DEVON ENERGY CORP/DE

FORM 10-Q/A
(Amended Quarterly Report)

Filed 12/18/01 for the Period Ending 03/31/01

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/A
(Amended Quarterly Report)

Filed 12/18/2001 For Period Ending 3/31/2001

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

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Mark One)

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

For the Quarterly Period Ended March 31, 2001

OR

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

Commission File No. 000-30176

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

DELAWARE (State or Other Jurisdiction of Incorporation or Organization)	73-1567067 (I.R.S. Employer Identification Number)
20 NORTH BROADWAY, SUITE 1500 OKLAHOMA CITY, OKLAHOMA (Address of Principal Executive Offices)	73102 -8260 (Zip Code)

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

Not applicable

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

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

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

DEVON ENERGY CORPORATION

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

DEFINITIONS

As used in this document:
"Mcf" means thousand cubic feet
"MMcf" means million cubic feet
"Bcf" means billion cubic feet
"Bbl" means barrel
"MBbls" means thousand barrels
"MMBbls" means million barrels
"Boe" means equivalent barrels of oil

"Mboe" means thousand equivalent barrels of oil "Oil" includes crude oil and condensate "NGLs" means natural gas liquids

DEVON ENERGY CORPORATION

PART I. FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2001 AND 2000

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

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

	MARCH 31, 2001 (UNAUDITED)	DECEMBER 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 609,702	228,050
Accounts receivable	555,967	615,463
Inventories	40,256	47,272
Deferred income taxes	8,979	8,979
Investments and other current assets	35,199	34,373
Total current assets	1,250,103	934,137
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties	9,966,413	9,709,352
Less accumulated depreciation, depletion and amortization	4,925,204	4,799,816
	5,041,209	4,909,536
Investment in Chevron Corporation common stock, at fair value	622,715	598,867
Goodwill, net of amortization	286,227	289,489
Other assets	126,498	128,449
Total assets	$ 7,326,752	6,860,478
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable:		
Trade	314,325	305,210
Revenues and royalties due to others	117,306	151,951
Income taxes payable	162,546	65,674
Accrued interest payable	31,690	23,191
Merger related expenses payable	23,799	36,981
Accrued expenses and other current liabilities	47,127	45,980
Total current liabilities	696,793	628,987
Other liabilities	180,429	164,469
Debentures exchangeable into shares of Chevron Corporation common stock	639,257	760,313
Other long-term debt	1,229,916	1,288,523
Deferred revenue	97,545	113,756
Fair value of derivative instruments	89,711	--
Deferred income taxes	728,552	626,826
Stockholders' equity:		
Preferred stock of $1.00 par value ($100 liquidation value) Authorized 4,500,000 shares; issued 1,500,000 in 2001 and 2000	1,500	1,500
Common stock of $.10 par value Authorized 400,000,000 shares; issued 129,414,000 in 2001 and 128,638,000 in 2000	12,941	12,864
Additional paid-in capital	3,582,982	3,563,994
Retained earnings (accumulated deficit)	176,654	(214,708)
Accumulated other comprehensive loss	(108,961)	(85,397)
Unamortized restricted stock awards	(567)	(649)
Total stockholders' equity	3,664,549	3,277,604
Total liabilities and stockholders' equity	$ 7,326,752	6,860,478

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31, 2001	2000
	(UNAUDITED)	
REVENUES		
Oil sales	$ 253,982	270,157
Gas sales	725,164	240,817
Natural gas liquids sales	32,337	37,377
Other	12,104	12,065
Total revenues	1,023,587	560,416
COSTS AND EXPENSES		
Lease operating expenses	122,648	106,707
Transportation costs	17,404	11,813
Production taxes	44,509	19,398
Depreciation, depletion and amortization of property and equipment	182,892	165,252
Amortization of goodwill	8,462	10,332
General and administrative expenses	22,262	24,850
Interest expense	34,538	40,076
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	--	2,408
Change in fair value of derivative instruments	14,042	--
Total costs and expenses	446,757	380,836
Earnings before income tax expense and cumulative effect of change in accounting principle	576,830	179,580
INCOME TAX EXPENSE		
Current	144,096	36,147
Deferred	81,919	38,246
Total income tax expense	226,015	74,393
Earnings before cumulative effect of change in accounting principle	350,815	105,187
Cumulative effect of change in accounting principle, net of income tax expense of $31,617	49,452	--
Net earnings	400,267	105,187
Preferred stock dividends	2,434	2,434
Net earnings applicable to common shareholders	$ 397,833	102,753
Net earnings before cumulative effect of change in accounting principle per average common share outstanding:		
Basic	$ 2.70	0.81
Diluted	$ 2.59	0.80
Net earnings per average common share outstanding:		
Basic	$ 3.08	0.81
Diluted	$ 2.96	0.80
Weighted average common shares outstanding - basic	129,030	126,336
Weighted average common shares outstanding - diluted	135,361	127,667

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
	(UNAUDITED)	
Net earnings	$ 400,267	105,187
Other comprehensive (loss) earnings, net of tax:		
Foreign currency translation adjustments	(19,634)	(355)
Cumulative effect of change in accounting principle	(36,579)	--
Reclassification adjustment for derivative losses reclassified into oil and gas sales	4,643	--
Change in fair value of outstanding hedging positions	13,459	--
Unrealized gains on marketable securities	14,547	25,447
Comprehensive earnings	$ 376,703	130,279

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED MARCH 31, 2001	2000
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 400,267	105,187
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, depletion and amortization of property and equipment	182,892	165,252
Amortization of goodwill	8,462	10,332
Accretion of interest on zero-coupon convertible senior debentures	3,483	--
Amortization of discounts (premiums) on other long-term debt	1,985	(923)
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	--	2,408
Gain on sale of assets	(49)	(22)
Change in fair value of derivative instruments	14,042	--
Cumulative effect of change in accounting principle	(49,452)	--
Deferred income taxes	81,919	38,246
Other	302	1,900
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	79,130	(29,370)
Inventories	7,044	(247)
Prepaid expenses	(24,416)	(9,807)
Other assets	(12,600)	(10,551)
Increase (decrease) in:		
Accounts payable	2,319	(1,678)
Income taxes payable	96,977	26,141
Accrued expenses and other current liabilities	(20,910)	(3,611)
Deferred revenue	(16,014)	61,700
Long-term other liabilities	1,349	(8,887)
Net cash provided by operating activities	756,730	345,970
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	22,215	3,448
Capital expenditures	(345,926)	(436,055)
Decrease in other assets	--	96
Net cash used in investing activities	(323,711)	(432,511)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings of long-term debt, net of issuance costs	62,406	487,386
Principal payments on long-term debt	(117,763)	(505,670)
Issuance of common stock, net of issuance costs	32,403	11,186
Repurchase of common stock	(13,337)	(8,800)
Issuance of treasury stock	--	1,900
Dividends paid on common stock	(6,471)	(4,317)
Dividends paid on preferred stock	(2,434)	(2,434)
Decrease in long-term other liabilities	(5,163)	(4,522)
Net cash used in financing activities	(50,359)	(25,271)
Effect of exchange rate changes on cash	(1,008)	(467)
Net increase (decrease) in cash and cash equivalents	381,652	(112,279)
Cash and cash equivalents at beginning of period	228,050	173,167
Cash and cash equivalents at end of period	$ 609,702	60,888

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

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

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

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

2. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

As of January 1, 2001, Devon adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Certain Hedging Activities" and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of SFAS No. 133." SFAS No. 133 and SFAS No. 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. In accordance with the transition provisions of SFAS No. 133, Devon recorded a net-of-tax cumulative-effect-type adjustment of a $36.6 million loss in accumulated other comprehensive loss to recognize at fair value all derivatives that are designated as cash-flow hedging instruments. Additionally, Devon recorded a net-of-tax cumulative-effect-type adjustment to net earnings for a $49.5 million gain ($0.38 per basic share and $0.37 per diluted share) related to the fair value of derivative instruments that do not qualify as hedges. This gain related principally to the option embedded in Devon's debentures that are exchangeable into shares of Chevron Corporation common stock.

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

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

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

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

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

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

Devon does not hold or issue derivative instruments for trading purposes. All of Devon's commodity price financial swaps and costless price collars and foreign exchange rate swaps in place at January 1, 2001 and March 31, 2001 have been designated as cash flow hedges. Changes in the fair value of these derivatives are reported on the balance sheet in "Accumulated other comprehensive loss" ("AOCL"). These amounts are reclassified to oil and gas sales when the forecasted transaction takes place.

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

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

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

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

3. EARNINGS PER SHARE

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

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

3. EARNINGS PER SHARE (CONTINUED)

	NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	COMMON SHARES OUTSTANDING	NET EARNINGS PER SHARE
	(IN THOUSANDS)		
THREE MONTHS ENDED MARCH 31, 2001:			
Basic earnings per share	$397,833	129,030	$3.08
Dilutive effect of:			
Potential common shares issuable upon conversion of senior convertible debentures (the increase in net earnings is net of income tax expense of $1,380,000)	2,159	4,377	
Potential common shares issuable upon the exercise of outstanding stock options	--	1,954	
Diluted earnings per share	$399,992	135,361	$2.96
THREE MONTHS ENDED MARCH 31, 2000:			
Basic earnings per share	$102,753	126,336	$0.81
Dilutive effect of potential common shares issuable upon the exercise of outstanding stock options	--	1,331	
Diluted earnings per share	$102,753	127,667	$0.80

4. SEGMENT INFORMATION

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

	U.S.	CANADA	INTER-NATIONAL	TOTAL
		(IN THOUSANDS)		
AS OF MARCH 31, 2001:				
Current assets	$ 928,456	83,797	237,850	1,250,103
Property and equipment, net of accumulated depreciation, depletion and amortization	3,679,823	597,381	764,005	5,041,209
Investment in Chevron Corporation common stock	622,715	--	--	622,715
Goodwill, net of amortization	238,880	--	47,347	286,227
Other assets	123,152	82	3,264	126,498
Total assets	$5,593,026	681,260	1,052,466	7,326,752
Current liabilities	460,627	105,336	130,830	696,793
Other liabilities	144,423	796	35,210	180,429
Debentures exchangeable into shares of Chevron Corporation common stock	639,257	--	--	639,257
Other long-term debt	1,144,326	85,590	--	1,229,916
Deferred revenue	96,325	729	491	97,545
Fair value of derivative instruments	63,822	25,889	--	89,711
Deferred income taxes	616,451	83,327	28,774	728,552
Stockholders' equity	2,427,795	379,593	857,161	3,664,549
Total liabilities and stockholders' equity	$5,593,026	681,260	1,052,466	7,326,752

4. SEGMENT INFORMATION (CONTINUED)

	U.S.	CANADA	INTER-NATIONAL	TOTAL
	(IN THOUSANDS)			
THREE MONTHS ENDED MARCH 31, 2001:				
REVENUES				
Oil sales	$ 166,548	27,787	59,647	253,982
Gas sales	643,181	79,465	2,518	725,164
Natural gas liquids sales	27,163	5,124	50	32,337
Other	13,581	1,053	(2,530)	12,104
Total revenues	850,473	113,429	59,685	1,023,587
COSTS AND EXPENSES				
Lease operating expenses	88,463	15,337	18,848	122,648
Transportation costs	14,636	2,768	--	17,404
Production taxes	43,916	418	175	44,509
Depreciation, depletion and amortization of property and equipment	149,134	19,285	14,473	182,892
Amortization of goodwill	8,451	--	11	8,462
General and administrative expenses	20,443	1,910	(91)	22,262
Interest expense	32,168	2,115	255	34,538
Change in fair value of derivative instruments	14,042	--	--	14,042
Total costs and expenses	371,253	41,833	33,671	446,757
Earnings before income tax expense and cumulative effect of change in accounting principle	479,220	71,596	26,014	576,830
INCOME TAX EXPENSE				
Current	139,877	936	3,283	144,096
Deferred	43,634	30,712	7,573	81,919
Total income tax expense	183,511	31,648	10,856	226,015
Earnings before cumulative effect of change in accounting principle	295,709	39,948	15,158	350,815
Cumulative effect of change in accounting principle	49,452	--	--	49,452
Net earnings	345,161	39,948	15,158	400,267
Preferred stock dividends	2,434	--	--	2,434
Net earnings applicable to common shareholders	$ 342,727	39,948	15,158	397,833
Capital expenditures	$ 230,754	61,364	53,808	345,926

4. SEGMENT INFORMATION (CONTINUED)

	U.S.	CANADA	INTER-NATIONAL	TOTAL
		(IN THOUSANDS)		
THREE MONTHS ENDED MARCH 31, 2000:				
REVENUES				
Oil sales	$189,834	29,473	50,850	270,157
Gas sales	206,869	31,348	2,600	240,817
Natural gas liquids sales	33,001	4,376	--	37,377
Other	11,450	1,091	(476)	12,065
Total revenues	441,154	66,288	52,974	560,416
COSTS AND EXPENSES				
Lease operating expenses	77,418	12,304	16,985	106,707
Transportation costs	9,025	2,788	--	11,813
Production taxes	19,071	227	100	19,398
Depreciation, depletion and amortization of property and equipment	139,976	15,994	9,282	165,252
Amortization of goodwill	10,326	--	6	10,332
General and administrative expenses	22,027	2,254	569	24,850
Interest expense	37,348	2,428	300	40,076
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	--	2,408	--	2,408
Total costs and expenses	315,191	38,403	27,242	380,836
Earnings before income tax expense	125,963	27,885	25,732	179,580
INCOME TAX EXPENSE				
Current	31,947	700	3,500	36,147
Deferred	16,496	12,910	8,840	38,246
Total income tax expense	48,443	13,610	12,340	74,393
Net earnings	77,520	14,275	13,392	105,187
Preferred stock dividends	2,434	--	--	2,434
Net earnings applicable to common shareholders	$ 75,086	14,275	13,392	102,753
Capital expenditures	$339,727	36,026	60,302	436,055

5. COMMITMENTS AND CONTINGENCIES

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

Environmental Matters

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

Certain of Devon's subsidiaries acquired in the PennzEnergy merger are involved in matters in which it has been alleged that such subsidiaries are potentially responsible parties ("PRPs") under CERCLA or similar state legislation with respect to various waste disposal areas owned or operated by third parties. As of March 31, 2001, Devon's consolidated balance sheet included $7.8 million of accrued liabilities, reflected in "Other liabilities," for environmental remediation. Devon does not currently believe there is a reasonable possibility of incurring additional material costs in excess of the current accruals recognized for such environmental remediation activities. With respect to the sites in which Devon subsidiaries are PRPs, Devon's conclusion is based in large part on (i) the availability of defenses to liability, including the availability of the "petroleum exclusion" under CERCLA and similar state laws, and/or (ii) Devon's current belief that its share of wastes at a particular site is or will be viewed by the Environmental Protection Agency or other PRPs as being de minimis. As a result, Devon's monetary exposure is not expected to be material.

Royalty Matters

More than 30 oil companies, including Devon, are involved in disputes in which it is alleged that such companies and related parties underpaid royalty, overriding royalty and working interests owners in connection with the production of crude oil. The proceedings include suits in federal court in Texas, Louisiana, Mississippi and Wyoming that have been consolidated into one proceeding in Texas. To avoid expensive and protracted litigation, certain parties, including Devon, have entered into a global settlement agreement which provides for a settlement of all claims of all members of the settlement class. The court held a fairness hearing and issued an Amended Final Judgment approving the settlement on September 10, 1999. However, certain entities have appealed their objections to the settlement. Devon's share of the proposed settlement, which was accrued at March 31, 2001, is not material to its financial position, results of operations or liquidity.

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

Maersk Rig Contract

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

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

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Date: December 18, 2001                 /s/ Danny J. Heatly
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                                        Danny J. Heatly
                                        Vice President - Accounting
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