DEVON ENERGY CORP/DE
Form 10-K/A
June 09, 2008

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A
Amendment No. 1

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2007

or

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

Commission File Number 001-32318

Devon Energy Corporation
(Exact name of Registrant as Specified in its Charter)

Delaware	**73-1567067**
(State or Other Jurisdiction of Incorporation or Organization)	*(I.R.S. Employer Identification No.)*
20 North Broadway, Oklahoma City, Oklahoma	**73102-8260**
(Address of Principal Executive Offices)	*(Zip Code)*

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $0.10 per share	The New York Stock Exchange
4.90% Exchangeable Debentures, due 2008	The New York Stock Exchange
4.95% Exchangeable Debentures, due 2008	The New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer (as defined in Rule 405 of the Securities Act). Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of the voting common stock held by non-affiliates of the registrant as of June 29, 2007, was approximately $34.7 billion, based upon the closing price of $78.29 per share as reported by the New York Stock Exchange on such date. On February 15, 2008, 444,390,145 shares of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Proxy statement for the 2008 annual meeting of stockholders Part III

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EXPLANATORY NOTE

We filed our Annual Report on Form 10-K for the year ended December 31, 2007 on February 28, 2008 (the Original Report). We are filing this Amendment No. 1 on Form 10-K/A (this Amendment) solely to revise Exhibit 32.2 to the Original Report, as such exhibit contained an inaccurate date reference. No other changes to the Original Report are included in this Amendment other than to provide currently-dated Exhibit Nos. 23.1, 23.2, 23.3, 23.4, 31.1, 31.2, 32.1 and 32.2.

This Amendment is being filed in response to a comment we received from the staff of the Division of Corporation Finance of the Securities and Exchange Commission (the SEC) in connection with the staff s review of the Original Report. We have made no attempt in this Amendment to modify or update the disclosures presented in the Original Report other than as noted in the previous paragraph. Also, this Amendment does not reflect events occurring after the filing of the Original Report. Accordingly, this Amendment should be read in conjunction with the Original Report and our other filings with the SEC subsequent to the filing of the Original Report.

DEVON ENERGY CORPORATION

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First Amendment to Credit Agreement
Third Amendment to Amended and Restated Credit Agreement
Statement of Computations of Ratios of Earnings to Fixed Charges
Subsidiaries
Consent of KPMG LLP
Consent of LaRoche Petroleum Consultants
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Consent of AJM Petroleum Consultants

Certification of J. Larry Nichols Pursuant to Section 302
Certification of Danny J. Heatly Pursuant to Section 302
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Certification of Danny J. Heatly Pursuant to Secton 906

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DEFINITIONS

As used in this document:

Bbl or Bbls means barrel or barrels.

Bcf means billion cubic feet.

Boe means barrel of oil equivalent, determined by using the ratio of one Bbl of oil or NGLs to six Mcf of gas.

FPSO means floating, production, storage and offloading facilities.

Btu means British Thermal units, a measure of heating value.

Inside FERC refers to the publication *Inside F.E.R.C. s Gas Market Report.*

LIBOR means London Interbank Offered Rate.

MBbls means thousand barrels.

MMBbls means million barrels.

MBoe means thousand Boe.

MMBoe means million Boe.

MMBtu means million Btu.

Mcf means thousand cubic feet.

MMcf means million cubic feet.

MMcfe means million cubic feet of gas equivalent, determined by using the ratio of one Bbl of oil or NGLs to six Mcf of gas.

NGL or NGLs means natural gas liquids.

NYMEX means New York Mercantile Exchange.

Oil includes crude oil and condensate.

SEC means United States Securities and Exchange Commission.

Domestic means the properties of Devon in the onshore continental United States and the offshore Gulf of Mexico.

U.S. Onshore means the properties of Devon in the continental United States.

U.S. Offshore means the properties of Devon in the Gulf of Mexico.

Canada means the division of Devon encompassing oil and gas properties located in Canada.

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

DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

This report includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included or incorporated by reference in this report, including, without limitation, statements regarding our future financial position, business strategy, budgets, projected revenues, projected costs and plans and objectives of management for future operations, are forward-looking statements. Such forward-looking statements are based on our examination of historical operating trends, the information that was used to prepare the December 31, 2007 reserve reports and other data in our

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possession or available from third parties. In addition, forward-looking statements generally can be identified by the use of forward-looking terminology such as may, will, expect, intend, project, estimate, anticipate, believ continue or similar terminology. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we can give no assurance that such expectations will prove to have been correct. Important factors that could cause actual results to differ materially from our expectations include, but are not limited to, our assumptions about:

energy markets;

production levels, including Canadian production subject to government royalties, which fluctuate with prices and production, and international production governed by payout agreements, which affect reported production;

reserve levels;

competitive conditions;

technology;

the availability of capital resources;

capital expenditure and other contractual obligations;

the supply and demand for oil, natural gas, NGLs and other products or services;

the price of oil, natural gas, NGLs and other products or services;

currency exchange rates;

the weather;

inflation;

the availability of goods and services;

drilling risks;

future processing volumes and pipeline throughput;

general economic conditions, whether internationally, nationally or in the jurisdictions in which we or our subsidiaries conduct business;

legislative or regulatory changes, including retroactive royalty or production tax regimes, changes in environmental regulation, environmental risks and liability under federal, state and foreign environmental laws and regulations;

terrorism;

occurrence of property acquisitions or divestitures;

- the securities or capital markets and related risks such as general credit, liquidity, market and interest-rate risks; and

- other factors disclosed under Item 2. Properties Proved Reserves and Estimated Future Net Revenue, Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations, Item 7A. Quantitative and Qualitative Disclosures About Market Risk and elsewhere 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. We assume no duty to update or revise our forward-looking statements based on changes in internal estimates or expectations or otherwise.

PART I

Item 1. *Business*

General

Devon Energy Corporation, including its subsidiaries (Devon), is an independent energy company engaged primarily in oil and gas exploration, development and production, the transportation of oil, gas, and NGLs and the processing of natural gas. We own oil and gas properties principally in the United States and Canada and, to a lesser degree, various regions located outside North America, including Azerbaijan, Brazil and China. We also own properties in West Africa that we intend to sell in 2008. In addition to our oil and gas operations, we have marketing and midstream operations primarily in North America. These include marketing natural gas, crude oil and NGLs, and constructing and operating pipelines, storage and treating facilities and gas processing plants. A detailed description of our significant properties and associated 2007 developments can be found under Item 2. Properties.

We began operations in 1971 as a privately held company. In 1988, our common stock began trading publicly on the American Stock Exchange under the symbol DVN . In October 2004, we transferred our common stock listing to the New York Stock Exchange. Our principal and administrative offices are located at 20 North Broadway, Oklahoma City, OK 73102-8260 (telephone 405/235-3611).

Strategy

We have a two-pronged operating strategy. First, we invest the vast majority of our capital budget in low-risk exploitation and development projects on our extensive North American property base, which provides reliable and repeatable production and reserves additions. To supplement that low-risk part of our strategy, we also annually invest a measured amount of capital in high-impact, long cycle-time projects to replenish our development inventory for the future. The philosophy that underlies the execution of this strategy is to strive to increase value on a per share basis by:

- building oil and gas reserves and production;
- exercising capital discipline;
- preserving financial flexibility;
- maintaining a low unit-cost structure; and
- improving performance through our marketing and midstream operations.

Development of Business

During 1988, we expanded our capital base with our first issuance of common stock to the public. This transaction began a substantial expansion program that has continued through the subsequent years. This expansion is attributable to both a focused mergers and acquisitions program spanning a number of years and an active ongoing exploration and development drilling program. We have increased our total proved reserves from 8 MMBoe[1] at year-end 1987 to 2,496 MMBoe[2] at year-end 2007.

During the same time period, we have grown proved reserves from 0.66 Boe[1] per diluted share at the end of 1987 to 5.56 Boe[2] per diluted share at the end of 2007. This represents a compound annual growth rate of 11%. We have also increased production from 0.09 Boe[1] per diluted share in 1987 to 0.50 Boe[2] per diluted share in 2007, for a compound annual growth rate of 9%. This per share growth is a direct result of successful execution of our strategic plan and other key transactions and events.

[1] Excludes the effects of mergers in 1998 and 2000 that were accounted for as poolings of interests.
[2] Excludes reserves in West Africa that are held for sale and classified as discontinued operations as of December 31, 2007.

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We achieved a number of significant accomplishments in our operations during 2007, including those discussed below.

Drilling Success We drilled 2,440 wells with an overall 98% rate of success. As a result of our success with the drill-bit, our proved reserves increased 9% to reach a record of 2.5 billion Boe at year-end 2007. We added 390 MMBoe of proved reserves during the year with extensions, discoveries and performance revisions, a total which was well in excess of the 224 MMBoe we produced during the year. Consistent with our two-pronged operating strategy, 92% of the wells we drilled were North American development wells.

Barnett Shale Growth We continue to retain our positions as the largest producer and largest lease holder in the Barnett Shale area of north Texas. We increased our production from the Barnett Shale area by 33% in 2007, exiting the year at 950 MMcfe per day net to our ownership interest. We drilled 539 wells in the Barnett Shale in 2007, which included our 1,000th horizontal well. We have interests in nearly 3,200 producing wells in the Barnett Shale and hold approximately 727,000 net acres of Barnett Shale leases. At December 31, 2007, we had estimated proved reserves of 724 MMBoe in the Barnett Shale area.

U.S. Onshore Production and Reserves Growth Our U.S. onshore properties, including the Barnett Shale, the Groesbeck and Carthage areas in east Texas and the Washakie basin in Wyoming, showed strong production growth in 2007. These three areas, which accounted for a little over 60% of our U.S. onshore production, had production growth in 2007 of 19% compared to 2006.

In addition to production growth, our U.S. onshore properties also demonstrated measurable growth in proved reserves. U.S. onshore proved reserves grew 282 MMBoe due to extensions, discoveries and performance revisions. This was more than double our U.S. onshore production in 2007 of 125 MMBoe. Our drilling activities increased our 2007 U.S. onshore proved reserves by14% compared to the end of 2006.

Gulf of Mexico Exploration and Development In 2007, we continued to build off prior years successful drilling results with our deepwater Gulf of Mexico exploration and development program. To date, we have drilled four discovery wells in the Lower Tertiary trend Cascade in 2002 (50% working interest), St. Malo in 2003 (22.5% working interest), Jack in 2004 (25% working interest) and Kaskida in 2006 (20% working interest). These achievements, along with our 2007 developments discussed below, support our positive view of the Lower Tertiary and demonstrate the potential of our high-impact exploration strategy on growth of long-term production, reserves and value.

Specific Gulf of Mexico developments in 2007 included the following:

We commenced production from the deepwater Merganser field. At the end of 2007, our combined production from the two Merganser natural gas wells was about 51 MMcf per day. We have a 50% working interest in the Merganser field, which produces into the Independence Hub.

We sanctioned Cascade for phase one development and awarded various service and facilities contracts for he project. We anticipate first production at Cascade in 2010.

We initiated the drilling of delineation wells at St. Malo, Jack, Kaskida and Mission Deep. We have a 50% working interest in Mission Deep, which is a Miocene discovery made in 2006.

We are participating in two Lower Tertiary exploratory wells that were initiated in 2007 Chuck (29.5% working interest) and Green Bay (23% interest). The Chuck well has reached total depth and is being evaluated. Drilling of the Green Bay well toward its target objective continues.

Jackfish We completed construction and commenced steam injection at our 100%-owned Jackfish thermal heavy oil project in the Alberta oil sands. Oil production from Jackfish is expected to ramp up throughout 2008 toward a peak production target of 35,000 Bbls per day. Additionally, we began front-end engineering and design work on an extension of our Jackfish project. We hope to receive regulatory approval and formally sanction this second phase in the middle of 2008. Like the first phase, this second phase of Jackfish is also expected to eventually produce 35,000 Bbls per day.

Lloydminster Also in Canada, we increased production from the Lloydminster oil play in Alberta by 40% to approximately 33,500 Boe per day. We drilled 429 wells at Lloydminster in 2007, which added 22 million Boe of proved reserves.

Polvo We completed construction and fabrication of the Polvo oil development project offshore Brazil and began producing oil from the first of ten planned wells. Polvo, located in the Campos basin, was discovered in 2004 and is our first operated development project in Brazil. We have a 60% working interest in Polvo.

In November 2006 and January 2007, we announced plans to divest our operations in Egypt and West Africa, including Equatorial Guinea, Cote d Ivoire, Gabon and other countries in the region. Divesting these properties will allow us to redeploy our financial and intellectual capital to the significant growth opportunities we have developed onshore in North America and in the deepwater Gulf of Mexico. Additionally, we will sharpen our focus in North America and concentrate our international operations in Brazil and China, where we have established competitive advantages.

In October 2007, we completed the sale of our operations in Egypt and received proceeds of $341 million. As a result of this sale, we recognized a $90 million after-tax gain in the fourth quarter of 2007. In November 2007, we announced an agreement to sell our operations in Gabon for $205.5 million. We are finalizing purchase and sales agreements and obtaining the necessary partner and government approvals for the remaining properties in the West African divestiture package. We are optimistic we can complete these sales during the first half of 2008.

Pursuant to accounting rules for discontinued operations, the amounts in this document related to continuing operations for 2007 and all prior years presented do not include amounts related to our operations in Egypt and West Africa.

Financial Information about Segments and Geographical Areas

Notes 14 and 15 to the consolidated financial statements included in Item 8. Financial Statements and Supplementary Data of this report contain information on our segments and geographical areas.

Oil, Natural Gas and NGL Marketing

The spot market for oil, gas and NGLs is subject to volatility as supply and demand factors fluctuate. As detailed below, we sell our production under both long-term (one year or more) or short-term (less than one year) agreements. Regardless of the term of the contract, the vast majority of our production is sold at variable or market sensitive prices.

Additionally, we may periodically enter into financial hedging arrangements, fixed-price contracts or firm delivery commitments with a portion of our oil and gas production. These activities are intended to support targeted price levels and to manage our exposure to price fluctuations. See Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

Oil Marketing

Our oil production is sold under both long-term (one year or more) and short-term (less than one year) agreements at prices negotiated with third parties. As of February 2008, all of our oil production is sold at variable or market-sensitive prices.

Natural Gas Marketing

Our gas production is also sold under both long-term and short-term agreements at prices negotiated with third parties. Although exact percentages vary daily, as of February 2008, approximately 81% of our natural gas production was sold under short-term contracts at variable or market-sensitive prices. These market-sensitive sales are referred to as spot market sales. Another 17% of our production was committed under various long-term contracts, which dedicate the natural gas to a purchaser for an extended period of time but still at market sensitive prices. The remaining 2% of our gas production was sold under long-term fixed price contracts.

NGL Marketing

Our NGL production is sold under both long-term and short-term agreements at prices negotiated with third parties. Although exact percentages vary, as of February 2008, approximately 69% of our NGL production was sold under short-term contracts at variable or market-sensitive prices. The remaining NGL production is sold under long-term market-indexed contracts which are subject to market pricing variations.

Marketing and Midstream Activities

The primary objective of our marketing and midstream operations is to add value to us and other producers to whom we provide such services by gathering, processing and marketing oil, gas and NGL production in a timely and efficient manner. Our most significant midstream asset is the Bridgeport processing plant and gathering system located in north Texas. These facilities serve not only our gas production from the Barnett Shale but also gas production of other producers in the area. Our midstream assets also include our 50% interest in the Access Pipeline transportation system in Canada. This pipeline system allows us to blend our Jackfish heavy oil production with condensate and then transport the combined product to the Edmonton area.

Our marketing and midstream revenues are primarily generated by:

- selling NGLs that are either extracted from the gas streams processed by our plants or purchased from third parties for marketing, and
- selling or gathering gas that moves through our transport pipelines and unrelated third-party pipelines.

Our marketing and midstream costs and expenses are primarily incurred from:

- purchasing the gas streams entering our transport pipelines and plants;
- purchasing fuel needed to operate our plants, compressors and related pipeline facilities;
- purchasing third-party NGLs;
- operating our plants, gathering systems and related facilities; and
- transporting products on unrelated third-party pipelines.

Customers

We sell our gas production to a variety of customers including pipelines, utilities, gas marketing firms, industrial users and local distribution companies. Gathering systems and interstate and intrastate pipelines are used to consummate gas sales and deliveries.

The principal customers for our crude oil production are refiners, remarketers and other companies, some of which have pipeline facilities near the producing properties. In the event pipeline facilities are not conveniently available, crude oil is trucked or shipped to storage, refining or pipeline facilities.

Our NGL production is primarily sold to customers engaged in petrochemical, refining and heavy oil blending activities. Pipelines, railcars and trucks are utilized to move our products to market.

No purchaser accounted for over 10% of our revenues in 2007, 2006 or 2005.

Seasonal Nature of Business

Generally, but not always, the demand for natural gas decreases during the summer months and increases during the winter months. Seasonal anomalies such as mild winters or hot summers sometimes lessen this fluctuation. In addition, pipelines, utilities, local distribution companies and industrial users utilize natural gas

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storage facilities and purchase some of their anticipated winter requirements during the summer. This can also lessen seasonal demand fluctuations.

Government Regulation

The oil and gas industry is subject to various types of regulation throughout the world. Legislation affecting the oil and gas industry has been pervasive and is under constant review for amendment or expansion. Pursuant to this legislation, numerous government agencies have issued extensive laws and regulations binding on the oil and gas industry and its individual members, some of which carry substantial penalties for failure to comply. Such laws and regulations have a significant impact on oil and gas exploration, production and marketing and midstream activities. These laws and regulations increase the cost of doing business and, consequently, affect profitability. Because new legislation affecting the oil and gas industry is commonplace and existing laws and regulations are frequently amended or reinterpreted, we are unable to predict the future cost or impact of complying with such laws and regulations. However, we do not expect that any of these laws and regulations will affect our operations in a manner materially different than they would affect other oil and gas companies of similar size.

The following are significant areas of government control and regulation in the United States, Canada and other international locations in which we operate.

Exploration and Production Regulation

Our oil and gas operations are subject to various federal, state, provincial, local and international laws and regulations, including regulations related to the acquisition of seismic data; the location of wells; drilling and casing of wells; well production; spill prevention plans; the use, transportation, storage and disposal of fluids and materials incidental to oil and gas operations; surface usage and the restoration of properties upon which wells have been drilled; the calculation and disbursement of royalty payments and production taxes; the plugging and abandoning of wells; the transportation of production; and, in international operations, minimum investments in the country of operations.

Our operations are also subject to conservation regulations, including the regulation of the size of drilling and spacing units or proration units; the number of wells that may be drilled in a unit; the rate of production allowable from oil and natural gas wells; and the unitization or pooling of oil and natural gas properties. In the United States, some states allow the forced pooling or integration of tracts to facilitate exploration, while other states rely on voluntary pooling of lands and leases which may make it more difficult to develop oil and gas properties. In addition, state conservation laws generally limit the venting or flaring of natural gas and impose certain requirements regarding the ratable purchase of production. The effect of these regulations is to limit the amounts of oil and natural gas we can produce from our wells and to limit the number of wells or the locations at which we can drill.

Certain of our U.S. oil and natural gas leases are granted by the federal government and administered by various federal agencies, including the Bureau of Land Management and the Minerals Management Service (MMS) of the Department of the Interior. Such leases require compliance with detailed federal regulations and orders that regulate, among other matters, drilling and operations on lands covered by these leases, and calculation and disbursement of royalty payments to the federal government. The MMS has been particularly active in recent years in evaluating and, in some cases, promulgating new rules and regulations regarding competitive lease bidding and royalty payment obligations for production from federal lands. The Federal Energy Regulatory Commission also has jurisdiction over certain U.S. offshore activities pursuant to the Outer Continental Shelf Lands Act.

Royalties and Incentives in Canada

The royalty system in Canada is a significant factor in the profitability of oil and natural gas production. Royalties payable on production from lands other than Crown lands are determined by negotiations between the parties. Crown royalties are determined by government regulation and are generally calculated as a percentage of the value of the gross production, with the royalty rate dependent in part upon prescribed reference prices, well productivity, geographical location, field discovery date and the type and quality of the petroleum product produced. From time to time, the federal and provincial governments of Canada have also established incentive programs such as royalty rate reductions, royalty holidays and tax credits for the purpose of encouraging oil and gas exploration or enhanced recovery projects. These incentives generally have the effect of increasing our revenues, earnings and cash flow.

On October 25, 2007, the provincial government of Alberta announced a new royalty regime. The new regime contemplates the introduction of new royalties for conventional oil, natural gas, NGL and bitumen production effective January 1, 2009. The royalties will be linked to price and production levels and will apply to both new and existing conventional oil and gas activities and oil sands projects.

The implementation of the proposed changes to the royalty regime in Alberta is subject to certain risks and uncertainties. The significant changes to the royalty regime require new legislation, changes to the existing legislation and regulation and development of proprietary software to support the calculation and collection of royalties. Additionally, certain proposed changes contemplate further public and/or industry consultation. Finally, the proposed royalty structure may be modified prior to its implementation.

We believe this proposal would reduce future earnings and cash flows from our oil and gas properties located in Alberta. Additionally, assuming all other factors are equal, higher royalty rates would likely result in lower levels of capital investment in Alberta relative to our other areas of operations. However, the magnitude of the potential impact, which will depend on the final form of enacted legislation and other factors that impact the relative expected economic returns of capital projects, cannot be reasonably estimated at this time.

Pricing and Marketing in Canada

Any oil or natural gas export to be made pursuant to an export contract of a certain duration or covering a certain quantity requires an exporter to obtain an export permit from Canada s National Energy Board (NEB). The governments of Alberta, British Columbia and Saskatchewan also regulate the volume of natural gas that may be removed from those provinces for consumption elsewhere.

Investment Canada Act

The Investment Canada Act requires Government of Canada approval, in certain cases, of the acquisition of control of a Canadian business by an entity that is not controlled by Canadians. In certain circumstances, the acquisition of natural resource properties may be considered to be a transaction requiring such approval.

Production Sharing Contracts

Many of our international licenses are governed by production sharing contracts (PSCs) between the concessionaires and the granting government agency. PSCs are contracts that define and regulate the framework for investments, revenue sharing, and taxation of mineral interests in foreign countries. Unlike most domestic leases, PSCs have defined production terms and time limits of generally 30 years. PSCs also generally contain sliding scale revenue sharing provisions. As a result, at either higher production rates or higher cumulative rates of return, PSCs generally allow the government agency to retain higher fractions of revenue.

Environmental and Occupational Regulations

We are subject to various federal, state, provincial, local and international laws and regulations concerning occupational safety and health as well as the discharge of materials into, and the protection of, the environment.

Environmental laws and regulations relate to, among other things, assessing the environmental impact of seismic acquisition, drilling or construction activities; the generation, storage, transportation and disposal of waste materials; the monitoring, abandonment, reclamation and remediation of well and other sites, including sites of former operations; and the development of emergency response and spill contingency plans.

The application of worldwide standards, such as ISO 14000 governing Environmental Management Systems, is required to be implemented for some international oil and gas operations.

In 1997, numerous countries participated in an international conference under the United Nations Framework Convention on Climate Change and adopted an agreement known as the Kyoto Protocol (the Protocol). The Protocol became effective February 16, 2005, and requires reductions of certain emissions that contribute to atmospheric levels of greenhouse gases (GHG). Certain countries in which we operate (but not the United States) have ratified the Protocol. Pursuant to its ratification of the Protocol in April 2007, the federal government of Canada released its Regulatory Framework for Air Emissions, a plan to implement mandatory reductions in GHG emissions by way of regulation under existing legislation. The mandatory reductions on GHG emissions will create additional costs for the Canadian oil and gas industry. Certain provinces in Canada have also implemented legislation and regulations to reduce GHG emissions, which will also have a cost associated with compliance. Presently, it is not possible to accurately estimate the costs we could incur to comply with any laws or regulations developed to achieve emissions reductions in Canada or elsewhere, but such expenditures could be substantial.

In 2006, we published our Corporate Climate Change Position and Strategy. Key components of the strategy include initiation of energy efficiency measures, tracking emerging climate change legislation and publication of a corporate GHG emission inventory, which occurred in January 2008. All provisions of the strategy are completed or are in progress.

We consider the costs of environmental protection and safety and health compliance necessary and manageable parts of our business. With the efforts of our Environmental, Health and Safety Department, we have been able to plan for and comply with environmental and safety and health initiatives without materially altering our operating strategy. We anticipate making increased expenditures of both a capital and expense nature as a result of the increasingly stringent laws relating to the protection of the environment. While our unreimbursed expenditures in 2007 concerning such matters were immaterial, we cannot predict with any reasonable degree of certainty our future exposure concerning such matters.

We maintain levels of insurance customary in the industry to limit our financial exposure in the event of a substantial environmental claim resulting from sudden, unanticipated and accidental discharges of oil, salt water or other substances. However, we do not maintain 100% coverage concerning any environmental claim, and no coverage is maintained with respect to any penalty or fine required to be paid because of a violation of law.

Employees

As of December 31, 2007, we had approximately 5,000 employees. We consider labor relations with our employees to be satisfactory. We have not had any work stoppages or strikes pertaining to our employees.

Competition

See Item 1A. Risk Factors.

Availability of Reports

Through our website, http://www.devonenergy.com, we make available electronic copies of the charters of the committees of our Board of Directors, other documents related to our corporate governance (including our Code of Ethics for the Chief Executive Officer, Chief Financial Officer and Chief Accounting Officer), and documents we file or furnish to the SEC, including our annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, as well as any amendments to these reports. Access to these electronic filings is available free of charge as soon as reasonably practicable after filing or furnishing them to the SEC. Printed copies of our committee charters or other governance documents and filings can be requested by writing to our corporate secretary at the address on the cover of this report.

Item 1A. *Risk Factors*

Our business activities, and the oil and gas industry in general, are subject to a variety of risks. If any of the following risk factors should occur, our profitability, financial condition or liquidity could be materially impacted. As a result, holders of our securities could lose part or all of their investment in Devon.

Oil, Natural Gas and NGL Prices are Volatile

Our financial results are highly dependent on the prices of and demand for oil, natural gas and NGLs. A significant downward movement of the prices for these commodities could have a material adverse effect on our estimated proved reserves, revenues and operating cash flows, as well as the level of planned drilling activities. Such a downward price movement could also have a material adverse effect on our profitability, the carrying value of our oil and gas properties and future growth. Historically, prices have been volatile and are likely to continue to be volatile in the future due to numerous factors beyond our control. These factors include, but are not limited to:

- consumer demand for oil, natural gas and NGLs;
- conservation efforts;
- OPEC production levels;
- weather;
- regional market pricing differences;
- differing quality of oil produced (i.e., sweet crude versus heavy or sour crude) and Btu content of gas produced;
- the level of imports and exports of oil, natural gas and NGLs;
- the price and availability of alternative fuels;
- the overall economic environment; and
- governmental regulations and taxes.

Estimates of Oil, Natural Gas and NGL Reserves are Uncertain

The process of estimating oil, gas and NGL reserves is complex and requires significant judgment in the evaluation of available geological, engineering and economic data for each reservoir, particularly for new discoveries. Because of the high degree of judgment involved, different reserve engineers may develop different estimates of reserve quantities and related revenue based on the same data. In addition, the reserve estimates for a given reservoir may change substantially over time as a result of several factors including additional development activity, the viability of production under varying economic conditions and variations in production levels and associated costs. Consequently, material revisions to existing reserve estimates may occur as a result of changes in any of these factors. Such revisions to proved reserves could have a material adverse effect on our estimates of future net revenue, as well as our financial condition and profitability. Additional discussion of our policies regarding estimating and recording reserves is described in Item 2. Properties Proved Reserves and Estimated Future Net Revenue.

Discoveries or Acquisitions of Additional Reserves are Needed to Avoid a Material Decline in Reserves and Production

The production rate from oil and gas properties generally declines as reserves are depleted, while related per unit production costs generally increase, due to decreasing reservoir pressures and other factors. Therefore, our estimated proved reserves and future oil, gas and NGL production will decline materially as reserves are produced unless we conduct successful exploration and development activities or, through engineering studies, identify additional producing zones in existing wells, secondary recovery reserves or tertiary recovery reserves, or acquire additional properties containing proved reserves. Consequently, our future oil, gas and NGL

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production and related per unit production costs are highly dependent upon our level of success in finding or acquiring additional reserves.

Future Exploration and Drilling Results are Uncertain and Involve Substantial Costs

Substantial costs are often required to locate and acquire properties and drill exploratory wells. Such activities are subject to numerous risks, including the risk that we will not encounter commercially productive oil or gas reservoirs. The costs of drilling and completing wells are often uncertain. In addition, oil and gas properties can become damaged or drilling operations may be curtailed, delayed or canceled as a result of a variety of factors including, but not limited to:

- unexpected drilling conditions;
- pressure or irregularities in reservoir formations;
- equipment failures or accidents;
- fires, explosions, blowouts and surface cratering;
- marine risks such as capsizing, collisions and hurricanes;
- other adverse weather conditions;
- lack of access to pipelines or other methods of transportation;
- environmental hazards or liabilities; and
- shortages or delays in the delivery of equipment.

A significant occurrence of one of these factors could result in a partial or total loss of our investment in a particular property. In addition, drilling activities may not be successful in establishing proved reserves. Such a failure could have an adverse effect on our future results of operations and financial condition. While both exploratory and developmental drilling activities involve these risks, exploratory drilling involves greater risks of dry holes or failure to find commercial quantities of hydrocarbons. We are currently performing exploratory drilling activities in certain international countries. We have been granted drilling concessions in these countries that require commitments on our behalf to incur capital expenditures. Even if future drilling activities are unsuccessful in establishing proved reserves, we will likely be required to fulfill our commitments to make such capital expenditures.

Industry Competition For Leases, Materials, People and Capi