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DEVON ENERGY CORP/DE
Form 8-K
October 03, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event report): October 2, 2002

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

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

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

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

Page 1 of 77 pages

ITEM 5. OTHER EVENTS

On April 18, 2002, Devon Energy Corporation ("Devon"), sold its Indonesian operations to PetroChina Company Limited for total cash consideration of \$262 million, including working capital. Devon received approximately \$250 million upon closing and could receive an additional \$12 million upon successful completion of certain events.

As of December 31, 2001, Devon's Indonesian oil and gas properties had estimated proved reserves of approximately 80 million equivalent barrels, of which approximately 20% were classified as proved developed producing.

Effective January 1, 2002, Devon was required to adopt SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. Under the provisions of this accounting pronouncement, beginning with the 2002 second quarter Form 10-Q, Devon has reclassified its Indonesian activities as discontinued operations. This reclassification affects not only the 2002 second quarter presentation of financial results, but also the presentation of all

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prior periods' results. Included herein are Items 6 and 8 from Devon's December 31, 2001 Form 10-K, reclassified to present the Indonesian operations as a discontinued operation.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS

(c) Exhibits

23.1 Consent of KPMG LLP

23.2 Consent of PricewaterhouseCoopers LLP

DEFINITIONS

As used in this document:

"Mcf" means thousand cubic feet

"MMcf" means million cubic feet

"Bcf" means billion cubic feet

"MMBtu" means million British thermal units, a measure of heating value "Bbl" means barrel

"MBbbls" means thousand barrels

"MMBbbls" means million barrels

"Boe" means equivalent barrels of oil

"MBoe" means thousand equivalent barrels of oil

"MMBoe" means million equivalent barrels of oil

"Oil" includes crude oil and condensate

"NGLs" means natural gas liquids

"Domestic" means the properties of the Company in the onshore continental United States and the offshore Gulf of Mexico

"Permian/Mid-Continent, Rocky Mountain and Gulf" means the divisions of the Company with properties in the onshore continental United States and the offshore properties in the Gulf of Mexico

"Canada" means the division of the Company encompassing oil and gas properties located in the Western Canadian Sedimentary Basin in Alberta and British Columbia

"International" means the division of the Company encompassing oil and gas properties that lie outside the United States and Canada

2

SELECTED FINANCIAL DATA

The following selected financial information should be read in conjunction with the consolidated financial statements and the notes thereto included in "Financial Statements and Supplementary Data." Notes 2 and 19 to the consolidated financial statements included in this report contain information on mergers and acquisitions which occurred in 2002, 2001, 2000 and 1999, as well as unaudited pro forma financial data for the years 2001 and 2000.

YEAR	
2001	2000
(MILLIONS, EXCEPT WHERE SHOWN OTHERWISE)	

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OPERATING RESULTS

Oil sales	\$ 836	960
Gas sales	1,890	1,485
NGL sales	131	154
Marketing and midstream revenue	71	53
	-----	-----
Total revenues	2,928	2,652
	-----	-----
Lease operating expenses	490	404
Transportation costs	83	53
Production taxes	117	103
Marketing and midstream costs and expenses	47	28
Depreciation, depletion and amortization of property and equipment	855	673
Amortization of goodwill	34	41
General and administrative expenses	114	96
Expenses related to mergers	1	60
Reduction of carrying value of oil and gas properties	1,003	--
	-----	-----
Total production and operating costs and expenses	2,744	1,458
	-----	-----
Earnings (loss) from operations	184	1,194
Interest expense	(220)	(155)
Effects of changes in foreign currency exchange rates	(13)	(3)
Distributions on preferred securities of subsidiary trust	--	--
Change in fair value of financial instruments	(2)	--
Other income	69	40
	-----	-----
Net other expenses	(166)	(118)
	-----	-----
Earnings (loss) from continuing operations before income taxes, minority interest and cumulative effect of change in accounting principle	18	1,076
Income tax expense (benefit):		
Current	57	129
Deferred	(48)	259
	-----	-----
Total	9	388
	-----	-----
Earnings (loss) from continuing operations before minority interest, extraordinary item and cumulative effect of change in accounting principle	9	688
Results of discontinued operations before income taxes	66	66
Income tax expense (benefit)	21	24
	-----	-----
Net results of discontinued operations	45	42
	-----	-----
Earnings (loss) before minority interest, extraordinary item and cumulative effect of change in accounting principle	54	730
Minority interest in Monterey Resources, Inc.	--	--
	-----	-----
Earnings (loss) before extraordinary item and cumulative effect of change in accounting principle	54	730
Extraordinary loss	--	--

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Earnings (loss) before cumulative effect of change in accounting principle	54	730
Cumulative effect of change in accounting principle	49	--
Net earnings (loss)	\$ 103	730
Net earnings (loss) applicable to common stockholders	\$ 93	720

3

	YEAR ENDED DECEMBER 31		
	2001	2000	1999
	(MILLIONS, EXCEPT PER SHARE)		
Basic net earnings (loss) per share:			
Earnings (loss) from continuing operations	\$ 0.06	5.33	(1.00)
Earnings from discontinued operations	\$ 0.28	0.33	0.00
Extraordinary item	\$ --	--	(0.00)
Cumulative effect of change in accounting principle	\$ 0.39	--	--
Net earnings (loss)	\$ 0.73	5.66	(1.00)
Diluted net earnings (loss) per share:			
Earnings (loss) from continuing operations	\$ 0.06	5.17	(1.00)
Earnings from discontinued operations	\$ 0.28	0.33	0.00
Extraordinary item	\$ --	--	(0.00)
Cumulative effect of change in accounting principle	\$ 0.38	--	--
Net earnings (loss)	\$ 0.72	5.50	(1.00)
Cash dividends per common share (1)	\$ 0.20	0.17	0.00
Weighted average common shares outstanding:			
Basic	128	127	126
Diluted	130	132	126
Ratio of earnings to combined fixed charges and preferred stock dividends (2)	1.00	6.91	1.00

	DECEMBER 31		
	2001	2000	1999
	(MILLIONS)		

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BALANCE SHEET DATA

Total assets	\$ 13,184	6,860	6,
Debt exchangeable into shares of ChevronTexaco Corporation common stock	\$ 649	760	
Other long-term debt	\$ 5,940	1,289	1,
Convertible preferred securities of subsidiary trust	\$ --	--	
Stockholders' equity	\$ 3,259	3,277	2,

YEAR ENDED D

2001 2000 1

(MILLIONS, EXC

CASH FLOW DATA

Net cash provided by operating activities	\$ 1,902	1,596
Net cash used in investing activities	\$ (5,285)	(1,173)
Net cash provided by (used in) financing activities	\$ 3,370	(390)
Modified EBITDA (3,5)	\$ 2,232	2,034
Cash margin (4,5)	\$ 1,941	1,748

PRODUCTION, PRICE AND OTHER DATA

Production:		
Oil (MMBbls)	39	39
Gas (Bcf)	498	426
NGL (MMBbls)	8	7
MMBoe (6)	130	117
Average prices:		
Oil (Per Bbl)	\$ 21.44	25.07
Gas (Per Mcf)	\$ 3.80	3.49
NGL (Per Bbl)	\$ 16.38	20.87
Per Boe (6)	\$ 21.98	22.28
Costs per Boe (6):		
Operating costs	\$ 5.31	4.80
Depreciation, depletion and amortization of oil and gas properties	\$ 6.29	5.51
General and administrative expenses	\$ 0.88	0.83

- (1) Cash dividends per share are presented based on the combined amount of dividends paid by Devon, Santa Fe Snyder and Northstar in each year. The dividends per share are also based on the number of shares

outstanding in each year assuming the Santa Fe Snyder merger and the Northstar combination had been consummated as of the beginning of the earliest year presented. Santa Fe Snyder did not pay any dividends in any of the years presented. Northstar did not pay any dividends in 1997, or in 1998 prior to the closing of the Northstar combination. Because of these facts, the cash dividends per share presented for 1997

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through 2000 are not representative of the actual amounts paid by Devon on an historical basis. For the years 1997 through 2000, Devon's historical cash dividends per share were \$0.20 in each year.

- (2) For purposes of calculating the ratio of earnings to combined fixed charges and preferred stock dividends, (i) earnings consist of earnings before income taxes, plus fixed charges; (ii) fixed charges consist of interest expense, distributions on preferred securities of subsidiary trust, amortization of costs relating to indebtedness and the preferred securities of subsidiary trust, and one-third of rental expense estimated to be attributable to interest; and (iii) preferred stock dividends consist of the amount of pre-tax earnings required to pay dividends on the outstanding preferred stock. For the years 1999, 1998 and 1997, earnings were insufficient to cover combined fixed charges and preferred stock dividends by \$249 million, \$375 million and \$350 million, respectively.
- (3) Modified EBITDA represents earnings before interest (including effects of changes in foreign currency exchange rates, change in fair value of financial instruments, and distributions on preferred securities of subsidiary trust), taxes, depreciation, depletion and amortization and reduction of carrying value of oil and gas properties.
- (4) "Cash margin" equals total revenues less cash expenses. Cash expenses are all expenses other than the non-cash expenses of depreciation, depletion and amortization, effects of changes in foreign currency exchange rates, change in fair value of financial instruments, reduction of carrying value of oil and gas properties and deferred income tax expense (benefit). Cash margin measures the net cash which is generated by a company's operations during a given period, without regard to the period such cash is actually physically received or spent by the company. This margin ignores the non-operational effect on a company's "net cash provided by operating activities", as measured by accounting principles generally accepted in the United States of America, from a company's activities as an operator of oil and gas wells. Such activities produce net increases or decreases in temporary cash funds held by the operator which have no effect on net earnings of the company.
- (5) Modified EBITDA is presented because it is commonly accepted in the oil and gas industry as a financial indicator of a company's ability to service or incur debt. Cash margin is presented because it is commonly accepted in the oil and gas industry as a financial indicator of a company's ability to fund capital expenditures or service debt. Modified EBITDA and cash margin are also presented because investors routinely request such information. Management interprets the trends of modified EBITDA and cash margin in a similar manner as trends in net earnings.

Modified EBITDA and cash margin should be used as supplements to, and not as substitutes for, net earnings and net cash provided by operating activities determined in accordance with accounting principles generally accepted in the United States of America as measures of Devon's profitability or liquidity. There may be operational or financial demands and requirements that reduce management's discretion over the use of modified EBITDA and cash margin. See "Management's Discussion and Analysis of Financial Condition and Results of Operations." Modified EBITDA and cash margin may not be comparable to similarly titled measures used by other companies.

- (6) Gas volumes are converted to Boe or MMBoe at the rate of six Mcf of gas per barrel of oil, based upon the approximate relative energy content

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of natural gas and oil, which rate is not necessarily indicative of the relationship of oil and gas prices. The respective prices of oil, gas and NGLs are affected by market and other factors in addition to relative energy content.

5

FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

Independent Auditors' Reports.....	
Consolidated Financial Statements:	
Consolidated Balance Sheets	
December 31, 2001, 2000, and 1999.....	
Consolidated Statements of Operations	
Years Ended December 31, 2001, 2000, and 1999.....	
Consolidated Statements of Stockholders' Equity	
Years Ended December 31, 2001, 2000, and 1999.....	
Consolidated Statements of Cash Flows	
Years Ended December 31, 2001, 2000, and 1999.....	
Notes to Consolidated Financial Statements	
December 31, 2001, 2000, and 1999.....	

6

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Devon Energy Corporation:

We have audited the accompanying consolidated balance sheets of Devon Energy Corporation and subsidiaries (the Company) as of December 31, 2001, 2000 and 1999, and the related statements of operations, stockholders' equity and cash flows for each of the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our

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audits. We did not audit the 1999 financial statements of Santa Fe Snyder Corporation, a wholly owned subsidiary, which statements reflect total assets constituting 24% in 1999 of the related consolidated totals, and which statements reflect total revenues constituting 41% in 1999 of the related consolidated totals. The 1999 financial statements of Santa Fe Snyder Corporation were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Santa Fe Snyder Corporation in 1999 is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Devon Energy Corporation and subsidiaries as of December 31, 2001, 2000 and 1999, and the results of their operations and their cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, as of January 1, 2001, the Company changed its method of accounting for derivative instruments and hedging activities; effective July 1, 2001, adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations, and certain provisions of SFAS No. 142, Goodwill and Other Intangible Assets; and, as of January 1, 2002, adopted the provisions of SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

/s/ KPMG LLP

Oklahoma City, Oklahoma
February 5, 2002, except as to Note 1 - "Discontinued Operations", which is as of April 18, 2002

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors of
Santa Fe Snyder Corporation:

In our opinion, the accompanying consolidated balance sheet and the related consolidated statements of operations, comprehensive income, shareholders' equity and of cash flows present fairly, in all material respects, the financial position of Santa Fe Snyder Corporation and its subsidiaries at December 31, 1999 and the results of their operations and their cash flows for the year ended December 31, 1999 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on

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these financial statements based on our audit. We conducted our audit of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As further described in Note 2, these consolidated financial statements have been retroactively restated to the full cost method of accounting for the Company's oil and gas properties in order to conform to the accounting policies of Devon Energy Corporation.

As discussed in Note 1 - "Discontinued Operations," the Company adopted the provisions of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

/s/ PricewaterhouseCoopers LLP

Houston, Texas

January 28, 2000, except for Note 2 and the second paragraph above which are as of October 30, 2000 and Note 1 - "Discontinued Operations" and the third paragraph above which are as of September 25, 2002

8

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

	2001
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 185
Accounts receivable	503
Inventories	26
Deferred income taxes	--
Fair value of financial instruments	195
Income taxes receivable	68
Investments and other current assets	45
Total current assets	1,022
Property and equipment, at cost, based on the full cost method of	

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accounting for oil and gas properties (\$1,938, \$314 and \$295 excluded from amortization in 2001, 2000 and 1999, respectively)	15,243
Less accumulated depreciation, depletion and amortization	6,360

Investment in ChevronTexaco Corporation common stock, at fair value	8,883
Fair value of financial instruments	636
Goodwill	31
Assets of discontinued operations	2,206
Other assets	212

Total assets	\$ 13,184
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable:	
Trade	440
Revenues and royalties due to others	170
Income taxes payable	17
Accrued interest payable	102
Merger related expenses payable	7
Fair value of financial instruments	15
Deferred income taxes	57
Accrued expenses	72

Total current liabilities	880

Other liabilities	172
Debentures exchangeable into shares of ChevronTexaco Corporation common stock	649
Other long-term debt	5,940
Deferred revenue	51
Fair value of financial instruments	45
Liabilities of discontinued operations	77
Deferred income taxes	2,111
Stockholders' equity:	
Preferred stock of \$1.00 par value (\$100 liquidation value) Authorized 4,500,000 shares; issued 1,500,000 in 2001, 2000 and 1999	1
Common stock of \$.10 par value	
Authorized 400,000,000 shares; issued 129,886,000 in 2001, 128,638,000 in 2000 and 126,323,000 in 1999	13
Additional paid-in capital	3,610
Accumulated deficit	(147)
Accumulated other comprehensive loss	(28)
Unamortized restricted stock awards	--
Treasury stock, at cost: 3,754,000 shares in 2001 and 330,000 shares in 1999	(190)

Total stockholders' equity	3,259

Commitments and contingencies (Notes 12 and 13)	
Total liabilities and stockholders' equity	\$ 13,184
	=====

See accompanying notes to consolidated financial statements.

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

	YEAR END
	2001
REVENUES	
Oil sales	\$ 836
Gas sales	1,890
NGL sales	131
Marketing and midstream revenue	71
Total revenues	2,928
COSTS AND EXPENSES	
Lease operating expenses	490
Transportation costs	83
Production taxes	117
Marketing and midstream costs and expenses	47
Depreciation, depletion and amortization of property and equipment	855
Amortization of goodwill	34
General and administrative expenses	114
Expenses related to mergers	1
Reduction of carrying value of oil and gas properties	1,003
Total production and operating costs and expenses	2,744
Earnings (loss) from operations	184
OTHER INCOME (EXPENSES)	
Interest expense	(220)
Effects of changes in foreign currency exchange rates	(13)
Distributions on preferred securities of subsidiary trust	--
Change in fair value of financial instruments	(2)
Other income	69
Net other expenses	(166)
Earnings (loss) from continuing operations before income taxes, extraordinary item and cumulative effect of change in accounting principle	18
INCOME TAX EXPENSE (BENEFIT):	
Current	57
Deferred	(48)
Total income tax expense (benefit)	9

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Earnings (loss) from continuing operations before extraordinary item and cumulative effect of change in accounting principle	9
DISCONTINUED OPERATIONS:	
Results of discontinued operations before income taxes	66
Income tax expense	21
Net results of discontinued operations	45
Earnings (loss) before extraordinary item and cumulative effect of change in accounting principle	54
Extraordinary loss	--
Earnings (loss) before cumulative effect of change in accounting principle	54
Cumulative effect of change in accounting principle	49
Net earnings (loss)	\$ 103
Preferred stock dividends	10
Net earnings (loss) applicable to common shareholders	\$ 93

See accompanying notes to consolidated financial statements.

10

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

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
Basic net earnings (loss) per share:			
Earnings (loss) from continuing operations	\$ 0.06	5.33	(1.8
Earnings from discontinued operations	\$ 0.28	0.33	0.2
Extraordinary loss	\$ --	--	(0.0
Cumulative effect of change in accounting principle	\$ 0.39	--	-
Net earnings (loss)	\$ 0.73	5.66	(1.6
Diluted net earnings (loss) per share:			
Earnings (loss) from continuing operations	\$ 0.06	5.17	(1.8
Earnings from discontinued operations	\$ 0.28	0.33	0.2
Extraordinary loss	\$ --	--	(0.0
Cumulative effect of change in accounting principle	\$ 0.38	--	-

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Net earnings (loss)	\$ 0.72	5.50	(1.6
	=====	=====	=====
Weighted average common shares outstanding:			
Basic	128	127	9
	=====	=====	=====
Diluted	130	132	9
	=====	=====	=====

See accompanying notes to consolidated financial statements.

11

DEVON ENERGY CORPORATION AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (IN MILLIONS)

	PREFERRED STOCK	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMU- LATED DEFICIT	ACCU- LAT- OTH COMP- HENS LOS
	-----	-----	-----	-----	-----
Balance as of December 31, 1998	\$ --	7	1,524	(737)	
Comprehensive loss:					
Net loss	--	--	--	(154)	
Other comprehensive earnings (loss), net of tax:					
Foreign currency translation adjustments	--	--	--	--	
Unrealized loss on marketable securities	--	--	--	--	
Other comprehensive loss	--	--	--	--	
Comprehensive loss					
Stock issued	1	6	1,967	(1)	
Stock repurchased	--	--	--	--	
Tax benefit related to employee stock options	--	--	1	--	
Dividends on common stock	--	--	--	(13)	
Dividends on preferred stock	--	--	--	(4)	
Amortization of restricted stock awards	--	--	--	--	
	-----	-----	-----	-----	-----
Balance as of December 31, 1999	1	13	3,492	(909)	
Comprehensive loss:					
Net earnings	--	--	--	730	
Other comprehensive earnings (loss), net of tax:					
Foreign currency translation adjustments	--	--	--	--	
Minimum pension liability adjustment	--	--	--	--	

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Unrealized loss on marketable securities	--	--	--	--
Other comprehensive loss	--	--	--	--
Comprehensive earnings				
Stock issued	--	--	69	(4)
Stock repurchased	--	--	--	--
Tax benefit related to employee stock options	--	--	3	--
Dividends on common stock	--	--	--	(22)
Dividends on preferred stock	--	--	--	(10)
Grant of restricted stock awards	--	--	--	--
Amortization of restricted stock awards	--	--	--	--
	-----	-----	-----	-----
Balance as of December 31, 2000	1	13	3,564	(215)
Comprehensive earnings:				
Net earnings	--	--	--	103
Other comprehensive earnings (loss), net of tax:				
Foreign currency translation adjustments	--	--	--	--
Cumulative effect of change in Accounting principle	--	--	--	--
Reclassification adjustment for Derivative (gains) losses reclassified Into oil and gas sales	--	--	--	--
Change in fair value of financial instruments	--	--	--	--
Minimum pension liability adjustment	--	--	--	--
Unrealized gain on marketable securities	--	--	--	--
Other comprehensive earnings	--	--	--	--
Comprehensive earnings				
Stock issued	--	--	48	--
Stock repurchased	--	--	(14)	--
Tax benefit related to employee stock options	--	--	12	--
Dividends on common stock	--	--	--	(25)
Dividends on preferred stock	--	--	--	(10)
Amortization of restricted stock awards	--	--	--	--
	-----	-----	-----	-----
Balance as of December 31, 2001	\$ 1	13	3,610	(147)
	=====	=====	=====	=====

See accompanying notes to consolidated financial statements.

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	YEAR EN
	2001
CASH FLOWS FROM OPERATING ACTIVITIES	
Earnings (loss) from continuing operations	\$ 9
Adjustments to reconcile earnings (loss) from continuing operations to net cash provided by operating activities:	
Depreciation, depletion and amortization of property and equipment	855
Amortization of goodwill	34
Accretion (amortization) of discounts (premiums) on long-term debt, net	26
Effects of changes in foreign currency exchange rates	13
Change in fair value of financial instruments	2
Reduction of carrying value of oil and gas properties	1,003
Operating cash flows from discontinued operations	102
Loss (gain) on sale of assets	2
Deferred income tax expense (benefit)	(48)
Extraordinary loss	--
Other	(3)
Changes in assets and liabilities, net of effects of acquisitions of businesses:	
Decrease (increase) in:	
Accounts receivable	197
Inventories	14
Income taxes receivable	(68)
Investments and other current assets	(5)
(Decrease) increase in:	
Accounts payable	32
Income taxes payable	(129)
Accrued interest and expenses	(47)
Deferred revenue	(63)
Long-term other liabilities	(24)
Net cash provided by operating activities	1,902
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of property and equipment	41
Proceeds from sale of investments	--
Capital expenditures, including acquisitions of businesses	(5,289)
Discontinued operations	(37)
(Increase) decrease in other assets	--
Net cash used in investing activities	(5,285)
CASH FLOWS FROM FINANCING ACTIVITIES	
Proceeds from borrowings of long-term debt, net of issuance costs	6,199
Principal payments on long-term debt	(2,638)
Issuance of common stock, net of issuance costs	48
Repurchase of common stock	(204)
Issuance of treasury stock	--
Dividends paid on common stock	(25)
Dividends paid on preferred stock	(10)
(Decrease) increase in long-term other liabilities	--
Net cash provided by (used in) financing activities	3,370

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Effect of exchange rate changes on cash	(6)

Net (decrease) increase in cash and cash equivalents	(19)
Cash and cash equivalents at beginning of year	204

Cash and cash equivalents at end of year	\$ 185
	=====

See accompanying notes to consolidated financial statements.

13

DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting policies used by Devon Energy Corporation and subsidiaries ("Devon") reflect industry practices and conform to accounting principles generally accepted in the United States of America. The more significant of such policies are briefly discussed below.

Basis of Presentation and Principles of Consolidation

Devon is engaged primarily in oil and gas exploration, development and production, and the acquisition of producing properties. Such activities domestically are managed in three divisions:

- the Gulf Division, which includes properties located primarily in the onshore South Texas and South Louisiana areas and offshore in the Gulf of Mexico;
- the Rocky Mountain Division, which includes properties located in the Rocky Mountains area of the United States stretching from the Canadian Border into northern New Mexico; and
- the Permian/Mid-Continent Division, which includes all domestic properties other than those included in the Gulf Division and the Rocky Mountain Division.

Devon's Canadian activities are located primarily in the Western Canadian Sedimentary Basin, and Devon's international activities -- outside of North America -- are located primarily in Argentina, Azerbaijan, China and Gabon. Devon's share of the assets, liabilities, revenues and expenses of affiliated partnerships and the accounts of its wholly-owned subsidiaries are included in the accompanying consolidated financial statements. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of

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assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual amounts could differ from those estimates.

Property and Equipment

Devon follows the full cost method of accounting for its oil and gas properties. Accordingly, all costs incidental to the acquisition, exploration and development of oil and gas properties, including costs of undeveloped leasehold, dry holes and leasehold equipment, are capitalized. Internal costs incurred that are directly identified with acquisition, exploration and development activities undertaken by Devon for its own account, and which are not related to production, general corporate overhead or similar activities are also capitalized. For the years 2001, 2000 and 1999, such internal costs capitalized totaled \$77 million, \$62 million and \$29 million, respectively.

14

DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

Unproved properties are excluded from amortized capitalized costs until it is determined whether or not proved reserves can be assigned to such properties. Devon assesses its unproved properties for impairment at least annually.

Net capitalized costs are limited to the estimated future net revenues, discounted at 10% per annum, from proved oil, natural gas and natural gas liquids reserves plus the lower of cost or fair value of unproved properties. Such limitations are imposed separately on a country-by-country basis and are tested quarterly. Capitalized costs are depleted by an equivalent unit-of-production method, converting gas to oil at the ratio of six thousand cubic feet of natural gas to one barrel of oil. Depletion is calculated using the capitalized costs plus the estimated future expenditures (based on current costs) to be incurred in developing proved reserves, and the estimated dismantlement and abandonment costs, net of estimated salvage values. No gain or loss is recognized upon disposal of oil and gas properties unless such disposal significantly alters the relationship between capitalized costs and proved reserves. All costs related to production activities, including workover costs incurred solely to maintain or increase levels of production from an existing completion interval, are charged to expense as incurred.

Depreciation and amortization of other property and equipment, including leasehold improvements, are provided using the straight-line method based on estimated useful lives from three to 39 years.

Marketable Securities and Other Investments

Devon accounts for certain investments in debt and equity securities by following the requirements of Statement of Financial Accounting Standards ("SFAS") No. 115, Accounting for Certain Investments in Debt and Equity Securities. This standard requires that, except for debt securities classified as "held-to-maturity," investments in debt and equity securities must be reported at fair value. As a result, Devon's investment in ChevronTexaco Corporation common stock, which is classified as "available-for-sale," is

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reported at fair value, with the tax effected unrealized gain or loss recognized in other comprehensive loss and reported as a separate component of stockholders' equity. Devon's investments in other short-term securities are also classified as "available-for-sale."

Goodwill

Goodwill, which represents the excess of purchase price over the fair value of net assets acquired, acquired before June 30, 2001, is amortized by an equivalent unit-of-production method. Goodwill acquired after June 30, 2001, is not amortized. Devon assesses the recoverability of goodwill by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired properties. The amount of goodwill impairment, if any, is measured based on projected discounted future operating cash flows using a discount rate reflecting Devon's average cost of

15

DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

funds. The assessment of the recoverability of goodwill will be impacted if estimated future operating cash flows are not achieved.

Accumulated goodwill amortization was \$91 million, \$57 million and \$16 million at December 31, 2001, 2000 and 1999, respectively.

Effective January 1, 2002, Devon adopted the remaining provisions of SFAS No. 142, Goodwill and Other Intangible Assets. Under SFAS No. 142, goodwill and intangible assets with indefinite useful lives are no longer amortized, but are instead tested for impairment at least annually. Also, Devon adopted the provisions of SFAS No. 141, Business Combinations, and certain provisions of SFAS No. 142 in July 2001. Under the provisions of SFAS No. 142, any goodwill and any intangible asset determined to have an indefinite useful life that were acquired in a purchase business combination completed after June 30, 2001 are not amortized, but are to be evaluated for impairment at December 31, 2001, in accordance with the appropriate pre- SFAS No. 142 accounting. Goodwill and intangible assets acquired in business combinations completed before July 1, 2001 continued to be amortized prior to the adoption of the remaining provisions of SFAS No. 142.

Devon will perform an assessment of whether there is an indication that goodwill is impaired as of January 1, 2002. Devon will identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill, to those reporting units as of January 1, 2002. Devon has until June 30, 2002, to determine the fair value of each reporting unit and compare such value to the reporting unit's carrying amount. To the extent a reporting unit's carrying amount exceeds its fair value, an indication exists that the reporting unit's goodwill may be impaired and Devon must perform the second step of the transitional impairment test. In the second step, Devon must compare the implied fair value of the reporting unit's goodwill, determined by allocating the reporting unit's fair value to all of its assets (recognized and unrecognized) and liabilities in a manner similar to a purchase price allocation in accordance with SFAS No. 141,

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to its carrying amount, both of which would be measured as of January 1, 2002. This second step is required to be completed as soon as possible, but no later than the end of 2002. Any transitional impairment loss will be recognized as the cumulative effect of a change in accounting principle in Devon's 2002 statement of operations.

As of January 1, 2002, Devon had unamortized goodwill in the amount of \$2.2 billion, which was subject to the transition provisions of SFAS Nos. 141 and 142. Devon has not completed its assessment of the impact on its financial statements of adopting SFAS Nos. 141 and 142. However, Devon does not believe that a transitional impairment loss will be required to be recognized.

Revenue Recognition and Gas Balancing

Oil and gas revenues are recognized when sold. During the course of normal operations, Devon and other joint interest owners of natural gas reservoirs will take more or less than their respective ownership share of the natural gas volumes produced. These volumetric imbalances are

16

DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

monitored over the lives of the wells' production capability. If an imbalance exists at the time the wells' reserves are depleted, cash settlements are made among the joint interest owners under a variety of arrangements.

Devon follows the sales method of accounting for gas imbalances. A liability is recorded when Devon's excess takes of natural gas volumes exceed its estimated remaining recoverable reserves. No receivables are recorded for those wells where Devon has taken less than its ownership share of gas production.

Hedging Activities

Devon has periodically entered into oil and gas financial instruments and foreign exchange rate swaps to manage its exposure to oil and gas price volatility. The foreign exchange rate swaps mitigate the effect of volatility in the Canadian-to-U.S. dollar exchange rate on Canadian oil and gas revenues that are predominantly based on U.S. dollar prices. The hedging instruments are usually placed with counterparties that Devon believes are minimal credit risks. It is Devon's policy to only enter into derivative contracts with investment grade rated counterparties deemed by management to be competent and competitive market makers. The oil and gas reference prices upon which the price hedging instruments are based reflect various market indices that have a high degree of historical correlation with actual prices received by Devon.

As of January 1, 2001, Devon adopted the provisions of SFAS No. 133, Accounting for Derivative Instruments and Certain Hedging Activities and SFAS No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activities, an Amendment of SFAS No. 133. SFAS Nos. 133 and 138 require that all derivative instruments be recorded on the balance sheet at their respective fair values. In accordance with the transition provisions of SFAS No. 133, Devon recorded a net-of-tax cumulative-effect-type adjustment of \$37 million loss in

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accumulated other comprehensive loss to recognize the fair value of all derivatives that were designated as cash-flow hedging instruments. Additionally, Devon recorded a net-of-tax cumulative-effect-type adjustment to net earnings of \$49 million gain (\$0.38 per basic share and \$0.37 per diluted share) related to the fair value of derivative instruments that did not qualify as hedges. This gain related principally to the option embedded in Devon's debentures that are exchangeable into shares of ChevronTexaco Corporation common stock.

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

17

DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

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

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

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

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

During the third quarter of 2001, Devon entered into foreign exchange forward contracts to mitigate the effect of volatility in the Canadian-to-U.S. dollar exchange rate on the Anderson acquisition. Under SFAS No. 133, these derivative instruments were not considered hedges and, as such, the realized

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gain of \$30 million from settling these contracts is included in the 2001 consolidated statement of operations as other revenues.

During the third quarter of 2001, Devon also entered into interest rate locks to reduce exposure to the variability in market interest rates, specifically U.S. Treasury rates, in anticipation of the sale of the debt securities discussed in Note 7. These derivative instruments were designated as cash flow hedges. A \$28 million loss was incurred on these interest rate locks. This loss will be amortized into interest expense using the effective interest method over the life of the debt securities.

Devon assesses the effectiveness of its hedges based on changes in the derivative's intrinsic value. The change in the time value of the derivative is excluded from the assessment of hedge effectiveness and, along with any ineffectiveness, is recorded on the statement of operations in "Change in fair value of derivative instruments." For the year ended December 31, 2001, Devon recorded a net charge of approximately \$10 million which represented (i) the ineffectiveness of the various cash flow hedges and (ii) the component of the derivative instrument gain or loss excluded from the assessment of hedge effectiveness.

As of December 31, 2001, \$180 million of net deferred gains on derivative instruments accumulated in AOCL are expected to be reclassified to earnings during the next 12 months. Transactions and events expected to occur over the next 12 months that will necessitate reclassifying

18

DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

these derivatives' gains to earnings are primarily the production and sale of oil and gas which includes the production hedged under the various derivative instruments. The maximum term over which Devon is hedging exposures to the variability of cash flows for commodity price risk is 34 months.

Devon recorded in its statements of operations a loss of \$2 million for the year ended December 31, 2001 for the change in fair value of derivative instruments that do not qualify for hedge accounting treatment.

Stock Options

Devon applies the intrinsic value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations, in accounting for its fixed plan stock options. As such, compensation expense would be recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. SFAS No. 123, Accounting for Stock-Based Compensation, established accounting and disclosure requirements using a fair value-based method of accounting for stock-based employee compensation plans. As allowed by SFAS No. 123, Devon has elected to continue to apply the intrinsic value-based method of accounting described above, and has adopted the disclosure requirements of SFAS No. 123 which are included in Note 10.

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Major Purchasers

In 2001 and 2000, Enron Capital and Trade Resource Corporation accounted for 16% and 21%, respectively, of Devon's combined oil, gas and natural gas liquids sales. No purchaser accounted for over 10% of such revenues in 1999.

On December 2, 2001, Enron Corp. and certain of its subsidiaries filed voluntary petitions for reorganization under Chapter 11 of the United States Bankruptcy Code. Prior to this date, Devon had terminated substantially all of its agreements to sell oil or gas to Enron related entities. Devon incurred \$3 million of losses for sales to Enron related subsidiaries which were not collected prior to the bankruptcy filing.

Income Taxes

Devon accounts for income taxes using the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases, as well as the future tax consequences attributable to the future utilization of existing tax net operating loss and other types of carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences and carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. U.S. deferred income taxes have not been provided on Canadian earnings which are being permanently reinvested.

19

DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

General and Administrative Expenses

General and administrative expenses are reported net of amounts allocated to working interest owners of the oil and gas properties operated by Devon and net of amounts capitalized pursuant to the full cost method of accounting.

Discontinued Operations

Effective January 1, 2002, Devon was required to adopt SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, which supersedes both SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of and the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, for the disposal of a segment of a business (as previously defined in that Opinion).

On April 18, 2002, Devon, sold its Indonesian operations to PetroChina Company Limited for total cash consideration of \$262 million. Devon received

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approximately \$250 million upon closing. An additional \$12 million could be received upon successful completion of certain events. In accordance with SFAS No. 144, Devon has reclassified the assets, liabilities and results of its Indonesian operations, which were included in Devon's International segment, as discontinued operations for each of the periods presented. The following tables include the major classes of assets and liabilities and the revenues that were reclassified.

20

DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

	AS OF DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
	(IN MILLIONS)		
MAJOR CLASSES OF ASSETS AND LIABILITIES			
Cash	\$ 8	\$ 24	\$ 1
Accounts receivable	34	28	16
Inventories	15	16	16
Other current assets	2	9	11
Property and equipment, net of accumulated depreciation, depletion and amortization	145	136	106
Other assets	8	6	3
	-----	-----	-----
Total assets	212	219	153
	=====	=====	=====
Accounts payable - trade	25	28	20
Income taxes payable	13	1	1
Accrued expense	1	--	--
Other liabilities	7	6	4
Deferred income taxes	31	25	21
	-----	-----	-----
Total liabilities	77	60	46
	-----	-----	-----

FOR THE YEAR ENDED DECEMBER 31, 2001 2000 1999 ----- ----- ----- (IN MILLIONS)

REVENUES			
Oil sales	\$ 122	119	93

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NGL sales	1	--	--
	-----	-----	-----
Total revenues	\$ 123	119	93
	=====	=====	=====

Net Earnings Per Common Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if Devon's dilutive outstanding stock options were exercised (calculated using the treasury stock method) and if Devon's zero coupon convertible senior debentures were converted to common stock.

The following table reconciles the net earnings and common shares outstanding used in the calculations of basic and diluted earnings per share for 2001 and 2000. The diluted loss per share calculations for 1999 produce results that are anti-dilutive. (The diluted calculation for 1999 reduced the net loss by \$4.3 million and increased the common shares outstanding by 5.7 million shares.) Therefore, the diluted loss per share amounts for 1999 reported in the accompanying consolidated statements of operations are the same as the basic loss per share amounts.

21

DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

	Net Earnings Applicable To Common Stockholders	W Com Ou
	-----	-----
	(In Millions)	
YEAR ENDED DECEMBER 31, 2001:		
Basic earnings per share	\$ 93	
Dilutive effect of potential common shares issuable upon the exercise of outstanding stock options	--	

Diluted earnings per share	\$ 93	
	=====	
YEAR ENDED DECEMBER 31, 2000:		
Basic earnings per share	\$ 720	
Dilutive effect of:		
Potential common shares issuable upon conversion of senior convertible debentures (the increase in net		

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earnings is net of income tax expense of \$3) 5

Potential common shares issuable upon the exercise
of outstanding stock options --

Diluted earnings per share \$ 725
=====

The senior convertible debentures were not included in the 2001
dilution calculation because the inclusion was anti-dilutive.

Options to purchase approximately three million shares of Devon's
common stock with exercise prices ranging from \$48.13 per share to \$89.66 per
share (with a weighted average price of \$56.11 per share) were outstanding at
December 31, 2001, but were not included in the computation of diluted earnings
per share for 2001 because the options' exercise price exceeded the average
market price of Devon's common stock during the year. The excluded options for
2001 expire between February 18, 2002 and December 4, 2011. Options to purchase
approximately one million shares of Devon's common stock with exercise prices
ranging from \$55.54 per share to \$89.66 per share (with a weighted average price
of \$66.64 per share) were outstanding at December 31, 2000, but were not
included in the computation of diluted earnings per share for 2000 because the
options' exercise price exceeded the average market price of Devon's common
stock during the year. All options were excluded from the diluted earnings per
share calculations for 1999.

Comprehensive Earnings or Loss

Devon's comprehensive earnings or loss information is included in the
accompanying consolidated statements of stockholders' equity. A summary of
accumulated other comprehensive earnings or loss as of December 31, 2001, 2000
and 1999, and changes during each of the years then ended, is presented in the
following table.

22

DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

	FOREIGN CURRENCY TRANSLATION ADJUSTMENTS	CHANGE IN FAIR VALUE OF FINANCIAL INSTRU- MENTS	MINIMUM PENSION LIABILITY ADJUST- MENTS	UNREALIZED GAIN (LOS ON MARKET ABLE SECURITIES
	-----	-----	-----	-----
	(IN MILLIONS)			
Balance as of December 31, 1998	\$ (35)	\$ --	\$ (1)	\$ --
1999 activity	7	--	--	(60)
Deferred taxes	--	--	--	24

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1999 activity, net of deferred taxes	7	--	--	(36)
Balance as of December 31, 1999	(28)	--	(1)	(36)
2000 activity	(10)	--	1	(18)
Deferred taxes	--	--	--	7
2000 activity, net of deferred taxes	(10)	--	1	(11)
Balance as of December 31, 2000	(38)	--	--	(47)
2001 activity	(107)	243	(28)	36
Deferred taxes	--	(84)	11	(14)
2001 activity, net of deferred taxes	(107)	159	(17)	22
Balance as of December 31, 2001	\$ (145)	\$ 159	\$ (17)	\$ (25)

Foreign Currency Translation Adjustments

The assets and liabilities of certain foreign subsidiaries are prepared in their respective local currencies and translated into U.S. dollars based on the current exchange rate in effect at the balance sheet dates, while income and expenses are translated at average rates for the periods presented. Translation adjustments have no effect on net income and are included in accumulated other comprehensive loss.

Dividends

Dividends on Devon's common stock were paid in 2001, 2000 and 1999 at a per share rate of \$0.05 per quarter. As adjusted for the pooling-of-interests method of accounting followed for the Santa Fe Snyder merger, annual dividends per share for 2001, 2000 and 1999 were \$0.20, \$0.17 and \$0.14, respectively.

Statements of Cash Flows

For purposes of the consolidated statements of cash flows, Devon considers all highly liquid investments with original maturities of three months or less to be cash equivalents.

DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation or other sources are recorded when it is probable that a liability

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has been incurred and the amount can be reasonably estimated.

Environmental expenditures are expensed or capitalized in accordance with accounting principles generally accepted in the United States of America. Liabilities for these expenditures are recorded when it is probable that obligations have been incurred and the amounts can be reasonably estimated. Reference is made to Note 13 for a discussion of amounts recorded for these liabilities.

Reclassification

Certain of the 2000 and 1999 amounts in the accompanying consolidated financial statements have been reclassified to conform to the 2001 presentation.

2. BUSINESS COMBINATIONS AND PRO FORMA INFORMATION

Mitchell Energy & Development Corp. Merger

On January 24, 2002, Devon completed its acquisition of Mitchell Energy & Development Corp. ("Mitchell") for cash and stock. For each Mitchell common share outstanding, Mitchell stockholders received \$31 cash and 0.585 of a share of Devon common stock. The purchase price was approximately \$3.2 billion. The \$1.6 billion cash portion of the purchase price was funded from the \$3.0 billion senior unsecured term loan credit facility (see Note 7).

Because the Mitchell merger was not closed until 2002, it had no effect on Devon's 2001 financial condition or results of operations. See Note 19 for unaudited pro forma information concerning the Mitchell merger and the October 2001 acquisition of Anderson Exploration Ltd. ("Anderson").

Anderson Exploration Ltd. Acquisition

On October 15, 2001, Devon accepted all of the Anderson common shares tendered by Anderson stockholders in the tender offer, which represented approximately 97% of the outstanding Anderson common shares. On October 17, 2001, Devon completed its acquisition of Anderson by a compulsory acquisition under the Canada Business Corporations Act of the remaining 3% of Anderson common shares. The cost to Devon of acquiring Anderson's outstanding common shares and paying for the intrinsic value of Anderson's outstanding options and appreciation rights was approximately \$3.5 billion, which was funded from the sale of \$3.0 billion of debt securities and borrowings under the \$3.0 billion senior unsecured term loan credit facility (see Note 7).

DEVON ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001, 2000 AND 1999

Devon acquired Anderson to increase the scope of its Canadian operations, for the exposure to north Canada's exploratory areas and to increase exposure to the North American natural gas market.

The calculation of the purchase price and the preliminary allocation to assets and liabilities as of October 15, 2001, are shown below. The purchase price allocation is preliminary because certain items such as the tax basis of

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the assets and liabilities acquired and the allocation of fair value to undeveloped properties have not been completed.

(IN MILLIONS)
EXCEPT SHARE

Calculation and preliminary allocation of purchase price:

Number of Anderson common shares outstanding	\$ 2
Acquisition price per share	-----
Cash paid to Anderson stockholders	\$ 3
Cash paid to settle Anderson employees' stock options and appreciation rights	-----
	3
Plus estimated acquisition costs incurred	-----
	3
Total purchase price	-----
Plus fair value of liabilities assumed by Devon:	
Current liabilities	
Long-term debt	1
Other long-term liabilities	
Fair value of financial instruments	
Deferred income taxes	1

Total purchase price plus liabilities assumed	\$ 6
	=====
Fair value of assets acquired by Devon:	
Current assets	
Proved oil and gas properties	2
Unproved oil and gas properties	1
Other property and equipment	
Goodwill (none deductible for income tax purposes)	1

Total fair value of assets acquired	\$ 6
	=====

See Note 19 for unaudited pro forma information concerning the Anderson acquisition and the Mitchell merger.

Santa Fe Snyder Merger

Devon closed its merger with Santa Fe Snyder Corporation ("Santa Fe Snyder") on August 29, 2000. The merger was accounted for using the pooling-of-interests method of accounting for business combinations. Accordingly, all operational and financial information contained herein includes the combined amounts for Devon and Santa Fe Snyder for all periods presented.

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DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

Devon issued approximately 41 million shares of its common stock to the former stockholders of Santa Fe Snyder based on an exchange ratio of 0.22 shares of Devon common stock for each share of Santa Fe Snyder common stock. Because the merger was accounted for using the pooling-of-interests method, all combined share information has been retroactively restated to reflect the exchange ratio.

During 2000, Devon recorded a pre-tax charge of \$60 million (\$37 million net of tax) for direct costs related to the Santa Fe Snyder merger.

PennzEnergy Merger

Devon closed its merger with PennzEnergy Company ("PennzEnergy") on August 17, 1999. The merger was accounted for using the purchase method of accounting for business combinations. Accordingly, the accompanying statement of operations for 1999 includes the effects of PennzEnergy operations since August 17, 1999.

Devon issued approximately 22 million shares of its common stock to the former stockholders of PennzEnergy. In addition, Devon assumed long-term debt and other obligations totaling approximately \$2.3 billion on August 17, 1999.

Additionally, \$347 million of deferred taxes were created as a result of the merger. Due to the tax-free nature of the merger, Devon's tax basis in the assets acquired and liabilities assumed are the same as PennzEnergy's tax basis. The \$347 million of deferred taxes recorded represent the deferred tax effect of the differences between the fair values assigned by Devon for financial reporting purposes to the former PennzEnergy assets and liabilities and their bases for income tax purposes.

Snyder Merger

Santa Fe Snyder was formed on May 5, 1999, when the former Santa Fe Energy Resources, Inc. ("Santa Fe") closed its merger with Snyder Oil Corporation ("Snyder"). Because Devon's merger with Santa Fe Snyder was accounted for using the pooling-of-interests method, the accompanying consolidated financial statements are presented as though Devon merged with Snyder in May 1999.

The Snyder merger was accounted for using the purchase method of accounting for business combinations. Accordingly, the accompanying statement of operations for 1999 includes the effects of Snyder's operations since May 5, 1999.

DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

As restated for the Devon-Santa Fe Snyder pooling, each share of Snyder common stock was exchanged for 0.451 shares of Devon common stock. This resulted

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in the issuance of approximately 15 million shares of Devon stock in the Snyder merger. In addition, the Snyder merger also included the assumption of approximately \$219 million of Snyder's long-term debt as of May 5, 1999.

Additionally, \$135 million was added to oil and gas properties for deferred taxes created as a result of the Snyder merger. Due to the tax-free nature of the merger, Santa Fe's tax basis in the assets acquired and liabilities assumed were the same as Snyder's tax basis. The \$135 million of deferred taxes recorded represent the deferred tax effect of the differences between the fair values assigned by Santa Fe for financial reporting purposes to the former Snyder assets and liabilities and their bases for income tax purposes.

3. SAN JUAN BASIN TRANSACTION

At the beginning of 1995, Devon entered into a transaction (the "San Juan Basin Transaction") involving a volumetric production payment and a repurchase option. The San Juan Basin Transaction allowed Devon to monetize tax credits earned from certain of its coal seam gas production in the San Juan Basin. During 2000 and 1999, the San Juan Basin Transaction added approximately \$12 million and \$8 million, respectively, to Devon's gas revenues.

Under the terms of the San Juan Basin Transaction, Devon had a repurchase option which it could exercise at anytime. Devon exercised the repurchase option effective September 30, 2000. Devon had previously recorded a portion of the quarterly cash payments received pursuant to the San Juan Basin Transaction as a repurchase liability based upon the estimated eventual repurchase price. Devon also received cash payments in exchange for agreeing not to exercise its repurchase option for specific periods of time prior to 2000. These payments were also added to the repurchase liability. As a result, in addition to the cash flow recorded as revenues described in the previous paragraph, Devon also received \$17 million in 1999 which was added to the repurchase liability. The actual repurchase price as of September 30, 2000, was approximately \$36 million.

4. SUPPLEMENTAL CASH FLOW INFORMATION

Cash payments for interest in 2001, 2000 and 1999 were approximately \$118 million, \$155 million and \$116 million, respectively. Cash payments for federal, state and foreign income taxes in 2001, 2000 and 1999 were approximately \$192 million, \$82 million and \$16 million, respectively.

DEVON ENERGY CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2001, 2000 AND 1999

The 2001 Anderson acquisition and the 1999 PennzEnergy merger and Snyder merger involved non-cash consideration as presented below:

2001	1999
-----	-----
(IN MILLIONS)	

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Value of common stock issued	\$	--	1,130
Value of preferred stock issued		--	150
Employee stock options assumed		--	18
Liabilities assumed		1,303	2,259
Deferred tax liability created		1,427	475
		-----	-----
Fair value of assets acquired with non-cash consideration	\$	2,730	4,032
		=====	=====

During the fourth quarter of 1999, substantially all of the 6.5% Trust Convertible Preferred Securities were converted to Devon common stock (see Note 9).

5. ACCOUNTS RECEIVABLE

The components of accounts receivable included the following:

	DECEMBER 31,	
	2001	2000
	-----	-----
	(IN MILLIONS)	
Oil, gas and natural gas liquids revenue accruals	\$ 289	410
Joint interest billings	108	123
Other	110	41
	-----	-----
	507	574
Allowance for doubtful accounts	(4)	(4)
	-----	-----
Net accounts receivable	\$ 503	570
	=====	=====

DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

6. PROPERTY AND EQUIPMENT

Property and equipment included the following:

	DECEMBER 3	
	2001	2000
	-----	-----
	(IN MILLIO	

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Oil and gas properties:		
Subject to amortization	\$ 12,912	8,847
Not subject to amortization:		
Acquired in 2001	1,638	--
Acquired in 2000	74	74
Acquired in 1999	116	122
Acquired prior to 1999	110	118
Accumulated depreciation, depletion and amortization	(6,271)	(4,564)
	-----	-----
Net oil and gas properties	8,579	4,597
	-----	-----
Other property and equipment	393	224
Accumulated depreciation and amortization	(89)	(47)
	-----	-----
Net other property and equipment	304	177
	-----	-----
Property and equipment, net of accumulated depreciation, depletion and amortization	\$ 8,883	4,774
	=====	=====

The costs not subject to amortization relate to unproved properties, none of which are individually significant. Subject to industry conditions, evaluation of these properties is expected to be completed within five years.

Depreciation, depletion and amortization of property and equipment consisted of the following components:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	-----	-----	-----
	(IN MILLIONS)		
Depreciation, depletion and amortization of oil and gas properties	\$ 817	643	371
Depreciation and amortization of other property and equipment	30	23	14
Amortization of other assets	8	7	2
	-----	-----	-----
Total	\$ 855	673	387
	=====	=====	=====

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

7. LONG-TERM DEBT AND RELATED EXPENSES

A summary of Devon's long-term debt is as follows:

	----- 2001 -----
Borrowings under credit facilities with banks	\$ 50
Commercial paper borrowings	75
\$3 billion term loan credit facility	1,046
Debentures exchangeable into shares of	
ChevronTexaco Corporation common stock:	
4.90% due August 15, 2008	444
4.95% due August 15, 2008	316
Discount on exchangeable debentures	(111)
Zero coupon convertible senior debentures exchangeable into shares of	
Devon common stock, 3.875% due June 27, 2020	374
Other debentures:	
10.25% due November 1, 2005	236
10.125% due November 15, 2009	177
7.875% due September 30, 2031	1,250
Net premium on debentures	6
Senior notes:	
8.05% due June 15, 2004	125
7.25 % due July 18, 2005	110
6.76% due July 19, 2005	--
7.42% due October 1, 2005	23
7.57% due October 4, 2005	31
6.55% due August 2, 2006	126
8.75% due June 15, 2007	175
6.79% due March 2, 2009	--
6.75% due March 15, 2011	400
6.875% due September 30, 2011	1,750
Net discount on notes	(14)
	----- 6,589 -----
Less amount classified as current	--

Long-term debt	\$ 6,589 =====

Maturities of long-term debt as of December 31, 2001, excluding the \$119 million of discounts net of premiums, are as follows (in millions):

2002	\$ --
2003	--
2004	358
2005	775
2006	689
2007 and thereafter	4,886

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Total	----- \$ 6,708 =====
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30

DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

Credit Facilities With Banks

On August 13, 2001, Devon renewed its unsecured long-term credit facilities aggregating \$1 billion (the "Credit Facilities"). The Credit Facilities include a U.S. facility of \$725 million (the "U.S. Facility") and a Canadian facility of \$275 million (the "Canadian Facility").

The \$725 million U.S. Facility consists of a Tranche A facility of \$200 million and a Tranche B facility of \$525 million. The Tranche B facility can be increased to as high as \$625 million and reduced to as low as \$425 million by reallocating the amount available between the Tranche B facility and the Canadian Facility. The Tranche A facility matures on October 15, 2004. Devon may borrow funds under the Tranche B facility until August 12, 2002 (the "Tranche B Revolving Period"). Devon may request that the Tranche B Revolving Period be extended an additional 364 days by notifying the agent bank of such request between 30 and 60 days prior to the end of the Tranche B Revolving Period. Debt borrowed under the Tranche B facility matures two years and one day following the end of the Tranche B Revolving Period.

Devon may borrow funds under the \$275 million Canadian Facility until August 12, 2002 (the "Canadian Facility Revolving Period"). As disclosed in the prior paragraph, the Canadian Facility can be increased to as high as \$375 million and reduced to as low as \$175 million by reallocating the amount available between the Tranche B facility and the Canadian Facility. Devon may request that the Canadian Facility Revolving Period be extended an additional 364 days by notifying the agent bank of such request between 45 and 90 days prior to the end of the Canadian Facility Revolving Period. Debt outstanding as of the end of the Canadian Facility Revolving Period is payable in semi-annual installments of 2.5% each for the following five years, with the final installment due five years and one day following the end of the Canadian Facility Revolving Period.

Amounts borrowed under the Credit Facilities bear interest at various fixed rate options that Devon may elect for periods up to six months. Such rates are generally less than the prime rate, and are tied to margins determined by Devon's corporate credit ratings. Devon may also elect to borrow at the prime rate. The Credit Facilities provide for an annual facility fee of \$0.9 million that is payable quarterly. The weighted average interest rate on the \$50 million and \$147 million outstanding under the Credit Facilities at December 31, 2001 and 2000, was 4.8% and 6.1%, respectively. The average interest rate on bank debt outstanding under the previous facilities at December 31, 1999 was 6.8%.

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

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December 31, 2001, Devon was in compliance with such covenants and restrictions.

31

DEVON ENERGY CORPORATION AND SUBSIDIARIES NOTES TO CONSOLIDATED FINANCIAL STATEMENTS DECEMBER 31, 2001, 2000 AND 1999

Commercial Paper

On August 29, 2000, Devon entered into a commercial paper program. Devon may borrow up to \$725 million under the commercial paper program. Total borrowings under the U.S. Facility and the commercial paper program may not exceed \$725 million. The commercial paper borrowings may have terms of up to 365 days and bear interest at rates agreed to at the time of the borrowing. The interest rate is based on a standard index such as the Federal Funds Rate, London Interbank Offered Rate (LIBOR), or the money market rate as found on the commercial paper market. As of December 31, 2001, Devon had \$75 million of borrowings under its commercial paper program at an average rate of 3.5%. Because Devon had the intent and ability to refinance the balance due with borrowings under its U.S. Facility, the \$75 million outstanding under the commercial paper program was not included in the Company's consolidated balance sheet. THE 2009 ANNUAL MEETING

Method for Including Proposals in the Company's Proxy Statement. Under the rules of the SEC, if you want to have a proposal included in the Company's proxy statement for its next annual meeting of stockholders, that proposal must be received by the Secretary of the Company at 10801 Mastin Boulevard, Suite 222, Overland Park, Kansas 66210, not later than 5:00 p.m., Central Time on November 20, 2008. Such proposal must comply with all applicable requirements of Rule 14a-8 of the Exchange Act. Timely submission of a proposal does not mean the proposal will be included in the proxy material sent to stockholders.

Other Proposals and Nominations. If you want to nominate a director or have other business considered at the Company's next annual meeting of stockholders but do not want those items included in its proxy statement, you must comply with the advance notice provision of the Company's Bylaws. Under the Company's Bylaws, nominations for director or other business proposals to be addressed at the Company's next annual meeting may be made by a stockholder who has delivered a notice to the Secretary of the Company at 10801 Mastin Boulevard, Suite 222, Overland Park, Kansas 66210, no earlier than October 21, 2008 nor later than 5:00 p.m. Central Time on November 20, 2008. The stockholder must satisfy certain requirements set forth in the Company's Bylaws and the notice must contain specific information required by the Company's Bylaws. With respect to nominees for director, the notice must include, among other things, the name, age, business address and residence address of any nominee for director, certain information regarding such person's ownership of Company shares, and all other information relating to the nominee as is required to be disclosed in solicitations of proxies in an election contest or as otherwise required by Regulation 14A under the Exchange Act. With respect to other business to be brought before the meeting, a notice must include, among other things, a description of the business and any material interest in such business by the stockholder and certain associated persons proposing the business. Any stockholder wishing to make a proposal should carefully read and review the applicable Company's Bylaws. A copy of the Company's Bylaws may be obtained by contacting the Secretary of the Company at 866-362-9331 or by writing the Secretary of the Company at 10801 Mastin Boulevard, Suite 222, Overland Park, Kansas 66210. Timely submission of a proposal does not mean the proposal will be allowed to be brought before the meeting.

in order to have a proposal included in the Company's proxy statement under the rules of the SEC. A proxy granted by a stockholder will give discretionary authority to the proxies to vote on any matters introduced pursuant to the above advance notice Bylaw provisions, subject to applicable rules of the SEC.

By Order of the Board of Directors
Connie J. Savage
Secretary

March 20, 2008

TORTOISE CAPITAL RESOURCES CORPORATION

PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

Proxy Tortoise Capital Resources Corporation

**PROXY SOLICITED BY THE BOARD OF DIRECTORS FOR
THE ANNUAL MEETING OF STOCKHOLDERS APRIL 21, 2008**

The undersigned holder of shares of Tortoise Capital Resources Corporation appoints David J. Schulte and Terry C. Matlack, or either of them, each with power of substitution, to vote all shares that the undersigned is entitled to vote at the annual meeting of stockholders of Tortoise Capital Resources Corporation to be held on April 21, 2008 and at any adjournments thereof, as set forth on the reverse side of this card, and in their discretion upon any other business that may properly come before the meeting.

This proxy, when properly executed, will be voted in the manner directed herein and, absent direction, will be voted "FOR" the proposals.

YOUR VOTE IS IMPORTANT. PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY PROMPTLY USING THE ENCLOSED POSTMARKED ENVELOPE.

(Continued and to be signed on the reverse side)

Using a **black ink** pen, mark your votes with an X as shown in ☒ [X] this example. Please do not write outside the designated areas.

Annual Meeting Proxy Card

PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.

A. Election of Directors The Board of Directors recommends a vote "FOR" the Nominee below.

1. Nominee: FOR WITHHOLD
Conrad S. Ciccotello ☐ ☐ ☐

B. Issues The Board of Directors recommends a vote "FOR" the Proposals and Ratification below.

2. Approval of the Company's sale of common shares below Net Asset Value ("NAV") subject to all of the following conditions being met: (1) the per share offering price, before deduction of underwriting fees, commissions and offering expenses, will not be less than the NAV per share of the Company's common stock, as determined at any time within two business days prior to the pricing of the common stock to be sold in the offering; (2) immediately following the offering, after deducting offering expenses and underwriting fees and commissions, the NAV per share of the Company's common stock, as determined at any time within two business days prior to the pricing of the common stock to be sold, would not have been diluted by greater than a total of 4% of the NAV per share of all outstanding common stock; and (3) a majority of the Company's independent directors makes a determination, based on information and a recommendation from the Company's investment Adviser, that they reasonably expect that the investment(s) to be made with the net proceeds of such issuance will lead to a long-term increase in distribution growth.

FOR AGAINST ABSTAIN

☐ ☐ ☐

3. Approval of the Company's sale of warrants or options to acquire common shares and the common shares issuable pursuant to such warrants or options.

FOR AGAINST ABSTAIN

☐ ☐ ☐

4. Ratification of Ernst & Young LLP as the Company's independent registered public accounting firm to audit the financial statements of the Company for the fiscal year ending November 30, 2008:

FOR AGAINST ABSTAIN

☐ ☐ ☐

C. Non-Voting Issues

Change of Address Please print new address below.

Meeting Attendance

Mark box to the right ☐ if you plan to attend the Annual Meeting.

D. Authorized Signatures This section must be completed for your vote to be counted. **Date and Sign Below**

Please sign exactly as your name appears. If acting as attorney, executor, trustee, or in representative capacity, sign name and indicate title.

Date (mm/dd/yyyy)

Please print date below

/ /

Signature 1 Please keep
signature
within the box.

Signature 2 Please keep
signature
within the box.