

DEVON ENERGY CORP/DE  
Form 10-Q  
November 06, 2013  
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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, 2013

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)*

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**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, 2013, 406 million shares of common stock were outstanding.

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**DEVON ENERGY CORPORATION**

**FORM 10-Q**

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**INFORMATION REGARDING FORWARD-LOOKING STATEMENTS**

This report includes forward-looking statements regarding our expectations and plans, as well as 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, 2012 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 NGLs and related products and services; exploration or drilling programs; political or regulatory events; general economic and financial market conditions; and other factors discussed in this report.

All subsequent written and oral forward-looking statements attributable to Devon, 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 September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Unaudited)			
	(In millions, except per share amounts)			
Revenues:				
Oil, gas and NGL sales	\$ 2,341	\$ 1,738	\$ 6,367	\$ 5,270
Oil, gas and NGL derivatives	(141)	(295)	(95)	515
Marketing and midstream revenues	520	422	1,511	1,136
<b>Total revenues</b>	<b>2,720</b>	<b>1,865</b>	<b>7,783</b>	<b>6,921</b>
Expenses and other, net:				
Lease operating expenses	600	513	1,684	1,540
Marketing and midstream operating costs and expenses	383	313	1,128	847
Depreciation, depletion and amortization	691	716	2,069	2,080
General and administrative expenses	143	150	460	494
Taxes other than income taxes	115	104	353	306
Interest expense	104	110	322	296
Restructuring costs	4		50	
Asset impairments	7	1,128	1,960	1,128
Other, net	34	(8)	83	46
<b>Total expenses and other, net</b>	<b>2,081</b>	<b>3,026</b>	<b>8,109</b>	<b>6,737</b>
Earnings (loss) from continuing operations before income taxes	639	(1,161)	(326)	184
Current income tax expense (benefit)	(50)	(41)	82	8
Deferred income tax expense (benefit)	260	(401)	(181)	4
Earnings (loss) from continuing operations	429	(719)	(227)	172
Loss from discontinued operations, net of tax				(21)
<b>Net earnings (loss)</b>	<b>\$ 429</b>	<b>\$ (719)</b>	<b>\$ (227)</b>	<b>\$ 151</b>
Basic net earnings (loss) per share:				
Basic earnings (loss) from continuing operations per share	\$ 1.06	\$ (1.80)	\$ (0.57)	\$ 0.42
Basic loss from discontinued operations per share				(0.05)
<b>Basic net earnings (loss) per share</b>	<b>\$ 1.06</b>	<b>\$ (1.80)</b>	<b>\$ (0.57)</b>	<b>\$ 0.37</b>
Diluted net earnings (loss) per share:				
Diluted earnings (loss) from continuing operations per share	\$ 1.05	\$ (1.80)	\$ (0.57)	\$ 0.42
Diluted loss from discontinued operations per share				(0.05)
<b>Diluted net earnings (loss) per share</b>	<b>\$ 1.05</b>	<b>\$ (1.80)</b>	<b>\$ (0.57)</b>	<b>\$ 0.37</b>

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Comprehensive earnings (loss):				
Net earnings (loss)	\$ 429	\$ (719)	\$ (227)	\$ 151
Other comprehensive earnings (loss), net of tax:				
Foreign currency translation	173	311	(281)	292
Pension and postretirement plans	3	3	12	12
Other comprehensive earnings (loss), net of tax	176	314	(269)	304
Comprehensive earnings (loss)	\$ 605	\$ (405)	\$ (496)	\$ 455

See accompanying notes to consolidated financial statements.

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>Nine Months Ended September 30, 2013                  2012 (Unaudited) (In millions)</b>	
<b>Cash flows from operating activities:</b>		
Net earnings (loss)	\$ (227)	\$ 151
Loss from discontinued operations, net of tax		21
Adjustments to reconcile earnings (loss) from continuing operations to net cash from operating activities:		
Depreciation, depletion and amortization	2,069	2,080
Asset impairments	1,960	1,128
Deferred income tax expense (benefit)	(181)	4
Unrealized change in fair value of financial instruments	212	173
Other noncash charges	206	136
Net change in working capital	(104)	48
Change in long-term other assets	(28)	(22)
Change in long-term other liabilities	92	68
<b>Cash from operating activities    continuing operations</b>	<b>3,999</b>	<b>3,787</b>
<b>Cash from operating activities    discontinued operations</b>		<b>26</b>
<b>Net cash from operating activities</b>	<b>3,999</b>	<b>3,813</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(5,219)	(6,228)
Proceeds from property and equipment divestitures	316	1,397
Purchases of short-term investments	(1,076)	(2,969)
Redemptions of short-term investments	3,419	2,308
Other	83	18
<b>Cash from investing activities    continuing operations</b>	<b>(2,477)</b>	<b>(5,474)</b>
<b>Cash from investing activities    discontinued operations</b>		<b>58</b>
<b>Net cash from investing activities</b>	<b>(2,477)</b>	<b>(5,416)</b>
<b>Cash flows from financing activities:</b>		
Proceeds from borrowings of long-term debt, net of issuance costs		2,465
Net short-term debt repayments	(1,577)	(898)
Credit facility borrowings		750
Credit facility repayments		(750)
Proceeds from stock option exercises	1	25
Dividends paid on common stock	(259)	(242)
Excess tax benefits related to share-based compensation	5	5
<b>Net cash from financing activities</b>	<b>(1,830)</b>	<b>1,355</b>
Effect of exchange rate changes on cash	(9)	31
<b>Net change in cash and cash equivalents</b>	<b>(317)</b>	<b>(217)</b>

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Cash and cash equivalents at beginning of period	4,637	5,555
Cash and cash equivalents at end of period	\$ 4,320	\$ 5,338

See accompanying notes to consolidated financial statements.

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

	September 30, 2013 (Unaudited)	December 31, 2012
	(In millions, except share data)	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 4,320	\$ 4,637
Short-term investments		2,343
Accounts receivable	1,520	1,245
Other current assets	475	746
<b>Total current assets</b>	<b>6,315</b>	<b>8,971</b>
Property and equipment, at cost:		
Oil and gas, based on full cost accounting:		
Subject to amortization	73,009	69,410
Not subject to amortization	3,319	3,308
<b>Total oil and gas</b>	<b>76,328</b>	<b>72,718</b>
Other	6,050	5,630
<b>Total property and equipment, at cost</b>	<b>82,378</b>	<b>78,348</b>
Less accumulated depreciation, depletion and amortization	(54,416)	(51,032)
<b>Property and equipment, net</b>	<b>27,962</b>	<b>27,316</b>
Goodwill	5,954	6,079
Other long-term assets	615	960
<b>Total assets</b>	<b>\$ 40,846</b>	<b>\$ 43,326</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 1,269	\$ 1,451
Revenues and royalties payable	807	750
Short-term debt	2,112	3,189
Other current liabilities	594	613
<b>Total current liabilities</b>	<b>4,782</b>	<b>6,003</b>
Long-term debt	7,956	8,455
Asset retirement obligations	2,161	1,996
Other long-term liabilities	830	901
Deferred income taxes	4,505	4,693
Stockholders' equity:		
Common stock, \$0.10 par value. Authorized 1.0 billion shares; issued 406 million shares in 2013 and 2012, respectively	41	41
Additional paid-in capital	3,777	3,688
Retained earnings	15,292	15,778
Accumulated other comprehensive earnings	1,502	1,771



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Total stockholders' equity	20,612	21,278
<b>Commitments and contingencies (Note 17)</b>		
Total liabilities and stockholders' equity	\$ 40,846	\$ 43,326

See accompanying notes to consolidated financial statements.

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings (Unaudited) (In millions)	Accumulated Other Comprehensive Earnings	Treasury Stock	Total Stockholders Equity
<b>Nine Months Ended September 30, 2013</b>							
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)
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
<b>Nine Months Ended September 30, 2012</b>							
Balance as of December 31, 2011	404	\$ 40	\$ 3,507	\$ 16,308	\$ 1,575	\$	\$ 21,430
Net earnings				151			151
Other comprehensive earnings, net of tax					304		304
Stock option exercises	1	1	27			(2)	26
Common stock repurchased						(4)	(4)
Common stock retired			(6)			6	
Common stock dividends				(242)			(242)
Share-based compensation			111				111
Share-based compensation tax benefits			5				5
Balance as of September 30, 2012	405	\$ 41	\$ 3,644	\$ 16,217	\$ 1,879	\$	\$ 21,781

See accompanying notes to consolidated financial statements.

**Table of Contents****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 have been omitted. The accompanying financial statements and notes should be read in conjunction with the financial statements and notes included in Devon's 2012 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 to a fair statement of Devon's results of operations and cash flows for the three-month and nine-month periods ended September 30, 2013 and 2012 and Devon's financial position as of September 30, 2013.

**2. 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.

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.

As of September 30, 2013, Devon held \$43 million of cash collateral. Such amount 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, 2013, 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 Average Price (\$/Bbl)	Volume (Bbls/d)	Weighted Average Floor Price (\$/Bbl)	Weighted Average Ceiling Price (\$/Bbl)	Volume (Bbls/d)	Weighted Average Price (\$/Bbl)

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Q4 2013	70,000	\$	100.26	72,000	\$	90.60	\$	111.14	10,000	\$	120.00
Q1-Q4 2014	49,000	\$	94.77	43,969	\$	89.01	\$	102.48	42,000	\$	116.43
Q1-Q4 2015	500	\$	91.00		\$		\$		22,000	\$	115.45

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## DEVON ENERGY CORPORATION AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Period	Index	Basis Swaps	
		Volume (Bbls/d)	Weighted Average Differential to WTI (\$/Bbl)
Q4 2013	Western Canadian Select	40,000	\$ (22.47)

As of September 30, 2013, 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 next two tables present Devon's natural gas derivatives that settle against the AECO index.

Period	Price Swaps		Volume (MMBtu/d)	Price Collars		Call Options Sold	
	Volume (MMBtu/d)	Weighted Average Price (\$/MMBtu)		Average Floor Price (\$/MMBtu)	Weighted Average Ceiling Price (\$/MMBtu)	Volume (MMBtu/d)	Weighted Average Price (\$/MMBtu)
Q4 2013	987,500	\$ 4.09	650,000	\$ 3.61	\$ 4.28		\$
Q1-Q4 2014	800,000	\$ 4.42	210,000	\$ 4.01	\$ 4.71	500,000	\$ 5.00
Q1-Q4 2015		\$		\$	\$	550,000	\$ 5.09

Period	Price Swaps	
	Volume (MMBtu/d)	Weighted Average Price (\$/MMBtu)
Q4 2013	28,435	\$ 3.54

Period	Index	Basis Swaps	
		Volume (MMBtu/d)	Weighted Average Differential to Henry Hub (\$/MMBtu)
Q4 2013	AECO	62,843	\$ (0.44)
Q1-Q4 2014	AECO	94,781	\$ (0.52)

As of September 30, 2013, Devon had the following open NGL derivative positions. Devon's NGL derivatives settle against the average of the prompt month OPIS Mont Belvieu, Texas index.

Period	Product	Price Swaps	
		Volume (Bbls/d)	Weighted Average Price (\$/Bbl)
Q4 2013	Ethane	1,957	\$ 15.36
Q4 2013	Propane	3,985	\$ 41.73

Period	Pay	Basis Swaps	
		Volume (Bbls/d)	Weighted Average Differential to WTI (\$/Bbl)

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Q4 2013	Natural Gasoline	1,000	\$	(9.58)
Q1-Q4 2014	Natural Gasoline	329	\$	(10.85)

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

(Unaudited)

**Foreign Currency Derivatives**

As of September 30, 2013, Devon had the following open foreign currency derivative position:

Currency	Forward Contract Contract Type	CAD Notional (In millions)	Weighted Average Fixed Rate Received (CAD-USD)	Expiration
Canadian Dollar	Sell	\$ 1,261	0.969	December 2013

**Financial Statement Presentation**

The following table presents the cash settlements and unrealized gains and losses on fair value changes included in the accompanying comprehensive statements of earnings associated with derivative financial instruments. Cash settlements and unrealized gains and losses on fair value changes associated with Devon's commodity derivatives are presented in oil, gas and NGL derivatives in the accompanying comprehensive statements of earnings. Cash settlements and unrealized gains and losses on fair value changes associated with Devon's interest rate and foreign currency derivatives are presented in other, net in the accompanying comprehensive statements of earnings.

	Three Months Ended September 30, 2013		Nine Months Ended September 30, 2013	
	2012	2012	2013	2012
	(In millions)			
<b>Cash settlements:</b>				
Commodity derivatives	\$ (7)	\$ 243	\$ 93	\$ 668
Interest rate derivatives	10	10	24	9
Foreign currency derivatives	(5)	(38)	30	(29)
<b>Total cash settlements</b>	<b>(2)</b>	<b>215</b>	<b>147</b>	<b>648</b>
<b>Unrealized gains (losses):</b>				
Commodity derivatives	(134)	(538)	(188)	(153)
Interest rate derivatives	(9)	(9)	(23)	(24)
Foreign currency derivatives	(23)	12	(1)	4
<b>Total unrealized gains (losses)</b>	<b>(166)</b>	<b>(535)</b>	<b>(212)</b>	<b>(173)</b>
<b>Net gains (losses) recognized on comprehensive statements of earnings</b>	<b>\$ (168)</b>	<b>\$ (320)</b>	<b>\$ (65)</b>	<b>\$ 475</b>

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

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

	Balance Sheet Caption	September 30, 2013	December 31, 2012
(In millions)			
<b>Asset derivatives:</b>			
Commodity derivatives	Other current assets	\$ 224	\$ 379
Commodity derivatives	Other long-term assets	58	22
Interest rate derivatives	Other current assets		23
Foreign currency derivatives	Other current assets		1
Total asset derivatives		\$ 282	\$ 425
<b>Liability derivatives:</b>			
Commodity derivatives	Other current liabilities	\$ 50	\$ 3
Commodity derivatives	Other long-term liabilities	51	29
Total liability derivatives		\$ 101	\$ 32

**3. Restructuring Costs*****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 September 30, 2013, Devon had substantially completed this initiative and incurred \$130 million of restructuring costs associated with the office consolidation. The \$130 million includes \$50 million incurred during the nine months ended September 30, 2013, which largely relates to office space that is subject to non-cancellable operating lease agreements that Devon ceased using.

***Divestiture of Offshore Assets***

In the fourth quarter of 2009, Devon announced plans to divest its offshore assets. Devon completed this divestiture program in 2012, having incurred \$196 million of cumulative restructuring costs associated with the divestitures.

***Financial Statement Presentation***

The schedule below summarizes restructuring costs presented in the accompanying comprehensive statements of earnings related to the office consolidation. There were no costs related to the offshore divestitures in the nine-month periods ended September 30, 2013 and 2012.

Three Months Ended		Nine Months Ended	
September 30, 2013	2012	September 30, 2013	2012
(In millions)			



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Lease obligations and other	\$ 4	\$	\$ 44	\$
Asset impairments			6	
Restructuring costs	\$ 4	\$	\$ 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.

	<b>Other Current Liabilities</b>	<b>Other Long-Term Liabilities (In millions)</b>	<b>Total</b>
Balance as of December 31, 2012	\$ 52	\$ 9	\$ 61
Lease obligations and other Office consolidation	18	11	29
Employee severance Office consolidation	(34)		(34)
Lease obligations Offshore	(2)	(1)	(3)
<b>Balance as of September 30, 2013</b>	<b>\$ 34</b>	<b>\$ 19</b>	<b>\$ 53</b>
Balance as of December 31, 2011	\$ 29	\$ 16	\$ 45
Lease obligations Offshore	(9)	(3)	(12)
Employee severance Offshore	(7)		(7)
<b>Balance as September 30, 2012</b>	<b>\$ 13</b>	<b>\$ 13</b>	<b>\$ 26</b>

**4. Other, net**

The components of other, net in the accompanying comprehensive statements of earnings include the following:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
	<b>(In millions)</b>			
Accretion of asset retirement obligations	\$ 29	\$ 27	\$ 86	\$ 82
Interest rate derivatives	(1)	(1)	(1)	15
Foreign currency derivatives	28	26	(29)	25
Foreign exchange loss (gain)	(27)	(28)	34	(26)
Interest income	(4)	(8)	(16)	(24)
Other	9	(24)	9	(26)
<b>Other, net</b>	<b>\$ 34</b>	<b>\$ (8)</b>	<b>\$ 83</b>	<b>\$ 46</b>

**5. Income Taxes**

In the second quarter of 2013, Devon repatriated to the United States \$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.

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As of September 30, 2013, Devon's unremitted foreign earnings totaled approximately \$6.0 billion. Of this amount, approximately \$4.8 billion was deemed to be indefinitely reinvested into the development and growth of Devon's Canadian business. Therefore, Devon has not recognized a deferred tax liability for U.S. income taxes associated with such earnings. If such earnings were to be repatriated to the U.S., Devon may be subject to U.S. income taxes and foreign withholding taxes. However, it is not practical to estimate the amount of such additional taxes that may be payable due to the inter-relationship of the various factors involved in making such an estimate.

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

Devon has deemed the remaining \$1.2 billion of unremitted foreign earnings not to be indefinitely reinvested. Consequently, Devon has recognized a deferred tax liability of approximately \$550 million associated with such unremitted earnings as of September 30, 2013.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Total income tax expense (benefit) (in millions)	\$ 210	\$ (442)	\$ (99)	\$ 12
U.S. statutory income tax rate	35%	(35%)	(35%)	35%
State income taxes	1%	(1%)	(3%)	(1%)
Taxation on Canadian operations	(5%)	(1%)	9%	(14%)
Other	2%	(1%)	(1%)	(13%)
Effective income tax rate	33%	(38%)	(30%)	7%

**6. Earnings (Loss) Per Share**

The following table reconciles earnings (loss) from continuing operations 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, 2013:			
Earnings from continuing operations	\$ 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
Three Months Ended September 30, 2012:			
Loss from continuing operations	\$ (719)	405	
Attributable to participating securities	(1)	(5)	
Basic earnings per share	(720)	400	\$ (1.80)
Dilutive effect of potential common shares issuable			
Diluted earnings per share	\$ (720)	400	\$ (1.80)

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Nine Months Ended September 30, 2013:			
Loss from continuing operations	\$ (227)	406	
Attributable to participating securities	(2)	(4)	
Basic earnings per share	(229)	402	\$ (0.57)
Dilutive effect of potential common shares issuable			
Diluted earnings per share	\$ (229)	402	\$ (0.57)

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

	Earnings (loss)	Common Shares	Earnings (loss) per Share
	(In millions, except per share amounts)		
<b>Nine Months Ended September 30, 2012:</b>			
Earnings from continuing operations	\$ 172	404	
Attributable to participating securities	(2)	(4)	
Basic earnings per share	170	400	\$ 0.42
Dilutive effect of potential common shares issuable		1	
Diluted earnings per share	\$ 170	401	\$ 0.42

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, 2013, 7.5 million shares and 7.6 million shares, respectively, were excluded from the diluted earnings per share calculations. During the three-month and nine-month periods ended September 30, 2012, 9.0 million shares and 8.9 million shares, respectively, were excluded from the diluted earnings per share calculations.

**7. Other Comprehensive Earnings**

Components of other comprehensive earnings consist of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
	(In millions)			
<b>Foreign currency translation:</b>				
Beginning accumulated foreign currency translation	\$ 1,542	\$ 1,783	\$ 1,996	\$ 1,802
Change in cumulative translation adjustment	182	325	(294)	305
Income tax benefit (expense)	(9)	(14)	13	(13)
Ending accumulated foreign currency translation	1,715	2,094	1,715	2,094
<b>Pension and postretirement benefit plans:</b>				
Beginning accumulated pension and postretirement benefits	(216)	(218)	(225)	(227)
Recognition of net actuarial loss and prior service cost in earnings <sup>(1)</sup>	6	6	18	19
Income tax expense	(3)	(3)	(6)	(7)
Ending accumulated pension and postretirement benefits	(213)	(215)	(213)	(215)
Accumulated other comprehensive earnings, net of tax	\$ 1,502	\$ 1,879	\$ 1,502	\$ 1,879

(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 Retirement Plans note

for additional details).

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****8. Supplemental Information to Statements of Cash Flows**

	<b>Nine Months Ended September 30, 2013      2012 (In millions)</b>	
Net change in working capital accounts:		
Accounts receivable	\$ (287)	\$ 275
Other current assets	72	(234)
Accounts payable	127	77
Revenues and royalties payable	56	(34)
Other current liabilities	(72)	(36)
<b>Net change in working capital</b>	<b>\$ (104)</b>	<b>\$ 48</b>
Interest paid (net of capitalized interest)	\$ 342	\$ 260
Income taxes paid (received)	\$ (2)	\$ 88

**9. Short-Term Investments**

The components of short-term investments include the following:

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
	<b>(In millions)</b>	
Canadian treasury, agency and provincial securities	\$	\$ 1,865
U.S. treasuries		429
Other		49
<b>Short-term investments</b>	<b>\$</b>	<b>\$ 2,343</b>

**10. Accounts Receivable**

The components of accounts receivable include the following:

	<b>September 30, 2013</b>	<b>December 31, 2012</b>
	<b>(In millions)</b>	
Oil, gas and NGL sales	\$ 942	\$ 752
Joint interest billings	389	270
Marketing and midstream revenues	147	161
Other	53	72
<b>Gross accounts receivable</b>	<b>1,531</b>	<b>1,255</b>



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Allowance for doubtful accounts	(11)	(10)
Net accounts receivable	\$ 1,520	\$ 1,245

**Table of Contents****DEVON ENERGY CORPORATION AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****11. Property and Equipment***Asset Impairments*

In the first nine months of 2013 and 2012, Devon recognized asset impairments related to its oil and gas property and equipment and its U.S. midstream assets as presented below.

	Nine Months Ended September 30, 2013		Nine Months Ended September 30, 2012	
	Gross	Net of Taxes	Gross	Net of Taxes
	(In millions)			
U.S. oil and gas assets	\$ 1,110	\$ 707	\$ 1,106	\$ 705
Canada oil and gas assets	843	632		
Midstream assets	7	4	22	14
Total asset impairments	\$ 1,960	\$ 1,343	\$ 1,128	\$ 719

*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 have reduced proved reserve values.

If estimated future cash flows decline due to price decreases or other factors, Devon could incur additional full cost ceiling impairments related to its oil and gas property and equipment.

*Midstream Impairments*

In the third quarter of 2013 and 2012, 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 dry 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.

**12. Goodwill**

During the first nine months of 2013, Devon's Canadian goodwill decreased \$99 million entirely due to foreign currency translation. Additionally, Devon's U.S. goodwill decreased \$26 million due to the sale of certain midstream assets.

**13. Debt**

*Commercial Paper*

During the second quarter of 2013, Devon repatriated \$2.0 billion of foreign earnings to the United States and repaid \$2.0 billion of commercial paper borrowings. As of September 30, 2013, Devon had \$1.6 billion of outstanding commercial paper at an average rate of 0.27 percent.

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

Devon has a \$3.0 billion syndicated, unsecured revolving line of credit (the Senior Credit Facility). During the third quarter of 2013, the lenders agreed, effective October 24, 2013, to extend the maturity date of the Senior Credit Facility to October 24, 2018. As of September 30, 2013 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, 2013, Devon was in compliance with this covenant with a debt-to-capitalization ratio of 22.4 percent.

**14. Asset Retirement Obligations**

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

	Nine Months Ended September 30,	
	2013	2012
	(In millions)	
Asset retirement obligations as of beginning of period	\$ 2,095	\$ 1,563
Liabilities incurred	88	60
Liabilities settled	(46)	(57)
Revision of estimated obligation	104	411
Liabilities assumed by others	(15)	(18)
Accretion expense on discounted obligation	86	82
Foreign currency translation adjustment	(44)	35
Asset retirement obligations as of end of period	2,268	2,076
Less current portion	107	67
Asset retirement obligations, long-term	\$ 2,161	\$ 2,009

**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		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,	September 30,
	2013	2012	2013	2012	2013	2012	2013	2012
	(In millions)							
Service cost	\$ 9	\$ 11	\$ 27	\$ 32	\$ 1	\$ 1	\$ 1	\$ 1