

DEVON ENERGY CORP/DE
Form 10-Q
November 05, 2014
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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 September 30, 2014

or

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

Commission File Number 001-32318

DEVON ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State of other jurisdiction of
incorporation or organization)

73-1567067
(I.R.S. Employer
identification No.)

333 West Sheridan Avenue, Oklahoma City, Oklahoma
(Address of principal executive offices)

73102-5015
(Zip code)

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

Former name, 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

On October 22, 2014, 409.1 million shares of common stock were outstanding.

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INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements as defined by the United States Securities and Exchange Commission (SEC). Such statements are those concerning strategic plans, our expectations and objectives for future operations, as well as other future events or conditions. Such forward-looking statements are based on our examination of historical operating trends, the information used to prepare our December 31, 2013 reserve reports and other data in our possession or available from third parties. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control. Consequently, actual future results could differ materially from our expectations due to a number of factors, such as changes in the supply of and demand for oil, natural gas and natural gas liquids (NGLs) and related products and services; exploration or drilling programs; our ability to successfully complete mergers, acquisitions and divestitures; political or regulatory events; general economic and financial market conditions; and other risks and factors discussed in this report.

All subsequent written and oral forward-looking statements attributable to Devon Energy Corporation, or persons acting on its behalf, are expressly qualified in their entirety by the cautionary statements above. We assume no duty to update or revise our forward-looking statements based on new information, future events or otherwise.

Table of Contents**Part I. Financial Information****Item 1. Financial Statements****DEVON ENERGY CORPORATION AND SUBSIDIARIES****CONSOLIDATED COMPREHENSIVE STATEMENTS OF EARNINGS**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(Unaudited)			
	(In millions, except per share amounts)			
Oil, gas and NGL sales	\$ 2,588	\$ 2,341	\$ 7,824	\$ 6,367
Oil, gas and NGL derivatives	748	(141)	29	(95)
Marketing and midstream revenues	2,000	514	5,718	1,501
Total operating revenues	5,336	2,714	13,571	7,773
Lease operating expenses	584	600	1,764	1,684
Marketing and midstream operating expenses	1,781	383	5,092	1,128
General and administrative expenses	195	143	595	460
Production and property taxes	140	115	427	353
Depreciation, depletion and amortization	842	691	2,409	2,069
Asset impairments		7		1,960
Restructuring costs	2	4	44	50
Gains and losses on asset sales		11	(1,072)	11
Other operating items	18	27	74	82
Total operating expenses	3,562	1,981	9,333	7,797
Operating income (loss)	1,774	733	4,238	(24)
Net financing costs	116	100	359	306
Other nonoperating items	4	(6)	111	(4)
Earnings (loss) before income taxes	1,654	639	3,768	(326)
Income tax expense (benefit)	613	210	1,698	(99)
Net earnings (loss)	1,041	429	2,070	(227)
Net earnings attributable to noncontrolling interests	25		55	
Net earnings (loss) attributable to Devon	\$ 1,016	\$ 429	\$ 2,015	\$ (227)
Net earnings (loss) per share attributable to Devon:				
Basic	\$ 2.48	\$ 1.06	\$ 4.94	\$ (0.57)

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Diluted	\$ 2.47	\$ 1.05	\$ 4.91	\$ (0.57)
Comprehensive earnings (loss):				
Net earnings (loss)	\$ 1,041	\$ 429	\$ 2,070	\$ (227)
Other comprehensive earnings (loss), net of tax:				
Foreign currency translation	(279)	173	(285)	(281)
Pension and postretirement plans	2	3	10	12
Other comprehensive earnings (loss), net of tax	(277)	176	(275)	(269)
Comprehensive earnings (loss)	764	605	1,795	(496)
Comprehensive earnings attributable to noncontrolling interests	25		55	
Comprehensive earnings (loss) attributable to Devon	\$ 739	\$ 605	\$ 1,740	\$ (496)

See accompanying notes to consolidated financial statements.

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DEVON ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

Nine Months Ended
September 30,
2014 2013
(Unaudited)

(In millions)

Cash flows from operating activities:		
Net earnings (loss)	\$ 2,070	\$ (227)
Adjustments to reconcile net earnings (loss) to net cash from operating activities:		
Depreciation, depletion and amortization	2,409	2,069
Gains and losses on asset sales	(1,072)	11
Asset impairments		1,960
Deferred income tax expense (benefit)	800	(181)
Derivatives and other financial instruments	(43)	65
Cash settlements on derivatives and financial instruments	(201)	147
Other noncash charges	357	195
Net change in working capital	766	(104)
Change in long-term other assets	(115)	(28)
Change in long-term other liabilities	47	92
 Net cash from operating activities	 5,018	 3,999
 Cash flows from investing activities:		
Acquisitions of property, equipment and businesses	(6,255)	
Capital expenditures	(5,013)	(5,219)
Proceeds from property and equipment divestitures	5,202	316
Purchases of short-term investments		(1,076)
Redemptions of short-term investments		3,419
Redemptions of long-term investments	57	
Other	87	83
 Net cash from investing activities	 (5,922)	 (2,477)
 Cash flows from financing activities:		
Proceeds from borrowings of long-term debt, net of issuance costs	4,158	
Net short-term debt repayments	(1,318)	(1,577)
Long-term debt repayments	(4,265)	
Proceeds from stock option exercises	92	1
Proceeds from issuance of subsidiary units	72	
Dividends paid on common stock	(287)	(259)
Distributions to noncontrolling interests	(187)	

Other	(4)	5
Net cash from financing activities	(1,739)	(1,830)
Effect of exchange rate changes on cash	(15)	(9)
Net change in cash and cash equivalents	(2,658)	(317)
Cash and cash equivalents at beginning of period	6,066	4,637
Cash and cash equivalents at end of period	\$ 3,408	\$ 4,320

See accompanying notes to consolidated financial statements.

Table of Contents**DEVON ENERGY CORPORATION AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	September 30, 2014 (Unaudited)	December 31, 2013
	(In millions, except share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,408	\$ 6,066
Accounts receivable	2,009	1,520
Other current assets	556	419
Total current assets	5,973	8,005
Property and equipment, at cost:		
Oil and gas, based on full-cost accounting:		
Subject to amortization	73,733	73,995
Not subject to amortization	3,642	2,791
Total oil and gas	77,375	76,786
Other	9,204	6,195
Total property and equipment, at cost	86,579	82,981
Less accumulated depreciation, depletion and amortization	(51,410)	(54,534)
Property and equipment, net	35,169	28,447
Goodwill	8,310	5,858
Other long-term assets	1,387	567
Total assets	\$ 50,839	\$ 42,877
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 1,344	\$ 1,229
Revenues and royalties payable	1,455	786
Short-term debt	1,898	4,066
Income taxes payable	651	1
Other current liabilities	646	573
Total current liabilities	5,994	6,655

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Long-term debt	10,161	7,956
Asset retirement obligations	1,348	2,140
Other long-term liabilities	926	834
Deferred income taxes	5,642	4,793
Stockholders' equity:		
Common stock, \$0.10 par value. Authorized 1.0 billion shares; issued 409 million and 406 million shares in 2014 and 2013, respectively	41	41
Additional paid-in capital	4,004	3,780
Retained earnings	17,138	15,410
Accumulated other comprehensive earnings	993	1,268
Total stockholders' equity attributable to Devon	22,176	20,499
Noncontrolling interests	4,592	
Total stockholders' equity	26,768	20,499
Commitments and contingencies (Note 17)		
Total liabilities and stockholders' equity	\$ 50,839	\$ 42,877

See accompanying notes to consolidated financial statements.

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DEVON ENERGY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Shares	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Unaudited) (In millions)	Treasury Stock	Noncontrolling Interests	Total Stockholders' Equity
Nine Months Ended							
September 30, 2014							
Balance as of December 31, 2013	406	\$ 41	\$ 3,780	\$ 15,410	\$ 1,268	\$	\$ 20,499
Net earnings			2,015			55	2,070
Other comprehensive loss, net of tax				(275)			(275)
Stock option exercises	1		92				92
Restricted stock grants, net of cancellations	2						
Common stock repurchased					(6)		(6)
Common stock retired			(6)		6		
Common stock dividends			(287)				(287)
Share-based compensation			120				120
Share-based compensation tax benefits			1				1
Acquisition of noncontrolling interests						4,664	4,664
Subsidiary equity transactions			17			55	72
Distributions to noncontrolling interests						(187)	(187)
Other						5	5
Balance as of September 30, 2014	409	\$ 41	\$ 4,004	\$ 17,138	\$ 993	\$ 4,592	\$ 26,768
Nine Months Ended							
September 30, 2013							
Balance as of December 31, 2012	406	\$ 41	\$ 3,688	\$ 15,778	\$ 1,771	\$	\$ 21,278
Net loss			(227)				(227)
Other comprehensive loss, net of tax				(269)			(269)
Stock option exercises			1				1
Common stock repurchased					(9)		(9)
Common stock retired			(9)		9		
Common stock dividends			(259)				(259)

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Share-based compensation				92					92
Share-based compensation tax benefits				5					5
Balance as of September 30, 2013	406	\$ 41	\$ 3,777	\$ 15,292	\$ 1,502	\$	\$		\$ 20,612

See accompanying notes to consolidated financial statements.

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

1. Summary of Significant Accounting Policies

The accompanying unaudited financial statements and notes of Devon Energy Corporation (Devon) have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission. Pursuant to such rules and regulations, certain disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (U.S.) have been omitted. The accompanying financial statements and notes should be read in conjunction with the financial statements and notes included in Devon 's 2013 Annual Report on Form 10-K.

The accompanying unaudited interim financial statements furnished in this report reflect all adjustments that are, in the opinion of management, necessary for a fair statement of Devon 's results of operations and cash flows for the three-month and nine-month periods ended September 30, 2014 and 2013 and Devon 's financial position as of September 30, 2014.

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Devon and entities in which it holds a controlling interest. All intercompany transactions have been eliminated. Undivided interests in oil and natural gas exploration and production joint ventures are consolidated on a proportionate basis. Investments in non-controlled entities, over which Devon has the ability to exercise significant influence over operating and financial policies, are accounted for using the equity method. In applying the equity method of accounting, the investments are initially recognized at cost and subsequently adjusted for Devon 's proportionate share of earnings, losses and distributions. Investments accounted for using the equity method and cost method are reported as a component of other long-term assets.

As discussed more fully in Note 2, on March 7, 2014, Devon completed a business combination whereby Devon controls both EnLink Midstream Partners, LP (the Partnership) and its general partner entity, EnLink Midstream, LLC (EnLink). Devon controls both the Partnership 's and EnLink 's operations; therefore, the Partnership 's and EnLink 's accounts are included in Devon 's accompanying consolidated financial statements subsequent to the completion of the transaction. The portions of the Partnership 's and EnLink 's net earnings and stockholders ' equity not attributable to Devon 's controlling interest are shown separately as noncontrolling interests in the accompanying consolidated comprehensive statements of earnings and consolidated balance sheets.

Intangible Assets

EnLink 's long-term assets include intangible assets, consisting of customer relationships. These assets are amortized on a straight-line basis over the expected periods of benefits, which range from ten to twenty years.

Recently Issued Accounting Standards Not Yet Adopted

In May 2014, the FASB issued Accounting Standards Update 2014-09, Revenue from Contracts with Customers (Topic 606). The update provides guidance concerning the recognition and measurement of revenue from contracts with customers. Its objective is to increase the usefulness of information in the financial statements regarding the nature, timing and uncertainty of revenues. The update is effective for Devon beginning on January 1, 2017. The standard permits the use of either the retrospective or cumulative effect transition method. Devon has not yet selected a transition method and is evaluating the impact this standard will have on its consolidated financial statements and related disclosures.

2. Acquisitions and Divestitures

Formation of EnLink Midstream, LLC and EnLink Midstream Partners, LP

On March 7, 2014, Devon, Crosstex Energy, Inc. and Crosstex Energy, LP (together with Crosstex Energy, Inc., Crosstex) completed a business combination to combine substantially all of Devon's U.S. midstream assets with Crosstex's assets to form a new midstream business. The new business consists of the Partnership and EnLink, a master limited partnership and a general partner entity, respectively, which are both publicly traded entities.

In exchange for a controlling interest in both EnLink and the Partnership, Devon contributed its equity interest in a newly formed Devon subsidiary, EnLink Midstream Holdings, LP (EnLink Holdings) and \$100 million in cash. EnLink Holdings owns Devon's midstream assets in the Barnett Shale in north Texas and the Cana and Arkoma Woodford Shales in Oklahoma, as well as Devon's economic interest in Gulf Coast Fractionators in Mt. Belvieu, Texas. The Partnership and EnLink each own 50 percent of EnLink Holdings.

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

The ownership of EnLink is approximately:

70% - Devon

30% - Public unitholders

The ownership of the Partnership is approximately:

52% - Devon

41% - Public unitholders

7% - EnLink

This business combination was accounted for using the acquisition method of accounting. Under the acquisition method of accounting, EnLink Holdings was the accounting acquirer because its parent company, Devon, obtained control of EnLink and the Partnership as a result of the business combination. Consequently, EnLink Holdings' assets and liabilities retained their carrying values. Additionally, the Crosstex assets acquired and liabilities assumed by the Partnership and EnLink in the business combination, as well as EnLink's noncontrolling interest in the Partnership, were recorded at their fair values which were measured as of the acquisition date, March 7, 2014. The excess of the purchase price over the estimated fair values of Crosstex's net assets acquired was recorded as goodwill.

The following table summarizes the purchase price (in millions, except unit price).

Crosstex Energy, Inc. outstanding common shares:	
Held by public shareholders	48.0
Restricted shares	0.4
Total subject to conversion	48.4
Exchange ratio	1.0x
Converted shares	48.4
Crosstex Energy, Inc. common share price ⁽¹⁾	\$ 37.60

Crosstex Energy, Inc. consideration	\$ 1,823
Fair value of noncontrolling interests in E2 ⁽²⁾	\$ 12
Total Crosstex Energy, Inc. consideration and fair value of noncontrolling interests	\$ 1,835
Partnership outstanding units:	
Common units held by public unitholders	75.1
Preferred units held by third party ⁽³⁾	17.1
Restricted units	0.4
Total	92.6
Partnership common unit price ⁽⁴⁾	\$ 30.51
Partnership common units value	\$ 2,825
Partnership outstanding unit options value	\$ 4
Total fair value of noncontrolling interests in the Partnership ⁽⁴⁾	\$ 2,829
Total consideration and fair value of noncontrolling interests	\$ 4,664

Table of Contents**DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

- (1) The final purchase price is based on the fair value of Crosstex Energy Inc.'s common shares as of the closing date, March 7, 2014.
- (2) Represents the value of noncontrolling interests related to EnLink's equity investment in E2 Energy Services, LLC and E2 Appalachian Compression, LLC (collectively "E2").
- (3) The Partnership converted the preferred units to common units in February 2014.
- (4) The final purchase price is based on the fair value of the Partnership's common shares as of the closing date, March 7, 2014.

The preliminary allocation of the purchase price is as follows (in millions):

Assets acquired:	
Current assets	\$ 438
Property, plant and equipment, net	2,438
Intangible assets	547
Equity investment	222
Goodwill ⁽¹⁾	3,292
Other long term assets	1
Liabilities assumed:	
Current liabilities	(516)
Long-term debt	(1,454)
Deferred income taxes	(203)
Other long-term liabilities	(101)
Total consideration and fair value of noncontrolling interests	\$ 4,664

- (1) Goodwill is the excess of the consideration transferred over the net assets recognized and represents the future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill is not amortized and is not deductible for tax purposes.

GeoSouthern Energy Acquisition

On November 20, 2013, Devon entered into a Purchase and Sale Agreement with GeoSouthern Energy Corporation ("GeoSouthern") and a wholly owned subsidiary of GeoSouthern to acquire GeoSouthern's interests in certain affiliates (the "Acquired Companies") that own certain oil and gas properties, leasehold mineral interest and related assets located in the Eagle Ford Shale. On February 28, 2014, the GeoSouthern acquisition closed, and GeoSouthern transferred the Acquired Companies to Devon in exchange for the aggregate purchase price of approximately \$6.0 billion. Devon

funded the acquisition price with cash on hand and debt financing. In connection with the GeoSouthern acquisition, Devon acquired approximately 82,000 net acres located in DeWitt and Lavaca counties in south Texas. The transaction was accounted for using the acquisition method, which requires, among other things, that assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The following table summarizes the preliminary allocation of the purchase price to the assets acquired and liabilities assumed in the transaction (in millions).

Cash and cash equivalents	\$ 95
Other current assets	256
Proved properties	5,029
Unproved properties	1,008
Midstream assets	85
Current liabilities	(437)
Long-term liabilities	(6)
Net assets acquired	\$ 6,030

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

EnLink and GeoSouthern Operating Results

The following table presents EnLink's (acquired Crosstex operations) and GeoSouthern's operating revenues and net earnings included in Devon's consolidated statements of earnings subsequent to the transactions described above.

	Three Months Ended September 30, 2014		Nine Months Ended September 30, 2014	
	GeoSouthern (In millions)	EnLink (In millions)	GeoSouthern (In millions)	EnLink (In millions)
Total operating revenues	\$ 634	\$ 700	\$ 1,374	\$ 1,670
Total operating expenses	322	692	708	1,654
Operating income	\$ 312	\$ 8	\$ 666	\$ 16

Pro Forma Financial Information

The following unaudited pro forma financial information has been prepared assuming both the EnLink formation and the GeoSouthern acquisition occurred on January 1, 2013. The pro forma information is not intended to reflect the actual results of operations that would have occurred if the business combination and acquisition had been completed at the dates indicated. In addition, they do not project Devon's results of operations for any future period.

	Nine Months Ended September 30, 2014 2013	
	(In millions)	
Total operating revenues	\$ 14,218	\$ 9,603
Net earnings (loss)	\$ 2,109	\$ (192)
Noncontrolling interests	\$ 68	\$ 32
Net earnings (loss) attributable to Devon	\$ 2,041	\$ (224)
Net earnings (loss) per common share attributable to Devon	\$ 4.98	\$ (0.55)

Partnership Acquisitions and Dropdowns

Effective November 1, 2014, the Partnership acquired Gulf Coast natural pipeline assets predominantly located in southern Louisiana for \$235 million, subject to certain adjustments. Furthermore, in October 2014, the Partnership acquired equity interests in E2 Appalachian Compression, LLC and E2 Energy Services, LLC (together "E2") from EnLink. The total consideration for the transaction was approximately \$193 million, including a \$163 million cash payment and 1.0 million Partnership units valued at \$30 million based on the fair value of the Partnership's units as of the closing date of the transaction.

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DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Non-Core Asset Divestitures

In November 2013, Devon announced plans to divest certain non-core properties located throughout Canada and the U.S.

Canada

In the first quarter of 2014, Devon completed minor divestiture transactions for \$142 million (\$155 million Canadian dollars). In the second quarter of 2014, Devon sold conventional assets to Canadian Natural Resources Limited for \$2.8 billion (\$3.125 billion Canadian dollars).

Under full-cost accounting rules, sales or dispositions of oil and gas properties are generally accounted for as adjustments to capitalized costs, with no recognition of gain or loss. However, if not recognizing a gain or loss on the disposition would otherwise significantly alter the relationship between a cost center's capitalized costs and proved reserves, then a gain or loss must be recognized. The Canadian divestitures significantly altered such relationship. Therefore, Devon recognized gains totaling \$1.1 billion (\$0.6 billion after-tax) in 2014 associated with these transactions. These gains are included as a separate item in the accompanying consolidated comprehensive statements of earnings.

Included in the gain calculation noted above were asset retirement obligations of approximately \$700 million assumed by the purchaser as well as the derecognition of approximately \$700 million of goodwill allocated to the sold assets.

In conjunction with the divestitures noted above, Devon repatriated approximately \$2.8 billion of proceeds to the U.S. in the second quarter of 2014. The proceeds were used to repay \$0.7 billion of commercial paper and the \$2.0 billion term loans that were drawn in the first quarter of 2014 to fund a portion of the GeoSouthern acquisition. Between collecting the divestiture proceeds and repatriating funds to the U.S., Devon recognized an \$84 million foreign currency exchange loss and a \$29 million foreign currency derivative loss. These losses are included in other nonoperating items in the accompanying consolidated comprehensive statements of earnings.

U.S.

On August 29, 2014, Devon sold its U.S. non-core assets to LINN Energy for \$2.3 billion (\$1.7 billion after-tax proceeds). Additionally, approximately \$200 million of asset retirement obligations were assumed by LINN Energy. No gain or loss was recognized on the sale.

3. Derivative Financial Instruments

Objectives and Strategies

Devon periodically enters into derivative financial instruments with respect to a portion of its oil, gas and NGL production. These instruments are used to manage the inherent uncertainty of future revenues due to commodity price volatility and typically include financial price swaps, basis swaps, costless price collars and call options. Devon periodically enters into interest rate swaps to manage its exposure to interest rate volatility. Devon periodically enters into foreign exchange forward contracts to manage its exposure to fluctuations in exchange rates. Additionally, EnLink manages its exposure to fluctuations in commodity prices by hedging the impact of market fluctuations.

Devon does not intend to hold or issue derivative financial instruments for speculative trading purposes and has elected not to designate any of its derivative instruments for hedge accounting treatment.

Counterparty Credit Risk

By using derivative financial instruments, Devon is exposed to credit 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 placed with a number of counterparties whom Devon believes are acceptable credit risks. It is Devon's policy to enter into derivative contracts only with investment grade rated counterparties deemed by management to be competent and competitive market makers. Additionally, Devon's derivative contracts contain provisions that provide for collateral payments, depending on levels of exposure and the credit rating of the counterparty.

Table of Contents**DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

As of September 30, 2014, Devon held \$31 million of cash collateral which represented the estimated fair value of certain derivative positions in excess of Devon's credit guidelines. The collateral is reported in other current liabilities in the accompanying balance sheet.

Commodity Derivatives

As of September 30, 2014, Devon had the following open oil derivative positions. The first table presents Devon's oil derivatives that settle against the average of the prompt month NYMEX West Texas Intermediate futures price. The second table presents Devon's oil derivatives that settle against the Western Canadian Select index.

Period	Price Swaps		Price Collars			Call Options Sold	
	Volume (Bbls/d)	Weighted	Volume (Bbls/d)	Weighted	Weighted	Volume (Bbls/d)	Weighted
		Average Price (\$/Bbl)		Average Floor Price (\$/Bbl)			Average Ceiling Price (\$/Bbl)
Q4 2014	75,000	\$ 94.14	64,750	\$ 89.33	\$ 100.00	42,000	\$ 116.43
Q1-Q4 2015	106,736	\$ 91.22	31,500	\$ 89.67	\$ 97.84	28,000	\$ 116.43
Q1-Q4 2016		\$		\$	\$	18,500	\$ 103.11

Period	Oil Basis Swaps			Weighted Average Differential to WTI (\$/Bbl)
	Index	Volume (Bbls/d)		
Q4 2014	Western Canadian Select	50,000		\$ (17.40)
Q1-Q4 2015	Western Canadian Select	14,890		\$ (18.92)

As of September 30, 2014, Devon had the following open natural gas derivative positions. The first table presents Devon's natural gas derivatives that settle against the Inside FERC first of the month Henry Hub index. The second table presents Devon's natural gas derivatives that settle against the AECO and PEPL indices.

Period	Price Swaps		Price Collars			Call Options Sold	
	Volume (MMBtu/d)	Weighted	Volume (MMBtu/d)	Weighted	Weighted	Volume (MMBtu/d)	Weighted
		Average Price (\$/MMBtu)		Average Floor Price			Average Ceiling Price

					(\$/MMBtu)	(\$/MMBtu)					
Q4 2014	800,000	\$	4.42	460,000	\$	4.03	\$	4.51	500,000	\$	5.00
Q1-Q4 2015	210,000	\$	4.38	260,000	\$	4.05	\$	4.36	550,000	\$	5.09
Q1-Q4 2016		\$			\$		\$		400,000	\$	5.00

Period	Index	Volume (MMBtu/d)	Natural Gas Basis Swaps	
			Weighted Average Differential to Henry Hub (\$/MMBtu)	
Q4 2014	AECO	94,781	\$	(0.52)
Q1-Q4 2015	PEPL	100,000	\$	(0.28)

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

Interest Rate Derivatives

As of September 30, 2014, Devon had the following open interest rate derivative positions:

Notional (In millions)	Rate Received	Rate Paid	Expiration
\$ 100	Three Month LIBOR	0.92%	December 2016
\$ 100	1.76%	Three Month LIBOR	January 2019

Foreign Currency Derivatives

As of September 30, 2014, Devon had the following open foreign currency derivative positions:

Currency	Contract Type	Forward Contract		Expiration
		CAD Notional (In millions)	Weighted Average Fixed Rate Received (CAD-USD)	
Canadian Dollar	Sell	\$ 1,312	0.899	December 2014

Financial Statement Presentation

The following table presents the net gains and losses recognized in the accompanying comprehensive statements of earnings associated with derivative financial instruments.

	Comprehensive Statements of Earnings Caption	Three Months Ended / Nine Months Ended			
		September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
		(In millions)			
Commodity derivatives	Oil, gas and NGL derivatives	\$ 748	\$ (141)	\$ 29	\$ (95)
EnLink commodity derivatives	Marketing and midstream revenues	1		(2)	
Interest rate derivatives	Other nonoperating items		1	1	1
Foreign currency derivatives	Other nonoperating items	55	(28)	15	29
Net gains (losses) recognized in comprehensive statements of earnings		\$ 804	\$ (168)	\$ 43	\$ (65)

The following table presents the derivative fair values included in the accompanying balance sheets.

	Balance Sheet Caption	September 30, December 31,	
		2014	2013
(In millions)			
Asset derivatives:			
Commodity derivatives	Other current assets	\$ 231	\$ 75
Commodity derivatives	Other long-term assets	66	28
EnLink commodity derivatives	Other current assets	1	
Interest rate derivatives	Other current assets	1	
Foreign currency derivatives	Other current assets	11	
Total asset derivatives		\$ 310	\$ 103

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	Balance Sheet Caption	September 30, December 31,	
		2014	2013
(In millions)			
Liability derivatives:			
Commodity derivatives	Other current liabilities	\$ 30	\$ 58
Commodity derivatives	Other long-term liabilities	50	62
EnLink commodity derivatives	Other current liabilities	1	
EnLink commodity derivatives	Other long-term liabilities	1	
Interest rate derivatives	Other current liabilities	1	
Interest rate derivatives	Other long-term liabilities	1	
Foreign currency derivatives	Other current liabilities		1
Total liability derivatives		\$ 84	\$ 121

4. Share-Based Compensation

The following table presents the effects of share-based compensation included in Devon's accompanying comprehensive statements of earnings. Devon's gross general and administrative expense for the first nine months of 2014 includes \$11 million of unit-based compensation related to grants made under EnLink's long-term incentive plans.

The vesting for certain share-based awards was accelerated in the first quarter of 2014 in conjunction with the divestiture of Devon's Canadian conventional assets. The associated expense for these accelerated awards is included in restructuring costs in the accompanying comprehensive statements of earnings. See Note 6 for further details.

	Nine Months Ended	
	September 30, 2014	September 30, 2013
(In millions)		
Gross general and administrative expense	\$ 155	\$ 118
Share-based compensation expense capitalized pursuant to the full-cost method of accounting for oil and gas properties	\$ 40	\$ 44
Related income tax benefit	\$ 20	\$ 17

Under its 2009 Long-Term Incentive Plan, as amended, Devon granted share-based awards to certain employees in the first nine months of 2014. The following sections include information related to these awards.

Restricted Stock Awards and Units

The following table presents a summary of Devon's unvested restricted stock awards and units.

	Restricted Stock Award & Units (In thousands)	Weighted Average Grant-Date Fair Value
Unvested at December 31, 2013	3,292	\$ 59.76
Granted	3,412	\$ 63.53
Vested	(558)	\$ 60.65
Forfeited	(607)	\$ 60.96
Unvested at September 30, 2014	5,539	\$ 61.73

As of September 30, 2014, Devon's unrecognized compensation cost related to unvested restricted stock awards and units was \$225 million. Such cost is expected to be recognized over a weighted-average period of 2.4 years.

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Performance Based Restricted Stock Awards

The following table presents a summary of Devon's performance based restricted stock awards.

	Performance Restricted Stock Awards (In thousands)	Weighted Average Grant-Date Fair Value
Unvested at December 31, 2013	316	\$ 56.25
Granted	234	\$ 61.33
Vested	(75)	\$ 53.45
Unvested at September 30, 2014	475	\$ 59.20

As of September 30, 2014, Devon's unrecognized compensation cost related to these awards was \$7 million. Such cost is expected to be recognized over a weighted-average period of 1.4 years.

Performance Share Units

The following table presents a summary of the grant-date fair values of performance share units granted in 2014 and the related assumptions.

	2014
Grant-date fair value	\$ 70.18 - \$81.05
Risk-free interest rate	0.54%
Volatility factor	28.8%
Contractual term (in years)	2.89

The following table presents a summary of Devon's performance share units.

	Weighted Average Grant-Date Fair Value
Performance Share Units	

	(In thousands)	
Unvested at December 31, 2013	925	\$ 66.64
Granted	708	\$ 77.77
Forfeited	(147)	\$ 77.25
Unvested at September 30, 2014 ⁽¹⁾	1,486	\$ 70.89

(1) A maximum of 3.0 million common shares could be awarded based upon Devon's final total shareholder return ranking.

As of September 30, 2014, Devon's unrecognized compensation cost related to unvested units was \$40 million. Such cost is expected to be recognized over a weighted-average period of 1.6 years.

5. Asset Impairments

In the first nine months of 2013, Devon recognized asset impairments related to its oil and gas property and equipment as presented below.

	Nine Months Ended September 30, 2013	
	Gross	Net of Taxes
	(In millions)	
U.S. oil and gas assets	\$ 1,110	\$ 707
Canada oil and gas assets	843	632
Midstream assets	7	4
Total asset impairments	\$ 1,960	\$ 1,343

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(Unaudited)

Oil and Gas Impairments

Under the full-cost method of accounting, capitalized costs of oil and gas properties, net of accumulated DD&A and deferred income taxes, may not exceed the full-cost ceiling at the end of each quarter. The ceiling is calculated separately for each country and is based on the present value of estimated future net cash flows from proved oil and gas reserves, discounted at 10 percent per annum, net of related tax effects. Estimated future net cash flows are calculated using end-of-period costs and an unweighted arithmetic average of commodity prices in effect on the first day of each of the previous 12 months.

The oil and gas impairments resulted primarily from declines in the U.S. and Canada full-cost ceilings. The lower ceiling values resulted primarily from decreases in the 12-month average trailing prices for oil, bitumen and NGLs, which reduced proved reserve values.

Midstream Impairments

In the third quarter of 2013, Devon determined that the carrying amounts of certain midstream facilities located in south and east Texas were not recoverable from estimated future cash flows due to declining natural gas production. Consequently, the assets were written down to their estimated fair values, which were determined using discounted cash flow models. The fair value of Devon's midstream assets is considered a Level 3 fair value measurement.

6. Restructuring Costs

Canadian Divestitures

In the first nine months of 2014, Devon recognized \$44 million of employee related and other costs associated with its Canadian non-core asset divestitures. Approximately \$15 million of the employee related costs resulted from accelerated vesting of share-based grants, which are non-cash charges.

Office Consolidation

In October 2012, Devon announced plans to consolidate its U.S. personnel into a single operations group centrally located at the company's headquarters in Oklahoma City. As of December 31, 2013, Devon had completed this initiative and incurred \$134 million of restructuring costs associated with the office consolidation.

Financial Statement Presentation

The schedule below summarizes restructuring costs presented in the accompanying comprehensive statements of earnings related to the Canadian divestitures and office consolidation.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(In millions)			
Canada divestitures:				
Employee related and other costs	\$ 2	\$	\$ 44	\$
Office consolidation:				
Lease obligations and other		4		50
Restructuring costs	\$ 2	\$ 4	\$ 44	\$ 50

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

The schedule below summarizes Devon's restructuring liabilities.

	Other Current Liabilities	Other Long-Term Liabilities (In millions)	Total
Balance as of December 31, 2013	\$ 27	\$ 18	\$ 45
Changes due to Canadian divestitures	2	2	4
Changes due to office consolidation	(22)	(1)	(23)
Changes due to offshore divestiture	(2)	(1)	(3)
Balance as September 30, 2014	\$ 5	\$ 18	\$ 23
Balance as of December 31, 2012	\$ 52	\$ 9	\$ 61
Changes due to office consolidation	(16)	11	(5)
Changes due to offshore divestiture	(2)	(1)	(3)
Balance as of September 30, 2013	\$ 34	\$ 19	\$ 53

7. Income Taxes

The following table presents Devon's total income tax expense (benefit) and a reconciliation of its effective income tax rate to the U.S. statutory income tax rate.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Total income tax expense (benefit) (in millions)	\$ 613	\$ 210	\$ 1,698	\$ (99)
U.S. statutory income tax rate	35%	35%	35%	(35%)
Repatriations			7%	
State income taxes	2%	1%	1%	(3%)
Taxation on Canadian operations		(5%)	1%	9%
Taxes on EnLink formation			1%	

Other		2%		(1%)
Effective income tax rate	37%	33%	45%	(30%)

In the third quarter of 2014, Devon completed its U.S. non-core asset divestiture program. In conjunction with the divestiture closing, Devon recognized \$543 million of current income tax expense. The current tax expense was entirely offset by the recognition of deferred tax benefits.

In the second quarter of 2014, Devon recognized \$247 million of additional income tax expense related to the \$2.8 billion of repatriations to the U.S. Prior to the repatriation, Devon had recognized a \$143 million deferred income tax liability associated with the planned repatriation. When the repatriation was made, Devon retained a larger property basis in Canada than was previously estimated, resulting in the incremental tax in the second quarter.

In the first quarter of 2014, Devon recorded a \$48 million deferred tax liability in conjunction with the formation of EnLink, which impacted the effective tax rate as reflected in the table above.

In the second quarter of 2013, Devon repatriated to the U.S. \$2.0 billion of cash from its foreign subsidiaries. In conjunction with the repatriation, Devon recognized approximately \$100 million of current income tax expense. The current expense was entirely offset by the recognition of deferred income tax benefits, which included the reduction of the deferred tax liability previously recognized for unremitted foreign earnings deemed not to be indefinitely reinvested.

Table of Contents**DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****8. Earnings (Loss) Per Share Attributable to Devon**

The following table reconciles net earnings (loss) attributable to Devon and common shares outstanding used in the calculations of basic and diluted earnings per share.

	Earnings (loss)	Common Shares	Earnings (loss) per Share
	(In millions, except per share amounts)		
Three Months Ended September 30, 2014:			
Net earnings attributable to Devon	\$ 1,016	409	
Attributable to participating securities	(11)	(4)	
Basic earnings per share	1,005	405	\$ 2.48
Dilutive effect of potential common shares issuable		2	
Diluted earnings per share	\$ 1,005	407	\$ 2.47
Three Months Ended September 30, 2013:			
Net earnings attributable to Devon	\$ 429	406	
Attributable to participating securities	(4)	(4)	
Basic earnings per share	425	402	\$ 1.06
Dilutive effect of potential common shares issuable		1	
Diluted earnings per share	\$ 425	403	\$ 1.05
Nine Months Ended September 30, 2014:			
Net earnings attributable to Devon	\$ 2,015	408	
Attributable to participating securities	(20)	(4)	
Basic earnings per share	1,995	404	\$ 4.94
Dilutive effect of potential common shares issuable		2	
Diluted earnings per share	\$ 1,995	406	\$ 4.91

Nine Months Ended September 30, 2013:			
Net loss attributable to Devon	\$ (227)	406	
Attributable to participating securities	(2)	(4)	
Basic loss per share	(229)	402	\$ (0.57)
Dilutive effect of potential common shares issuable			
Diluted loss per share	\$ (229)	402	\$ (0.57)

Certain options to purchase shares of Devon's common stock are excluded from the dilution calculation because the options are antidilutive. During the three-month and nine-month periods ended September 30, 2014, 1.1 million shares and 3.2 million shares, respectively, were excluded from the diluted earnings per share calculations. During the three-month and nine-month periods ended September 30, 2013, 7.5 million shares and 7.6 million shares, respectively, were excluded from the diluted earnings per share calculations.

Table of Contents**DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****9. Other Comprehensive Earnings**

Components of other comprehensive earnings consist of the following:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(In millions)			
Foreign currency translation:				
Beginning accumulated foreign currency translation	\$ 1,442	\$ 1,542	\$ 1,448	\$ 1,996
Change in cumulative translation adjustment	(299)	182	(306)	(294)
Income tax benefit (expense)	20	(9)	21	13
Ending accumulated foreign currency translation	1,163	1,715	1,163	1,715
Pension and postretirement benefit plans:				
Beginning accumulated pension and postretirement benefits	(172)	(216)	(180)	(225)
Recognition of net actuarial loss and prior service cost in earnings ⁽¹⁾	4	6	15	18
Income tax expense	(2)	(3)	(5)	(6)
Ending accumulated pension and postretirement benefits	(170)	(213)	(170)	(213)
Accumulated other comprehensive earnings, net of tax	\$ 993	\$ 1,502	\$ 993	\$ 1,502

- (1) These accumulated other comprehensive earnings components are included in the computation of net periodic benefit cost, which is a component of general and administrative expenses on the accompanying comprehensive statements of earnings (see Note 15 for additional details).

10. Supplemental Information to Statements of Cash Flows

Nine Months Ended
September 30,
2014 2013
(In millions)

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Net change in working capital accounts:		
Accounts receivable	\$ (25)	\$ (287)
Other current assets	(120)	72
Accounts payable	(118)	127
Income taxes payable	704	7
Revenues and royalties payable	381	56
Other current liabilities	(56)	(79)
Net change in working capital	\$ 766	\$ (104)
Interest paid (net of capitalized interest)	\$ 355	\$ 342
Income taxes paid (received)	\$ 214	\$ (2)

On March 7, 2014, Devon completed a business combination to form EnLink. With the exception of a \$100 million cash payment to noncontrolling interests, the business combination was a non-monetary transaction. See Note 2 for additional details.

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DEVON ENERGY CORPORATION AND SUBSIDIARIES
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(Unaudited)

11. Accounts Receivable

The components of accounts receivable include the following:

	September 30, 2014	December 31, 2013
	(In millions)	
Oil, gas and NGL sales	\$ 899	\$ 851
Joint interest billings	393	447
Marketing and midstream revenues	674	172
Other	54	61
Gross accounts receivable	2,020	1,531
Allowance for doubtful accounts	(11)	(11)
Net accounts receivable	\$ 2,009	\$ 1,520

12. Goodwill

The table below provides a summary of Devon's goodwill, by assigned reporting unit.

	September 30, 2014	December 31, 2013
	(In millions)	
U.S.	\$ 2,618	\$ 2,618
Canada	1,997	2,838
EnLink	3,695	402
Total	\$ 8,310	\$ 5,858

The changes to Devon's goodwill during the first nine months of 2014 relate to both EnLink and Canada. Included in the assets Devon contributed to EnLink Holdings was \$402 million of goodwill. The additional EnLink goodwill of \$3.3 billion represents the goodwill recognized on the EnLink transaction described in Note 2.

The decrease in Devon's Canadian goodwill was primarily due to goodwill that was derecognized upon the asset divestitures described in Note 2.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

13. Debt

	September 30, 2014	December 31, 2013
	(In millions)	
Devon debt		
Commercial paper	\$	\$ 1,317
5.625% due January 15, 2014		500
Floating rate due December 15, 2015	500	500
2.40% due July 15, 2016	500	500
Floating rate due December 15, 2016	350	350
1.20% due December 15, 2016	650	650
1.875% due May 15, 2017	750	750
8.25% due July 1, 2018	125	125
2.25% due December 15, 2018	750	750
6.30% due January 15, 2019	700	700
4.00% due July 15, 2021	500	500
3.25% due May 15, 2022	1,000	1,000
7.50% due September 15, 2027	150	150
7.875% due September 30, 2031	1,250	1,250
7.95% due April 15, 2032	1,000	1,000
5.60% due July 15, 2041	1,250	1,250
4.75% due May 15, 2042	750	750
Net discount on debentures and notes	(20)	(20)
Total Devon debt	10,205	12,022
EnLink debt		
Credit facilities	451	
Other borrowings	27	
2.70% due April 1, 2019	400	
7.125% due June 1, 2022	163	
4.40% due April 1, 2024	450	
5.60% due April 1, 2044	350	
Net premium on debentures and notes	13	
Total EnLink debt	1,854	

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Total debt	12,059	12,022
Less amount classified as short-term debt ⁽¹⁾	1,898	4,066
Total long-term debt	\$ 10,161	\$ 7,956

(1) Short-term debt as of September 30, 2014 consists of \$1.9 billion of senior notes that Devon intends to redeem in the fourth quarter of 2014 prior to their scheduled maturity date. The redemption includes the 2.4% \$500 million senior note due 2016, the 1.2% \$650 million senior note due 2016 and the 1.875% \$750 million senior note due 2017 plus unpaid interest and a make-whole premium. The debt will be repaid with funds received as part of the divestiture program discussed in Note 2.

Short-term debt as of December 31, 2013 consists of \$2.25 billion of senior notes issued in conjunction with the GeoSouthern acquisition, \$1.3 billion of commercial paper and \$500 million of senior notes due January 15, 2014. Subsequent to the close of the GeoSouthern acquisition the \$2.25 billion of senior notes were reclassified to long-term debt.

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

Commercial Paper

During the nine months ended September 30, 2014, Devon has reduced commercial paper borrowings by \$1.3 billion primarily utilizing divestiture proceeds. As of September 30, 2014, Devon had no outstanding commercial paper borrowings.

Credit Lines

Devon has a \$3.0 billion syndicated, unsecured revolving line of credit (the Senior Credit Facility). As of September 30, 2014, there were no borrowings under the Senior Credit Facility. The Senior Credit Facility contains only one material financial covenant. This covenant requires Devon's ratio of total funded debt to total capitalization, as defined in the credit agreement, to be no greater than 65 percent. As of September 30, 2014, Devon was in compliance with this covenant with a debt-to-capitalization ratio of 22.7 percent.

Term Loans

In December 2013, in conjunction with the GeoSouthern acquisition, Devon entered into a term loan agreement with a group of major financial institutions. In February 2014, Devon drew \$2.0 billion of term loans to finance, in part, the GeoSouthern acquisition and to pay transaction costs. The term loans were repaid on June 30, 2014 with the Canadian divestiture proceeds that were repatriated to the U.S.

EnLink Debt

The table below summarizes the fair value of EnLink's debt as of March 7, 2014, the formation date of EnLink. The premiums are being amortized using the effective interest method. EnLink's debt is non-recourse to Devon.

	March 7, 2014 Fair Value of Debt (In millions)	Effective Rate of Debt
8.875% due February 15, 2018 (principal of \$725 million) ⁽¹⁾	\$ 760	7.7%
7.125% due June 1, 2022 (principal of \$197 million)	226	5.3%
Credit facilities	468	
Total long-term debt	\$ 1,454	

(1) The 2018 senior notes were redeemed on April 18, 2014.

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(Unaudited)

The Partnership has a \$1.0 billion unsecured revolving credit facility, which includes a \$500 million letter of credit subfacility. As of September 30, 2014, there were \$14.0 million in outstanding letters of credit and \$371.0 million outstanding borrowings under the \$1.0 billion credit facility, leaving \$615.0 million available for future borrowing.

The \$1.0 billion credit facility will mature on the fifth anniversary of the initial funding date, which was March 7, 2014, unless EnLink requests, and the requisite lenders agree, to extend it pursuant to its terms. The credit facility contains certain financial, operational and legal covenants. Among other things, these covenants include maintaining a ratio of consolidated indebtedness to EnLink's consolidated EBITDA (as defined in the credit facility, which definition includes projected EnLink EBITDA from certain capital expansion projects) of no more than 5.0 to 1.0. If EnLink consummates one or more acquisitions in which the aggregate purchase price is \$50 million or more, the maximum allowed ratio of consolidated indebtedness to EnLink's consolidated EBITDA will increase to 5.5 to 1.0 for the quarter of the acquisition and the three following quarters.

EnLink also has a \$250 million revolving credit facility, which includes a \$125 million letter of credit subfacility, as well as an additional credit agreement in association with E2 Energy Services LLC under which EnLink can borrow up to \$30 million. As of September 30, 2014, EnLink's outstanding borrowings under the \$250 million credit facility were \$81 million and \$26 million in association with the E2 Energy Services LLC credit agreement. Additionally, as of September 30, 2014, E2 Services had certain promissory notes outstanding related to its vehicle fleet in the amount of \$0.4 million due in increments through July 2017.

The \$250 million credit facility will mature on March 7, 2019. The credit facility contains certain financial, operational and legal covenants. The financial covenants will be tested on a quarterly basis, based on the rolling four-quarter period that ends on the last day of each fiscal quarter, and include (i) maintaining a maximum consolidated leverage ratio (as defined in the credit facility, but generally computed as the ratio of consolidated funded indebtedness to consolidated earnings before interest, taxes, depreciation, amortization and certain other non-cash charges) of 4.00 to 1.00, provided that the maximum consolidated leverage ratio is 4.50 to 1.00 during an acquisition period (as defined in the credit facility) and (ii) maintaining a minimum consolidated interest coverage ratio (as defined in the credit facility, but generally computed as the ratio of consolidated earnings before interest, taxes, depreciation, amortization and certain other non-cash charges to consolidated interest charges) of 2.50 to 1.00 at all times prior to the occurrence of an investment grade event (as defined in the credit facility).

14. Asset Retirement Obligations

The schedule below summarizes changes in Devon's asset retirement obligations.

**Nine Months Ended
September 30,**

	2014	2013
	(In millions)	
Asset retirement obligations as of beginning of period	\$ 2,228	\$ 2,095
Liabilities incurred	79	88
Liabilities settled	(38)	(46)
Revision of estimated obligation	75	104
Liabilities assumed by others	(949)	(15)
Accretion expense on discounted obligation	70	86
Foreign currency translation adjustment	(55)	(44)
Asset retirement obligations as of end of period	1,410	2,268
Less current portion	62	107
Asset retirement obligations, long-term	\$ 1,348	\$ 2,161

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During the first nine months of 2014, Devon reduced its asset retirement obligations \$949 million for those obligations that were assumed by the purchasers of Devon's Canadian and U.S. non-core oil and gas properties.

15. Retirement Plans

The following table presents the components of net periodic benefit cost for Devon's pension and postretirement benefit plans.

	Pension Benefits				Postretirement Benefits			
	Three Months Ended		Three Months Ended		Three Months Ended		Three Months Ended	
	September	September	September	September	September	September	September	September
	30,	30,	30,	30,	30,	30,	30,	30,
	2014	2013	2014	2013	2014	2013	2014	2013
	(In millions)							
Service cost	\$ 7	\$ 9	\$ 22	\$ 27	\$	\$	\$	\$
Interest cost	14	13	41	39				1
Expected return on plan assets	(13)	(16)	(40)	(47)				
Amortization of prior service cost ⁽¹⁾	1	1	3	3	(1)		(1)	
Net actuarial loss (gain) ⁽¹⁾	4	5	14	16			(1)	(1)
Net periodic benefit cost ⁽²⁾	\$ 13	\$ 12	\$ 40	\$ 38	\$ (1)	\$	\$ (2)	\$

(1) These net periodic benefit costs were reclassified out of other comprehensive earnings in the current period.

(2) Net periodic benefit cost is a component of general and administrative expenses on the accompanying comprehensive statements of earnings.

16. Stockholders' Equity***Dividends***

Devon paid common stock dividends of \$287 million and \$259 million in the first nine months of 2014 and 2013, respectively. The quarterly cash dividend was \$0.20 per share in the first quarter of 2013. Devon increased the dividend rate to \$0.22 per share in the second quarter of 2013 and to \$0.24 per share in the second quarter of 2014.

Subsidiary equity transactions

In May 2014, the Partnership entered into an Equity Distribution Agreement (the EDA) with BMO Capital Markets Corp. (BMO). Pursuant to the terms of the EDA, the Partnership may from time to time through BMO, as its sales agent, sell common units representing limited partner interests having an aggregate offering price of up to \$75 million.

Through September 30, 2014, the Partnership sold an aggregate of 2.4 million common units under the EDA, generating net proceeds of approximately \$72 million. The Partnership used the net proceeds for general partnership purposes, including working capital, capital expenditures and repayments of indebtedness.

Distributions to noncontrolling interests

In conjunction with the formation of EnLink in the first quarter of 2014, Devon made a payment of \$100 million to noncontrolling interests. Further, EnLink distributed \$87 million to its non-Devon unitholders during the first nine months of 2014.

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DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

17. 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. Actual amounts could differ materially from management's estimates.

Royalty Matters

Numerous oil and natural gas producers and related parties, including Devon, have been named in various lawsuits alleging royalty underpayments. The suits allege that the producers and related parties used below-market prices, made improper deductions, used improper measurement techniques and entered into gas purchase and processing arrangements with affiliates that resulted in underpayment of royalties in connection with oil, natural gas and NGLs produced and sold. Devon does not currently believe that it is subject to material exposure with respect to such royalty matters.

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 and similar state statutes. In response to liabilities associated with these activities, loss accruals primarily consist of estimated uninsured remediation costs. Devon's monetary exposure for environmental matters is not expected to be material.

Other Matters

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

18. Fair Value Measurements

The following tables provide carrying value and fair value measurement information for certain of Devon's financial assets and liabilities. The carrying values of cash, accounts receivable, other current receivables, accounts payable, other current payables and accrued expenses included in the accompanying balance sheets approximated fair value at September 30, 2014 and December 31, 2013. Therefore, such financial assets and liabilities are not presented in the following tables.

	Carrying Amount	Total Fair Value	Fair Value Measurements Using:		
			Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
(In millions)					
September 30, 2014 assets (liabilities):					
Cash equivalents	\$ 2,876	\$ 2,876	\$ 1,745	\$ 1,131	\$
Commodity derivatives	\$ 297	\$ 297	\$	\$ 297	\$
Commodity derivatives	\$ (80)	\$ (80)	\$	\$ (80)	\$
EnLink commodity derivatives	\$ 1	\$ 1	\$	\$ 1	\$
EnLink commodity derivatives	\$ (2)	\$ (2)	\$	\$ (2)	\$
Interest rate derivatives	\$ 1	\$ 1	\$	\$ 1	\$
Interest rate derivatives	\$ (2)	\$ (2)	\$	\$ (2)	\$
Foreign currency derivatives	\$ 11	\$ 11	\$	\$ 11	\$
Debt	\$ (12,059)	\$ (13,410)	\$	\$ (13,410)	\$
Capital lease obligations	\$ (21)	\$ (21)	\$	\$ (21)	\$

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DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	Carrying Amount	Total Fair Value	Fair Value Measurements Using:		
			Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
(In millions)					
December 31, 2013 assets (liabilities):					
Cash equivalents	\$ 5,305	\$ 5,305	\$ 4,191	\$ 1,114	\$
Long-term investments	\$ 62	\$ 62	\$	\$	\$ 62
Commodity derivatives	\$ 103	\$ 103	\$	\$ 103	\$
Commodity derivatives	\$ (120)	\$ (120)	\$	\$ (120)	\$
Foreign currency derivatives	\$ (1)	\$ (1)	\$	\$ (1)	\$
Debt	\$ (12,022)	\$ (12,908)	\$	\$ (12,908)	\$

The following methods and assumptions were used to estimate the fair values in the tables above.

Level 1 Fair Value Measurements

Cash equivalents Amounts consist primarily of U.S. and Canadian treasury securities and money market investments. The fair value approximates the carrying value.

Level 2 Fair Value Measurements

Cash equivalents Amounts consist primarily of Canadian agency and provincial securities and commercial paper investments. The fair value approximates the carrying value.

Commodity, interest rate and foreign currency derivatives The fair values of commodity, interest rate and foreign currency derivatives are estimated using internal discounted cash flow calculations based upon forward curves and data obtained from independent third parties for contracts with similar terms or data obtained from counterparties to the agreements.

Debt Devon's debt instruments do not actively trade in an established market. The fair values of its debt are estimated based on rates available for debt with similar terms and maturity. The fair value of Devon's commercial paper and EnLink's credit facility is the carrying value.

Capital lease obligations The fair value was calculated using inputs from third-party banks.

Level 3 Fair Value Measurements

Long-term investments Devon's long-term investments as of December 31, 2013 consisted entirely of auction rate securities. In the first quarter of 2014, Devon redeemed all these securities for approximately \$57 million, or \$5 million below their carrying value.

19. Segment Information

Devon manages its operations through distinct operating segments, which are defined primarily by geographic areas. For financial reporting purposes, Devon aggregates its U.S. operating segments into one reporting segment due to the similar nature of the businesses. However, Devon's Canadian operating segment is reported as a separate reporting segment primarily due to the significant differences between the U.S. and Canadian regulatory environments. Devon's U.S. and Canadian segments are both primarily engaged in oil and gas exploration and production activities.

With the formation of EnLink in the first quarter of 2014, Devon considers EnLink to be an operating segment that is distinct from its existing operating segments. EnLink's operations consist of midstream assets and operations located across the U.S. Additionally, EnLink has a management team that is primarily responsible for capital and resource allocation decisions. Therefore, EnLink is presented as a separate reporting segment. For the reporting periods prior to the formation of EnLink, Devon has reclassified, from its U.S. segment to the EnLink segment, all asset-level amounts related to the midstream assets that it contributed to EnLink Holdings.

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DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	U.S.	Canada	EnLink	Eliminations	Total
	(In millions)				
Three Months Ended September 30, 2014:					
Revenues from external customers	\$ 4,199	\$ 481	\$ 656	\$	\$ 5,336
Intersegment revenues	\$	\$	\$ 199	\$ (199)	\$
Depreciation, depletion and amortization	\$ 655	\$ 113	\$ 74	\$	\$ 842
Interest expense	\$ 95	\$ 20	\$ 14	\$ (11)	\$ 118
Earnings (loss) before income taxes	\$ 1,461	\$ 109	\$ 84	\$	\$ 1,654
Income tax expense (benefit)	\$ 557	\$ 38	\$ 18	\$	\$ 613
Net earnings (loss)	\$ 904	\$ 71	\$ 66	\$	\$ 1,041
Net earnings attributable to noncontrolling interests	\$	\$	\$ 25	\$	\$ 25
Net earnings (loss) attributable to Devon	\$ 904	\$ 71	\$ 41	\$	\$ 1,016
Capital expenditures	\$ 1,213	\$ 335	\$ 207	\$	\$ 1,755
Three Months Ended September 30, 2013:					
Revenues from external customers	\$ 1,687	\$ 791	\$ 236	\$	\$ 2,714
Intersegment revenues	\$	\$	\$ 342	\$ (342)	\$
Depreciation, depletion and amortization	\$ 444	\$ 199	\$ 48	\$	\$ 691
Interest expense	\$ 94	\$ 20	\$	\$ (10)	\$ 104
Asset impairments	\$ 7	\$	\$	\$	\$ 7
Earnings (loss) before income taxes	\$ 366	\$ 219	\$ 54	\$	\$ 639
Income tax expense (benefit)	\$ 141	\$ 50	\$ 19	\$	\$ 210
Net earnings (loss)	\$ 225	\$ 169	\$ 35	\$	\$ 429
Capital expenditures	\$ 1,219	\$ 437	\$ 37	\$	\$ 1,693
Nine Months Ended September 30, 2014:					
Revenues from external customers	\$ 10,067	\$ 1,671	\$ 1,833	\$	\$ 13,571
Intersegment revenues	\$	\$	\$ 672	\$ (672)	\$
Depreciation, depletion and amortization	\$ 1,794	\$ 419	\$ 196	\$	\$ 2,409
Interest expense	\$ 303	\$ 61	\$ 33	\$ (31)	\$ 366
Earnings (loss) before income taxes	\$ 2,219	\$ 1,310	\$ 239	\$	\$ 3,768
Income tax expense (benefit)	\$ 1,121	\$ 517	\$ 60	\$	\$ 1,698
Net earnings (loss)	\$ 1,098	\$ 793	\$ 179	\$	\$ 2,070
Net earnings attributable to noncontrolling interests	\$ 1	\$	\$ 54	\$	\$ 55
Net earnings (loss) attributable to Devon	\$ 1,097	\$ 793	\$ 125	\$	\$ 2,015
Property and equipment, net	\$ 23,764	\$ 6,882	\$ 4,523	\$	\$ 35,169
Total assets	\$ 30,533	\$ 10,895	\$ 9,528	\$ (117)	\$ 50,839
Capital expenditures	\$ 9,748	\$ 1,055	\$ 491	\$	\$ 11,294
Nine Months Ended September 30, 2013:					
Revenues from external customers	\$ 5,033	\$ 2,052	\$ 688	\$	\$ 7,773

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Intersegment revenues	\$	\$	\$ 1,005	\$	(1,005)	\$				
Depreciation, depletion and amortization	\$	1,287	\$	643	\$	139	\$	2,069		
Interest expense	\$	284	\$	62	\$		\$	(24)	\$	322
Asset impairments	\$	1,117	\$	843	\$		\$		\$	1,960
Earnings (loss) before income taxes	\$	96	\$	(559)	\$	137	\$		\$	(326)
Income tax expense (benefit)	\$	10	\$	(158)	\$	49	\$		\$	(99)
Net earnings (loss)	\$	86	\$	(401)	\$	88	\$		\$	(227)
Capital expenditures	\$	3,477	\$	1,377	\$	173	\$		\$	5,027
December 31, 2013:										
Property and equipment, net	\$	18,201	\$	8,478	\$	1,768	\$		\$	28,447
Total assets	\$	27,080	\$	13,560	\$	2,237	\$		\$	42,877

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

The following discussion and analysis addresses material changes in our results of operations and capital resources and uses for the three-month and nine-month periods ended September 30, 2014, compared to the three-month and nine-month periods ended September 30, 2013 and in our financial condition and liquidity since December 31, 2013. For information regarding our critical accounting policies and estimates, see our 2013 Annual Report on Form 10-K under Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Overview of 2014 Results

Key components of our financial performance are summarized below.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
	(\$ in millions, except per share amounts)					
Net earnings (loss) attributable to Devon	\$ 1,016	\$ 429	+137%	\$ 2,015	\$ (227)	+988%
Adjusted earnings attributable to Devon ⁽¹⁾	\$ 552	\$ 526	+5%	\$ 1,673	\$ 1,287	+30%
Earnings (loss) per share attributable to Devon	\$ 2.47	\$ 1.05	+135%	\$ 4.91	\$ (0.57)	+961%
Adjusted earnings per share attributable to Devon ⁽¹⁾	\$ 1.34	\$ 1.29	+4%	\$ 4.08	\$ 3.16	+29%
Production (MBoe/d)	671	691	-3%	676	692	-2%
Realized price per Boe	\$ 41.92	\$ 36.84	+14%	\$ 42.38	\$ 33.71	+26%
Adjusted operating income per Boe ⁽²⁾	\$ 29.42	\$ 24.44	+20%	\$ 29.51	\$ 21.47	+37%
Operating cash flow	\$ 1,559	\$ 1,601	-3%	\$ 5,018	\$ 3,999	+25%
Capitalized costs	\$ 1,755	\$ 1,693	+4%	\$ 11,294	\$ 5,027	+125%
Shareholder distributions	\$ 98	\$ 89	+10%	\$ 287	\$ 259	+11%

(1) Adjusted earnings and adjusted earnings per share attributable to Devon are financial measures not prepared in accordance with accounting principles generally accepted in the U.S. (GAAP). For a description of adjusted earnings and adjusted earnings per share attributable to Devon, as well as reconciliations to the comparable GAAP measures, see Non-GAAP Measures in this Item 2.

(2) Computed as revenues from commodity sales and marketing and midstream operations, less expenses for lease operations, marketing and midstream operations, cash-based general and administrative, production and property taxes and net financing costs, with the result divided by total production.

During the three-month and nine-month periods ended September 30, 2014, our adjusted earnings, adjusted earnings per share and adjusted operating income per Boe all increased compared to the same periods in 2013. The improved 2014 quarterly results were driven primarily by increases in production from our retained properties, particularly liquids volumes, combined with higher gas price realizations. These same factors along with higher oil price realizations also drove higher earnings and operating cash flow for the nine-month period.

In November 2013, we announced three strategic portfolio transformation initiatives that were focused on building value per share. On February 28, 2014, we closed the GeoSouthern acquisition and acquired GeoSouthern's Eagle Ford Shale assets and operations in south Texas for approximately \$6.0 billion. This acquisition included approximately 250 MMBoe of proved reserves. Additionally, since closing the transaction, we have produced approximately 15 MMBoe from our Eagle Ford development, with oil accounting for approximately 60% of our production from the

play.

On March 7, 2014, we completed a transaction to combine substantially all of our U.S. midstream assets with Crosstex's assets to form a new midstream business referred to as EnLink. This transaction, including Devon's controlling ownership of EnLink, is described more fully in Part I. Financial Information Item 1. Financial Statements

Note 2 in this report. The results of operations from our assets contributed to EnLink are included in our consolidated financial statements for all periods presented. Additionally, the results of operations for all assets contributed to EnLink are included in our consolidated financial statements subsequent to the completion of the transaction. The portions of EnLink's net earnings and stockholders' equity not attributable to Devon's controlling interest are shown separately as noncontrolling interests in our consolidated comprehensive statements of earnings and consolidated balance sheets.

Finally, we have completed our non-core divestiture program. On April 1, 2014, we sold Canadian conventional assets to Canadian Natural Resources Limited for \$2.8 billion (\$3.125 billion Canadian dollars), and on August 29, 2014, we sold U.S. non-core assets to LINN Energy for \$2.3 billion. In less than one year, we have transformed our portfolio by the completion of an accretive Eagle Ford acquisition, the innovative creation of EnLink Midstream and the sale of our non-core properties.

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In conjunction with the Canadian divestiture, we repatriated \$2.8 billion to the U.S. from Canada in the second quarter of 2014. These proceeds, as well as the LINN divestiture proceeds, along with cash on hand and free cash flow generated during the year, are being used to reduce debt balances. In October 2014, we announced the redemption of \$1.9 billion in senior notes. This redemption includes all of our outstanding 2.4% senior notes due 2016, 1.2% senior notes due 2016 and 1.875% senior notes due 2017. Upon redemption in November 2014, this represents the completion of our debt repayment plan associated with our portfolio transformation.

Table of Contents**Results of Operations*****Oil, Gas and NGL Production***

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014	2013	Change	2014	2013	Change
Oil (MBbls/d)						
Anadarko Basin	10	10	+7%	10	9	+14%
Barnett Shale	2	2	-4%	2	2	+2%
Eagle Ford	46		N/M	32		N/M
Mississippian-Woodford Trend	10	5	+77%	9	4	+158%
Permian Basin	56	49	+15%	55	45	+23%
Rockies	10	8	+23%	9	8	+14%
Other	2	3	-33%	4	2	+100%
U.S. core and emerging properties	136	77	+77%	121	70	+71%
Canada	27	27	-3%	26	28	-7%
Total core and emerging properties	163	104	+56%	147	98	+49%
Non-core properties	3	15	-83%	7	16	-55%
Total	166	119	+38%	154	114	+34%
Bitumen (MBbls/d)						
Canada	53	46	+17%	52	51	+2%
Gas (MMcf/d)						
Anadarko Basin	323	297	+9%	304	282	+8%
Barnett Shale	896	1,009	-11%	920	1,036	-11%
Eagle Ford	107		N/M	72		N/M
Mississippian-Woodford Trend	32	14	+131%	29	9	+222%
Permian Basin	136	109	+25%	130	101	+29%
Rockies	66	76	-12%	66	79	-17%
Other	130	151	-14%	135	159	-15%
U.S. core and emerging properties	1,690	1,656	+2%	1,656	1,666	-1%
Canada	26	17	+56%	24	29	-19%
Total core and emerging properties	1,716	1,673	+3%	1,680	1,695	-1%
Non-core properties	138	710	-81%	311	720	-57%
Total	1,854	2,383	-22%	1,991	2,415	-18%
NGLs (MBbls/d)						
Anadarko Basin	34	24	+39%	32	25	+28%
Barnett Shale	54	57	-4%	55	54	+1%

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Eagle Ford	14		N/M	9		N/M
Mississippian-Woodford Trend	6	1	+414%	5	1	+628%
Permian Basin	19	15	+29%	18	13	+31%
Rockies	1	1	+46%	1	1	+33%
Other	10	12	-17%	9	11	-18%
U.S. core and emerging properties	138	110	+27%	129	105	+23%
Non-core properties	5	19	-74%	9	19	-51%
Total	143	129	+11%	138	124	+12%
Combined (MBoe/d)						
Anadarko Basin	98	83	+17%	92	80	+15%
Barnett Shale	205	226	-9%	209	228	-8%
Eagle Ford	78		N/M	54		N/M
Mississippian-Woodford Trend	21	9	+136%	19	6	+233%
Permian Basin	98	82	+20%	95	75	+26%
Rockies	22	23	-4%	22	23	-4%
Other	34	39	-13%	35	41	-15%
U.S. core and emerging properties	556	462	+20%	526	453	+16%
Canada	84	76	+10%	82	84	-2%
Total core and emerging properties	640	538	+19%	608	537	+13%
Non-core properties	31	153	-80%	68	155	-56%
Total	671	691	-3%	676	692	-2%

Table of Contents**Oil, Gas and NGL Pricing**

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2014 (1)	2013 (1)	Change	2014 (1)	2013 (1)	Change
Oil (per Bbl)						
U.S.	\$ 90.23	\$ 101.40	-11%	\$ 92.55	\$ 93.94	-1%
Canada	\$ 71.07	\$ 87.25	-19%	\$ 72.76	\$ 72.07	+1%
Total	\$ 87.20	\$ 96.90	-10%	\$ 88.75	\$ 86.41	+3%
Bitumen (per Bbl)						
Canada	\$ 63.34	\$ 73.74	-14%	\$ 61.45	\$ 50.93	+21%
Gas (per Mcf)						
U.S.	\$ 3.61	\$ 3.08	+17%	\$ 4.04	\$ 3.13	+29%
Canada (2)	\$ 0.76	\$ 2.67	-72%	\$ 3.80	\$ 3.05	+25%
Total	\$ 3.57	\$ 3.00	+19%	\$ 4.02	\$ 3.11	+29%
NGLs (per Bbl)						
U.S.	\$ 25.82	\$ 24.36	+6%	\$ 26.80	\$ 25.12	+7%
Canada	\$ 63.46	\$ 48.48	+31%	\$ 50.57	\$ 46.54	+9%
Total	\$ 25.90	\$ 26.23	-1%	\$ 27.34	\$ 26.83	+2%
Combined (per Boe)						
U.S.	\$ 38.90	\$ 32.72	+19%	\$ 39.81	\$ 31.12	+28%
Canada	\$ 63.23	\$ 49.65	+27%	\$ 55.85	\$ 41.29	+35%
Total	\$ 41.92	\$ 36.84	+14%	\$ 42.38	\$ 33.71	+26%

(1) The prices presented exclude any effects due to oil, gas and NGL derivatives.

(2) The reported Canadian gas volumes include 14 and 18 MMcf per day for the third quarter of 2014 and 2013, respectively, and 24 MMcf per day for the first nine months of 2014 and 2013, that are produced from certain of our leases and then transported to our Jackfish operations where the gas is used as fuel. However, the revenues and expenses related to this consumed gas are eliminated in our consolidated financial results. With the sale of the vast majority of the Canadian gas business in the second quarter of 2014, the impact of the eliminated gas revenues more significantly impacts our gas price.

Table of Contents**Commodity Sales**

The volume and price changes in the tables above caused the following changes to our oil, gas and NGL sales between the three months ended September 30, 2014 and 2013.

	Three Months Ended September 30, (In millions)				
	Oil	Bitumen	Gas	NGLs	Total
2013 sales	\$ 1,064	\$ 309	\$ 658	\$ 310	\$ 2,341
Change due to volumes	410	53	(146)	35	352
Change due to prices	(148)	(51)	98	(4)	(105)
2014 sales	\$ 1,326	\$ 311	\$ 610	\$ 341	\$ 2,588

Oil, gas and NGL sales increased \$352 million due to volumes in the third quarter of 2014. The primary driver of the increase resulted from a 77% increase in our U.S. core and emerging oil production. Such growth resulted from our recently acquired Eagle Ford Shale properties and the continued development of our Permian Basin and Mississippian-Woodford Trend properties. In addition, we continue to grow our NGL production from these plays, which resulted in \$35 million of additional sales. These production additions were partially offset by the impacts of our non-core asset divestitures, which were the primary drivers of our 22% decrease in gas production. Bitumen sales increased \$53 million due to continued development of our Jackfish thermal heavy oil project in Canada, including Jackfish 3 which had first sales in the third quarter of 2014.

Oil, gas and NGL sales decreased \$105 million due to prices in the third quarter of 2014, primarily due to a 10% and 14% decrease in our realized price without hedges for oil and bitumen sales, respectively. The \$199 million decrease in oil and bitumen sales due to prices is due to lower average NYMEX West Texas Intermediate index prices and larger bitumen and heavy oil differentials. The decrease was offset by increased gas sales of \$98 million largely due to higher North American regional index prices upon which our gas sales are based.

The volume and price changes in the tables above caused the following changes to our oil, gas and NGL sales between the nine months ended September 30, 2014 and 2013.

	Nine Months Ended September 30, (In millions)				
	Oil	Bitumen	Gas	NGLs	Total
2013 sales	\$ 2,700	\$ 709	\$ 2,052	\$ 906	\$ 6,367
Change due to volumes	931	17	(360)	107	695
Change due to prices	98	150	495	19	762
2014 sales	\$ 3,729	\$ 876	\$ 2,187	\$ 1,032	\$ 7,824

Oil, gas and NGL sales increased \$695 million due to volumes during the first nine months of 2014. The primary driver of the increase resulted from a 71% increase in our U.S. core and emerging oil production. Such growth resulted from our recently acquired Eagle Ford Shale properties and the continued development of our Permian Basin and Mississippian-Woodford Trend properties. In addition, we continue to grow our NGL production from these plays, which resulted in \$107 million of additional sales. These production additions were partially offset by the impacts of our non-core asset divestitures, which were the primary driver of our 18% decrease in gas production. Bitumen sales increased \$17 million due to continued development of our Jackfish thermal heavy oil project in Canada, including Jackfish 3 which had first sales in the third quarter of 2014.

Oil, gas and NGL sales increased \$762 million due to prices during the first nine months of 2014, primarily due to a 26% increase in our realized price without hedges. Gas sales were the most significantly impacted with an increase of \$495 million, largely due to higher North American regional index prices upon which our gas sales are based. Oil and bitumen sales increased \$248 million, largely due to higher prices and realizations resulting from a higher average NYMEX West Texas Intermediate index price and tighter bitumen and heavy oil differentials.

Table of Contents**Oil, Gas and NGL Derivatives**

A summary of our open commodity derivative positions is included in Note 3 to the financial statements included in Item 1. Consolidated Financial Statements of this report. The following tables provide financial information associated with our commodity derivatives. The first table presents the cash settlements and fair value gains and losses recognized as components of our revenues. The subsequent tables present our oil, bitumen, gas and NGL prices with, and without, the effects of the cash settlements. The prices do not include the effects of fair value gains and losses.

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
	(In millions)			
Cash settlements:				
Oil derivatives	\$ (22)	\$ (60)	\$ (137)	\$ 1
Gas derivatives	26	53	(67)	89
NGL derivatives				3
Total cash settlements	4	(7)	(204)	93
Gains (losses) on fair value changes:				
Oil derivatives	642	(113)	233	(217)
Gas derivatives	102	(18)		34
NGL derivatives		(3)		(5)
Total gains (losses) on fair value changes	744	(134)	233	(188)
Oil, gas and NGL derivatives	\$ 748	\$ (141)	\$ 29	\$ (95)

	Three Months Ended				
	September 30, 2014				
	Oil (Per Bbl)	Bitumen (Per Bbl)	Gas (Per Mcf)	NGLs (Per Bbl)	Boe (Per Boe)
Realized price without hedges	\$ 87.20	\$ 63.34	\$ 3.57	\$ 25.90	\$ 41.92
Cash settlements of hedges ⁽¹⁾	(1.42)		0.15	0.01	0.07
Realized price, including cash settlements	\$ 85.78	\$ 63.34	\$ 3.72	\$ 25.91	\$ 41.99

	Three Months Ended				
	September 30, 2013				
	Oil (Per Bbl)	Bitumen (Per Bbl)	Gas (Per Mcf)	NGLs (Per Bbl)	Boe (Per Boe)

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Realized price without hedges	\$ 96.90	\$ 73.74	\$ 3.00	\$ 26.23	\$ 36.84
Cash settlements of hedges ⁽¹⁾	(5.51)		0.24	0.02	(0.12)
Realized price, including cash settlements	\$ 91.39	\$ 73.74	\$ 3.24	\$ 26.25	\$ 36.72

	Nine Months Ended September 30, 2014				
	Oil (Per Bbl)	Bitumen (Per Bbl)	Gas (Per Mcf)	NGLs (Per Bbl)	Boe (Per Boe)
Realized price without hedges	\$ 88.75	\$ 61.45	\$ 4.02	\$ 27.34	\$ 42.38
Cash settlements of hedges ⁽¹⁾	(3.25)		(0.12)		(1.11)
Realized price, including cash settlements	\$ 85.50	\$ 61.45	\$ 3.90	\$ 27.34	\$ 41.27

**Nine Months Ended
September 30, 2013**

**Oil
(Per Bbl)**