

DEVON ENERGY CORP/DE
Form 10-Q
August 03, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

or

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

Commission File Number 001-32318

DEVON ENERGY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)

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

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

73-1567067
(I.R.S. Employer

identification No.)

73102-5015
(Zip code)

Former name, address and former fiscal year, if changed from last report: Not applicable

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

On July 20, 2016, 523.6 million shares of common stock were outstanding.

DEVON ENERGY CORPORATION

FORM 10-Q

TABLE OF CONTENTS

Part I. Financial Information	
Item 1.	<u>Financial Statements</u> 6
	<u>Consolidated Comprehensive Statements of Earnings</u> 6
	<u>Consolidated Statements of Cash Flows</u> 7
	<u>Consolidated Balance Sheets</u> 8
	<u>Consolidated Statements of Stockholders' Equity</u> 9
	<u>Notes to Consolidated Financial Statements</u> 10
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 30
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 45
Item 4.	<u>Controls and Procedures</u> 45
Part II. Other Information	
Item 1.	<u>Legal Proceedings</u> 46
Item 1A.	<u>Risk Factors</u> 46
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 46
Item 3.	<u>Defaults Upon Senior Securities</u> 46
Item 4.	<u>Mine Safety Disclosures</u> 46
Item 5.	<u>Other Information</u> 46
Item 6.	<u>Exhibits</u> 47
	<u>Signatures</u> 48

DEFINITIONS

Unless the context otherwise indicates, references to “us,” “we,” “our,” “ours,” “Devon” and the “Company” refer to Devon Energy Corporation and its consolidated subsidiaries. In addition, the following are other abbreviations and definitions of certain terms used within this Quarterly Report on Form 10-Q:

“ASU” means Accounting Standards Update.

“Bbl” or “Bbbls” means barrel or barrels.

“Boe” means barrel of oil equivalent. Gas proved reserves and production are converted to Boe, at the pressure and temperature base standard of each respective state in which the gas is produced, at the rate of six Mcf of gas per Bbl of oil, based upon the approximate relative energy content of gas and oil. Bitumen and NGL proved reserves and production are converted to Boe on a one-to-one basis with oil.

“Btu” means British thermal units, a measure of heating value.

“Canada” means the division of Devon encompassing oil and gas properties located in Canada. All dollar amounts associated with Canada are in U.S. dollars.

“Canadian Plan” means Devon Canada Corporation Incentive Savings Plan.

“DD&A” means depreciation, depletion and amortization expenses.

“Devon Plan” means Devon Energy Corporation Incentive Savings Plan.

“E&P” means exploration and production activities.

“EnLink” means EnLink Midstream Partners, L.P., a master limited partnership.

“FASB” means Financial Accounting Standards Board.

“G&A” means general and administrative expenses.

“GAAP” means U.S. generally accepted accounting principles.

“General Partner” means EnLink Midstream, LLC, the indirect general partner of EnLink.

“Inside FERC” refers to the publication Inside F.E.R.C.’s Gas Market Report.

“LIBOR” means London Interbank Offered Rate.

“LOE” means lease operating expenses.

“MBbbls” means thousand barrels.

“MBoe” means thousand Boe.

“Mcf” means thousand cubic feet.

“MMBoe” means million Boe.

“MMBtu” means million Btu.

“MMcf” means million cubic feet.

3

“N/M” means not meaningful.

“NGL” or “NGLs” means natural gas liquids.

“NYMEX” means New York Mercantile Exchange.

“OPIS” means Oil Price Information Service.

“SEC” means United States Securities and Exchange Commission.

“Senior Credit Facility” means Devon’s syndicated unsecured revolving line of credit.

“TSR” means total shareholder return.

“U.S.” means United States of America.

“VEX” means Victoria Express Pipeline and related truck terminal and storage assets.

“WTI” means West Texas Intermediate.

“/d” means per day.

“/gal” means per gallon.

4

INFORMATION REGARDING FORWARD-LOOKING STATEMENTS

This report includes “forward-looking statements” as defined by the SEC. Such statements include those concerning strategic plans, our expectations and objectives for future operations, as well as other future events or conditions, and are often identified by use of the words “expects,” “believes,” “will,” “would,” “could,” “forecasts,” “projections,” “estimates,” “expectations,” “targets,” “opportunities,” “potential,” “anticipates,” “outlook” and other similar terminology. Such forward-looking statements are based on our examination of historical operating trends, the information used to prepare our December 31, 2015 reserve reports and other data in our possession or available from third parties. Such statements are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control. Consequently, actual future results could differ materially from our expectations due to a number of factors, including, but not limited to:

- the volatility of oil, gas and NGL prices, including the currently depressed commodity price environment;
- uncertainties inherent in estimating oil, gas and NGL reserves;
- the extent to which we are successful in acquiring and discovering additional reserves;
- the uncertainties, costs and risks involved in exploration and development activities;
- risks related to our hedging activities;
- counterparty credit risks;
- regulatory restrictions, compliance costs and other risks relating to governmental regulation, including with respect to environmental matters;
- risks relating to our indebtedness;
- our ability to successfully complete mergers, acquisitions and divestitures;
- the extent to which insurance covers any losses we may experience;
- our limited control over third parties who operate some of our oil and gas properties;
- midstream capacity constraints and potential interruptions in production;
- competition for leases, materials, people and capital;
- cyberattacks targeting our systems and infrastructure; and
- any of the other risks and uncertainties discussed in this report, our 2015 Annual Report on Form 10-K and our other filings with the SEC.

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

Part I. Financial Information

Item 1. Financial Statements

DEVON ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED COMPREHENSIVE STATEMENTS OF EARNINGS

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	2015	2015	2015	2015
	(Unaudited)			
	(Millions, except per share amounts)			
Oil, gas and NGL sales	\$1,085	\$1,587	\$1,910	\$2,926
Oil, gas and NGL derivatives	(142)	(282)	(109)	12
Marketing and midstream revenues	1,545	2,088	2,813	3,720
Total operating revenues	2,488	3,393	4,614	6,658
Lease operating expenses	416	562	860	1,115
Marketing and midstream operating expenses	1,338	1,863	2,404	3,302
General and administrative expenses	147	212	341	463
Production and property taxes	75	116	153	224
Depreciation, depletion and amortization	484	814	1,026	1,744
Asset impairments	1,497	4,168	4,532	9,628
Restructuring and transaction costs	24	—	271	—
Other operating items	4	21	24	40
Total operating expenses	3,985	7,756	9,611	16,516
Operating loss	(1,497)	(4,363)	(4,997)	(9,858)
Net financing costs	163	125	327	242
Other nonoperating items	85	(9)	106	3
Loss before income taxes	(1,745)	(4,479)	(5,430)	(10,103)
Income tax benefit	(182)	(1,686)	(399)	(3,721)
Net loss	(1,563)	(2,793)	(5,031)	(6,382)
Net earnings (loss) attributable to noncontrolling interests	7	23	(405)	33
Net loss attributable to Devon	\$(1,570)	\$(2,816)	\$(4,626)	\$(6,415)
Net loss per share attributable to Devon:				
Basic	\$(3.04)	\$(6.94)	\$(9.33)	\$(15.81)
Diluted	\$(3.04)	\$(6.94)	\$(9.33)	\$(15.81)
Comprehensive loss:				
Net loss	\$(1,563)	\$(2,793)	\$(5,031)	\$(6,382)
Other comprehensive earnings (loss), net of tax:				
Foreign currency translation	3	44	26	(258)
Pension and postretirement plans	5	3	9	7
Other comprehensive earnings (loss), net of tax	8	47	35	(251)
Comprehensive loss	(1,555)	(2,746)	(4,996)	(6,633)
Comprehensive earnings (loss) attributable to				
noncontrolling interests	7	23	(405)	33

Comprehensive loss attributable to Devon	\$ (1,562)	\$ (2,769)	\$ (4,591)	\$ (6,666)
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See accompanying notes to consolidated financial statements.

6

DEVON ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended June 30, 2016		Six Months Ended June 30, 2016	
	2015	2015	2015	2015
	(Unaudited) (Millions)			
Cash flows from operating activities:				
Net loss	\$(1,563)	\$(2,793)	\$(5,031)	\$(6,382)
Adjustments to reconcile net loss to net cash from operating activities:				
Depreciation, depletion and amortization	484	814	1,026	1,744
Asset impairments	1,497	4,168	4,532	9,628
Deferred income tax benefit	(179)	(1,593)	(386)	(3,640)
Derivatives and other financial instruments	223	305	417	(125)
Cash settlements on derivatives and financial instruments	(44)	464	(148)	1,183
Other noncash charges	88	41	21	266
Net change in working capital	(153)	(189)	45	26
Change in long-term other assets	(40)	18	13	159
Change in long-term other liabilities	22	(134)	(5)	(110)
Net cash from operating activities	335	1,101	484	2,749
Cash flows from investing activities:				
Capital expenditures	(489)	(1,432)	(1,238)	(3,149)
Acquisitions of property, equipment and businesses	(11)	(13)	(1,638)	(417)
Divestitures of property and equipment	191	6	209	8
Other	(26)	(8)	(27)	(5)
Net cash from investing activities	(335)	(1,447)	(2,694)	(3,563)
Cash flows from financing activities:				
Borrowings of long-term debt, net of issuance costs	450	2,094	846	3,051
Repayments of long-term debt	(290)	(1,034)	(549)	(1,521)
Net short-term debt repayments	—	(778)	(626)	(763)
Issuance of common stock	—	—	1,469	—
Sale of subsidiary units	—	85	—	654
Issuance of subsidiary units	49	2	776	4
Dividends paid on common stock	(33)	(98)	(158)	(197)
Distributions to noncontrolling interests	(74)	(65)	(147)	(118)
Other	(2)	4	(2)	(8)
Net cash from financing activities	100	210	1,609	1,102
Effect of exchange rate changes on cash	(12)	3	14	(43)
Net change in cash and cash equivalents	88	(133)	(587)	245
Cash and cash equivalents at beginning of period	1,635	1,858	2,310	1,480
Cash and cash equivalents at end of period	\$1,723	\$1,725	\$1,723	\$1,725

See accompanying notes to consolidated financial statements.

7

DEVON ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	June 30, 2016 (Unaudited)	December 31, 2015 (Unaudited)
(Millions, except share data)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,723	\$ 2,310
Accounts receivable	1,167	1,105
Assets held for sale	728	—
Other current assets	364	606
Total current assets	3,982	4,021
Property and equipment, at cost:		
Oil and gas, based on full cost accounting:		
Subject to amortization	80,066	78,190
Not subject to amortization	3,798	2,584
Total oil and gas	83,864	80,774
Midstream and other	10,243	10,380
Total property and equipment, at cost	94,107	91,154
Less accumulated depreciation, depletion and amortization	(77,292)	(72,086)
Property and equipment, net	16,815	19,068
Goodwill	4,159	5,032
Other long-term assets	2,288	1,330
Total assets	\$ 27,244	\$ 29,451
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 545	\$ 906
Revenues and royalties payable	819	763
Short-term debt	350	976
Liabilities held for sale	205	—
Other current liabilities	1,010	650
Total current liabilities	2,929	3,295
Long-term debt	12,357	12,056
Asset retirement obligations	1,473	1,370
Other long-term liabilities	1,011	853
Deferred income taxes	555	888
Stockholders' equity:		
Common stock, \$0.10 par value. Authorized 1.0 billion shares; issued 524 million and		
418 million shares in 2016 and 2015, respectively	52	42
Additional paid-in capital	7,500	4,996
Retained earnings (accumulated deficit)	(2,970)	1,781
Accumulated other comprehensive earnings	265	230

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Total stockholders' equity attributable to Devon	4,847	7,049
Noncontrolling interests	4,072	3,940
Total stockholders' equity	8,919	10,989
Commitments and contingencies (Note 19)		
Total liabilities and stockholders' equity	\$ 27,244	\$ 29,451

See accompanying notes to consolidated financial statements.

DEVON ENERGY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock Shares (Unaudited) (Millions)	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Earnings (Deficit)	Treasury Stock	Noncontrolling Interests	Total Stockholders' Equity	
Six Months Ended June 30, 2016								
Balance as of December 31, 2015	418	\$ 42	\$ 4,996	\$ 1,781	\$ 230	\$ —	\$ 3,940	\$ 10,989
Net loss	—	—	—	(4,626)	—	—	(405)	(5,031)
Other comprehensive earnings, net of tax	—	—	—	—	35	—	—	35
Restricted stock grants, net of cancellations	3	—	—	—	—	—	—	—
Common stock repurchased	—	—	—	—	—	(21)	—	(21)
Common stock retired	—	—	(21)	—	—	21	—	—
Common stock dividends	—	—	(33)	(125)	—	—	—	(158)
Common stock issued	103	10	2,117	—	—	—	—	2,127
Share-based compensation	—	—	123	—	—	—	—	123
Subsidiary equity transactions	—	—	318	—	—	—	684	1,002
Distributions to noncontrolling interests	—	—	—	—	—	—	(147)	(147)
Balance as of June 30, 2016	524	\$ 52	\$ 7,500	\$ (2,970)	\$ 265	\$ —	\$ 4,072	\$ 8,919
Six Months Ended June 30, 2015								
Balance as of December 31, 2014	409	\$ 41	\$ 4,088	\$ 16,631	\$ 779	\$ —	\$ 4,802	\$ 26,341
Net earnings (loss)	—	—	—	(6,415)	—	—	33	(6,382)
Other comprehensive loss, net of tax	—	—	—	—	(251)	—	—	(251)
Stock option exercises	—	—	4	—	—	—	—	4
Restricted stock grants, net of cancellations	2	—	—	—	—	—	—	—
Common stock repurchased	—	—	—	—	—	(23)	—	(23)
Common stock retired	—	—	(23)	—	—	23	—	—
Common stock dividends	—	—	—	(197)	—	—	—	(197)
Share-based compensation	—	—	89	—	—	—	—	89
Subsidiary equity transactions	—	—	578	—	—	—	111	689
	—	—	—	—	—	—	(118)	(118)

Distributions to noncontrolling interests										
Other	—	—	—	(1)	—	—	—	(1)
Balance as of June 30, 2015	411	\$ 41	\$ 4,736	\$ 10,018		\$ 528	\$ —	\$ 4,828	\$ 20,151	

See accompanying notes to consolidated financial statements.

DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Summary of Significant Accounting Policies

The accompanying unaudited interim financial statements and notes of Devon have been prepared pursuant to the rules and regulations of the SEC. Pursuant to such rules and regulations, certain disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been omitted. The accompanying unaudited interim financial statements and notes should be read in conjunction with the financial statements and notes included in Devon's 2015 Annual Report on Form 10-K.

The accompanying unaudited interim financial statements furnished in this report reflect all adjustments that are, in the opinion of management, necessary for a fair statement of Devon's results of operations and cash flows for the three-month and six-month periods ended June 30, 2016 and 2015 and Devon's financial position as of June 30, 2016.

Recently Issued Accounting Standards

The FASB issued ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. Its objective is to simplify several aspects of the accounting for share-based payments, including accounting for income taxes when awards vest or are settled, statutory withholding and accounting for forfeitures. Classification of these aspects on the statement of cash flows is also addressed. This ASU is effective for Devon beginning January 1, 2017. Devon is evaluating the impact this ASU will have on its consolidated financial statements and related disclosures and does not plan on early adopting.

The FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition and industry-specific guidance in Subtopic 932-605, Extractive Activities – Oil and Gas – Revenue Recognition. This ASU provides guidance concerning the recognition and measurement of revenue from contracts with customers. Its objective is to increase the usefulness of information in the financial statements regarding the nature, timing and uncertainty of revenues. The effective date for ASU 2014-09 was delayed through the issuance of ASU 2015-14, Revenue from Contracts with Customers – Deferral of the Effective Date, to annual and interim periods beginning in 2018, with early adoption permitted in 2017. The ASU is required to be adopted using either the retrospective transition method, which requires restating previously reported results or the cumulative effect (modified retrospective) transition method, which utilizes a cumulative-effect adjustment to retained earnings in the period of adoption to account for prior period effects rather than restating previously reported results. Devon intends to use the cumulative effect transition method and is evaluating the impact this ASU will have on its consolidated financial statements and related disclosures. Devon does not plan on early adopting.

The FASB issued ASU 2016-02, Leases (Topic 842). This ASU will supersede the lease requirements in Topic 840, Leases. Its objective is to increase transparency and comparability among organizations. This ASU provides guidance requiring lessees to recognize most leases on their balance sheet. Lessor accounting does not significantly change from Topic 840, except for some changes made to align with Topic 606. This ASU is effective for Devon beginning January 1, 2019 and will be applied using a modified retrospective transition method, which requires applying the new

guidance to leases that exist or are entered into after the beginning of the earliest period in the financial statements. Early adoption is permitted. Devon is evaluating the impact this ASU will have on its consolidated financial statements and related disclosures and does not plan on early adopting.

2. Acquisitions and Divestitures

Devon Acquisitions

On January 7, 2016, Devon acquired approximately 80,000 net acres and assets in the STACK play for approximately \$1.5 billion, subject to certain adjustments. Devon funded the acquisition with \$847 million of cash and \$659 million of common equity shares. The allocation of the purchase price at June 30, 2016 was approximately \$1.3 billion to unproved properties and approximately \$200 million to proved properties.

DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

EnLink Acquisitions

On January 7, 2016, EnLink acquired Anadarko Basin gathering and processing midstream assets, along with dedicated acreage service rights and service contracts, for approximately \$1.5 billion, subject to certain adjustments. EnLink funded the acquisition with approximately \$215 million of General Partner common units and approximately \$800 million of cash, primarily funded with the issuance of EnLink preferred units. The remaining \$500 million of the purchase price is to be paid within one year with the option to defer \$250 million of the final payment 24 months from the close date. The first \$250 million of undiscounted future installment payment is reported in other current liabilities in the accompanying consolidated balance sheets with the remaining \$250 million payment reported in other long-term liabilities. The accretion of the discount is reported within net financing costs in the accompanying consolidated comprehensive statement of earnings. A preliminary allocation of the purchase price at June 30, 2016 was \$1.0 billion to intangible assets and \$420 million to property and equipment.

On August 1, 2016, EnLink formed a joint venture to operate and expand its midstream assets in the Delaware Basin. The joint venture is initially owned 50.1% by EnLink and 49.9% by the joint venture partner. EnLink contributed approximately \$230 million of existing assets to the joint venture and committed an additional \$285 million in capital to fund potential future development projects and potential acquisitions. The joint venture partner committed an aggregate of approximately \$400 million of capital, including an initial contribution of approximately \$115 million, and granted to EnLink call rights beginning in 2021 to acquire increasing portions of the joint venture partner's interest.

Devon Asset Divestitures

In December 2015, Devon announced its intent to divest certain non-core upstream assets in the U.S. and its interest in the Access Pipeline in Canada. Proceeds from these divestitures are expected to be used primarily for debt repayment and to support capital investment in Devon's core resource plays.

On June 30, 2016, Devon sold its Mississippian assets for \$200 million, subject to certain adjustments. Estimated proved reserves associated with these assets were approximately 11 MMBoe, or less than 1% of total U.S. proved reserves. Under full cost accounting rules, sales or dispositions of oil and gas properties are generally accounted for as adjustments to capitalized costs, with no recognition of a gain or loss. No gain or loss was recognized on the sale of the Mississippian assets.

During the second quarter of 2016, Devon entered into definitive agreements to divest approximately \$1.8 billion of non-core assets located primarily in east Texas, the Anadarko Basin and the Midland Basin to five separate purchasers. Through August 3, 2016, Devon has closed approximately \$1.2 billion of the announced asset divestitures. Devon expects to close the remaining transactions in the third quarter of 2016. Devon is evaluating whether the impact of these divestitures will result in an adjustment to its capitalized costs or in the recognition of a gain in the consolidated statement of earnings.

As of June 30, 2016, Devon held approximately \$95 million in cash related to the pending transactions. The cash deposits are restricted until the closing of the transactions. As a result, Devon has classified these amounts in other current assets and other current liabilities in the accompanying consolidated balance sheet.

Assets held for sale

In July 2016, Devon reached an agreement to sell its interest in the Access Pipeline for \$1.1 billion (\$1.4 billion Canadian dollars). The transaction is expected to close in the third quarter of 2016. As of June 30, 2016, Devon's Access Pipeline assets and liabilities were classified as held for sale. Upon this classification change, Devon ceased recording depreciation on Access Pipeline. Based on the contracted sales price, no fair value adjustment to the carrying value of these assets and liabilities was warranted at June 30, 2016, and Devon expects to recognize a gain of approximately \$400 million to \$600 million upon the closing of the sale. Under the terms of the related transportation agreement, Devon's Canadian thermal-oil acreage is dedicated to Access Pipeline for an initial term of 25 years. A market-based toll will be applied to production from Devon's thermal-oil projects.

DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

3. Derivative Financial Instruments

Objectives and Strategies

Devon periodically enters into derivative financial instruments with respect to a portion of its oil, gas and NGL production to hedge future prices received. Additionally, Devon and EnLink periodically enter into derivative financial instruments with respect to a portion of their oil, gas and NGL marketing activities. These commodity derivative financial instruments include financial price swaps, basis swaps, costless price collars and call options. Devon periodically enters into interest rate swaps to manage its exposure to interest rate volatility and foreign exchange forward contracts to manage its exposure to fluctuations in the U.S. and Canadian dollar exchange rates. As of June 30, 2016, Devon did not have any open foreign exchange contracts.

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

As of December 31, 2015, Devon's other current assets in the accompanying consolidated balance sheet included \$236 million of accrued settlements that it received in January 2016.

Counterparty Credit Risk

By using derivative financial instruments, Devon is exposed to credit risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. To mitigate this risk, the hedging instruments are placed with a number of counterparties whom Devon believes are acceptable credit risks. It is Devon's policy to enter into derivative contracts only with investment-grade rated counterparties deemed by management to be competent and competitive market makers. Additionally, Devon's derivative contracts generally contain provisions that provide for collateral payments, if Devon's or its counterparty's credit rating falls below certain credit rating levels.

As of December 31, 2015, Devon held \$75 million of cash collateral which represented the estimated fair value of certain derivative positions in excess of Devon's credit guidelines. The collateral is reported in other current liabilities in the accompanying consolidated balance sheets.

Commodity Derivatives

As of June 30, 2016, Devon had the following open oil derivative positions. The first table presents Devon's oil derivatives that settle against the average of the prompt month NYMEX WTI futures price. The second table presents Devon's oil derivatives that settle against the respective indices noted within the table.

Period	Price Swaps		Price Collars		Weighted	Call Options Sold	
	Volume	Weighted	Volume	Weighted		Volume	Weighted
	(Bbls/d)	Average	(Bbls/d)	Average Floor	Average	(Bbls/d)	Average Price

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	Price (\$/Bbl)	Price (\$/Bbl)	Ceiling Price	(\$/Bbl)
			(\$/Bbl)	
Q3 2016	33,000 \$ 48.37	65,000 \$ 40.37	\$ 46.91	18,500 \$ 55.00
Q4 2016	30,000 \$ 48.58	20,000 \$ 40.85	\$ 50.85	18,500 \$ 55.00
Q1-Q4 2017	2,623 \$ 51.79	7,248 \$ 47.21	\$ 57.21	— \$ —

Oil Basis Swaps

Weighted Average

Differential to WTI

Period	Index	Volume (Bbls/d)	(\$/Bbl)
Q3-Q4 2016	Western Canadian Select	41,500	\$ (13.43)
Q3-Q4 2016	West Texas Sour	5,000	\$ (0.53)
Q3-Q4 2016	Midland Sweet	13,000	\$ 0.25

DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

As of June 30, 2016, Devon had the following open natural gas derivative positions. The first table presents Devon's natural gas derivatives that settle against the Inside FERC first of the month Henry Hub index. The second table presents Devon's natural gas derivatives that settle against the respective indices noted within the table.

Period	Price Swaps		Price Collars			Call Options Sold	
	Volume	Weighted Average Price	Volume	Weighted Average Price	Weighted Average Ceiling Price	Volume	Weighted Average Price
Q3 2016	140,000	\$ 2.78	105,000	\$ 2.57	\$ 2.85	400,000	\$ 2.80
Q4 2016	155,000	\$ 2.83	275,000	\$ 2.70	\$ 2.90	400,000	\$ 2.80
Q1-Q4 2017	79,397	\$ 3.00	42,411	\$ 2.96	\$ 3.26	—	\$ —

Natural Gas Basis Swaps

Period	Index	Volume	Weighted Average
			Differential to Henry Hub
Q3-Q4 2016	Panhandle Eastern Pipe Line	175,000	\$ (0.34)
Q3-Q4 2016	El Paso Natural Gas	125,000	\$ (0.12)
Q3-Q4 2016	Houston Ship Channel	30,000	\$ 0.11
Q3-Q4 2016	Transco Zone 4	70,000	\$ 0.01
Q1-Q4 2017	Panhandle Eastern Pipe Line	150,000	\$ (0.34)
Q1-Q4 2017	El Paso Natural Gas	80,000	\$ (0.13)
Q1-Q4 2017	Houston Ship Channel	35,000	\$ 0.06
Q1-Q4 2017	Transco Zone 4	205,000	\$ 0.03

As of June 30, 2016, Devon had the following open NGL derivative positions. Devon's NGL positions settle against the average of the prompt month OPIS Mont Belvieu, Texas index.

Price Swaps Price Collars

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Period	Product	Weighted Average		Weighted Average		Weighted
		Volume	Price	Volume	Price	Floor
		(Bbls/d)	(\$/Bbl)	(Bbls/d)	(\$/Bbl)	Ceiling Price (\$/Bbl)
Q3-Q4 2016	Ethane	6,000	\$ 9.34	10,500	\$ 8.20	\$ 9.46
Q3-Q4 2016	Propane	—	\$ —	5,000	\$ 19.61	\$ 21.71

As of June 30, 2016, EnLink had the following open derivative positions associated with gas processing and fractionation. EnLink's NGL derivative positions settle by purity product against the average of the prompt month OPIS Mont Belvieu, Texas index. EnLink's natural gas derivatives settle against the Henry Hub Gas Daily index.

Period	Product	Volume (Total)	Weighted Average	
			Price Paid	Price Received
Q3 2016-Q4 2016	Ethane	273 MBbls	\$0.29/gal	Index
Q3 2016-Q2 2017	Propane	557 MBbls	Index	\$0.72/gal
Q3 2016-Q2 2017	Normal Butane	122 MBbls	Index	\$0.58/gal
Q3 2016-Q2 2017	Natural Gasoline	66 MBbls	Index	\$0.95/gal
Q3 2016-Q2 2017	Natural Gas	7,082 MMBtu/d	Index	\$2.86/MMbtu
Q4 2016	Condensate	50 MBbls	Index	\$40.20/bbl

DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

Interest Rate Derivatives

As of June 30, 2016, Devon had the following open interest rate derivative positions:

Notional (Millions)	Rate Received	Rate Paid	Expiration
\$ 100	Three Month LIBOR	0.92%	December 2016
\$ 750	Three Month LIBOR	2.98%	December 2048 ⁽¹⁾
\$ 100	1.76%	Three Month LIBOR	January 2019

(1)Mandatory settlement in December 2018.

Financial Statement Presentation

The following table presents the net gains and losses by derivative financial instrument type followed by the corresponding individual consolidated comprehensive statements of earnings caption.

	Three Months		Six Months	
	Ended June		Ended June	
	30,	30,	30,	2015
	2016	2015	2016	2015
	(Millions)			
Commodity derivatives:				
Oil, gas and NGL derivatives	\$(142)	\$(282)	\$(109)	\$12
Marketing and midstream revenues	(6)	—	(6)	2
Interest rate derivatives:				
Other nonoperating items	(71)	1	(143)	2
Foreign currency derivatives:				
Other nonoperating items	(4)	(24)	(159)	109

Net gains (losses) recognized	\$(223)	\$(305)	\$(417)	\$125
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DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

The following table presents the derivative fair values by derivative financial instrument type followed by the corresponding individual consolidated balance sheet caption.

	June 30, 2016	December 31, 2015
	(Millions)	
Commodity derivative assets:		
Other current assets	\$14	\$ 34
Other long-term assets	2	1
Interest rate derivative assets:		
Other current assets	1	1
Other long-term assets	2	1
Foreign currency derivative assets:		
Other current assets	—	8
Total derivative assets	\$19	\$ 45
Commodity derivative liabilities:		
Other current liabilities	\$104	\$ 14
Other long-term liabilities	7	4
Interest rate derivative liabilities:		
Other long-term liabilities	166	22
Foreign currency derivative liabilities:		
Other current liabilities	—	8
Total derivative liabilities	\$277	\$ 48

DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

4. Share-Based Compensation

The following table presents the effects of share-based compensation included in Devon's accompanying consolidated comprehensive statements of earnings. Gross G&A expense for the first six months of 2016 and 2015 includes \$12 million and \$18 million, respectively, of unit-based compensation related to grants made under EnLink's long-term incentive plans.

The vesting for certain share-based awards was accelerated in 2016 in conjunction with the reduction of workforce described in Note 6. For the six months ended June 30, 2016, approximately \$67 million of associated expense for these accelerated awards is included in restructuring and transaction costs in the accompanying consolidated comprehensive statements of earnings.

	Six Months Ended June 30, 2016 2015 (Millions)	
Gross G&A for share-based compensation	\$80	\$127
Share-based compensation expense capitalized		
pursuant to the full cost method of accounting		
for oil and gas properties	\$21	\$31
Related income tax benefit	\$2	\$26

Under its approved long-term incentive plan, Devon granted share-based awards to certain employees in the first six months of 2016. The following table presents a summary of Devon's unvested restricted stock awards and units, performance-based restricted stock awards and performance share units granted under the plan.

Restricted Stock Awards and Units		Performance-Based Restricted Stock Awards		Performance Share Units	
Awards	Weighted Average	Awards	Weighted Average	Units	Weighted Average
Units	Average		Average		Average
	Grant-Date		Grant-Date		Grant-Date

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	Fair Value		Fair Value		Fair Value	
	(Thousands, except fair value data)					
Unvested at 12/31/15	4,738	\$ 62.49	434	\$ 60.48	1,859	\$ 76.17
Granted	4,299	\$ 19.46	330	\$ 19.22	1,388	\$ 10.41
Vested	(2,051)	\$ 62.50	(102)	\$ 62.55	(602)	\$ 63.37
Forfeited	(121)	\$ 50.58	—	\$ —	(7)	\$ 81.67
Unvested at 6/30/16	6,865	\$ 35.74	662	\$ 39.57	2,638 ⁽¹⁾	\$ 46.52

(1) A maximum of 5.3 million common shares could be awarded based upon Devon's final TSR ranking relative to Devon's peer group established under applicable award agreements.

The following table presents the assumptions related to the performance share units granted in 2016, as indicated in the previous summary table.

	2016	
Grant-date fair value	\$9.24	—\$10.61
Risk-free interest rate	0.94	%
Volatility factor	37.7	%
Contractual term (years)	2.83	

DEVON ENERGY CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

(Unaudited)

The following table presents a summary of the unrecognized compensation cost and the related weighted average recognition period associated with unvested awards and units as of June 30, 2016.

	Restricted Stock Awards and Units	Performance-Based Restricted Stock Awards	Performance Share Units
Unrecognized compensation cost (millions)	\$ 170	\$ 8	\$ 34
Weighted average period for recognition (years)	2.6	2.5	1.8

EnLink Share-Based Awards

The following table presents a summary of the unrecognized compensation cost and the related weighted average recognition period associated with the General Partner's and EnLink's unvested restricted incentive units and performance units as of June 30, 2016.

	General Partner Restricted Incentive Units	Performance Units	EnLink Restricted Incentive Units	Performance Units
Unrecognized compensation cost (millions)	\$ 19	\$ 4	\$ 19	\$ 4
Weighted average period for recognition (years)	1.7	2.0	1.8	2.0

5. Asset Impairments

The following table presents the components of asset impairments recognized by Devon.

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
U.S. oil and gas assets	\$885	\$4,167	\$2,493	