

This link addresses the following question:

“I received my Devon shares as a result of the 2002 acquisition of Mitchell Energy & Development Corp. What are the income tax consequences of that transaction to me?”

Former Mitchell Energy Shareholders

Devon completed its acquisition of Mitchell Energy on January 24, 2002. Mitchell shareholders received \$31.00 cash and .585 of a share of Devon common stock for each share of Mitchell. The fair market value of a share of Devon common stock on January 24, 2002, was \$38.285 (the average of the high and low price for Devon common shares traded on January 24, 2002).

Fractional shares of Devon common stock were not issued in the transaction. Any fractional share was paid in cash. For fractional share calculation purposes, the fair value of a share of Devon common stock on January 24, 2002, was \$36.74 (the average closing price on the American Stock Exchange for the five trading days immediately prior to the last business day before the merger).

For United States federal income tax purposes, the acquisition of Mitchell by Devon was structured to qualify as a tax-free transaction (except to the extent cash was received).

TAXABLE GAIN AND TAX BASIS IN DEVON SHARES

The tax basis of the Devon common shares received by a Mitchell stockholder will be the same as the basis of the shares of Mitchell common stock surrendered in the exchange, increased by the amount of gain recognized in the exchange, decreased by the amount of cash received in the exchange and decreased by basis allocated to fractional shares.

Following is an example that is applicable to many, but not all, previous Mitchell shareholders. This example is provided as an illustration for only those shareholders to whom it applies. A Mitchell shareholder's U.S. federal income tax consequences on the exchange will also depend upon whether his or her shares of Mitchell common stock were purchased at different times at different prices. If they were, the holder of Mitchell common stock could realize gain with respect to some of the shares and loss with respect to other shares. All previous Mitchell shareholders are encouraged to consult their tax advisers to determine their individual and specific tax consequences from the acquisition of Mitchell by Devon.

Example applicable to many, but not all, former Mitchell shareholders:

Shareholder owns 50 shares of Mitchell Energy with tax cost basis of \$10 per share. Upon conversion, the shareholder receives \$1,550 in cash, 29 shares of Devon common stock and proceeds from sale of .25 fractional share of Devon of \$9.19. Accordingly, the shareholder's taxable gain would be \$1,554.91 and the shareholder's basis in the 29 Devon shares would be \$495.73. Detailed calculations are as follows:

Devon shares received by Mitchell shareholder:

50 Mitchell shares X .585	29.25
Less fractional shares	<u>0.25</u>
Devon shares received	29.00

Gain recognized on cash boot received by Mitchell shareholder:

Cash	\$31.000	X	50 shares	\$1,550.00	(a)
Devon stock	\$38.285	X	29 shares	<u>\$1,110.27</u>	
			Value of Receipt	\$2,660.27	
			Basis	<u>\$495.73</u>	
			Gain Realized	\$2,164.54	(b)
			Gain Recognized (lesser of (a) or (b))	\$1,550.00	

Treatment of cash in lieu of fractional share:

\$36.740 X	0.25 Cash Received	\$9.19
\$17.09 X	0.25 Basis	<u>\$4.27</u>
	Gain Recognized	\$4.91

Basis in Devon stock to Mitchell shareholder:

Old Basis	\$500.00
Gain Recognized	\$1,550.00
Cash Received	<u>(\$1,550.00)</u>
	\$500.00
Basis allocated to Fractional Shares	<u>(\$4.27)</u>
Total Basis allocated to Devon stock	\$495.73
Per Share Basis in Devon stock	\$17.09

\$36.74 is the average closing price for a share of Devon common stock on the Amex on the five trading days immediately prior to the last business day before the merger. (per merger proxy)

\$38.285 is the average of the high and low trading price of Devon on the merger date. (value per code)

Basis in fractional share is computed as \$10 / .585