarter 2006 dividend payment, Devon increased its quarterly dividend rate from \$0.075 per share to \$0.1125 per share. The decrease in shares outstanding was primarily related to share repurchases partially offset by shares issued for stock option exercises.

### *Liquidity*

At June 30, 2006, our unrestricted cash and cash equivalents and short-term investments totaled \$1.4 billion. During the first half of 2006 and 2005, such balances decreased \$924 million and increased \$657 million, respectively. The decrease in 2006 was primarily driven by the use of cash on hand to partially fund the Chief acquisition.

Historically, our primary source of capital and liquidity has been operating cash flow. Additionally, we maintain a revolving line of credit and a commercial paper program which can be accessed as needed to supplement operating cash flow. Other available sources of capital and liquidity include the issuance of equity securities and long-term debt. We expect the combination of these sources of capital will be more than adequate to fund future capital expenditures and other contractual commitments.

### *Operating Cash Flow*

Our operating cash flow is sensitive to many variables, the most volatile of which is pricing of the oil, natural gas and NGLs produced. Prices for these commodities are determined primarily by prevailing market conditions. Regional and worldwide economic activity, weather and other substantially variable factors influence market conditions for these products. These factors are beyond our control and are difficult to predict. We expect operating cash flow to continue to be our primary source of liquidity.

### *Credit Lines*

Another source of liquidity is our \$2.5 billion five-year, syndicated, unsecured revolving line of credit (the "Senior Credit Facility"). The Senior Credit Facility also includes the right to increase the aggregate commitment further to \$3.0 billion should we deem any additional increase necessary.

The Senior Credit Facility includes a five-year revolving Canadian subfacility in a maximum amount of U.S. \$500 million.

The Senior Credit Facility matures on April 7, 2011, and all amounts outstanding will be due and payable at that time unless the maturity is extended. Prior to each April 7 anniversary date, we have the option to extend the maturity of the Senior Credit Facility for one year, subject to the approval of the lenders.

Amounts borrowed under the Senior Credit Facility may, at our election, bear interest at various

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fixed rate options for periods of up to twelve months. Such rates are generally less than the prime rate. We may also elect to borrow at the prime rate. The Senior Credit Facility currently provides for an annual facility fee of \$2.3 million that is payable quarterly in arrears.

As of June 30, 2006, there were no borrowings under the Senior Credit Facility. The available capacity under the Senior Credit Facility as of June 30, 2006, net of \$287 million of outstanding letters of credit and \$1.4 billion of outstanding commercial paper, was approximately \$788 million.

The Senior Credit Facility contains only one material financial covenant. This covenant requires Devon to maintain a ratio of total funded debt to total capitalization of no more than 65%. The credit agreement contains definitions of total funded debt and total capitalization that include adjustments to the respective amounts reported in Devon's consolidated financial statements. Per the agreement, total funded debt excludes the debentures that are exchangeable into shares of Chevron Corporation common stock. Also, total capitalization is adjusted to add back noncash financial writedowns such as full cost ceiling property impairments or goodwill impairments. As of June 30, 2006, Devon's ratio as calculated pursuant to this covenant was 29.3%.

Our access to funds from the Senior Credit Facility is not restricted under any "material adverse effect" clauses. It is not uncommon for credit agreements to include such clauses. These clauses can remove the obligation of the banks to fund the credit line if any condition or event would reasonably be expected to have a material and adverse effect on the borrower's financial condition, operations, properties or business considered as a whole, the borrower's ability to make timely debt payments, or the enforceability of material terms of the credit agreement. While our Senior Credit Facility includes covenants that require Devon to report a condition or event having a material adverse effect on Devon, the obligation of the banks to fund the Senior Credit Facility is not conditioned on the absence of a material adverse effect.

We also have access to short-term credit under our commercial paper program. Total borrowings under the commercial paper program may not exceed \$2.0 billion. Also, any borrowings under the commercial paper program reduce available capacity under the Senior Credit Facility on a dollar-for-dollar basis. Commercial paper debt generally has a maturity of between seven to 90 days, although it can have a maturity of up to 365 days.

We used approximately \$1.4 billion of borrowings under our commercial paper program to fund a portion of the Chief acquisition which closed on June 29, 2006.

### *Common Stock Repurchase Program*

On August 3, 2005, we announced that our board of directors had authorized the repurchase of up to 50 million shares of our common stock. As of August 3, 2006, we had repurchased 6.5 million shares under this program for \$387 million, or \$59.80 per share. As a result of the Chief acquisition, this repurchase program has been suspended and will be reevaluated at a later date.

### **Impact of Recently Issued Accounting Standards Not Yet Adopted**

In June 2006, the FASB issued FASB Interpretation Number 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109." This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with FASB Statement No. 109, "Accounting for Income Taxes." This Interpretation is effective for fiscal years beginning after December 15, 2006. We are currently assessing the effect of this Interpretation on our financial statements.

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### **Item 3. *Quantitative and Qualitative Disclosures About Market Risk***

There have been no material changes to the information included in Item 7A. “Quantitative and Qualitative Disclosures About Market Risk” in our 2005 Annual Report on Form 10-K.

### **Item 4. *Controls and Procedures***

#### **Disclosure Controls and Procedures**

We have established disclosure controls and procedures to ensure that material information relating to Devon, including its consolidated subsidiaries, is made known to the officers who certify Devon’s financial reports and to other members of senior management and the Board of Directors.

Based on their evaluation, Devon’s principal executive and principal financial officers have concluded that Devon’s disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) were effective as of June 30, 2006 to ensure that the information required to be disclosed by Devon in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC rules and forms.

#### **Changes in Internal Control Over Financial Reporting**

There was no change in Devon’s internal control over financial reporting during the second quarter of 2006 that has materially affected, or is reasonably likely to materially affect, Devon’s internal control over financial reporting.



**Part II. Other Information**

**Item 1. Legal Proceedings**

There have been no material changes to the information included in Item 3. “Legal Proceedings” in our 2005 Annual Report on Form 10-K.

**Item 1A. Risk Factors**

There have been no material changes to the information included in Item 1A. “Risk Factors” in our 2005 Annual Report on Form 10-K.

**Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities**

The following table sets forth information with respect to repurchases by Devon of its shares of common stock during the second quarter of 2006.

<u>Period</u>	<u>Total Number of Shares Purchased</u>	<u>Average Price Paid per Share</u>	<u>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup></u>	<u>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup></u>
April	—	\$ —	—	43,533,001
May	—	\$ —	—	43,533,001
June	—	\$ —	—	43,533,001
Total	—	\$ —	—	

<sup>(1)</sup> On August 3, 2005, Devon announced that its board of directors had authorized the repurchase of up to 50 million shares of its common stock. This stock repurchase program has been suspended and will be reevaluated at a later date.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

(a) Devon’s Annual Meeting of Stockholders was held in Oklahoma City, Oklahoma at 8:00 a.m., local time, on Wednesday, June 7, 2006.

(b) Proxies for the meeting were solicited pursuant to Regulation 14 under the Securities Exchange Act of 1934, as amended. There was no solicitation in opposition to the nominees for election as Directors as listed in the Proxy Statement for the June 7, 2006 meeting and all nominees were elected.

(c) A total of 393,344,998 shares of Devon’s common stock outstanding and entitled to vote were present at the June 7, 2006 meeting in person or by proxy, representing approximately 89.4% of the total outstanding shares. The matters voted upon were as follows:

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1. The election of four Directors to serve on Devon's Board of Directors until the 2009 Annual Meeting of Stockholders. The vote tabulation with respect to each nominee was as follows:

<u>Nominee</u>	<u>For</u>	<u>Authority Withheld</u>
Robert L. Howard	385,490,893	7,854,105
Michael M. Kanovsky	383,338,367	9,548,649
J. Todd Mitchell	384,982,808	7,904,208
J. Larry Nichols	380,789,729	12,097,287

2. Ratification of KPMG LLP as the Company's Independent Auditors for 2006. The results of the votes were as follows:

<b>FOR:</b>	381,271,601
<b>AGAINST:</b>	9,729,001
<b>ABSTAIN:</b>	2,182,554

3. Adoption of the Amendment to the Devon Energy Corporation 2005 Long-Term Incentive Plan. The results of the vote were as follows:

<b>FOR:</b>	327,647,941
<b>AGAINST:</b>	17,891,573
<b>ABSTAIN:</b>	2,644,853
<b>BROKER NON-VOTES:</b>	45,160,631

### **Item 5. Other Information**

None

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### Item 6. Exhibits

(a) Exhibits required by Item 601 of Regulation S-K are as follows:

Exhibit Number	Description
4.4	Amendment to Rights Agreement, dated as of August 1, 2006, by and between Registrant and UMB Bank, n.a.
31.1	Certification of J. Larry Nichols, Chief Executive Officer of Registrant, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Brian J. Jennings, Chief Financial Officer of Registrant, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of J. Larry Nichols, Chief Executive Officer of Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Brian J. Jennings, Chief Financial Officer of Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

### **SIGNATURES**

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

DEVON ENERGY CORPORATION

Date: August 3, 2006

/s/ Danny J. Heatly

Danny J. Heatly

Vice President – Accounting and Chief Accounting Officer

INDEX TO EXHIBITS

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31.2	Certification of Brian J. Jennings, Chief Financial Officer of Registrant, pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of J. Larry Nichols, Chief Executive Officer of Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Brian J. Jennings, Chief Financial Officer of Registrant, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.



**AMENDMENT TO RIGHTS AGREEMENT**

This AMENDMENT, dated as of August 1, 2006, to the Rights Agreement (as defined below) is by and between Devon Energy Corporation (the "Company") and UMB Bank, n.a. ("UMB"), as successor Rights Agent.

WHEREAS, the Company entered into a Rights Agreement, dated as of August 17, 1999, as amended May 25, 2000, October 4, 2001 and September 13, 2002 (as heretofore amended, the "Rights Agreement"), with Fleet National Bank (f/k/a BankBoston, N.A.) as the initial rights agent;

WHEREAS, by the amendment to the Rights Agreement dated September 13, 2002, Wachovia Bank, N.A., was appointed rights agent and was serving immediately prior to this Amendment (the "Predecessor Agent")

WHEREAS, the Company has given the Predecessor Agent proper notice of removal as rights agent under Section 21 of the Rights Agreement and desires to appoint UMB as the successor rights agent under the Rights Agreement; and

WHEREAS, pursuant to Section 27 of the Rights Agreement, the Company may from time to time supplement or amend the Rights Agreement in accordance with the provisions of Section 27 thereof;

NOW, THEREFORE, the Company and UMB hereby agree as follows, and the Rights Agreement is hereby amended as follows:

1. The Company appoints UMB, and UMB accepts such appointment, as successor rights agent under the Rights Agreement, to serve in that capacity for the consideration and subject to all of the terms and conditions of the Rights Agreement.
2. UMB represents that it is, or is an affiliate of, a corporation or trust company organized and doing business under the laws of the United States, in good standing, which is authorized under such laws to exercise corporate trust or stock transfer powers and is subject to supervision or examination by federal or state authority and has, as of the date hereof, a combined capital and surplus of at least \$100,000,000.
3. From and after the date hereof, all references in the Rights Agreement (including the exhibits thereto) to the Predecessor Agent or to the "Rights Agent" shall be deemed to be references to UMB.
4. The notice address of the Rights Agent set forth in Section 26 of the Rights Agreement is deleted in its entirety and replaced with the following:

UMB Bank, n.a.  
2401 Grand Blvd., Suite 200  
Kansas City, Missouri 64108  
Attention: Corporate Trust

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CERTIFICATION PURSUANT TO  
RULE 13a-14(a)/15d-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, J. Larry Nichols, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Devon Energy Corporation;
  2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
  4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
  5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
-

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2006

/s/ J. Larry Nichols

J. Larry Nichols

*Chief Executive Officer*



CERTIFICATION PURSUANT TO  
RULE 13a-14(a)/15d-14(a),  
AS ADOPTED PURSUANT TO  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brian J. Jennings, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Devon Energy Corporation;
  2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
  4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
  5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
-

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2006

/s/ Brian J. Jennings

Brian J. Jennings  
*Chief Financial Officer*



CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Report of Devon Energy Corporation (“Devon”) on Form 10-Q for the period ended June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, J. Larry Nichols, Chief Executive Officer of Devon, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Devon.

/s/ J. Larry Nichols

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J. Larry Nichols  
Chief Executive Officer  
August 2, 2006





CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Report of Devon Energy Corporation (“Devon”) on Form 10-Q for the period ended June 30, 2006 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Brian J. Jennings, Chief Financial Officer of Devon, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Devon.

/s/ Brian J. Jennings

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Brian J. Jennings  
Chief Financial Officer  
August 2, 2006