DEVON ENERGY CORP/DE

FORM 8-K
(Current report filing)

Filed 11/01/01 for the Period Ending 10/31/01

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 8-K
(Unscheduled Material Events)

Filed 11/1/2001 For Period Ending 10/31/2001

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

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report: OCTOBER 31, 2001

DEVON ENERGY CORPORATION

(Exact Name of Registrant as Specified in its Charter)

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

20 NORTH BROADWAY, SUITE 1500
OKLAHOMA CITY, OKLAHOMA 73102
(Address of Principal Executive Offices) (Zip Code)

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

ITEM 5. Other Events and Regulation FD Disclosure

Included herein are the consolidated financial statements and notes thereto of Devon Energy Corporation as of September 30, 2001 and for the three-month and nine-month periods ended September 30, 2001 and 2000. These consolidated financial statements and notes thereto have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. The accompanying consolidated financial statements and notes thereto should be read in conjunction with the consolidated financial statements and notes thereto included in Devon's 2000 Annual Report on Form 10-K.

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

	SEPTEMBER 30, 2001 (UNAUDITED)	DECEMBER 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 239,265	228,050
Accounts receivable	491,099	615,463
Inventories	42,618	47,272
Deferred income taxes	8,979	8,979
Investments and other current assets	37,941	34,373
Total current assets	819,902	934,137
Property and equipment, at cost, based on the full cost method of accounting for oil and gas properties ($453,667 and $315,260 excluded from amortization in 2001 and 2000, respectively)	11,131,091	9,709,352
Less accumulated depreciation, depletion and amortization	5,387,568	4,799,816
	5,743,523	4,909,536
Investment in ChevronTexaco Corporation common stock, at fair value	601,083	598,867
Goodwill, net of amortization	269,305	289,489
Fair value of derivative instruments	151,415	--
Other assets	147,262	128,449
Total assets	$ 7,732,490	6,860,478
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable:		
Trade	337,577	305,210
Revenues and royalties due to others	115,131	151,951
Income taxes payable	17,402	65,674
Accrued interest payable	32,269	23,191
Merger related expenses payable	11,602	36,981
Accrued expenses and other current liabilities	47,817	45,980
Total current liabilities	561,798	628,987
Other liabilities	162,318	164,469
Debentures exchangeable into shares of ChevronTexaco Corporation common stock	645,461	760,313
Other long-term debt	1,339,316	1,288,523
Deferred revenue	65,330	113,756
Deferred income taxes	1,112,822	626,826
Fair value of derivative instruments	76,440	--
Stockholders' equity:		
Preferred stock of $1.00 par value ($100 liquidation value) Authorized 4,500,000 shares; issued 1,500,000 in 2001 and 2000	1,500	1,500
Common stock of $.10 par value Authorized 400,000,000 shares; issued 129,768,000 in 2001 and 128,638,000 in 2000	12,977	12,864
Additional paid-in capital	3,594,814	3,563,994
Retained earnings (accumulated deficit)	380,049	(214,708)
Accumulated other comprehensive loss	(29,542)	(85,397)
Unamortized restricted stock awards	(406)	(649)
Treasury stock, at cost; 3,754,000 shares in 2001	(190,387)	--
Total stockholders' equity	3,769,005	3,277,604
Total liabilities and stockholders' equity	$ 7,732,490	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 SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(UNAUDITED)			
REVENUES				
Oil sales	$ 234,116	267,430	722,672	812,365
Gas sales	306,808	392,588	1,474,986	960,865
Natural gas liquids sales	30,445	35,457	94,746	106,373
Other	15,346	29,666	43,060	54,438
Total revenues	586,715	725,141	2,335,464	1,934,041
COSTS AND EXPENSES				
Lease operating expenses	124,781	108,902	362,884	326,709
Transportation costs	16,113	13,907	51,936	38,652
Production taxes	20,967	27,773	95,025	69,644
Depreciation, depletion and amortization of property and equipment	205,345	170,151	572,939	507,654
Amortization of goodwill	8,461	10,364	25,384	31,057
General and administrative expenses	26,977	25,304	73,867	74,177
Expenses related to prior merger	--	57,233	--	57,233
Interest expense	35,885	40,445	104,825	121,396
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	--	--	--	2,408
Change in fair value of derivative instruments	(2,738)	--	3,844	--
Reduction of carrying value of oil and gas properties	10,911	--	87,853	--
Total costs and expenses	446,702	454,079	1,378,557	1,228,930
Earnings before income tax expense and cumulative effect of change in accounting principle	140,013	271,062	956,907	705,111
INCOME TAX EXPENSE (BENEFIT)				
Current	(25,679)	50,403	117,213	122,908
Deferred	80,960	55,747	267,757	158,770
Total income tax expense	55,281	106,150	384,970	281,678
Earnings before cumulative effect of change in accounting principle	84,732	164,912	571,937	423,433
Cumulative effect of change in accounting principle, net of income tax expense of $31,617	--	--	49,452	--
Net earnings	84,732	164,912	621,389	423,433
Preferred stock dividends	2,433	2,433	7,301	7,301
Net earnings applicable to common stockholders	$ 82,299	162,479	614,088	416,132
Net earnings before cumulative effect of change in accounting principle per average common share outstanding:				
Basic	$ 0.65	1.27	4.40	3.27
Diluted	$ 0.64	1.22	4.26	3.20
Net earnings per average common share outstanding:				
Basic	$ 0.65	1.27	4.79	3.27
Diluted	$ 0.64	1.22	4.63	3.20
Weighted average common shares outstanding-basic	126,335	127,857	128,274	127,065
Weighted average common shares outstanding-diluted	131,573	134,394	133,982	130,628

See accompanying notes to consolidated financial statements.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
	(UNAUDITED)			
Net earnings	$ 84,732	164,912	621,389	423,433
Other comprehensive earnings (loss):				
Foreign currency translation adjustments	(17,068)	(6,462)	(20,820)	(12,237)
Cumulative effect of change in accounting principle	--	--	(36,579)	--
Reclassification adjustment for derivative (gains) losses reclassified into oil and gas sales	(8,285)	--	6,678	--
Change in fair value of outstanding hedging positions	64,001	--	105,224	--
Unrealized losses on marketable securities, net of tax benefit	(24,877)	(1,288)	1,352	(7,330)
Comprehensive earnings	$ 98,503	157,162	677,244	403,866

See accompanying notes to consolidated financial statements.

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

	NINE MONTHS ENDED SEPTEMBER 30, 2001	2000
	(UNAUDITED)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Net earnings	$ 621,389	423,433
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation, depletion and amortization of property and equipment	572,939	507,654
Amortization of goodwill	25,384	31,057
Reduction of carrying value of oil and gas properties	87,853	--
Accretion of interest on long-term debt	11,598	3,531
Amortization of discounts (premiums) on other long-term debt	6,130	(2,891)
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	--	2,408
Loss (gain) on sale of assets	247	(5,854)
Change in fair value of derivative instruments	3,844	--
Cumulative effect of change in accounting principle	(49,452)	--
Deferred income taxes	267,757	158,770
Other	965	(28)
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	113,769	(153,432)
Inventories	5,723	(16,025)
Prepaid expenses	14,298	(22,751)
Other assets	(28,923)	(3,029)
(Decrease) increase in:		
Accounts payable	17,463	95,842
Income taxes payable	(48,176)	78,095
Accrued expenses and other current liabilities	(51,711)	37,198
Deferred revenue	(48,394)	23,545
Long-term other liabilities	(22,195)	(24,133)
Net cash provided by operating activities	1,500,508	1,133,390
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of property and equipment	41,395	56,640
Capital expenditures	(1,351,492)	(947,974)
Net cash used in investing activities	(1,310,097)	(891,334)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings of other long-term debt	1,271,746	2,258,549
Principal payments on revolving lines of credit	(1,263,995)	(2,473,568)
Issuance of common stock, net of issuance costs	30,932	37,500
Treasury stock purchased	(190,387)	(10,699)
Treasury stock issued	--	24,937
Dividends paid on common stock	(19,331)	(15,080)
Dividends paid on preferred stock	(7,301)	(7,301)
Decrease in long-term other liabilities	--	(49,802)
Net cash used in financing activities	(178,336)	(235,464)
Effect of exchange rate changes on cash	(860)	(1,112)
Net increase in cash and cash equivalents	11,215	5,480
Cash and cash equivalents at beginning of period	228,050	173,167
Cash and cash equivalents at end of period	$ 239,265	178,647

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

2. PENDING ACQUISITIONS

Mitchell Energy & Development Corp.

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

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

2. PENDING ACQUISITIONS (CONTINUED)

Anderson Exploration Ltd.

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

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

3. LONG-TERM DEBT

Debt Securities

On October 3, 2001, Devon, through its wholly-owned financial subsidiary Devon Financing Corporation, U.L.C. ("Devon Financing"), sold $1.75 billion of 6.875% notes due September 30, 2011 and $1.25 billion of 7.875% debentures due September 30, 2031. The debt securities are unsecured and unsubordinated obligations of Devon Financing. Devon has fully and unconditionally guaranteed on an unsecured and unsubordinated basis the obligations of Devon Financing under the debt securities. The proceeds from the issuance of these debt securities were used to fund a portion of the Anderson acquisition.

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

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

3. LONG-TERM DEBT (CONTINUED)

New Term Loan Credit Facility

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

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

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

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

	(millions)
2001	$ -
2002	$ -
2003	$ -
2004	$ 0.2
2005	$ 1.2
2006	$ 1.6

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

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

Amendment of Existing Credit Facilities

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

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

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

Devon may borrow funds under the $275 million Canadian Facility until August 12, 2002 (the "Canadian Facility Revolving Period"). Devon may request that the Canadian Facility Revolving Period be extended an additional 364 days by notifying the agent bank of such request between 45 and 90 days prior to the end of the Canadian Facility Revolving Period. Debt outstanding as of the end of the Canadian Facility Revolving Period is payable in semi annual installments of 2.5% each for the following five years, with the final installment due five years and one day following the end of the Canadian Facility Revolving Period. On September 30, 2001, there was $60.2 million borrowed under the $275 million Canadian facility at an average interest rate of 3.9%.

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

3. LONG-TERM DEBT (CONTINUED)

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

Commercial Paper

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

4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

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

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

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

Devon does not hold or issue derivative instruments for trading purposes. All of Devon's commodity price swaps and costless price collars and foreign exchange rate swaps in place at January 1, 2001 and September 30, 2001 have been designated as cash flow hedges. Changes in the fair value of these derivatives are reported on the balance sheet in "Accumulated other comprehensive loss" ("AOCL"). These amounts are reclassified to oil and gas sales when the forecasted transaction takes place.

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

During the third quarter of 2001, Devon also entered into interest rate locks to reduce exposure to the variability in market interest rates, specifically U.S. Treasury rates, in anticipation of the sale of the debt securities discussed in Note 3. These derivative instruments were designated as cash flow hedges and, as such, the change in fair value of these contracts is included on the balance sheet in AOCL.

4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED)

Devon assesses the effectiveness of its hedges based on changes in the derivative's intrinsic value. The change in the time value of the derivative is excluded from the assessment of hedge effectiveness and, along with any ineffectiveness, is recorded on the statement of operations in "Change in fair value of derivative instruments." For the three- and nine-month periods ended September 30, 2001, Devon recorded a net charge of approximately $1.4 million which represented the ineffectiveness of the various cash flow hedges.

As of September 30, 2001, $79.7 million of net deferred gains on derivative instruments accumulated in AOCL are expected to be reclassified to earnings during the next 12 months. Transactions and events expected to occur over the next 12 months that will necessitate reclassifying these derivatives' gains to earnings are the production and sale of oil and gas which includes the production hedged under the various derivative instruments. The maximum term over which Devon is hedging exposures to the variability of cash flows for commodity price risk is 15 months.

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

5. EARNINGS PER SHARE

The following tables reconcile the net earnings and common shares outstanding used in the calculations of basic and diluted earnings per share for the three-month and nine-month periods ended September 30, 2001 and 2000.

	NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	COMMON SHARES OUTSTANDING	NET EARNINGS PER SHARE
	(IN THOUSANDS)		
THREE MONTHS ENDED SEPTEMBER 30, 2001:			
Basic earnings per share	$ 82,299	126,335	$ 0.65
Dilutive effect of:			
Potential common shares issuable upon conversion of senior convertible debentures (the increase in net earnings is net of income tax expense of $1,408,000)	2,201	4,377	
Potential common shares issuable upon the exercise of outstanding stock options	--	861	
Diluted earnings per share	$ 84,500	131,573	$ 0.64

5. EARNINGS PER SHARE (CONTINUED)

	NET EARNINGS APPLICABLE TO COMMON STOCKHOLDERS	COMMON SHARES OUTSTANDING	NET EARNINGS PER SHARE
THREE MONTHS ENDED SEPTEMBER 30, 2000:			
Basic earnings per share	$ 162,479	127,857	$ 1.27
Dilutive effect of:			
Potential common shares issuable upon conversion of senior convertible debentures (the increase in net earnings is net of income tax expense of $1,355,000)	2,119	4,377	
Potential common shares issuable upon the exercise of outstanding stock options	--	2,160	
Diluted earnings per share	$ 164,598	134,394	$ 1.22
NINE MONTHS ENDED SEPTEMBER 30, 2001:			
Basic earnings per share	$ 614,088	128,274	$ 4.79
Dilutive effect of:			
Potential common shares issuable upon the conversion of senior convertible debentures (the increase in net earnings is net of income tax expense of $4,170,000)	6,522	4,377	
Potential common shares issuable upon the exercise of outstanding stock options	--	1,331	
Diluted earnings per share	$ 620,610	133,982	$ 4.63
NINE MONTHS ENDED SEPTEMBER 30, 2000:			
Basic earnings per share	$ 416,132	127,065	$ 3.27
Dilutive effect of:			
Potential common shares issuable upon the conversion of senior convertible debentures (the increase in net earnings is net of income tax expense of $1,399,000)	2,189	1,534	
Potential common shares issuable upon the exercise of outstanding stock options	--	2,029	
Diluted earnings per share	$ 418,321	130,628	$ 3.20

5. EARNINGS PER SHARE (CONTINUED)

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

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

6. STOCK BUYBACK

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

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

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

7. REDUCTION OF CARRYING VALUE OF OIL AND GAS PROPERTIES

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

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

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

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

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

8. SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest in the first nine months of 2001 and 2000 were approximately $78.1 million and $150.5 million, respectively. Cash payments for federal, state and foreign income taxes in the first nine months of 2001 and 2000 were approximately $165.5 million and $52.3 million, respectively.

9. SEGMENT INFORMATION

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

	U.S.	CANADA	INTER-NATIONAL	TOTAL
		(IN THOUSANDS)		
AS OF SEPTEMBER 30, 2001:				
Current assets	$ 468,566	50,000	301,336	819,902
Property and equipment, net of accumulated depreciation, depletion and amortization	4,395,745	632,877	714,901	5,743,523
Investment in ChevronTexaco Corporation common stock	601,083	--	--	601,083
Goodwill, net of amortization	217,730	--	51,575	269,305
Fair value of derivative instruments	149,437	1,978	--	151,415
Other assets	135,172	75	12,015	147,262
Total assets	$5,967,733	684,930	1,079,827	7,732,490
Current liabilities	362,143	68,428	131,227	561,798
Debentures exchangeable into shares of ChevronTexaco Corporation common stock	645,461	--	--	645,461
Other long-term debt	1,279,143	60,173	--	1,339,316
Deferred revenue	64,533	306	491	65,330
Deferred tax liabilities	950,695	126,691	35,436	1,112,822
Other liabilities	130,300	912	31,106	162,318
Fair value of derivative instruments	76,172	268	--	76,440
Stockholders' equity	2,459,286	428,152	881,567	3,769,005
Total liabilities and stockholders' equity	$5,967,733	684,930	1,079,827	7,732,490

9. SEGMENT INFORMATION (CONTINUED)

	U.S.	CANADA	INTER-NATIONAL	TOTAL
		(IN THOUSANDS)		
THREE MONTHS ENDED SEPTEMBER 30, 2001:				
REVENUES				
Oil sales	$ 147,753	28,333	58,030	234,116
Gas sales	269,367	33,558	3,883	306,808
Natural gas liquids sales	26,747	3,150	548	30,445
Other	10,197	476	4,673	15,346
Total revenues	454,064	65,517	67,134	586,715
COSTS AND EXPENSES				
Lease operating expenses	89,509	17,056	18,216	124,781
Transportation costs	13,262	2,851	--	16,113
Production taxes	20,381	450	136	20,967
Depreciation, depletion and amortization of property and equipment	168,452	21,439	15,454	205,345
Amortization of goodwill	8,451	--	10	8,461
General and administrative expenses	24,780	1,630	567	26,977
Interest expense	34,602	1,028	255	35,885
Change in fair value of derivative instruments	(2,738)	--	--	(2,738)
Reduction of carrying value of oil and gas properties	--	--	10,911	10,911
Total costs and expenses	356,699	44,454	45,549	446,702
Earnings before income tax expense	97,365	21,063	21,585	140,013
INCOME TAX EXPENSE (BENEFIT)				
Current	(26,931)	507	745	(25,679)
Deferred	59,505	12,345	9,110	80,960
Total income tax expense	32,574	12,852	9,855	55,281
Net earnings	64,791	8,211	11,730	84,732
Preferred stock dividends	2,433	--	--	2,433
Net earnings applicable to common shareholders	$ 62,358	8,211	11,730	82,299
Capital expenditures	$ 277,148	44,279	11,306	332,733

9. SEGMENT INFORMATION (CONTINUED)

	U.S.	CANADA	INTER-NATIONAL	TOTAL
	(IN THOUSANDS)			
THREE MONTHS ENDED SEPTEMBER 30, 2000:				
REVENUES				
Oil sales	$ 173,130	31,860	62,440	267,430
Gas sales	351,237	38,202	3,149	392,588
Natural gas liquids sales	30,985	4,356	116	35,457
Other	28,304	1,181	181	29,666
Total revenues	583,656	75,599	65,886	725,141
COSTS AND EXPENSES				
Lease operating expenses	80,889	13,315	14,698	108,902
Transportation costs	11,115	2,792	--	13,907
Production taxes	27,356	295	122	27,773
Depreciation, depletion and amortization of property and equipment	143,587	15,633	10,931	170,151
Amortization of goodwill	10,358	--	6	10,364
General and administrative expenses	23,063	2,263	(22)	25,304
Expenses related to merger	57,233	--	--	57,233
Interest expense	37,463	2,902	80	40,445
Total costs and expenses	391,064	37,200	25,815	454,079
Earnings before income tax expense	192,592	38,399	40,071	271,062
INCOME TAX EXPENSE				
Current	46,168	595	3,640	50,403
Deferred	24,124	17,579	14,044	55,747
Total income tax expense	70,292	18,174	17,684	106,150
Net earnings	122,300	20,225	22,387	164,912
Preferred stock dividends	2,433	--	--	2,433
Net earnings applicable to common stockholders	$ 119,867	20,225	22,387	162,479
Capital expenditures	$ 173,542	29,449	25,956	228,947

9. SEGMENT INFORMATION (CONTINUED)

	U.S.	CANADA	INTER-NATIONAL	TOTAL
	(IN THOUSANDS)			
NINE MONTHS ENDED SEPTEMBER 30, 2001:				
REVENUES				
Oil sales	$ 458,653	85,097	178,922	722,672
Gas sales	1,300,175	165,127	9,684	1,474,986
Natural gas liquids sales	81,382	12,471	893	94,746
Other	34,140	2,166	6,754	43,060
Total revenues	1,874,350	264,861	196,253	2,335,464
COSTS AND EXPENSES				
Lease operating expenses	257,315	49,175	56,394	362,884
Transportation costs	43,312	8,624	--	51,936
Production taxes	93,207	1,343	475	95,025
Depreciation, depletion and amortization of property and equipment	465,030	60,724	47,185	572,939
Amortization of goodwill	25,352	--	32	25,384
General and administrative expenses	70,489	5,454	(2,076)	73,867
Interest expense	99,519	4,541	765	104,825
Change in fair value of derivative instruments	3,844	--	--	3,844
Reduction of carrying value of oil and gas properties	--	--	87,853	87,853
Total costs and expenses	1,058,068	129,861	190,628	1,378,557
Earnings before income tax expense and cumulative effect of change in accounting principle	816,282	135,000	5,625	956,907
INCOME TAX EXPENSE				
Current	104,156	2,417	10,640	117,213
Deferred	200,252	57,950	9,555	267,757
Total income tax expense	304,408	60,367	20,195	384,970
Earnings (loss) before cumulative effect of change in accounting principle	511,874	74,633	(14,570)	571,937
Cumulative effect of change in accounting principle	49,452	--	--	49,452
Net earnings (loss)	561,326	74,633	(14,570)	621,389
Preferred stock dividends	7,301	--	--	7,301
Net earnings (loss) applicable to common shareholders	$ 554,025	74,633	(14,570)	614,088
Capital expenditures	$1,073,839	154,120	123,533	1,351,492

9. SEGMENT INFORMATION (CONTINUED)

	U.S.	CANADA	INTER-NATIONAL	TOTAL
	(IN THOUSANDS)			
NINE MONTHS ENDED SEPTEMBER 30, 2000:				
REVENUES				
Oil sales	$ 550,806	89,028	172,531	812,365
Gas sales	846,070	106,046	8,749	960,865
Natural gas liquids sales	93,256	12,901	216	106,373
Other	50,220	3,503	715	54,438
Total revenues	1,540,352	211,478	182,211	1,934,041
COSTS AND EXPENSES				
Lease operating expenses	238,109	38,540	50,060	326,709
Transportation costs	30,132	8,520	--	38,652
Production taxes	68,503	819	322	69,644
Depreciation, depletion and amortization of property and equipment	428,399	47,986	31,269	507,654
Amortization of goodwill	31,039	--	18	31,057
General and administrative expenses	65,815	7,058	1,304	74,177
Expenses related to merger	57,233	--	--	57,233
Interest expense	112,818	7,898	680	121,396
Deferred effect of changes in foreign currency exchange rate on subsidiary's long-term debt	--	2,408	--	2,408
Total costs and expenses	1,032,048	113,229	83,653	1,228,930
Earnings before income tax expense	508,304	98,249	98,558	705,111
INCOME TAX EXPENSE				
Current	110,494	1,574	10,840	122,908
Deferred	80,371	44,842	33,557	158,770
Total income tax expense	190,865	46,416	44,397	281,678
Net earnings	317,439	51,833	54,161	423,433
Preferred stock dividends	7,301	--	--	7,301
Net earnings applicable to common stockholders	$ 310,138	51,833	54,161	416,132
Capital expenditures	$ 720,013	107,606	120,355	947,974

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.

Environmental Matters

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

Certain of Devon's subsidiaries acquired in the PennzEnergy merger are involved in matters in which it has been alleged that such subsidiaries are potentially responsible parties ("PRPs") under CERCLA or similar state legislation with respect to various waste disposal areas owned or operated by third parties. As of September 30, 2001, Devon's consolidated balance sheet included $7.7 million of accrued liabilities, reflected in "Other liabilities," for environmental remediation. Devon does not currently believe there is a reasonable possibility of incurring additional material costs in excess of the current accruals recognized for such environmental remediation activities. With respect to the sites in which Devon subsidiaries are PRPs, Devon's conclusion is based in large part on (i) the availability of defenses to liability, including the availability of the "petroleum exclusion" under CERCLA and similar state laws, and/or (ii) Devon's current belief that its share of wastes at a particular site is or will be viewed by the Environmental Protection Agency or other PRPs as being de minimis. As a result, Devon's monetary exposure is not expected to be material.

Royalty Matters

More than 30 oil companies, including Devon, are involved in disputes in which it is alleged that such companies and related parties underpaid royalty, overriding royalty and working interests owners in connection with the production of crude oil. The proceedings include suits in federal court in Texas, Louisiana, Mississippi and Wyoming that have been consolidated into one proceeding in Texas. To avoid expensive and protracted litigation, certain parties, including Devon, have entered into a global settlement agreement which provides for a settlement of all claims of all members of the settlement class. The court held a fairness hearing and issued an Amended Final Judgment approving the settlement on September 10, 1999. However, certain entities appealed their objections to the settlement terms. The appeals were recently withdrawn and we expect to close the matter with payment expected to occur November 15, 2001. Devon's share of the settlement, which is accrued in the September 30, 2001 consolidated balance sheet, is not material to its financial position, results of operations or liquidity.

Also, pending in federal court in Texas is a similar suit alleging underpaid royalties to the United States in connection with natural gas and natural gas liquids produced and sold from United States owned and/or controlled lands. The claims were filed by private litigants against Devon and numerous other producers, under the federal False Claims Act. The United States served notice of its intent to intervene as to certain defendants, but not Devon. Devon and certain other defendants are challenging the constitutionality of whether a claim under the federal False Claims Act can be maintained absent government intervention. Devon believes that it has acted reasonably and paid royalties in good faith. Devon does not currently believe that it is subject to material exposure in association with this litigation. No liability has been recorded in connection with this dispute.

Maersk Rig Contract

In December 1997, the working interest owner partner of Pennzoil Venezuela Corporation, S.A. ("PVC"), a subsidiary of Devon as a result of the PennzEnergy merger, entered into a contract with Maersk Jupiter Drilling, S.A. ("Maersk") for the provision of a rig for drilling services relative to the anticipated drilling program associated with Devon's Block 70/80 in Lake Maracaibo, Venezuela. The rig was assembled and delivered by Maersk to Lake Maracaibo where it performed an abbreviated drilling program for both Blocks 68/79 and 70/80. It is currently stacked in Lake Maracaibo. The contract expires in the fourth quarter of 2001. As of September 30, 2001, Devon's consolidated balance sheet included accrued liabilities, reflected in "Other liabilities," for the expected cost to terminate/settle the contract. Devon does not currently believe there is a reasonable possibility of incurring additional material costs in excess of the liability recognized for such termination/settlement of the contract.

SIGNATURES

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

DEVON ENERGY CORPORATION

By: /s/ Danny J. Heatly

Danny J. Heatly
Vice President

Date: October 31, 2001