DALEEN TECHNOLOGIES INC
Form S-3/A
September 13, 2001
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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON SEPTEMBER 12, 2001

REGISTRATION NO. 333-60884

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 3

TO

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

DALEEN TECHNOLOGIES, INC.
(Exact Name of Registrant as Specified in Its Charter)

DELAWARE	65-0944514
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)

1750 CLINT MOORE ROAD,
BOCA RATON, FLORIDA 33487
(561) 999-8000
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

JAMES DALEEN
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APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: From time to time after the effective date of this Registration Statement as the selling stockholders shall determine.

If the only securities being registered on this form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. [ ]

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. [X]

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ]

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. [ ]

CALCULATION OF REGISTRATION FEE

TITLE OF SHARES TO BE REGISTERED	AMOUNT TO BE REGISTERED	PROPOSED MAXIMUM AGGREGATE PRICE PER SHARE(1)	PROPOSED AGGREGATE PRICE
Common Stock, $0.01 par value.....	55,442,841 shares(2)	$0.98	$58,261
Common Stock $.01 par value.....	750,000	$1.35	$1,012,

(1) Computed in accordance with Rule 457(c) under the Securities Act of 1933 solely for the purpose of calculating the registration fee, based upon the average of the high and low prices reported on May 11, 2001 for the original filing and June 8, 2001 for this filing, each as reported on The Nasdaq National Market.

(2) The shares include the shares of common stock issuable upon conversion of the registrant's Series F convertible preferred stock. The registrant has reduced the aggregate number of shares of common stock included in this registration

statement to reflect the final reset of the conversion price of the Series F convertible preferred stock.

(3) Previously paid.

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(A) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(A), MAY DETERMINE.

The information in this prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED SEPTEMBER , 2001

PROSPECTUS

(DALEEN TECHNOLOGIES LOGO)

DALEEN TECHNOLOGIES, INC.

56,192,841 SHARES

COMMON STOCK

This prospectus relates to the resale from time to time of 56,192,841 shares of common stock of Daleen Technologies, Inc. held or to be acquired by the selling stockholders named in this prospectus. We will not receive any of the proceeds from the sale of the shares. The offering is not being underwritten.

The shares being offered by the selling stockholders include:

- 10,341,166 shares of our issued and outstanding common stock currently held by the selling stockholders;

- 2,143,038 shares of common stock issuable upon exercise of outstanding warrants to purchase common stock;

- 30,353,227 shares of common stock issuable upon the conversion of our Series F convertible preferred stock; and

- 13,355,410 shares of common stock issuable upon the conversion of shares of Series F convertible preferred stock issuable upon exercise of warrants issued in connection with the private placement of our Series F convertible preferred stock.

Our common stock is listed on The Nasdaq National Market under the symbol "DALN." On September , 2001, the last reported sale price of our common stock on The Nasdaq National Market was $0. per share.

Even though the shares may be offered for resale under this prospectus, the selling stockholders are not obligated to sell any or all of the shares. The selling stockholders may, from time to time, offer and sell the shares through agents or broker-dealers on The Nasdaq National Market, in negotiated transactions, or both. These sales may occur on prices and terms related to the then-current market price or based upon privately negotiated terms.

INVESTING IN OUR COMMON STOCK INVOLVES RISKS. YOU SHOULD CAREFULLY READ AND CONSIDER THE "RISK FACTORS" BEGINNING ON PAGE 3.

NEITHER THE SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

The date of this prospectus is , 2001.

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You should rely only on the information contained in this prospectus or on information incorporated by reference herein. We have not authorized anyone to

provide you with information that is different. This prospectus may be used only where it is legal to sell these securities. The information contained in this prospectus is accurate only on the date of this prospectus.

No dealer, salesperson or other individual has been authorized in connection with the offering made hereby to give any information or to make any representations not contained in this prospectus and, if given or made, such information or representation must not be relied upon as having been so authorized by us or the selling stockholders. This prospectus does not constitute any offer to sell or a solicitation of an offer to buy any of the securities offered hereby to any person or by anyone in any jurisdiction to which it is unlawful to make such offer or solicitation. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, create any implication that the information herein is correct as of any date subsequent to the date hereof.

YOU SHOULD READ CAREFULLY THIS ENTIRE PROSPECTUS, AS WELL AS THE DOCUMENTS INCORPORATED BY REFERENCE IN THIS PROSPECTUS, BEFORE MAKING AN INVESTMENT DECISION. ALL REFERENCES TO "WE," "US," "OUR" OR "DALEEN" IN THIS PROSPECTUS MEAN DALEEN TECHNOLOGIES, INC. AND ITS SUBSIDIARIES, EXCEPT WHERE IT IS MADE CLEAR THAT THE TERM MEANS ONLY DALEEN TECHNOLOGIES, INC.

PROSPECTUS SUMMARY

THE COMPANY

We are a provider of Internet software solutions that manage the revenue chain for next-generation service providers. Our RevChain(TM) product family, which we launched in the first quarter of 2001, enables service providers to automate and manage their entire revenue chain including services, customers, orders and fulfillment, and billing and settlement across the span of the enterprise. Our RevChain product family represents the evolution of our former customer management and billing products known as BillPlex(TM) and eCare. Our RevChain solutions extend from the back office to interfacing with customers, whether through the Internet or with customer service representatives, and manage mutual service offerings across partner relationships. These modular products integrate with third-party solutions and deliver scalability, making the software adaptable. As a result, service providers are able to accelerate time-to-revenue, rapidly adapt to new opportunities, and use the power of the Internet, thereby providing a competitive advantage in their business.

The RevChain product family includes industry-focused software suites composed of individual applications based on the Daleen Internet Integration Architecture (IIA), our Internet computing architecture. The Daleen RevChain software application products include the following:

- RevChain Commerce -- customer care and billing;
- RevChain Interact -- a standard browser interface for customer service representatives;
- RevChain Order -- a secure storefront for Internet shopping and order fulfillment;
- RevChain Care -- providing customer self-service over the Internet; and
- RevChain Partner -- an Internet-based partner chain management network.

Our products may be configured to address services and feature requirements

for each industry segment on which we focus. These configured application products are offered as packaged industry suites.

In addition to our RevChain product family, we offer professional consulting services, training, maintenance, support and third-party software fulfillment related to the products we develop. Further, in July 2000, we formed a subsidiary, PartnerCommunity, Inc. PartnerCommunity, Inc. provides an Internet-based partner chain management services network for providers of data content and communications services that enables members to form and manage relationships with their vendors, service providers and customers to deliver communications services. PartnerCommunity, Inc. also enables these service providers to build their own private community to integrate business processes with their partners and business customers.

In September 2000, we also formed a wholly-owned subsidiary, Daleen Technologies Europe B.V., a corporation formed under the laws of the Netherlands. From this subsidiary, we run our operations in Europe, the Middle East and Africa.

We incurred net losses of approximately $40.3 million for the six months ended June 30, 2001, and net losses of approximately $43.8 million for the year ended December 31, 2000. As of June 30, 2001, we had an accumulated deficit of approximately $148.1 million. As a result of our financial condition, the independent auditors report covering our December 31, 2000 consolidated financial statements and financial statement schedule contains an explanatory paragraph that states that our recurring losses from operations and accumulated deficit raised substantial doubt about our ability to continue as a going concern. We initiated cost reduction measures in January and April 2001 in order

to reduce our fixed operating expenses, including workforce reductions, consolidation of facilities and departments, consolidation of research and development and professional services resources, asset writedowns, and other miscellaneous cost reductions. Additionally, in June 2001, we completed a private placement of our Series F convertible preferred stock (the "Series F preferred stock") and warrants to purchase Series F preferred stock (the "Series F warrants). We received net proceeds of approximately $25.7 million from the private placement. We believe that our current cash and cash equivalents, including the net proceeds from the private placement, together with the January and April 2001 cost reduction measures, will be sufficient to fund our operations for the remainder of 2001.

We were originally incorporated in Illinois in 1990, were reincorporated in Florida in 1996, and were reincorporated in Delaware on August 5, 1999. Our executive offices are located at 1750 Clint Moore Road, Boca Raton, Florida 33487, and our telephone number is (561) 999-8000. Our Internet address is www.daleen.com, although information contained on our website does not constitute part of this prospectus.

Daleen(TM), Daleen Technologies(TM), RevChain(TM), BellPlex(TM), IIA(TM) and the Daleen logo are our trademarks.

RECENT DEVELOPMENTS

Private Placement of Series F Convertible Preferred Stock. On March 30, 2001, we entered into definitive agreements (collectively, the "purchase agreements") for the sale, in a private placement transaction, of $27.5 million

of Series F preferred stock and Series F warrants. Pursuant to the terms of the purchase agreements, we consummated the private placement on June 7, 2001. The consummation of the private placement was subject to the receipt of approval from our stockholders, including approval of an amendment to our certificate of incorporation to increase the number of authorized shares of common stock to 200 million shares and to create and designate the Series F preferred stock. Our stockholders approved the private placement and the related amendments to our certificate of incorporation at our annual meeting of stockholders held on June 7, 2001.

We filed this registration statement pursuant to the terms of the purchase agreements which require that we file with the Securities and Exchange Commission a registration statement to register the common stock issuable upon conversion of the Series F preferred stock (including the shares of Series F preferred stock issuable upon exercise of the Series F warrants). We previously granted "piggyback" registration rights to a number of our other stockholders, including our largest stockholders. Certain of these stockholders exercised their registration rights and, as a result, their shares also are included in this registration statement. Additionally, on June 8, 2001, we granted warrants to purchase an aggregate of 750,000 shares of common stock to certain of the selling stockholders. In connection with that transaction, we agreed to register the shares of common stock issuable upon exercise of the warrants. Accordingly, those shares are included in this registration statement.

Pursuant to this registration statement, we are registering for resale by the selling stockholders an aggregate of 56,192,841 shares of common stock, which represents 28.2% of the total authorized shares and 85.7% of the total outstanding shares of our common stock as of August 23, 2001 calculated assuming the conversion of all Series F preferred stock into common stock and the exercise of all outstanding warrants of the Company held by the selling stockholders.

RISK FACTORS

Investing in our common stock involves many risks, some of which are described below. You should carefully consider the following risk factors and all other information contained or incorporated by reference in this prospectus before purchasing our common stock. Any of the following material risks may harm our business and operating results and may result in a loss of all or part of your investment. Further, the potential for the occurrence of unforeseen risks is inherent in an investment in our common stock.

RISKS RELATED TO OUR BUSINESS

OUR INDEPENDENT PUBLIC ACCOUNTANTS HAVE EXPRESSED DOUBTS OVER OUR ABILITY TO CONTINUE AS A GOING CONCERN.

We incurred net losses of approximately $40.3 million for the six months ended June 30, 2001 and net losses of $43.8 million for the year ended December 31, 2000. Our cash and cash equivalents at June 30, 2001 were $25.7 million. Cash used in operations for the three months ended June 30, 2001 was $20.0 million. As of June 30, 2001, we had an accumulated deficit of approximately $148.1 million. As a result of our financial condition the independent auditors' report covering our December 31, 2000 consolidated financial statements and financial statement schedule contains an explanatory paragraph that states that

our recurring losses from operations and accumulated deficit raised substantial doubt about our ability to continue as a going concern. We initiated cost reduction measures in January and April 2001 in order to reduce our operating expenses, including workforce reductions, reduction of office space, consolidation of facilities and departments, asset write-downs and consolidation of our North American research and development and professional services resources.

In order to address our liquidity issue and to strengthen our balance sheet, we sold Series F preferred stock in the private placement, which resulted in net proceeds of $25.7 million. We believe that our current cash and cash equivalents, including the net proceeds received by the Company from the private placement, together with the January 2001 and April 2001 cost reduction measures, will be sufficient to fund our operations for the remainder of 2001. However, there is no assurance that we will be able to continue as a going concern beyond 2001. We may be required to further reduce our operations and seek additional financing. We may seek to raise additional funds through public or private equity financings or from other sources. We may also consider additional options, which include, but are not limited to, forming strategic partnerships or alliances and/or considering other strategic alternatives, including possible business combinations. We have not yet identified the source of any additional financing, nor can be predict whether additional financing can be obtained, or if obtained, the terms of such financing.

WE HAVE NOT ACHIEVED PROFITABILITY AND MAY CONTINUE TO INCUR NET LOSSES FOR AT LEAST THE NEXT SEVERAL QUARTERS.

We incurred net losses of approximately $40.3 million for the six months ended June 30, 2001, and net losses of approximately $43.8 million for the year ended December 31, 2000. As of June 30, 2001, we had an accumulated deficit of approximately $148.1 million. We have not realized any profit to date and do not expect to achieve profitability until early in 2002, which may not occur. To achieve this objective, we need to generate significant additional revenue from licensing of our products and related services and support revenues. We expect to reduce our fixed operating expenses through cost reduction measures implemented in January and April

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2001, which included workforce reductions, consolidation of facilities and departments, asset writedowns, and other miscellaneous cost reductions. We consolidated our North American workforce into our Boca Raton, Florida facility and we closed our Toronto, Ontario, Canada and Atlanta, Georgia offices. We also consolidated our North American research and development and professional services resources. There is no assurance we will achieve these objectives and thus achieve profitability. We may be required to further reduce our operations and seek additional financing. In addition, even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis in the future.

OUR REVENUE IS DIFFICULT TO PREDICT AND QUARTERLY OPERATING RESULTS MAY FLUCTUATE IN FUTURE PERIODS, AS A RESULT OF WHICH WE MAY FAIL TO MEET EXPECTATIONS WHICH MAY CAUSE OUR COMMON STOCK PRICE TO DECLINE.

Our revenue and operating results may vary significantly from quarter to quarter due to a number of factors. This fluctuation may cause our operating results to be below the expectations of public market analysts and investors, and the price of our common stock may fall. Factors that could cause quarterly fluctuations include:

- variations in demand for our products and services;
- competitive pressures;
- further decrease in corporate information technology spending and decline in economic conditions and market;
- prospective customers delaying their decision to acquire licenses for our products;
- our quarterly revenue and expense levels;
- our ability to develop and attain market acceptance of enhancements to the RevChain product family and any new products and services;
- the pace of product implementation and the timing of customer acceptance;
- industry consolidation reducing the number of potential customers;
- changes in our pricing policies or the pricing policies of our competitors; and
- the mix of sales channels through which our products and services are sold.

The timing of revenue and revenue recognition is difficult to predict. In any given quarter, most of our revenue has been attributable to a limited number of relatively large contracts and we expect this to continue. Further, our customer contract bookings and revenue recognized tends to occur predominantly in the last two weeks of the quarter. As a result, our quarterly results of operations are difficult to predict and the deferral of even a small number of contract bookings or delays associated with delivery of products in a particular quarter could significantly reduce our revenue and increase our net loss, which would hurt our quarterly financial performance. In addition, a substantial portion of our costs are relatively fixed and based upon anticipated revenue. A failure to book an expected order in a given quarter would not be offset by a corresponding reduction in costs and could adversely affect our operating results.

THE LOW PRICE OF OUR COMMON STOCK COULD RESULT IN THE DELISTING OF OUR COMMON STOCK FROM THE NASDAQ NATIONAL MARKET WHICH COULD CAUSE OUR COMMON STOCK PRICE TO DECLINE AND MAKE TRADING IN OUR COMMON STOCK MORE DIFFICULT TO INVESTORS.

Our common stock is currently quoted on The Nasdaq National Market. We must satisfy Nasdaq's minimum listing maintenance requirements to maintain our listing on The Nasdaq National Market. Nasdaq listing maintenance requirements include a series of financial tests relating to net tangible assets, public float, number of market makers and shareholders, market capitalization, and maintaining a minimum closing bid price of $1.00 for shares of our common stock. If the minimum closing bid price of our common stock were to be below $1.00 for 30 consecutive trading days, or if we are unable to meet Nasdaq's standards for any other reason, our common stock could be delisted from The Nasdaq National

Market. As of August 23, 2001, our common stock had a closing bid price of less than $1.00 for more than 30 consecutive trading days. On August 30, 2001, we received a letter from Nasdaq notifying us that our common stock had failed to maintain a minimum bid price of $1.00 over the previous 30 consecutive trading days as required by the applicable Nasdaq Marketplace Rule. Nasdaq is providing us 90 calendar days, or until November 28, 2001, to regain compliance with the Marketplace Rule. Pursuant to Nasdaq's letter, if at anytime before November 28, 2001, the bid price of our common stock is at least $1.00 per share for a minimum of 10 consecutive trading days, Nasdaq will make a determination of whether we comply with the Marketplace Rule. Under certain circumstances, Nasdaq may require that we maintain a closing bid price at or above $1.00 per share for more than 10 consecutive trading days. If we are not able to demonstrate compliance with the Marketplace Rule on or before November 28, 2001, Nasdaq will provide us with written notification that our common stock will be delisted from The Nasdaq National Market. At that time, we will have the opportunity to appeal the decision to delist to a Nasdaq Listing Qualifications Panel. If our common stock is delisted from The Nasdaq National Market, the common stock would trade on either The Nasdaq SmallCap Market or on the OTC Bulletin Board, both of which are viewed by most investors as less desirable and less liquid marketplaces. Thus, delisting from The Nasdaq National Market could make trading our shares more difficult for investors, leading to further declines in share price. It would also make it more difficult for us to raise additional capital. In addition, we would incur additional costs under state blue sky laws to sell equity if our common stock is delisted from The Nasdaq National Market.

WE FACE SIGNIFICANT COMPETITION FROM COMPANIES THAT HAVE GREATER RESOURCES THAN WE DO AND THE MARKETS IN WHICH WE COMPETE ARE RELATIVELY NEW, INTENSELY COMPETITIVE, HIGHLY FRAGMENTED AND RAPIDLY CHANGING.

The markets in which we compete are relatively new, intensely competitive, highly fragmented and rapidly changing. In some markets, limited capital resources are causing reduced spending in information technology. We expect competition to increase in the future, both from existing competitors as well as new entrants in our current markets. Our principal competitors include other internet enabled billing and customer care system providers, operation support system providers, systems integrators and service bureaus, and the internal information technology departments of larger communications companies, which may elect to develop functionalities similar to those provided by our product in-house rather than buying them from us. Many of our current and future competitors may have advantages over us, including:

- longer operating histories;

- larger customer bases;

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- substantially greater financial, technical, research and development and sales and marketing resources;

- a lead in expanding their business internationally;

- greater name recognition; and

- ability to more easily provide a comprehensive hardware and software solution.

Our current and potential competitors have established, and may continue to establish in the future, cooperative relationships among themselves or with third parties, including telecom hardware vendors, that would increase their

ability to compete with us. In addition, competitors may be able to adapt more quickly than we can to new or emerging technologies and changes in customer needs, or to devote more resources to promoting and selling their products. If we fail to adapt to market demands and to compete successfully with existing and new competitors, our business and financial performance would suffer.

WE DEPEND ON STRATEGIC BUSINESS ALLIANCES WITH THIRD PARTIES, INCLUDING SOFTWARE FIRMS, CONSULTING FIRMS AND SYSTEMS INTEGRATION FIRMS, TO SELL AND IMPLEMENT OUR PRODUCTS, AND ANY FAILURE TO DEVELOP OR MAINTAIN THESE ALLIANCES COULD HURT OUR FUTURE GROWTH IN REVENUE AND OUR GOALS FOR ACHIEVING PROFITABILITY.

Third parties such as operation support system providers, other software firms, consulting firms and systems integration firms help us with marketing and sales and implementation of our products. In order to address a broader market and to satisfy customers' requirements associated with the use of independent consulting and systems integration firms, we have increased our focus on indirect sales through our strategic alliance partners, including operational support system providers, other software application companies, consulting firms and systems integration firms. To be successful, we must maintain our relationships with these firms, develop additional similar relationships and generate new business opportunities through joint marketing and sales efforts. We may encounter difficulties in forging and maintaining long-term relationships with these firms for a variety of reasons. These firms may discontinue their relationships with us, fail to devote sufficient resources to market our products or develop relationships with our competitors. Many of these firms also work with competing software companies, and our success will depend on their willingness and ability to devote sufficient resources and efforts to marketing our products versus the products of others. In addition, these firms may delay the product implementation or negatively affect our customer relationships. Our agreements with these firms typically are in the form of a non-exclusive referral fee or license and package discount arrangement that may be terminated by either party without cause or penalty and with limited notice.

MANY OF OUR CUSTOMERS AND POTENTIAL CUSTOMERS ARE NEW ENTRANTS INTO THEIR MARKETS AND LACK FINANCIAL RESOURCES, AS A RESULT OF WHICH IF THEY CANNOT SECURE ADEQUATE FINANCING, WE MAY NOT MAINTAIN THEIR BUSINESS, WHICH WOULD NEGATIVELY IMPACT OUR REVENUE AND RESULTS OF OPERATIONS.

Many of our customers and potential customers are new entrants into their markets and lack significant financial resources as a result of which if they cannot secure adequate financing, we may not maintain their business, which would negatively impact our revenue and results of operations. These companies rely to a large degree on access to the capital markets for growth that have cut back over the past several months. Their failure to raise capital has hurt their financial viability and their ability to purchase our products. The lack of funding has caused potential customers to reduce information technology spending. If our potential customers cannot

obtain the resources to purchase our products, they may turn to other options such as service bureaus, which would hurt our business. Also, because we do at times provide financing arrangements to customers, their ability to make payments to us may impact when we can recognize revenue.

The revenue growth and profitability of our business depends significantly on the overall demand for software products and services that manage the revenue chain, particularly in the product and service segments in which we compete.

Softening demand for these products and services caused by worsening economic conditions may result in decreased revenues or earning levels or growth rates. Recently, the U.S. economy has weakened. This has resulted in companies delaying or reducing expenditures, including expenditures for information technology.

In addition, our current customers' ability to generate revenues or otherwise obtain capital could adversely impact on their ability to purchase additional products or renew maintenance and support agreements with us. If they go out of business there will be no future licenses to support revenue.

The lack of funding available in our customers' markets, the recent economic downturn in the technology market and customers shutting down operations or declaring bankruptcy may cause our accounts receivable to continue to increase. There is no assurance we will be able to collect all of these outstanding receivables.

OUR LENGTHY SALES CYCLE MAKES IT DIFFICULT TO PREDICT THE TIMING OF SALES AND THE RESULTING REVENUE, AND REVENUE MAY VARY FROM PERIOD TO PERIOD, WHICH MAY ADVERSELY AFFECT OUR COMMON STOCK PRICE.

The sales cycle associated with the purchase of our products is lengthy, and the time between the initial proposal to a prospective customer and the signing of a license agreement can be as long as one year. Our products involve a commitment of capital which may be significant to the customer, with attendant delays frequently associated with large capital expenditures and implementation procedures within an organization. These delays may reduce our revenue in a particular period without a corresponding reduction in our costs, which could hurt our results of operations for that period.

THE PRICE OF OUR COMMON STOCK HAS BEEN AND WILL CONTINUE TO BE VOLATILE, WHICH INCREASES THE RISK OF AN INVESTMENT IN OUR COMMON STOCK.

The trading price of our common stock has fluctuated in the past and will fluctuate in the future. This future fluctuation could be a result of a number of factors, many of which are outside our control. Some of these factors include:

- quarter-to-quarter variations in our operating results;
- failure to meet the expectations of industry analysts;
- announcements and technological innovations or new products by us or our competitors;
- increased price competition; and
- general conditions in the Internet and telecommunications industry.

The stock market has experienced extreme price and volume fluctuations, which have particularly affected the market prices of many Internet and computer software companies,

including ours, and which we believe have often been unrelated to the operating performance of these companies or our company.

OUR STRATEGY TO EXPAND INTO INTERNATIONAL MARKETS THROUGH DIRECT SALES EFFORTS

AND THROUGH STRATEGIC RELATIONSHIPS MAY NOT SUCCEED AS A RESULT OF LEGAL, BUSINESS AND ECONOMIC RISKS SPECIFIC TO INTERNATIONAL OPERATIONS.

Our strategy includes expansion into international markets through a combination of direct sales efforts and strategic relationships. In addition to risks generally associated with international operations, our future international operations might not succeed for a number of reasons, including:

- dependence on sales efforts of third party distributors and systems integrators;
- difficulties in staffing and managing foreign operations;
- difficulties in localizing products and supporting customers in foreign countries;
- reduced protection for intellectual property rights in some countries;
- greater difficulty in collecting accounts receivable; and
- uncertainties inherent in transnational operations such as export and import regulations, taxation issues, tariffs and trade barriers.

To the extent that we are unable to successfully manage expansion of our business into international markets due to any of the foregoing factors, our business could be adversely affected.

WE RECENTLY INTRODUCED OUR REVCHAIN FAMILY OF INDUSTRY-FOCUSED SOFTWARE SUITES, THE SUCCESS OF WHICH WILL BE DEPENDENT UPON MARKET ACCEPTANCE.

We introduced the RevChain product family in early 2001. This new product family is an evolution of our former customer management and billing products that were significantly enhanced and re-positioned to address the customer need for managing the entire revenue chain. The RevChain product family consists of several industry-focused suites, some of which are in the early stages of their release, and are undergoing further development. As a result, the market's acceptance of our new RevChain product family, and the maturity of some of the industry-focused product suites, may have an affect on our business and financial performance, including our revenues.

OUR FUTURE SUCCESS WILL DEPEND IN PART UPON OUR ABILITY TO CONTINUALLY ENHANCE OUR PRODUCT OFFERING TO MEET THE CHANGING NEEDS OF SERVICE PROVIDERS, AND IF WE ARE NOT ABLE TO DO SO WE WILL LOSE FUTURE BUSINESS TO OUR COMPETITORS.

We believe that our future success will depend to a significant extent upon our ability to enhance our product offering and packaged industry suites and to introduce new products and features to meet the requirements of our customers in a rapidly developing and evolving market. We devote significant resources to refining and expanding our software products, developing our pre-configured industry suites and investigating complimentary products and technologies. The requirements of our customers may change and our present or future products or packaged industry suites may not satisfy the evolving needs of our targeted markets. If we are unable to

anticipate or respond adequately to customer needs, we will lose business and our financial performance will suffer.

IF WE CANNOT CONTINUE TO OBTAIN OR IMPLEMENT THE THIRD-PARTY SOFTWARE THAT WE INCORPORATE INTO OUR PRODUCT OFFERING, WE MAY HAVE TO DELAY OUR PRODUCT

DEVELOPMENT OR REDESIGN EFFORTS WHICH COULD HAVE AN ADVERSE EFFECT ON OUR REVENUE AND RESULTS OF OPERATIONS.

Our product offering involves integration with products and systems developed by third parties. If any of these third-party products should become unavailable for any reason, fail under operation with our product offering or fail to be supported by their vendors, it would be necessary for us to redesign our product offering. We might encounter difficulties in accomplishing any necessary redesign in a cost-effective or timely manner. We also could experience difficulties integrating our product offering with other hardware and software. Furthermore, if new releases of third-party products and systems occur before we develop products compatible with these new releases, we could experience a decline in demand for our product offering, which could cause our business and financial performance to suffer.

WE MAY BE UNABLE TO PROTECT OUR PROPRIETARY TECHNOLOGY, AND OUR COMPETITORS MAY INFRINGE ON OUR TECHNOLOGY, EITHER OF WHICH COULD HARM THE VALUE OF OUR PROPRIETARY TECHNOLOGY.

Any misappropriation of our technology or the development of competitive technology could seriously harm our business. We regard a substantial portion of our software product as proprietary and rely on a combination of patent, copyright, trademark and trade secret laws, customer license agreements and employee and third-party agreements to protect our proprietary rights. These steps may not be adequate, and we do not know if they will prevent misappropriation of our intellectual property, particularly in foreign countries where the laws may not protect proprietary rights as fully as do the laws of the United States. Other companies could independently develop similar or superior technology without violating our proprietary rights. If we have to resort to legal proceedings to enforce our intellectual property rights, the proceedings could be burdensome and expensive and could involve a high degree of risk.

CLAIMS BY OTHERS THAT WE INFRINGE THEIR PROPRIETARY TECHNOLOGY COULD BE COSTLY AND HARM OUR BUSINESS.

Third parties could claim that our current or future products or technology infringe their proprietary rights. An infringement claim against us could be costly even if the claim is invalid, and could distract our management from the operation of our business. Furthermore, a judgment against us could require us to pay substantial damages and could also include an injunction or other court order that could prevent us from selling our product offering. If we faced a claim relating to proprietary technology or information, we might seek to license technology or information, or develop our own, but we might not be able to do so. Our failure to obtain the necessary licenses or other rights or to develop non-infringing technology could prevent us from selling our products and could seriously harm our business.

LOSS OF OUR SENIOR MANAGEMENT PERSONNEL, PARTICULARLY JAMES DALEEN, WOULD LIKELY HURT OUR BUSINESS.

Our future success depends to a significant extent on the continued services of our senior management and other key personnel, particularly James Daleen, our founder and chief executive officer. If we lost the services of Mr. Daleen or other key employees it would likely hurt our business. We have employment and non-compete agreements with some of our

executive officers, including Mr. Daleen. However, these agreements do not obligate them to continue working for us.

PRODUCT DEFECTS OR SOFTWARE ERRORS IN OUR PRODUCTS COULD ADVERSELY AFFECT OUR BUSINESS DUE TO COSTLY REDESIGNS, PRODUCTION DELAYS AND CUSTOMER DISSATISFACTION.

Design defects or software errors in our products may cause delays in product introductions or damage customer satisfaction, either of which could seriously harm our business. Our software products are highly complex and may, from time to time, contain design defects or software errors that may be difficult to detect and correct. Although we have license agreements with our customers that contain provisions designed to limit our exposure to potential claims and liabilities arising from customer problems, these provisions may not effectively protect us against all claims. In addition, claims and liabilities arising from customer problems could significantly damage our reputation and hurt our business.

IN THE EVENT WE ACQUIRE THIRD PARTIES OR THIRD PARTY TECHNOLOGIES, SUCH ACQUISITIONS COULD RESULT IN DISRUPTIONS TO OUR BUSINESS AND DIVERSION OF MANAGEMENT, AND COULD REQUIRE THAT WE ENGAGE IN FINANCING TRANSACTIONS THAT COULD HURT OUR FINANCIAL PERFORMANCE.

We may in the future make acquisitions of companies, products or technologies, or enter into strategic relationship agreements that require substantial up-front investments. We will be required to assimilate the acquired businesses and may be unable to maintain uniform standards, controls, procedures and policies if we fail to do so effectively. We may have to incur debt or issue equity securities to pay for any future acquisitions. The issuance of equity securities for any acquisition could be substantially dilutive to our stockholders. In addition, our profitability may suffer because of acquisition-related costs or amortization costs for acquired intangible assets.

OUR SUCCESS DEPENDS IN PART ON OUR ABILITY TO ATTRACT AND RETAIN SKILLED EMPLOYEES, WHICH IS DIFFICULT AND EXPENSIVE IN TODAY'S TECHNOLOGY LABOR MARKET.

Our success depends in large part on our ability to attract, train, motivate and retain highly skilled information technology professionals, software programmers and sales and marketing professionals. Qualified personnel in these fields are in great demand and are likely to remain a limited resource. We may be unable to continue to retain the skilled employees we require. Any inability to do so could prevent us from managing and competing for existing and future projects or to compete for new customer contracts.

DELAWARE LAW, OUR CERTIFICATE OF INCORPORATION AND OUR BYLAWS CONTAIN ANTI-TAKEOVER PROVISIONS THAT MAY DELAY, DEFER OR PREVENT A CHANGE OF CONTROL.

Certain provisions of Delaware law, our certificate of incorporation and our bylaws contain provisions that could delay, deter or prevent a change in control of Daleen. Our certificate of incorporation and bylaws, among other things, provide for a classified board of directors, restrict the ability of stockholders to call stockholders meetings by allowing only stockholders holding, in the aggregate, not less than 10% of the capital stock entitled to cast votes at these meetings to call a meeting, preclude stockholders from raising new business for consideration at stockholder meetings unless the proponent has provided us with timely advance notice of the new business, and limit business that may be conducted at stockholder meetings to those matters properly specified in notices delivered to us. Moreover, we have not opted out of Section 203 of the Delaware General Corporation Law, which prohibits mergers, sales of material assets and some types of self-dealing transactions between a corporation and a holder of 15% or more of the

corporation's outstanding voting stock for a period of three years following the date the stockholder became a 15% holder, unless an applicable exemption from the rule is available. These provisions do not apply to the purchasers of our Series F preferred stock.

Additionally, the issuance of the Series F preferred stock may delay, deter or prevent a change of control of Daleen, particularly if the holders of the Series F preferred stock oppose the transaction.

RISKS RELATED TO THE SERIES F PREFERRED STOCK AND THIS OFFERING

THE HOLDERS OF THE SERIES F PREFERRED STOCK HAVE RIGHTS THAT ARE SENIOR TO THOSE OF THE HOLDERS OF THE COMMON STOCK.

The holders of the Series F preferred stock will have a claim against our assets senior to the claim of the holders of our common stock in the event of our liquidation, dissolution or winding up. The aggregate amount of that senior claim will be at least $27.5 million. The holders of the Series F preferred stock also have voting rights entitling them to vote together with the holders of our common stock as a single class and on the basis of 100 votes per share of Series F preferred stock, subject to adjustment for any stock split, stock dividend, reverse stock split, reclassification or consolidation of or on our common stock. As of August 23, 2001, the voting rights of the holders of Series F preferred stock, excluding shares of common stock owned by the holders of the Series F preferred stock, would constitute 53.1% of the entire voting class of common stock, or 62.0%, if the purchasers and the placement agent exercise the Series F warrants. On August 23, 2001, we had 21,864,201 shares of common stock issued and outstanding and 247,882 shares of Series F preferred stock issued and outstanding. Additionally, we had outstanding Series F warrants for the purchase of an aggregate of 109,068 shares of Series F preferred stock. Following the conversion of the Series F preferred stock, the holders will be entitled to vote the number of shares of common stock issued upon conversion. As a result, the holders of Series F preferred stock have a significant ability to determine the outcome of matters submitted to our stockholders for a vote. Additionally, the holders of the Series F preferred stock are entitled to vote as a separate class on certain matters, including:

- the authorization or issuance of any other class or series of preferred stock ranking senior to or equal with the Series F preferred stock as to payment of amounts distributable upon dissolution, liquidation or winding up of Daleen;
- the issuance of any additional shares of Series F preferred stock;
- the reclassification of any capital stock into shares having preferences or priorities senior to or equal with the Series F preferred stock;
- the amendment, alteration, or repeal of any rights of the Series F preferred stock; and
- the payment of dividends on any other class or series of capital stock of Daleen, including the payment of dividends on the common stock.

As a result of these preferences and senior rights, the holders of the

Series F preferred stock have rights that are senior to the common stock in numerous respects.

The holders of the Series F preferred stock have other rights and preferences, including the right to convert the Series F preferred stock into an increased number of shares of common stock as a result of anti-dilution adjustments.

THE PRIVATE PLACEMENT PROVIDED THE HOLDERS OF THE SERIES F PREFERRED STOCK WITH SUBSTANTIAL EQUITY OWNERSHIP IN DALEEN AND HAD A SIGNIFICANT DILUTIVE EFFECT ON EXISTING STOCKHOLDERS.

The Series F preferred stock is convertible at any time into a substantial percentage of the outstanding shares of our common stock. The issuance of the Series F preferred stock has resulted in substantial dilution to the interests of the holders of our common stock. The exercise of the Series F warrants will result in further dilution. The number of shares of our common stock issuable upon conversion of the Series F preferred stock, and the extent of dilution to existing stockholders, depends on a number of factors, including events that may cause an adjustment to the conversion price.

Due to the reset provisions of the Series F preferred stock, the conversion price is $0.9060. Assuming that the holders of the Series F preferred stock and the Series F warrants exercise the Series F warrants in full and convert all of their shares of Series F preferred stock into shares of common stock, we would issue an aggregate of approximately 43,708,637 shares of common stock. Based on the number of shares of our common stock outstanding on August 23, 2001, this would represent 66.7% of our outstanding common stock.

OUR SERIES F PREFERRED STOCK PROVIDES FOR ANTI-DILUTION ADJUSTMENTS TO THE SERIES F PREFERRED STOCK CONVERSION PRICE, WHICH COULD RESULT IN A REDUCTION OF THE CONVERSION PRICE.

Subject to certain exceptions, the conversion price of the Series F preferred stock will be reduced each time, if any, that we issue common stock, options, warrants or other rights to acquire common stock at a price per share of common stock that is less than the conversion price of the Series F preferred stock then in effect. A reduction in the conversion price of the Series F preferred stock will increase the number of shares of common stock issuable upon conversion of the Series F preferred stock.

THE SERIES F PREFERRED STOCK IS AUTOMATICALLY CONVERTIBLE ONLY IN LIMITED CIRCUMSTANCES AND, AS A RESULT COULD BE OUTSTANDING INDEFINITELY.

The Series F preferred stock will convert automatically into common stock only if, after March 30, 2002, the closing price of our common stock on The Nasdaq National Market or a national securities exchange is at least $3.3282 per share for ten out of any 20 trading day period. Otherwise, the shares of Series

F preferred stock are convertible only at the option of the holder. Further, the Series F preferred stock is not subject to automatic conversion if our common stock is not then listed for trading on The Nasdaq National Market or a national securities exchange. Each Series F warrant is exercisable for Series F preferred stock in whole or in part at any time during a five-year exercise period at the sole discretion of the Series F warrant holder and will not be convertible or callable at the election of Daleen. As a result of these provisions, the Series F preferred stock may remain outstanding indefinitely.

THE HOLDERS OF SERIES F PREFERRED STOCK HAVE VOTING POWER OF OUR CAPITAL STOCK SUFFICIENT TO ENABLE THE INVESTORS TO CONTROL OR SIGNIFICANTLY INFLUENCE ALL MAJOR CORPORATE DECISIONS.

The holders of the Series F preferred stock and Series F warrants acquired a percentage of the voting power of our capital stock that will enable such holders to elect directors and to control to a significant extent major corporate decisions involving Daleen and its assets that are subject to a vote of our stockholders. The voting rights of the holders of the Series F preferred stock, when combined with the common stock owned by their affiliates, currently represents approximately 68.7% of the voting power of Daleen, and would represent approximately 74.5% if

the purchasers exercise the Series F warrants and other outstanding warrants to purchase common stock held by an affiliate of one of the purchasers.

Following is information on HarbourVest Partners VI-Direct Fund L.P., one of the purchasers in the private placement as of August 23, 2001:

- HarbourVest Partners VI-Direct Fund L.P. is managed by HarbourVest Partners, LLC, which also manages HarbourVest Partners V-Direct Fund L.P.

- HarbourVest Partners V-Direct Fund L.P. beneficially owned approximately 21.9% of our common stock (including a warrant to purchase 1,250,000 shares of our common stock).

- HarbourVest Partners, LLC, through funds it manages, beneficially owns approximately 35.5% of our common stock, based on a Series F preferred stock conversion price of $0.9060 and assuming conversion of all of the outstanding shares of Series F preferred stock and exercise of all of the HarbourVest funds' Series F warrants and outstanding warrants to purchase our common stock.

- Prior to the conversion of the Series F preferred stock, but assuming exercise of the HarbourVest funds' Series F warrants and their other warrants, HarbourVest Partners, LLC would control approximately 34.3% of the voting power of Daleen, or 27.5% prior to exercising the HarbourVest funds' Series F warrants and other warrants, based on the voting rights of the Series F preferred stock.

Following is information on SAIC Venture Capital Corporation, one of the purchasers in the private placement, as of August 23, 2001:

- SAIC Venture Capital Corporation holds 2,246,615 shares of our common stock, 67,604 shares of Series F preferred stock and Series F warrants to purchase an additional 27,042 shares of Series F preferred stock.

- As a result, SAIC Venture Capital Corporation beneficially owns approximately 24.9% of our outstanding common stock, based on a Series F preferred stock conversion price of $0.9060 and assuming conversion of all of the outstanding shares of Series F preferred stock and exercise of SAIC Venture Capital Corporation's Series F warrants.

- Prior to the conversion of the Series F preferred stock, but assuming exercise of its Series F warrants, SAIC Venture Capital Corporation would control approximately 23.7% of the voting power of Daleen, or 19.3% prior to the exercise of its Series F warrants, based on the voting rights of the Series F preferred stock.

SALES OF A SUBSTANTIAL NUMBER OF SHARES OF COMMON STOCK IN THE PUBLIC MARKET, INCLUDING THE SHARES OFFERED HEREBY, COULD LOWER OUR STOCK PRICE AND IMPAIR OUR ABILITY TO RAISE FUNDS IN NEW STOCK OFFERINGS.

Future sales of a substantial number of shares of our common stock in the public market, including the shares offered hereby, or the perception that such sales could occur, including any perceptions that may be created upon the actual conversion of Series F preferred stock, could adversely affect the prevailing market price of our common stock. Additionally, a decrease in the market price of our common stock could make it more difficult for us to raise additional capital through the sale of equity securities. We filed this registration statement pursuant to a registration rights agreement with the purchasers of the Series F preferred stock and Series F warrants. We are required under the registration rights agreement to maintain one or more effective shelf registration statements, including this registration statement, that will permit the

holders of the Series F preferred stock and Series F warrants to sell the shares of our common stock issuable upon conversion of the Series F preferred stock in the public market from time to time until all of the shares are sold or the shares otherwise may be transferred without restriction under the securities laws.

FORWARD-LOOKING STATEMENTS

THIS REGISTRATION STATEMENT, AS WELL AS THE INFORMATION INCORPORATED HEREIN BY REFERENCE, CONTAINS FORWARD-LOOKING STATEMENTS WITHIN THE MEANING OF THE SECURITIES ACT OF 1933 AND THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED BY THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. THESE FORWARD-LOOKING STATEMENTS ARE NOT HISTORICAL FACTS BUT RATHER ARE BASED ON CURRENT EXPECTATIONS, ESTIMATES AND PROJECTIONS ABOUT OUR BUSINESS AND INDUSTRY, OUR BELIEFS AND ASSUMPTIONS. WORDS SUCH AS "ANTICIPATES", "EXPECTS", "INTENDS", "PLANS", "BELIEVES", "SEEKS", "ESTIMATES" AND VARIATIONS OF THESE WORDS AND

STATEMENTS AND SIMILAR EXPRESSIONS ARE NOT GUARANTEES OF FUTURE PERFORMANCE AND ARE SUBJECT TO KNOWN AND UNKNOWN RISKS, UNCERTAINTIES, AND OTHER FACTORS, SOME OF WHICH ARE BEYOND OUR CONTROL, ARE DIFFICULT TO PREDICT AND COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE EXPRESSED OR FORECASTED IN THE FORWARD-LOOKING STATEMENTS. THESE RISKS AND UNCERTAINTIES INCLUDE THOSE DESCRIBED IN "RISK FACTORS" AND ELSEWHERE IN THIS REGISTRATION STATEMENT, AND THOSE DESCRIBED IN "RISKS ASSOCIATED WITH DALEEN'S BUSINESS AND FUTURE OPERATING RESULTS", "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" AND ELSEWHERE IN OUR ANNUAL REPORT ON FORM 10-K AND THE OTHER REPORTS INCORPORATED BY REFERENCE HEREIN. FORWARD-LOOKING STATEMENTS THAT WERE TRUE AT THE TIME MADE MAY ULTIMATELY PROVE TO BE INCORRECT OR FALSE. READERS ARE CAUTIONED TO NOT PLACE UNDUE RELIANCE ON FORWARD-LOOKING STATEMENTS, WHICH REFLECT OUR MANAGEMENT'S VIEW ONLY AS OF THE DATE OF THIS REPORT. WE UNDERTAKE NO OBLIGATION TO UPDATE OR REVISE FORWARD-LOOKING STATEMENTS TO REFLECT CHANGED ASSUMPTIONS, THE OCCURRENCE OF UNANTICIPATED EVENTS OR CHANGES TO FUTURE OPERATING RESULTS.

DESCRIPTION OF PRIVATE PLACEMENT

GENERAL

On March 30, 2001, we entered into the purchase agreements for the private placement of $27.5 million of our Series F preferred stock and Series F warrants. Pursuant to the terms of the purchase agreements, we consummated the private placement on June 7, 2001. The consummation of the private placement was subject to the receipt of approval from our stockholders, including approval of an amendment to our certificate of incorporation to increase the number of authorized shares of common stock and to create and designate the Series F preferred stock.

Our stockholders approved the private placement, including the amendment to our certificate of incorporation, at our annual meeting of stockholders held on June 7, 2001. Pursuant to the purchase agreements, on June 7, 2001, the escrow agent released the escrowed funds to us and we issued the Series F preferred stock and Series F warrants to the purchasers.

The offering and sale of the Series F preferred stock and Series F warrants was exempt from registration under the Securities Act of 1933, as amended, by virtue of Rule 506 of Regulation D promulgated thereunder. The Series F preferred stock is a new series of our preferred stock.

We filed this registration statement pursuant to the terms of the purchase agreements which require that we file with the Securities and Exchange Commission a registration statement to register the common stock issuable upon conversion of the Series F preferred stock (including the shares of Series F preferred stock issuable upon exercise of the Series F warrants). We previously granted "piggyback" registration rights to a number of our other stockholders, including our largest stockholders. Certain of these stockholders exercised their registration rights and, as a result, their shares also are included in this registration statement. Additionally, on June 8, 2001, we granted warrants to purchase 750,000 shares of common stock to certain of the selling stockholders. In connection with that transaction, we agreed to register the shares of common stock issuable upon exercise of the warrants. Accordingly, those shares are included in this registration statement.

CERTAIN TERMS OF THE SERIES F PREFERRED STOCK

General. Pursuant to the terms of the purchase agreements, on June 7, 2001, we issued and sold (i) an aggregate of 247,882 shares Series F preferred stock and (ii) Series F warrants to purchase an aggregate of 109,068 shares of Series F preferred stock, including a Series F warrant that we issued to Robertson Stephens, Inc., which acted as our placement agent in the private placement. The purchase price per share of the Series F preferred stock (without giving effect to the allocation of any part of the purchase price to the Series F warrants) was $110.94 per share, which is equal to (i) $1.1094, the average closing price per share of our common stock during the ten trading days ending on March 30, 2001, the date of the purchase agreements, multiplied by (ii) 100, the number of shares of common stock initially issuable upon conversion of a share of Series F preferred stock.

Conversion. Each share of Series F preferred stock is convertible at any time at the option of the holder into shares of our common stock. The number of shares of common stock issuable upon conversion of a single share of Series F preferred stock is determined by dividing the original price per share of the Series F preferred stock, which is $110.94, by the conversion price in effect on the date of conversion. The initial conversion price was $1.1094. The conversion price was subject to a one-time adjustment, or reset, as follows:

- in the event the average market price (based on the closing price per share as reported by The Nasdaq Stock Market) per share of our common stock for the ten consecutive trading days following the date on which we issued an "earnings release" (as defined below) for the quarter ended June 30, 2001 (the "Reset Price") was less than the conversion price (initially, $1.1094), the conversion price would be adjusted automatically to the higher of (A) the Reset Price or (B) $0.8321 (75% of the initial conversion price);

- if we issued more than one earnings release with respect to the quarter ended June 30, 2001, a Reset Price would be calculated for the ten trading days following each earnings release, and the lowest Reset Price would be used for the purpose of determining the adjusted conversion price;

- the effective date for the reset would follow our final earnings release for the June 30, 2001 quarter; and

- the term "earnings release" means (A) a press release issued by us after March 30, 2001, providing any material financial metrics regarding revenue or estimated revenue or earnings or estimated earnings for the quarter ended June 30, 2001, including announcements regarding consolidation and expense reduction plans implemented or to be

implemented by us, or (B) a press release issued by us announcing our actual total revenue for the quarter ended June 30, 2001.

On April 10, 2001, we issued an earnings release, which would have resulted in a Reset Price of $0.9060 as of June 30, 2001. On July 26, 2001, we issued our final earnings release. The reset Average Market Price following the final earnings release was $0.9060, which was the lowest reset Average Market Price following our earnings releases. As a result, effective August 9, 2001, the conversion price of the Series F preferred stock was reset to $0.9060. Based on the reset conversion price established by the July 26, 2001 final earnings release and pursuant to the terms of the purchases agreements, each share of Series F preferred stock is convertible into 122.4503 shares of common stock, or an aggregate of approximately 43,708,637 shares of common stock.

In addition to the reset, in the event we issue common stock or securities convertible into common stock at a price per share less than the conversion price of the Series F preferred stock, the conversion price will be reduced to be equal to the price per share of the securities sold by us. This adjustment provision is subject to a number of exceptions, including the issuance of stock or options to employees and the issuance of stock or options in connection with acquisitions. The conversion price also will be subject to adjustment as a result of stock splits, stock dividends and the like on the common stock. These provisions will apply to any of the foregoing actions that occur after March 30, 2001.

The Series F preferred stock will automatically convert into common stock at any time after March 30, 2002, if our common stock trades on The Nasdaq National Market or a national securities exchange at a price per share of at least $3.3282 (three times the initial conversion price) for ten trading days within any twenty trading day period. The Series F preferred stock is not subject to automatic conversion if our common stock is not then listed for trading on The Nasdaq National Market or a national securities exchange.

Voting Rights. The holders of the Series F preferred stock have voting rights entitling them to vote together with the holders of our common stock as a single class on all matters presented for a vote to the common stockholders. Each holder of Series F preferred stock is entitled to cast 100 votes for each share of Series F preferred stock held by such holder, subject to adjustment for any stock split, stock dividend, reverse stock split, reclassification or consolidation of or on our common stock. Additionally, so long as 50% of the Series F preferred stock is still outstanding, holders of the Series F preferred stock are entitled to have a class vote on certain matters, including the following:

- the authorization or issuance of any other class or series of preferred stock ranking senior to or equal with the Series F preferred stock as to payment of amounts distributable upon dissolution, liquidation or winding up of Daleen;

- the issuance of any additional shares of Series F preferred stock;

- the reclassification of any capital stock into shares having preferences or priorities senior to or equal with the Series F preferred stock;

- the amendment, alteration or repeal of any rights of the Series F preferred stock; and

- the payment of dividends on any other class or series of capital stock of the Company, including the payment of dividends on the common stock.

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TERMS OF THE SERIES F WARRANTS

Simultaneous with the issuance of the Series F preferred stock, we issued to the purchasers of Series F preferred stock, as well as Robertson Stephens, Inc., which acted as our placement agent in the private placement, Series F warrants to purchase an aggregate of 109,068 additional shares of Series F preferred stock. The Series F warrants have an exercise price of $166.41 per share of Series F preferred stock and are exercisable at any time on or before June 7, 2006. The exercise price per share is equal to 150% of the original price per share of the Series F preferred stock.

OWNERSHIP OF CERTAIN SERIES F PURCHASERS

The purchasers of shares of Series F preferred stock and Series F warrants, all of whom are selling stockholders, include HarbourVest Partners VI -- Direct Fund L.P., SAIC Venture Capital Corporation and St. Paul Venture Capital VI, LLC, which are current stockholders or affiliates of current stockholders of Daleen. As a result of the private placement, as of August 23, 2001, SAIC Venture Capital Corporation beneficially owned approximately 24.9% of our common stock (assuming exercise of its Series F warrants), HarbourVest Partners, LLC, through the funds that it manages, beneficially owned approximately 35.5% of our common stock (assuming exercise of its Series F warrants and other warrants), and St. Paul Venture Capital VI, LLC and its affiliates beneficially owned approximately 7.4% of our common stock (assuming exercise of its Series F warrants) in each case treating all of the 247,882 shares of Series F preferred stock to be sold to the purchasers on an as-if-converted basis but assuming the exercise of only the Series F warrants held by the respective stockholder. William A. Roper, Jr. is the Chairman of the Board of SAIC Venture Capital Corporation and Ofer Nemirovsky is a managing director of HarbourVest Partners, LLC. Mr. Roper and Mr. Nemirovsky are directors of Daleen.

USE OF PROCEEDS

The shares are being sold for the account of the selling stockholders, and the selling stockholders will receive all of the net proceeds from the sale of the shares. We will not receive any proceeds from the sale of the shares in this offering.

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SELLING STOCKHOLDERS

The following table sets forth certain information regarding beneficial ownership of our common stock as of August 23, 2001. The last column indicates the number of shares each selling stockholder will beneficially own assuming the sale of all of the shares offered hereby. The selling stockholders are not under any obligation to sell their shares of common stock. Additionally, the Series F preferred stock conversion price and, as a result, the number of shares of common stock issuable upon conversion of the Series F preferred stock, is subject to adjustment as discussed under "Description of Private Placement."

NAME	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING(1)	NUMBER OF SHARES BEING OFFERED HEREBY(1)	SHA O SHAR
HarbourVest Partners V -- Direct Fund L.P.(2)	5,068,063(3)	5,068,063(3)	
HarbourVest Partners VI -- Direct Fund L.P.(2)	15,452,616(4)	15,452,616(4)	
SAIC Venture Capital Corporation(5)	13,836,046(6)	13,836,046(6)	
St. Paul Venture Capital IV, L.L.C.(7)	795,566	795,566	
St. Paul Venture Capital Affiliates Fund I, L.L.C.(7)	22,497	22,497	
St. Paul Venture Capital VI, LLC(7)	3,090,523(8)	3,090,523(8)	
ABX Fund, L.P.(9)	694,896(10)	564,006(10)	130,
ABS Ventures IV, L.P.(9)	3,050,078(11)	2,526,518(11)	523,
Halifax Fund, L.P.(12)	2,317,862(13)	2,317,862(13)	
Baystar Capital, L.P.(14)	2,317,862(15)	2,317,862(15)	
Baystar International Ltd.(14)	772,662(16)	772,662(16)	
Royal Wulff Ventures, LLC(17)	1,545,323(18)	1,545,323(18)	
Special Situations Private Equity Fund, L.P.(19)	1,158,870(20)	1,158,870(20)	
Special Situations Cayman Fund, L.P.(19)	1,158,870(21)	1,158,870(21)	
Robertson Stephens, Inc.	1,214,095(22)	1,214,095(22)	
Mohammad Aamir	1,310,730(23)	1,310,730(23)	
Bell Canada	654,450	654,450	
ABN AMRO Capital (U.S.A.), Inc.(24)	620,669	620,669	
The VenGrowth Investment Fund Inc.(25)	805,454(26)	805,454(26)	
1303949 Ontario Inc.(27)	404,871(28)	404,871(28)	
I Eagle Trust(24)	224,614	224,614	
South Ferry Building Company(29)	66,970(30)	66,970(30)	
Carl Scase	57,434	57,434	
Corneliu Ionescu	53,331	53,331	
Burnham Capital, LLC(24)	41,394	41,394	
David Portnoy	28,412(31)	25,712(31)	2,
James J. Cahill	25,000(32)	25,000(32)	
North American Trust Co, as trustee FBO Pillsbury, Madison & Sutru, LLP/Gary H. Anderson(33)	22,661(34)	3,396	19,

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NAME	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING(1)	NUMBER OF SHARES BEING OFFERED HEREBY(1)	SHA O SHAR
The Focus Fund #1, L.P.(35)	16,390(36)	15,390(36)	1,
Charles Barton	16,041	16,041	
Stephen Smith	16,041	16,041	
E. L. Associates Profit Sharing Plan(37)	71,055(38)	9,966(38)	

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* Less than 1% of our outstanding common stock.

(1) For purposes of determining beneficial ownership, the number of shares of common stock includes shares issuable upon conversion of Series F preferred stock, including the shares of Series F preferred stock issuable upon exercise of Series F warrants, and shares of common stock issuable pursuant to options, warrants and other rights to acquire our common stock held by the respective selling stockholder that may be exercised or converted within 60 days following August 23, 2001. The number of shares of common stock issuable upon conversion of Series F preferred stock, including the shares of Series F preferred stock issuable upon exercise of Series F warrants, have been approximated for purposes of this table. Due to rounding upon conversion, the number of shares of common stock each holder receives upon conversion of its Series F preferred stock may actually be less than the amount presented in the table. For purposes of determining the percentage of shares owned, the shares of common stock issuable upon conversion of the outstanding shares of Series F preferred stock are deemed to be outstanding. However, the shares of common stock issuable in connection with the Series F warrants as well as other options, warrants and other securities are considered to be outstanding and beneficially owned by the selling stockholder holding such Series F warrants, options, warrants or other securities for the purpose of computing the percentage ownership of such selling stockholder after the offering but are not treated as outstanding for the purpose of computing the percentage ownership of any other selling stockholder.

(2) HarbourVest Partners, LLC is the managing member of the general partner of HarbourVest Partners V -- Direct Fund L.P. and HarbourVest Partners VI -- Direct Fund L.P. D. Brooks Zug and Edward W. Kane share the investment and voting power of HarbourVest Partners, LLC. Ofer Nemirovsky, a director of Daleen, is a managing director of HarbourVest Partners, LLC and a member of the general partner of HarbourVest Partners V -- Direct Fund L.P. and HarbourVest Partners VI -- Direct Fund L.P. and therefore may be considered to share beneficial ownership of the shares held by HarbourVest Partners V -- Direct Fund L.P. and HarbourVest Partners VI -- Direct Fund L.P. Mr. Nemirovsky disclaims beneficial ownership of these shares.

(3) The shares include 1,250,000 shares of our common stock issuable upon exercise of a warrant held by HarbourVest Partners V -- Direct Fund L.P.

(4) The shares include (i) 11,037,548 shares of our common stock issuable upon conversion of 90,139 shares of Series F preferred stock and (ii) 4,415,068 shares of our common stock issuable upon conversion of 36,056 shares of Series F preferred stock that may be acquired upon exercise of Series F warrants. We issued the Series F preferred stock and Series F warrants to HarbourVest Partners VI -- Direct Fund L.P. in the private placement.

(5) SAIC Venture Capital Corporation is a wholly-owned subsidiary of Science Applications International Corporation, which controls the investment and voting power of SAIC Venture Capital Corporation.

(6) The shares include (i) 8,278,130 shares of our common stock issuable upon conversion of 67,604 shares of Series F preferred stock and (ii) 3,311,301 shares of our common stock issuable upon conversion of 27,042 shares of Series F preferred stock that may be acquired upon exercise of Series F warrants. We issued the Series F preferred stock and Series F warrants to SAIC Venture Capital Corporation in the private placement. William A. Roper, Jr., a director of Daleen, is the Chairman of the Board of SAIC Venture Capital Corporation and a corporate executive vice president of Science Applications International Corporation, the sole stockholder of SAIC Venture Capital Corporation.

(7) St. Paul Fire and Marine Insurance Company ("SPFM") owns 99% of St. Paul Venture Capital IV, LLC ("SPVC IV") and St. Paul Venture Capital VI, LLC ("SPVC VI"). SPFM is a wholly-owned subsidiary of The St. Paul Companies, Inc. ("The St. Paul"). The St. Paul owns 79% of St. Paul Venture Capital, Inc., the manager of St. Paul Venture Capital Affiliates Fund I, LLC ("Affiliate"). Therefore, The St. Paul may be deemed to beneficially own the shares held by SPVC IV, SPVC VI and Affiliate and SPFM may be deemed to beneficially own the shares held by SPVC IV and SPVC VI.

(8) The shares include (i) 2,207,534 shares of our common stock issuable upon conversion of 18,028 shares of Series F preferred stock and (ii) 882,989 shares of our common stock issuable upon conversion of 7,211 shares of Series F preferred stock that may be acquired upon exercise of Series F warrants. We issued the Series F preferred stock and Series F warrants to St. Paul Venture Capital VI, LLC in the private placement.

(9) ABS Ventures IV, L.P. ("ABS") and ABX Fund, L.P. ("ABX") may be deemed to be under common control. Bruns Grayson and Philip Black are the managing members of the respective general partner to each of ABS and ABX and control the investment and voting power of each of ABS and ABX.

(10) The shares include (i) 402,861 shares of our common stock issuable upon conversion of 3,290 shares of Series F preferred stock and (ii) 161,145 shares of our common stock issuable upon conversion of 1,316 shares of Series F preferred stock that may be acquired upon exercise of Series F warrants. We issued the Series F preferred stock and Series F warrants to ABX in the private placement.

(11) The shares include (i) 1,804,673 shares of our common stock issuable upon conversion of 14,738 shares of Series F preferred stock and (ii) 721,845 shares of our common stock issuable upon conversion of 5,895 shares of Series F preferred stock that may be acquired upon exercise of Series F warrants. We issued the Series F preferred stock and Series F warrants to ABS in the private placement.

(12) Jeffrey Devers, the managing member of the investment advisor and the managing member of the general partner of Halifax Fund, L.P., controls the investment and voting power of Halifax Fund, L.P.

(13) The shares include (i) 1,655,651 shares of our common stock issuable upon conversion of 13,521 shares of Series F preferred stock and (ii) 662,211 shares of our common stock issuable upon conversion of 5,408 shares of Series F preferred stock that may be acquired upon exercise of Series F warrants. We issued the Series F preferred stock and Series F warrants to Halifax Fund, L.P. in the private placement.

(14) The sole general partner of BayStar Capital, L.P., a Delaware limited partnership, is BayStar Management, LLC. The Investment Manager of BayStar International, Ltd., a British Virgin Islands corporation, is BayStar International Management, LLC. Both BayStar Management, LLC and BayStar International Management, LLC are owned equally by NorthBay Partners, L.L.C., a Wisconsin limited liability company, and MarinView Capital, LLC, a Delaware limited liability company. Michael Roth and Brian Stark share the investment and voting power of BayStar Capital, L.P. and BayStar International, Ltd.

(15) The shares include (i) 1,655,651 shares of our common stock issuable upon conversion of 13,521 shares of Series F preferred stock and (ii) 662,211 shares of our common stock issuable upon conversion of 5,408 shares of Series F preferred stock that may be acquired upon exercise of Series F warrants. We issued the Series F preferred stock and Series F warrants to Baystar Capital, L.P. in the private placement.

(16) The shares include (i) 551,884 shares of our common stock issuable upon conversion of 4,507 shares of Series F preferred stock and (ii) 220,778 shares of our common stock issuable upon conversion of 1,803 shares of Series F preferred stock that may be acquired upon exercise of Series F warrants. We issued the Series F preferred stock and Series F warrants to Baystar International Ltd. in the private placement.

(17) Robert E. Cook and Paula J. Brooks share the investment and voting power of Royal Wulff Ventures, LLC

(18) The shares include (i) 1,103,767 shares of our common stock issuable upon conversion of 9,014 shares of Series F preferred stock and (ii) 441,556 shares of our common stock issuable upon conversion of 3,606 shares of Series F preferred stock that may be acquired upon exercise of Series F warrants. We issued the Series F preferred stock and Series F warrants to Royal Wulff Ventures, LLC in the private placement.

(19) Austin W. Marxe and David M. Greenhouse are the principal owners, and control the investment and voting power, of the respective general partners of Special Situations Private Equity Fund, L.P. and Special Situations Cayman Fund, L.P.

(20) The shares include (i) 827,764 shares of our common stock issuable upon conversion of 6,760 shares of Series F preferred stock and (ii) 331,106 shares of our common stock issuable upon conversion of 2,704 shares of Series F preferred stock that may be acquired upon exercise of Series F warrants. We issued the Series F preferred stock and Series F warrants to Special Situations Private Equity Fund, L.P. in the private placement.

(21) The shares include (i) 827,764 shares of our common stock issuable upon conversion of 6,760 shares of Series F preferred stock and (ii) 331,106 shares of our common stock issuable upon conversion of 2,704 shares of Series F preferred stock that may be acquired upon exercise of Series F warrants. We issued the Series F preferred stock and Series F warrants to Special Situations Cayman Fund, L.P. in the private placement.

(22) The shares include 1,214,095 shares of our common stock issuable upon conversion of 9,915 shares of Series F preferred stock that Robertson Stephens, Inc. may acquire upon exercise of Series F warrants. We issued the Series F warrants to Robertson Stephens, Inc. as a portion of its fee for acting as our placement agent in the private placement.

(23) The shares include 358,950 shares of our common stock issuable to Mr. Aamir upon exercise of a warrant.

(24) Daniel J. Foreman, a director of Daleen, is a managing director of ABN AMRO, Inc. ABN AMRO, Inc. is an affiliate of ABN AMRO Capital (U.S.A.) Inc., I Eagle Trust and Burnham Capital, LLC. Burnham Capital, LLC received its shares by a transfer from ABN AMRO, Inc. Daniel J. Foreman, David Bogetz and Keith Walz, as a group and not individually, control the voting and investment power of each of ABN AMRO Capital (USA), Inc., I Eagle Trust and Burnham Capital, LLC.

(25) The Board of Directors of The VenGrowth Investment Fund, Inc. controls the investment and voting power of The VenGrowth Investment Fund Inc. The Board of Directors consists of Michael Cohen, Allen Luprypa, Earl Storie, David Ferguson, Catherine Wade, Merdon Hosking, Ross Christian, Eugene Szabo, and Brian King.

(26) The shares include 220,575 shares of our common stock issuable to The Vengrowth Investment Fund Inc. upon exercise of a warrant.

(27) Imran Bashir controls the investment and voting power of 1303949 Ontario Inc.

(28) The shares include 170,475 shares of our common stock issuable to 1303949 Ontario Inc. upon exercise of a warrant.

(29) Zev Wolfson and Abraham Wolfson share the investment and voting power of South Ferry Building Company.

(30) The shares include 66,970 shares of our common stock issuable to South Ferry Building Company upon exercise of a warrant.

(31) The shares include 25,712 shares of our common stock issuable upon exercise of a warrant held by Mr. Portnoy. Mr. Portnoy is the general partner of The Focus Fund #1, L.P. and may be deemed to beneficially own the 16,390

shares held by The Focus Fund #1, L.P., including 15,390 shares issuable upon exercise of a warrant held by The Focus Fund #1, L.P.

(32) The shares include 25,000 shares of our common stock issuable upon exercise of a warrant held by James J. Cahill.

(33) Gary H. Anderson controls the investment and voting power of North American Trust Co. as trustee FBO Pillsbury, Madison & Sutru, LLP/Gary H. Anderson.

(34) The shares include 3,396 shares of our common stock issuable upon exercise of a warrant held by North American Trust Co, a trustee for the benefit of Pillsbury, Madison & Sutro LLP/Gary H. Anderson.

(35) David Portnoy controls the investment and voting power of the Focus Fund #1, L.P.

(36) The shares include 15,390 shares of our common stock issuable upon exercise of a warrant held by The Focus Fund #1, L.P.

(37) Elliot Levine controls the investment and voting power of E.L. Associates Profit Sharing Plan.

(38) The shares include 9,966 shares of our common stock issuable upon exercise of a warrant held by E. L. Associates Profit Sharing Plan

We are registering the common shares for resale by the selling stockholders in accordance with registration rights we have granted to the selling stockholders. We will pay the registration and filing fees, printing expenses, listing fees, blue sky fees, if any, and fees and disbursements of our counsel and counsel for certain of the selling stockholders in connection with this offering, but the selling stockholders will pay any underwriting discounts, selling commissions and similar expenses relating to the sale of the shares. In addition, we have agreed to indemnify certain of the selling stockholders, and

certain affiliated parties against certain liabilities, including liabilities under the Securities Act of 1933, in connection with this offering. Certain of the selling stockholders have agreed to indemnify us and our directors and officers, as well as any person that controls us, against certain liabilities, including certain liabilities under the Securities Act. The position of the Securities and Exchange Commission is that indemnification of our directors or officers, or persons that control us for liabilities under the Securities Act is against public policy as expressed in the Securities Act and is therefore unenforceable.

CERTAIN TRANSACTIONS WITH THE SELLING STOCKHOLDERS

SERIES A PREFERRED STOCK AND WARRANTS FOR SERIES B PREFERRED STOCK

In September 1997, we issued and sold 3,000,000 shares of Series A preferred stock and warrants to purchase up to 1,250,000 shares of Series B preferred stock to HarbourVest Partners V -- Direct Fund L.P., which is a selling stockholder. The aggregate purchase price was $7.5 million, of which $7.4 million was allocated to the Series A preferred stock and $100,000 was allocated to the warrants. Immediately prior to the closing of our initial public offering in October 1999, each share of Series A preferred stock was automatically converted into one share of our common stock and the warrants were converted into warrants to purchase an aggregate of 1,250,000 shares of common stock. The warrants have an exercise price of $3.056 per share. Ofer Nemirovsky, one of our directors, is a managing director of HarbourVest Partners, LLC, the managing member of the general partner of HarbourVest Partners V -- Direct Fund L.P.

SERIES D AND D-1 PREFERRED STOCK

From June 1998 to August 1998, we issued and sold 4,221,846 shares of Series D preferred stock to certain investors, including the selling stockholders named below and 686,533 shares of Series D-1 preferred stock to ABN AMRO for aggregate net proceeds of $15.0 million, or approximately $3.06 per share. Immediately prior to the closing of our initial public offering, each outstanding share of Series D and Series D-1 preferred stock automatically converted into one share of our common stock. Following is information with respect to each selling stockholder that purchased shares of Series D and/or D-1 preferred stock.

NAME	NO. OF SHARES	PURCHASE PRICE
I Eagle Trust	248,459	$ 759,291
ABN AMRO, Inc.(1)	46,685	142,669
ABS Ventures IV, L.P.	523,561	1,600,002
ABX Fund, L.P.	130,890	400,000
St. Paul Venture Capital IV, L.L.C.	795,566	2,431,250
St. Paul Venture Capital Affiliates Fund I, L.L.C.	22,497	68,751
HarbourVest Partners V -- Direct Fund L.P.	818,063	2,500,001
BCE Capital, Inc.	654,450	1,999,999
ABN AMRO Capital (U.S.A.), Inc.	686,533	2,098,045

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(1) ABN AMRO, Inc. subsequently transferred its shares to its affiliate, Burnham

Capital, Inc.

Ofer Nemirovsky is a managing director of HarbourVest Partners, LLC, the managing member of the general partner of HarbourVest Partners V -- Direct Fund L.P. Daniel J. Foreman is a managing director of ABN AMRO, Inc. and is an affiliate of I Eagle Trust and ABN AMRO Capital (U.S.A.), Inc. Mr. Nemirovsky and Mr. Foreman are directors of Daleen.

SERIES E PREFERRED STOCK

In June 1999, we issued and sold 1,496,615 shares of Series E preferred stock to Science Applications International Corporation for an aggregate purchase price of $13.5 million, or $9.00 per share. Subsequently, Science Applications International Corporation transferred the shares to its wholly-owned subsidiary, SAIC Venture Capital Corporation, which is a selling stockholder. Immediately prior to the closing of our initial public offering, each outstanding share of Series E preferred stock automatically converted into one share of our common stock. William A. Roper,

Jr., a member of our Board of Directors, is a corporate executive vice president of Science Applications International Corporation and chairman of the board of SAIC Venture Capital Corporation.

SERIES F PREFERRED STOCK

On March 30, 2001, we entered into the purchase agreements with respect to the issuance and sale in the private placement of an aggregate of 247,882 shares of Series F preferred stock and Series F warrants to purchase an aggregate of 109,068 shares of Series F Preferred Stock. The terms of the private placement, including the conditions to closing the private placement, are discussed in "Prospectus Summary -- Recent Developments" above. Set forth below is information with respect to each selling stockholder that purchased Series F preferred stock and Series F warrants in the private placement, including the number of shares of Series F preferred stock purchased, the number of shares of Series F preferred stock issuable upon exercise of Series F warrants issued to the selling stockholder and the aggregate purchase price paid by the selling stockholder.

NAME	NUMBER OF SHARES OF SERIES F PREFERRED STOCK TO BE PURCHASED	WARRANT SHARES	PURCHASE PRICE
HarbourVest Partners VI -- Direct Fund L.P.	90,139	36,056	$10,000,000
SAIC Venture Capital Corporation	67,604	27,042	7,500,000
Royal Wulff Ventures, LLC	9,014	3,606	1,000,000
St. Paul Venture Capital VI, LLC	18,028	7,211	2,000,000
ABX Fund, L.P.	3,290	1,316	365,000

ABS Ventures IV, L.P.	14,738	5,895	1,635,000
Halifax Fund, L.P.	13,521	5,408	1,500,000
Baystar Capital, L.P.	13,521	5,408	1,500,000
Baystar International Ltd.	4,507	1,803	500,000
Special Situations Private Equity Fund, L.P.	6,760	2,704	750,000
Special Situations Cayman Fund, L.P.	6,760	2,704	750,000

Additionally, Robertson Stephens, Inc. acted as our placement agent in the private placement. Upon the closing of the private placement, we issued to Robertson Stephens, Inc. Series F warrants to purchase 9,915 shares of Series F preferred stock as a portion of its compensation for acting as placement agent.

OTHER TRANSACTIONS WITH SAIC VENTURE CAPITAL CORPORATION AND TO ASSOCIATED COMPANIES

SAIC Venture Capital Corporation is a wholly-owned subsidiary of Science Applications International Corporation. In fiscal 2000, we derived $391,464 in revenue from Science Applications International Corporation pursuant to a license agreement entered into between Science Applications International Corporation and the Company in June 2000. In addition, Science Applications International Corporation owns approximately 43% of all voting stock of Danet, Inc. and 100% of the voting stock of Telcordia. Danet has certain license rights to our products as well as being a strategic partner/systems integrator of, and providing certain development services to, Daleen. Sales to Danet for the years ended December 31, 1998, 1999 and 2000 amounted to $334,794, $1,031,350, and $0, respectively. We paid Danet, in its capacity as a subcontractor for assistance with product development services products, $2.2 million, $99,468 and $144,862 for the years ended December 31, 1998, 1999 and 2000, respectively. In

September 2000, we entered into a development services agreement with Danet pursuant to which Danet agreed to perform work on behalf of Daleen. It is anticipated that during 2001 we will pay to Danet $240,000 for its development services under this agreement. We have a strategic alliance relationship with Telcordia. We did not receive any revenue from, or make any payments to, Telcordia in connection with this relationship during 1998, 1999 or 2000.

Prior to our receipt of the net proceeds from the private placement, we obtained a bridge loan from SAIC Venture Capital Corporation in the aggregate principal amount of $1 million. We paid to SAIC Venture Capital Corporation an origination fee of $15,000 and interest at the rate of 18% per annum in connection with the bridge loan. On June 7, 2001, we used a portion of the proceeds from the private placement to repay in full all outstanding principal and interest under the bridge loan.

TRANSACTIONS WITH ROBERTSON STEPHENS, INC.

Robertson Stephens, Inc., a selling stockholder, acted as managing underwriter in our initial public offering of common stock in October 1999. In connection with our initial public offering, Robertson Stephens, Inc. purchased from us an aggregate of 4,531,400 shares of common stock, including shares purchased upon exercise of the underwriters' over-allotment option. The underwriting discounts and commissions were $0.84 per share. As a result,

Robertson Stephens, Inc. received underwriting discounts and commissions of $3,806,376 from the sale of the shares of common stock offered and sold by us in our initial public offering. We also reimbursed Robertson Stephens, Inc. for its expenses incurred in connection with the offering.

Robertson Stephens, Inc. acted as advisor to us in connection with our acquisition of Inlogic Software Inc. in December 1999. We paid Robertson Stephens, Inc. a fee of $1.1 million for its services in connection with the transaction. We also reimbursed Robertson Stephens, Inc. for its expenses incurred in connection with the transaction.

Additionally, Robertson Stephens, Inc. acted as our placement agent in the private placement of our Series F preferred stock and Series F warrants. We paid Robertson Stephens, Inc. a cash fee of $1.2 million and a Series F warrant to purchase 9,915 shares of Series F preferred stock on the same terms and conditions as the Series F warrants issued to the purchasers of the Series F preferred stock. We also reimbursed Robertson Stephens, Inc. for its expenses incurred in connection with the private placement.

ISSUANCE OF COMMON STOCK IN ACQUISITION OF INLOGIC SOFTWARE INC.

Effective December 16, 1999, we acquired all of the issued and outstanding capital shares of Inlogic Software Inc. We acquired the capital shares of Inlogic Software Inc. in exchange for an aggregate of 2,160,239 exchangeable shares and 57,435 shares of our common stock. The exchangeable shares were issued by our wholly-owned subsidiary, Daleen Canada Corporation, but were exchangeable at any time into shares of our common stock on a one-for-one basis. All of the exchangeable shares were converted into shares of our common stock during 2000. We also issued options to acquire an aggregate of 167,326 shares of our common stock in exchange for all of the outstanding options to acquire capital shares of Inlogic Software Inc. The terms of the transaction are set forth in a share purchase agreement as well as certain other transaction documents which are filed as exhibits to our Current Report on Form 8-K filed on December 30, 1999. The following selling stockholders were stockholders of Inlogic and received shares of our common stock pursuant to the Share Purchase Agreement: Mohammad Aamir, Charles Barton, Corneliu Ionescu, Carl Scase, Stephen Smith, The VenGrowth Investment Fund, Inc. and 1303949 Ontario Inc. Mohammad Aamir, who was a principal stockholder and

chief executive officer of Inlogic Software Inc., joined Daleen as an executive vice president in December 1999 and a director in January 2000 following our acquisition of Inlogic Software Inc. Mr. Aamir resigned as a director of Daleen and as an employee in June 2000. Additionally, Charles Barton, Carl Scase, Stephen Smith, and Corneliu Ionescu became non-executive employees of Daleen following our acquisition of Inlogic Software Inc. None of the selling stockholders except Mr. Ionescu are current employees of Daleen.

On May 11, 2001, we commenced a lawsuit against Mohammad Aamir, 1303949 Ontario Inc. and The Vengrowth Investment Fund Inc. (collectively, the "defendants"). The case was filed in the Ontario Superior Court of Justice (Court File No. 01-CV-210809) and is styled Daleen Technologies, Inc. and Daleen Canada Corporation v. Mohammad Aamir, 1303949 Ontario Inc., and The Vengrowth Investment Fund Inc. All defendants are former stockholders of Inlogic Software Inc., a Nova Scotia unlimited liability company that we acquired in December 1999. Additionally, Mr. Aamir was the president and chief executive officer of Inlogic Software Inc. and is a former director and executive officer of Daleen.

All of the defendants are selling stockholders.

On June 6, 2001, we settled the lawsuit against the defendants. In connection with the settlement, on June 8, 2001, we granted to the defendants warrants to purchase an aggregate of 750,000 shares of our common stock with an exercise price of $1.134 per share. The warrants are for two years and are immediately exercisable. We also agreed to negotiate in good faith to license our ecare product as part of the settlement. The terms of the license are not yet finalized. The defendants agreed to release us from any claims they may have had against the Company.

PLAN OF DISTRIBUTION

The shares covered by this prospectus may be offered and sold from time to time by the selling stockholders. As used in this prospectus, the term "selling stockholders" includes donees, pledgees, transferees or other successors-in-interest selling shares received from a named selling stockholder as a gift, partnership distribution, or other non-sale-related transfer after the date of this prospectus. The selling stockholders will act independently of us in making decisions with respect to the timing, manner and size of each sale. Sales of the shares may be effected by or for the account of the selling stockholders in transactions on The Nasdaq National Market, the over-the-counter market, or otherwise, at fixed prices that may be changed, at market prices prevailing at the time of sale, at prices related to prevailing market prices, or in negotiated transactions. The shares may be sold by means of one or more of the following methods:

- a block trade in which the broker-dealer so engaged will attempt to sell the shares as agent, but may position and resell a portion of the block as principal to facilitate the transaction;

- purchases by a broker-dealer as principal and resale by that broker-dealer for its account pursuant to this prospectus;

- ordinary brokerage transactions in which the broker solicits purchasers;

- in connection with short sales in which the shares are redelivered to close out short positions;

- in connection with the loan or pledge of shares covered by this prospectus to a broker-dealer, and the sale of the shares so loaned or the sale of the shares so pledged upon a default;

- in connection with the writing of non-traded and exchange-traded call options, in hedge transactions and in settlement of other transactions in standardized or over-the-counter options;

- in transactions effected pursuant to one or more plans or agreements contemplated by Rule 10b5-1 adopted by the Securities and Exchange Commission;

- privately negotiated transactions; or

- in a combination of any of the above methods.

The selling stockholders and any underwriter, dealer or agent who

participate in the distribution of such shares may be deemed to be "underwriters" under the Securities Act, and any discount, commission or concession received by such persons might be deemed to be an underwriting discount or commission under the Securities Act. Because selling stockholders may be deemed to be "underwriters" within the meaning of Section 2(11) of the Securities Act, the selling stockholders will be subject to the prospectus delivery requirements of the Securities Act.

Any broker-dealer participating in such transactions as agent may receive commissions from the selling stockholders (and, if acting as agent for the purchaser of such shares, from such purchaser). Usual and customary brokerage fees will be paid by the selling stockholders. Broker-dealers may agree with the selling stockholders to sell a specified number of shares at a stipulated price per share, and, to the extent such a broker-dealer is unable to do so acting as agent for the selling stockholders, to purchase as principal any unsold shares at the price required to fulfill the broker-dealer commitment to the selling stockholders. Broker-dealers who acquire shares as principals may thereafter resell such shares from time to time in transactions (which may involve crosses and block transactions and which may involve sales to and through other broker-dealers, including transactions of the nature described above) in the over-the-counter market, in negotiated transactions or by a combination of such methods of sale or otherwise at market prices prevailing at the time of sale or at negotiated prices, and in connection with such resales may pay to or receive from the purchasers of such shares commissions computed as described above.

HarbourVest Partners V -- Direct Fund L.P., HarbourVest Partners VI -- Direct Fund L.P., St. Paul Venture Capital IV, L.L.C., St. Paul Venture Capital VI, L.L.C., St. Paul Venture Capital Affiliates Fund I, L.L.C., ABN AMRO Capital (U.S.A.), Inc., I Eagle Trust, Burnham Capital, LLC and Halifax Fund, L.P. are affiliates of registered broker-dealers. Robertson Stephens, Inc. is a registered broker-dealer. Each of these selling stockholders acquired their shares of common stock, Series F preferred stock and/or warrants in the ordinary course of its respective business. Each selling stockholder acquired the Series F preferred stock or common stock, as the case may be, for its own account for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof. At the time the selling stockholders acquired the securities they did not have any agreements or understandings, direct or indirect, to distribute any of the securities.

We have advised the selling stockholders that the anti-manipulation rules under the Securities Exchange Act of 1934 may apply to sales of their shares in the market and to the activities of the selling stockholders and their affiliates. The selling stockholders have advised us that during such time as the selling stockholders may be engaged in the attempt to sell shares registered hereunder, they will:

- not engage in any stabilization activity in connection with any of our securities;

- not bid for or purchase any of our securities or any rights to acquire the our securities, or attempt to induce any person to purchase any of our securities or rights to acquire our securities other than as permitted under the Securities Exchange Act of 1934;

- not effect any sale or distribution of their shares until after the prospectus shall have been appropriately amended or supplemented, if required, to set forth the terms thereof; and

- effect all sales of shares in broker's transactions through broker-dealers acting as agents, in transactions directly with market makers, or in privately negotiated transaction where no broker or other third party (other than the purchaser) is involved.

The selling stockholders may indemnify any broker-dealer that participates in transactions involving the sale of their shares against certain liabilities, including liabilities arising under the Securities Act. Any commissions paid or any discounts or concessions allowed to any such broker-dealers, and any profits received on the resale of such shares, may be deemed to be underwriting discounts and commissions under the Securities Act if any such broker-dealers purchase shares as principal.

We have agreed to indemnify certain of the selling stockholders against liability in connection with this offering under their respective agreements granting registration rights.

In order to comply with the securities laws of certain states, if applicable, the common stock will be sold in such jurisdictions only through registered or licensed brokers or dealers. In addition, in certain states, the common stock may not be sold unless such shares have been registered or qualified for sale in the applicable state or an exemption from the registration or qualification requirement is available and is complied with.

We have advised the selling stockholders that during such time as they may be engaged in a distribution of the shares they are required to comply with Regulation M promulgated under the Securities Exchange Act of 1934. With certain exceptions, Regulation M precludes any selling stockholder, any affiliated purchasers and any broker-dealer or other person who participates in a distribution from bidding for or purchasing, or attempting to induce any person to bid for or purchase any security that is the subject of the distribution until the entire distribution is complete. Regulation M also prohibits any bids or purchases made in order to stabilize the price of a security in connection with the distribution of that security. All of the foregoing may affect the marketability of the common stock. In addition, any securities covered by this prospectus that qualify for re-sale under Rule 144 promulgated under the Securities Act may be sold under Rule 144 rather then under this prospectus.

LEGAL MATTERS

The validity of the common stock offered hereby and the issuance thereof has been passed upon for us by Morris, Manning & Martin, LLP.

EXPERTS

Our consolidated financial statements and financial statement schedule as of December 31, 1999 and 2000, and for each of the years in the three-year period ended December 31, 2000, have been incorporated by reference herein and in the registration statement in reliance upon the report of KPMG LLP, independent certified public accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing. The report of KPMG LLP covering our December 31, 2000 consolidated financial statements and financial statement schedule contains an explanatory paragraph that states that our recurring losses from operations and accumulated deficit raise substantial doubt about our ability to continue as a going concern. Our consolidated financial statements and financial statement schedule do not include any adjustments that might result from the outcome of that uncertainty.

The consolidated financial statements of Inlogic Software Inc. and subsidiary as of December 31, 1997 and 1998 and the consolidated statements of operations, stockholders' equity (deficiency) and cash flows for the period from inception on February 20, 1997 to December 31, 1997, and the year ended December 31, 1998, have been incorporated by reference herein and in the registration statement in reliance upon the report of KPMG LLP, independent chartered accountants, incorporated by reference herein, and upon the authority of said firm as experts in accounting and auditing.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission. You may read and copy any reports, statements or other information we have filed with the Commission at the Commission's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549; and at the Commission's public reference rooms in New York, New York and Chicago, Illinois. Please call the Commission at 1-800-SEC-0330 for further information on the operation of the public reference rooms. Our public filings are also available to the public from commercial document retrieval services and at the website maintained by the Commission at http://www.sec.gov.

INCORPORATION OF DOCUMENTS BY REFERENCE

This prospectus incorporates by reference documents that we have filed, and will in the future file, with the Securities and Exchange Commission. This means that we disclose important information to you by referring you to another document filed separately with the Securities and Exchange Commission. These documents contain important business information about us, our business and our financial condition, results of operations and cash flows. Except as described below, the information incorporated by reference is deemed to be a part of this prospectus, and later information that we file with the Securities and Exchange Commission will automatically update and supercede this information.

This prospectus is a part of a registration statement that we filed with the Securities and Exchange Commission. The registration statement contains more information than this prospectus, including certain exhibits. You can get a copy of the registration statement from the Securities and Exchange Commission at the address or website listed above.

The following documents that we have previously filed with the Securities and Exchange Commission are incorporated by reference in this prospectus:

- Our Annual Report on Form 10-K for the fiscal year ended December 31, 2000, as amended by Form 10-K/A;
- Our Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2001, as amended by Form 10-Q/A;
- Our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2001, as amended by Form 10-Q/A;
- Our Current Report on Form 8-K filed on June 15, 2001;
- Our Current Report on Form 8-K filed on December 30, 1999 and as amended by our Current Report on Form 8-K/A filed on February 29, 2000; and
- The description of our common stock contained in the registration

statement on Form 8-A filed on September 30, 1999.

In addition, all documents filed by us with the Securities and Exchange Commission pursuant to Sections 13(a), 13(c), 14, and 15(d) of the Securities Exchange Act of 1934, as amended, after the date hereof and prior to the date on which this offering is completed or terminated are incorporated by reference into this prospectus.

Upon written or oral request, we will provide, at no cost to you, a copy of any of these documents. You may request a copy of these filings, by writing or telephoning us at the following address: Daleen Technologies, Inc., 1750 Clint Moore Road, Boca Raton, Florida 33487, Attention: Jeanne Praytherr, telephone (561) 999-8000. Our Internet address is www.daleen.com.

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DALEEN TECHNOLOGIES, INC.

(DALEEN TECHNOLOGIES LOGO)

56,192,841 SHARES

COMMON STOCK, PAR VALUE $0.01

PROSPECTUS

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PART II

INFORMATION NOT REQUIRED IN THE PROSPECTUS

ITEM 16. EXHIBITS.

The following exhibits are included or incorporated herein by reference:

EXHIBIT NO.	DESCRIPTION
3.1(a)	Certificate of incorporation (Incorporated by reference to Exhibit 3.1 to the registrant's Registration Statement on Form S-1/A (File No. 333-82487) filed on August 18, 1999)
3.1(b)	Certificate of Amendment to certificate of incorporation (Incorporated by reference to Exhibit 10.2 to the registrant's Current Report on Form 8-K filed on June 15, 2001)
3.2	Bylaws (Incorporated by reference to Exhibit 3.2 to the registrant's Registration Statement on Form S-1/A (File No. 333-82487) filed on August 18, 1999)
4.1	Form of Common Stock Certificate (Incorporated by reference to Exhibit 4.2 to the registrant's Registration Statement on Form S-1/A (File No. 333-82487) filed on August 18,

	1999)
5.1*	Opinion of Morris, Manning & Martin, LLP
23.1	Consent of KPMG LLP
23.2	Consent of KPMG LLP
23.3	Consent of Morris, Manning & Martin, LLP (included in Exhibit 5.1)
24.1*	Power of Attorney (included on signature page)

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* Previously filed.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized in the City of Boca Raton, State of Florida on September 12, 2001.

Daleen Technologies, Inc.

By: /s/ JAMES DALEEN
James Daleen
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities indicated on the date indicated:

SIGNATURE	TITLE	DATE
/s/ JAMES DALEEN James Daleen	Chairman of the Board and Chief Executive Officer	September 12, 2001
/s/ DAVID B. COREY David B. Corey	President and Chief Operating Officer and a Director	September 12, 2001
/s/ JEANNE PRAYTHER Jeanne Praythe	Acting Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	September 12, 2001

OFER NEMIROVSKY*	Director	September , 2001
Ofer Nemirovsky		
WILLIAM A. ROPER, JR.*	Director	September , 2001
William A. Roper, Jr.		
STEPHEN J. GETSY*	Director	September , 2001
Stephen J. Getsy		

SIGNATURE	TITLE	DATE
DANIEL J. FOREMAN*	Director	September , 2001
Daniel J. Foreman		
PAUL G. CATAFORD*	Director	September , 2001
Paul G. Cataford		
P.J. HILBERT*	Director	September , 2001
P.J. Hilbert		

*By: /s/ JAMES DALEEN
James Daleen,
As Attorney-in-Fact

EXHIBIT INDEX

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24.1*	Power of Attorney (included on signature page)

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* Previously filed.

g consultants, with and without management, to review and consider the evaluation of the reserves and any other matters of concern in respect of the evaluation of the reserves; reviewed and approved any statement of reserves data or similar reserves information, and any report of the independent engineering consultants regarding such reserves to be filed with any securities regulatory authorities or to be disseminated to the public; reviewed the internal procedures relating to the disclosure of reserves; and ensured that the independent engineering consultants were independent prior to their appointment and throughout their engagement.

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In reliance on the reviews and discussions referred to above, the Reserves Committee recommended to the Board of Directors, and the Board has approved, that the reserves reports be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 for filing with the United States Securities and Exchange Commission.

Robert L. Howard, Chairman
William J. Johnson
J. Todd Mitchell

AGENDA ITEM 1. ELECTION OF DIRECTORS

Pursuant to provisions of our Restated Certificate of Incorporation and Bylaws, the Board of Directors has determined that effective with the 2005 Annual Meeting of Stockholders, the Board will be comprised of 10 Directors. Milton Carroll resigned from the Board of Directors effective March 1, 2005. Michael E. Gellert was reelected as a Director for a three-year term in 2003, but as disclosed in the Company s 2003 proxy statement, has indicated to the Company that he will retire effective with the Annual Meeting due to the age requirement of Board members contained in the Company s Corporate Governance Guidelines. Charles F. Mitchell s term as a Director will expire at the Annual Meeting. Dr. Mitchell will not stand for reelection. Our Restated Certificate of Incorporation and Bylaws provide for three classes of Directors. These three classes of Directors serve staggered three-year terms, with Class I having three Directors, Class II having four Directors and Class III having three Directors.

The Board of Directors has nominated John A. Hill, William J. Johnson and Robert A. Mosbacher, Jr. for reelection as Directors for terms expiring at the Annual Meeting in the year 2008, and, in each case, until their successors are elected and qualified. The three nominees are presently Directors whose terms expire at the meeting. Other Directors who are remaining on the Board of Directors will continue in office in accordance with their previous elections until the expiration of their terms at the 2006 or 2007 Annual Meeting, as the case may be. **The Board of Directors recommends a vote FOR each of the nominees for election to the Board of Directors.**

It is the intention of the persons named in the proxy to vote proxies **FOR** the election of the three nominees. In the event that any of the nominees should fail to stand for election, the persons named in the proxy intend to vote for substitute nominees designated by the Board of Directors, unless the Board of Directors reduces the number of Directors to be elected. Proxies cannot be voted for a greater number of persons than the number of nominees named.

Nominees for Reelection as Directors for Terms Expiring in 2008

John A. Hill Director since 2000
Nominating and Governance Committee Vice Chairman

Mr. Hill, age 63, has been with First Reserve Corporation, an oil and gas investment management company, since 1983 and is currently its Vice Chairman and Managing Director. Prior to creating First Reserve Corporation, Mr. Hill was President and Chief Executive Officer of several investment banking and asset management companies and served as the Deputy Administrator of the Federal Energy Administration during the Ford Administration. Mr. Hill is Chairman of the Board of Trustees of the Putnam Funds in Boston, a Trustee of Sarah Lawrence College, and a Director of TransMontaigne Inc. and various companies controlled by First Reserve Corporation.

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William J. Johnson Director since 1999

Mr. Johnson, age 70, has been a private consultant for the oil and gas industry for more than the past five years. He is President and a Director of JonLoc Inc., an oil and gas company of which he and his family are the only stockholders. Mr. Johnson has served as a Director of Tesoro Petroleum Corp. since 1996. From 1991 to 1994, Mr. Johnson was President, Chief Operating Officer and a Director of Apache Corporation.

Robert A. Mosbacher, Jr. Director since 1999

Mr. Mosbacher, age 53, has served as President and Chief Executive Officer of Mosbacher Energy Company since 1986. He was previously a Director of PennzEnergy Company and served on its Executive Committee. Mr. Mosbacher is currently a Director of JPMorgan Chase & Co., Houston Regional Board, and is on the Executive Committee of the U.S. Oil & Gas Association.

Directors Whose Terms Expire in 2007

Thomas F. Ferguson Director since 1982
Audit Committee Chairman

Mr. Ferguson, age 68, is the Managing Director of United Gulf Management Ltd., a wholly-owned subsidiary of Kuwait Investment Projects Company KSC. He has represented Kuwait Investment Projects Company on the boards of various companies in which it invests, including Baltic Transit Bank in Latvia and Tunis International Bank in Tunisia. Mr. Ferguson is a Canadian qualified Certified General Accountant and was formerly employed by the Economist Intelligence Unit of London as a financial consultant.

Peter J. Fluor Director since 2003

Mr. Fluor, age 57, has been Chairman and Chief Executive Officer of Texas Crude Energy, Inc., a private oil and gas company, since January 2001. From 1997 through 2000, Mr. Fluor was President and Chief Executive Officer of Texas Crude Energy, Inc. Mr. Fluor served as a Director of Ocean Energy, Inc. from 1980 to 2003. He also serves on the board of Cooper Cameron Corporation and serves as Lead Independent Director of Fluor Corporation.

David M. Gavrin Director since 1979
Compensation Committee Chairman

Mr. Gavrin, age 70, has been a private investor since 1989 and is currently a Director and Chairman of the Board of MetBank Holding Corp. From 1978 to 1988 he was a General Partner of Windcrest Partners, a private investment partnership in New York City, and, for 14 years prior to that, he was an Officer of Drexel Burnham Lambert Incorporated.

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Directors Whose Terms Expire in 2006

Robert L. Howard Director since 2003
Reserves Committee Chairman

Mr. Howard, age 68, retired in 1995 from his position as Vice President of Domestic Operations, Exploration and Production of Shell Oil Company. He served as a Director of Ocean Energy, Inc. from 1996 to 2003. Mr. Howard is also a Director of Southwestern Energy Company and McDermott International Incorporated.

Michael M. Kanovsky Director since 1998

Mr. Kanovsky, age 56, was a co-founder of Northstar Energy Corporation and served on Northstar s Board of Directors from 1982 to 1998. He is President of Sky Energy Corporation, a privately held energy corporation. Mr. Kanovsky continues to be active in the Canadian energy industry and is currently a Director of Accrete Energy Inc., ARC Resources Ltd., Bonavista Petroleum Ltd., Pure Technologies Ltd. and TransAlta Corporation.

J. Todd Mitchell Director since 2002

Mr. Mitchell, age 46, has served as president of GPM, Inc., a family-owned investment company, since 1998. He has also served as President of Dolomite Resources, Inc., a privately owned mineral exploration and investments company, since 1987 and as Chairman of Rock Solid Images, a privately owned seismic data analysis software company, since 1998. Mr. Mitchell served on the Board of Directors of Mitchell Energy & Development Corp. from 1993 to 2002.

J. Larry Nichols Director since 1971
Chairman of the Board

Mr. Nichols, age 62, is a co-founder of Devon. He was named Chairman of the Board of Directors in 2000. He has been a Director since 1971. He served as President from 1976 until 2003 and has served as Chief Executive Officer since 1980. Mr. Nichols serves as a Director of Smedvig ASA and Baker Hughes Incorporated. Mr. Nichols is a Director of the Oklahoma City Branch of the Federal Reserve Bank of Kansas City. Mr. Nichols also serves as a Director of several trade associations that are relevant to the conduct of the Company s business. Mr. Nichols has a Bachelor of Science degree in Geology from Princeton University and a Law degree from the University of Michigan.

Chairman Emeritus

John W. Nichols Director 1971-1999
Chairman Emeritus

Mr. Nichols, age 90, is one of Devon s co-founders. He was named Chairman Emeritus in 1999. Mr. Nichols was Chairman of our Board of Directors when we

began operations in 1971 and continued in this capacity until 1999. He is a founding partner of Blackwood & Nichols Co., which developed the conventional reserves in the Northeast Blanco Unit of the San Juan Basin. Mr. Nichols is a non-practicing Certified Public Accountant.

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AGENDA ITEM 2. RATIFICATION OF KPMG LLP AS THE COMPANY S INDEPENDENT AUDITORS FOR 2005

The Audit Committee has appointed KPMG LLP, as the Company s independent auditors for 2005. Representatives of KPMG LLP will be present at the Annual Meeting and will have the opportunity to make a statement if so desired and will be available to respond to appropriate questions from stockholders. In order to enhance its corporate governance practices, the Board of Directors is submitting the selection of KPMG LLP to the stockholders for ratification. If the appointment of KPMG LLP is not ratified by the stockholders, the Board of Directors will consider appointing another independent accounting firm for 2006.

The Board of Directors recommends a vote FOR the ratification of KPMG LLP as the Company s independent auditors for 2005.

AGENDA ITEM 3. ADOPTION OF THE DEVON ENERGY CORPORATION 2005 LONG-TERM INCENTIVE PLAN

Subject to approval by Devon s stockholders, Devon s Board of Directors has approved the Devon Energy Corporation 2005 Long-Term Incentive Plan, which we sometimes refer to in this document as the new long-term incentive plan or the 2005 plan .

The new long-term incentive plan authorizes the Compensation Committee of Devon s Board of Directors to grant nonqualified and incentive stock options, restricted stock awards, Canadian restricted stock units, performance units and performance bonuses to selected employees. The 2005 plan also authorizes the grant of nonqualified stock options and restricted stock awards to directors. A total of 32,000,000 shares of common stock have been authorized for award under the 2005 plan.

In 2003, Devon s stockholders approved the Devon Energy Corporation 2003 Long-Term Incentive Plan which reserved in the aggregate 25,000,000 shares of Devon common stock to be issued to key employees and directors. Although 16,022,000 shares remain available for grant under the 2003 plan, only 1,991,000 of the shares available are reserved for restricted stock awards. Over the past two years, the Compensation Committee, responding to compensation trends and market survey data, have moved from granting only stock options to awarding restricted stock with substantially fewer stock options. In December 2004 the Compensation Committee awarded approximately 1,700,000 shares of restricted stock and 2,800,000 stock options. If this pattern of awards continues, there will be insufficient shares of restricted stock available in the 2003 plan after this year. The 2005 plan is designed to provide flexibility for the Compensation Committee to adjust the amount and type of awards granted each year by making available a variety of types of awards and by not fixing the number of shares available for any individual type of award. Rather, the 2005 plan includes a provision whereby each stock option award reduces the total shares available for grant under the plan by one share, while any other type of award under the 2005 plan, i.e. restricted stock, performance units and performance bonus awards, reduces the total shares available by 2.2 shares. The Board of Directors will terminate the 2003 plan upon stockholder approval of the new incentive plan. A summary of the new long-term incentive plan follows and is qualified by reference to the full text of the 2005 plan, which is included in this Proxy Statement as Appendix A.

As of December 31, 2004, the Company s total outstanding options were 19,775,000. As a result of various stock option exercises and cancellations during the first quarter of 2005, the Company s total outstanding options as of March 31, 2005 were 17,103,000. The 17,103,000 outstanding options as of March 31, 2005, have a weighted average exercise price of $26.00, with a five year weighted average term of five years.

Devon s Board of Directors recommends Devon stockholders vote FOR the adoption of the Devon Energy Corporation 2005 Long-Term Incentive Plan.

Purpose and Key Features of the Plan

The purpose of the 2005 plan is to create incentives designed to motivate selected employees to significantly contribute toward the growth and profitability of Devon. The shares under the 2005 plan will

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enable Devon to attract and retain experienced employees who, by their positions, abilities and diligence, are able to make important contributions to Devon s success.

The plan is designed to provide flexibility to meet the needs of Devon over three to four years in a changing and competitive environment while attempting to minimize dilution to stockholders. Devon does not intend to use all incentive awards at all times for each participant but will selectively grant awards primarily to achieve long-term goals. Awards will be granted in such a way as to align the interests of participants with those of Devon s stockholders. Generally, maximum individual awards, as designated by the 2005 plan, will only be awarded if individual and company results are such that exceptional stockholder value is achieved. The plan is very similar to the 2003 plan with the exception of two additional provisions: (i) for Canadian restricted stock units which will allow restricted shares to be granted to our Canadian employees tax-efficiently; and (ii) an adjustment provision for awards other than options that reduces the number of shares available for grant by 2.2 shares for each share awarded. These provisions are described in the Canadian restricted stock unit provisions in the plan.

Key features of the new long-term incentive plan include:

- a prohibition against the repricing of stock options;
- a prohibition against granting options with an exercise price less than the fair market value of Devon s common stock on the date of grant;
- a provision under which shares granted as awards other than options will be subtracted from the total shares available for award as 2.2 shares for every one share granted;
- a maximum eight-year life for any award made under the plan;
- the following award limits:
  - the maximum number of shares that may be awarded in the form of options to an employee in any calendar year is 800,000;
  - the maximum number of shares that may be awarded in the form of restricted stock and performance unit awards to an employee in any calendar year is 400,000; and
  - the maximum performance bonus award payment to an employee is $2,500,000 in any calendar year.
- the Compensation Committee (composed entirely of outside directors) administers the plan and the grant of options and restricted stock awards to Devon s executive officers.

Administration

The new long-term incentive plan consists of three separate stock plans:

Non-executive officer plan: this aspect of the plan is limited to participants who are not subject to Section 16 of the Securities Exchange Act of 1934 because they are not executive officers of Devon. The non-executive officer plan is administered by the Compensation Committee. However, the Compensation Committee may, to the extent permitted by law, delegate authority to the regular award committee to administer the non-executive officer plan. Devon s Chief Executive Officer and other individuals appointed by the Compensation Committee will comprise the regular award committee. Although the regular award committee may be authorized to administer the non-executive officer plan, it can only make awards within guidelines set by the Compensation Committee.

Executive officer plan: this aspect of the plan is limited to participants who are executive officers of Devon and who, therefore, are subject to the reporting requirements of Section 16 of the Securities Exchange Act of 1934. The executive officer plan is administered exclusively by the Compensation Committee.

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Except for administration and the category of participants eligible to receive awards, the terms of the non-executive officer plan and the executive officer plan are identical.

Non-employee director plan: this aspect of the plan is limited to non-employee directors of Devon and permits only grants of nonqualified stock options and restricted stock. Devon s Board of Directors is responsible for selection of non-employee directors for awards and for determination of the nature of the award. The Compensation Committee is responsible for the administration of awards granted to non-employee Directors.

Eligibility for Participation

Employees of Devon and its subsidiaries and affiliated entities are eligible to participate in the new long-term incentive plan. Subject to the provisions of the 2005 plan, the Compensation Committee has exclusive power in selecting participants from among the eligible employees. In addition, non-employee directors are eligible to receive grants of nonqualified stock options and restricted stock awards under the 2005 plan.

Types of Awards

The new long-term incentive plan provides that any or all of the following types of awards may be granted:

nonqualified stock options and stock options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code;

restricted stock;

Canadian restricted stock units;

performance units; and

performance bonuses.

Stock Options. The Compensation Committee may grant awards under the plan in the form of options to purchase shares of Devon common stock. The Compensation Committee will have the authority to determine the terms and conditions of each option, the number of shares subject to the option, and the manner and time of the option s exercise

The exercise price of an option may not be less than the fair market value of Devon common stock on the date of grant. The fair market value of shares of common stock subject to options is determined by the closing price as reported on the NYSE. As of March 31, 2005, the closing price of Devon s common stock as reported on the NYSE was $47.75. A participant may pay the exercise price of an option in cash, in shares of Devon s common stock or a combination of both provided that, the exercise price (including required withholding taxes) is paid using shares of Devon common stock only to the extent such exercise would not result in a compensation expense to Devon for financial accounting purposes. The Compensation Committee may permit the exercise of stock options through a broker-dealer acting on a participant s behalf if in accordance with procedures adopted by Devon to ensure that the arrangement will not constitute a personal loan to the participant. Unless sooner terminated, the stock options granted under the plan expire eight years from the date of the grant.

Restricted Stock Awards. Shares of restricted stock awarded under the plan will be subject to the terms, conditions, restrictions and/or limitations, if any, that the Compensation Committee deems appropriate, including restrictions on continued employment. The Compensation Committee may also restrict vesting to the attainment of specific performance targets it establishes that are based upon one or more of the following criteria:

Operational Criteria: reserve additions/replacements, finding and development costs, production volume, and production costs.

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Financial Criteria: earnings (net income, EBITDA, earnings per share), cash flow, operating income, general and administrative expenses, debt to equity ratio, debt to cash flow, debt to EBITDA, EBITDA to interest, return on assets, return on equity, return on invested capital, profit returns/margins, and midstream margins.

Stock Performance Criteria: stock price appreciation, total stockholder return, and relative stock price performance.

If vesting is based upon continued employment, the restricted stock award must vest over a minimum restriction period of at least three years from the date of grant. If vesting is based on performance, the restricted stock award must have a minimum restriction period of at least one year.

Canadian Restricted Stock Units. The Compensation Committee may authorize the establishment of a trust for purposes of administering the grant of Canadian restricted stock units to employees of Devon s Canadian subsidiaries and affiliated entities who perform the majority of their employment duties in Canada. The restricted stock units will have substantially the same after-tax effect for Canadian employees as the restricted stock awards described above have on United States employees. Cash contributions will be made to the trust in amounts that approximate the value of units awarded to participants. The trust will be authorized to purchase shares of Devon s common stock on the open market for use in settling the Canadian restricted stock units granted under the plan. Upon vesting, the trustee of the trust would distribute the shares of Devon common stock which have been allocated to a participant s account. Due to restrictions in the Canadian Income Tax Act, the term of a Canadian restricted stock unit must be limited to three years.

Performance Units. The plan permits grants of performance units, which are rights to receive cash or common stock based upon the achievement of performance goals established by the Compensation Committee. Such awards are subject to the fulfillment of conditions that may be established by the Compensation Committee including, without limitation, the achievement of performance targets based upon the factors described above relating to restricted stock awards.

Performance Bonus. The plan permits grants of performance bonuses, which may be paid in cash, Devon common stock or a combination thereof, as determined by the Compensation Committee. The maximum value of performance awards granted under the plan shall be established by the Compensation Committee at the time of the grant. An employee s receipt of such amount will be contingent upon achievement of performance targets during the performance period established by the Compensation Committee. The performance targets will be determined by the Compensation Committee based upon the factors described above relating to restricted stock awards. Following the end of the performance period, the Compensation Committee will determine the achievement of the performance targets for such performance period. Payment will be made within 60 days of such determination. Any payment made in shares of Devon common stock will be based upon the fair market value of the common stock on the payment date. The maximum amount of performance bonus awarded to a participant in any calendar year is $2,500,000.

Award Limitations. Subject to certain adjustment provisions, the Compensation Committee cannot grant options with respect to more than 800,000 shares of Devon common stock to any participant in any calendar year. In addition, and subject to certain adjustment provisions, no more than 400,000 shares of Devon common stock can be awarded to a participant under the plan as restricted stock awards or performance units in any calendar year.

Termination of Employment

The Compensation Committee will determine the treatment of a participant s award in the event of death, disability, retirement or termination of employment for an approved reason. If a participant s employment is terminated for any other reason, all unvested awards will terminate (unless the participant s award agreement provides otherwise) and the Compensation Committee will provide in the award agreement the terms of exercise/payment of vested awards.

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Amending the New Long-Term Incentive Plan

Devon s Board of Directors may amend the new long-term incentive plan at any time. Devon s Board of Directors may not, however, without Devon stockholder approval, (1) adopt any amendment that would increase the maximum number of shares that may be granted under the plan (except for certain anti-dilution adjustments), (2) materially modify the plan s eligibility requirements or (3) materially increase the benefits provided to participants under the plan. Amendments to award agreements that would have the effect of repricing participants options are prohibited.

Change of Control Event

The Compensation Committee is authorized to provide in the award agreements for the acceleration of any unvested portion of any outstanding awards under the 2005 plan upon a change of control event.

New Plan Benefits

To date, no awards have been made under the new long-term incentive plan.

Automatic Adjustment Features

The 2005 plan provides for the automatic adjustment of the number and kind of shares available under it, and the number and kind of shares subject to outstanding awards in the event Devon common stock is changed into or exchanged for a different number or kind of shares of stock or other securities of Devon or another corporation, or if the number of shares of Devon common stock is increased through a stock dividend. The 2005 plan also provides that the Compensation Committee may adjust the number of shares available under the 2005 plan and the number of shares subject to any outstanding awards if, in the Compensation Committee s opinion, any other change in the number or kind of shares of outstanding Devon common stock equitably requires such an adjustment.

U.S. Federal Tax Treatment

Incentive Stock Option Grant/ Exercise. A participant who is granted an incentive stock option does not realize any taxable income at the time of grant or at the time of exercise (except for alternative minimum tax). Similarly, Devon is not entitled to any deduction at the time of grant or at the time of exercise. If the participant makes no disposition of the shares acquired pursuant to an incentive stock option before the later of two years from the date of grant of such option and one year from the date of the exercise of such shares by the participant, any gain or loss realized on a subsequent disposition of the shares will be treated as a long-term capital gain or loss. Under such circumstances, Devon will not be entitled to any deduction for federal income tax purposes.

Nonqualified Stock Option Grant/ Exercise. A participant who is granted a nonqualified stock option does not have taxable income at the time of grant. Taxable income occurs at the time of exercise in an amount equal to the difference between the exercise price of the shares and the market value of the shares on the date of exercise. Devon is entitled to a corresponding deduction for the same amount.

Restricted Stock Award. A participant who has been granted an award in the form of restricted stock will not realize taxable income at the time of grant, and Devon will not be entitled to a deduction at the time of grant, assuming that the restrictions constitute a substantial risk of forfeiture for U.S. income tax purposes. When such restrictions lapse, the participant will receive taxable income (and have tax basis in the shares) in an amount equal to the excess of the fair market value of the shares at such time over the amount, if any, paid for such shares, and Devon will be entitled to a corresponding deduction. The participant may elect to include the value of his restricted stock award as income at the time it is granted under Section 83(b) of the Code, and Devon will take a corresponding income tax deduction at such time.

Section 162(m) of the Code. Section 162(m) of the Code precludes a public corporation from taking a deduction for annual compensation in excess of $1 million paid to its chief executive officer or any of its four other highest-paid officers. However, compensation that qualifies under Section 162(m) of the Code as

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performance-based is specifically exempt from the deduction limit. Based on Section 162(m) of the Code and the regulations thereunder, Devon s ability to deduct compensation income generated in connection with the exercise of stock options granted under the plan should not be limited by Section 162(m) of the Code. Further, Devon believes that compensation income generated in connection with performance awards granted under the plan should not be limited by Section 162(m) of the Code. The 2005 plan has been designed to provide flexibility with respect to whether restricted stock awards or performance bonuses will qualify as performance-based compensation under Section 162(m) of the Code and, therefore, be exempt from the deduction limit. If the vesting restrictions relating to such awards are based solely upon the satisfaction of one of the performance goals set forth in the 2005 plan, then Devon believes that the compensation expense relating to such an award will be deductible by Devon if the awards become vested. However, compensation expense deductions relating to such awards will be subject to the Section 162(m) deduction limitation if such awards become vested based upon any other criteria set forth in such award (such as the occurrence of a change in control or vesting based upon continued employment with Devon).

Canadian Tax Treatment

Stock Options. A participant who is granted a stock option does not have taxable income on the date of grant. Instead, tax liability is deferred until the time that the stock option is exercised. At the time of exercise, the participants are subject to tax on the difference between the value of the underlying shares acquired on the exercise of the stock option and the exercise price paid to acquire the shares. Generally, the participant will only be taxed on 50% of the difference in value. However, in certain circumstances, participants may also defer the recognition of this income until disposition of the shares. Devon will not be entitled to a deduction for Canadian tax purposes.

Canadian Restricted Stock Units. A participant who is granted a Canadian restricted stock unit will not have taxable income at the time of grant. Taxable income will instead occur as the participant becomes vested and shares of Devon s common stock are distributed to the participant. Devon will be entitled to a deduction for the payments made to the trust. However, the deduction will be deferred to the year in which the shares are vested and distributed to the participants.

AGENDA ITEM 4. STOCKHOLDER PROPOSAL FOR A DIRECTOR ELECTION VOTE STANDARD

The United Association of Journeymen and Apprentices of the Plumbing and Pipe Fitting Industry of the United States and Canada (the UA), located at 901 Constitution Avenue, N.W., Washington, D.C. 20001, has notified Devon that it intends to present the resolution set forth below at the Annual Meeting for action by the stockholders. The UA s supporting statement for the resolution, along with the Board of Directors statement in opposition is set forth below. As of January 20, 2005, the UA owned 19,088 shares of Devon common stock. Proxies solicited on behalf of the Board of Directors will be voted **AGAINST** this proposal unless stockholders specify a contrary choice in their proxies.

Resolved: That the shareholders of Devon Energy Corporation (Company) hereby request that the Board of Directors initiate the appropriate process to amend the Company s governance documents (certificate of incorporation or bylaws) to provide that director nominees shall be elected by the affirmative vote of the majority of votes cast at an annual meeting of shareholders.

Supporting Statement of UA: Our Company is incorporated in Delaware. Among other issues, Delaware corporate law addresses the issue of the level of voting support necessary for a specific action, such as the election of corporate directors. Delaware law provides that a company s certificate of incorporation or bylaws may specify the number of votes that shall be necessary for the transaction of any business, including the election of directors. (DGCL, Title 8, Chapter 1, Subchapter VII, Section 216). Further the law provides that if the level of voting support necessary for a specific action is not specified in the certificate of incorporation or bylaws of the corporation, directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors.

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Our Company presently uses the plurality vote standard for the election of directors. We feel that it is appropriate and timely for the board to initiate a change in the Company s director election vote standard. Specifically, this shareholder proposal urges that the Board of Directors initiate a change to the director election vote standard to provide that in director elections a majority vote standard will be used in lieu of the Company s current plurality vote standard. Specifically, the new standard should provide that nominees for the board of directors must receive a majority of the vote cast in order to be elected or reelected to the Board.

Under the Company s current plurality vote standard, a director nominee in a director election can be elected or reelected with as little as a single affirmative vote, even while a substantial majority of the votes cast are withheld from that director nominee. So even if 99.99% of the shares withhold authority to vote for a candidate or all the candidates, a 0.01% for vote results in the candidate s election or reelection to the board. The proposed majority vote standard would require that a director receive a majority of the vote cast in order to be elected to the Board.

It is our contention that the proposed majority vote standard for corporate board elections is a fair standard that will strengthen the Company s governance and the Board. Our proposal is not intended to limit the judgment of the Board in crafting the requested governance change. For instance, the Board should address the status of incumbent directors who fail to receive a majority vote when standing for reelection under a majority vote standard or whether a plurality director election standard is appropriate in contested elections. We urge your support of this important director election reform.

The Board of Directors recommends a vote AGAINST the proposal for a Director election vote standard.

Opposition Statement of the Company: Devon has a history of electing, by a plurality, strong and independent Boards. The plurality voting threshold is the accepted standard for the election of directors of publicly-traded companies and provides important advantages over the higher standard suggested by this proposal. Therefore, the Board recommends that you vote **AGAINST** this proposal.

Section 216 of the Delaware General Corporation Law, while generally permitting the certificate of incorporation or bylaws of a Delaware corporation to specify the vote necessary for the transaction of any business at a meeting of shareholders, provides that in the absence of such specification, IdJirectors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at the meeting and entitled to vote on the election of directors .

Under the Company s existing bylaws, directors of the Company are elected by a plurality of the *votes cast* at the Annual Meeting of Stockholders. As a stockholder, you are entitled to vote For the director nominees, or you may elect to Withhold from voting for the director nominees. Withheld votes are treated as *votes not cast,* and therefore have no effect on the outcome of the election.

Under the shareholder proposal, to be elected a director of the Company the director nominee must receive the *vote of the majority of votes cast* at an annual meeting of stockholders.

By requiring that in order for a director to be elected, he/she must receive the vote of a majority of votes cast at an annual meeting, the proposal would establish an arbitrarily high and potentially disruptive vote requirement.

Moreover, the proposal opens up the possibility that no director nominees will be elected, since the shareholder proposal does not address what would occur if a candidate fails to receive the requisite majority vote. Under Delaware law and Devon s Bylaws, the possible scenarios include the prior director remaining in office until a successor is elected and qualified, the Board of Directors electing a director to fill a vacancy, or the position remaining vacant. All of these alternatives, in the view of Devon s Board of Directors, are less desirable than the election of directors by plurality vote.

The proposal could prove impractical and especially disruptive in a situation in which a competing slate of directors is nominated for election, because of the possibility that the division of votes could result in no candidate from either slate receiving the requisite vote.

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Finally, a similar shareholder proposal was presented to the Company s stockholders for a vote at the 2004 Annual Meeting. Devon s Board of Directors recommended a vote against the proposal as the Board believed it would not improve Devon s corporate governance and was not in the best interest of Devon s stockholders. The proposal failed overwhelmingly with a 90% vote against the proposal.

For these reasons, the Board of Directors of Devon believes that this stockholder proposal would not improve Devon s corporate governance and is not in the best interest of Devon s stockholders. Therefore, the Board of Directors recommends a vote **AGAINST** this proposal.

PRINCIPAL SECURITY OWNERSHIP

The table below sets forth, as of April 1, 2005, the names and addresses of each person known by management to own beneficially more than 5% of our outstanding voting shares, the number of voting shares beneficially owned by each such stockholder and the percentage of outstanding voting shares owned. The table also sets forth the number and percentage of outstanding voting shares beneficially owned by our Chief Executive Officer (the CEO), each of our Directors, the four most highly compensated executive officers, other than the CEO, and by all of our executive officers and Directors as a group.

Name and Address of Beneficial Owner	Number of Shares(1)	Percent of Class
Capital Research and Management Company 333 South Hope Street Los Angeles, CA 90071	39,199,070(2)	8.28%
Davis Selected Advisors, L.P. 2949 East Elvira Road, Suite 101 Tucson, AZ 85706	29,032,775(3)	6.13%
George P. Mitchell 10077 Grogan s Mill Road, Suite 475 The Woodlands, TX 77380	24,434,334(4)	5.16%
J. Larry Nichols*	2,291,902(5)	**
J. Todd Mitchell*	718,000(6)	**
Darryl G. Smette	508,000(7)	**
Michael E. Gellert*	395,566(8)	
Marian J. Moon	371,226(9)	
John Richels	311,551(10)	**
Brian J. Jennings	295,596(11)	**
David M. Gavrin*	221,198(12)	**
John A. Hill*	129,680(13)	**
Michael M. Kanovsky*	109,052(14)	**
Peter J. Fluor*	84,555(15)	**
Charles F. Mitchell*	83,266(16)	
Robert L. Howard*	80,990(17)	**
Thomas F. Ferguson*	48,088(18)	**
William J. Johnson*	45,066(19)	**
Robert A. Mosbacher, Jr.*	28,446(20)	**
All of our Directors and executive officers as a group (18 persons)	5,977,462(21)	**

* Director. The business address of each Director is 20 North Broadway, Oklahoma City, OK 73102-8260.
** Less than 1%.

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(1) Shares beneficially owned includes shares of common stock and shares of common stock issuable within 60 days of April 1, 2005.
(2) Capital Research and Management Company has reported ownership on Schedule 13G filed on February 11, 2005.
(3) Davis Selected Advisors, L.P. has reported ownership on Schedule 13G filed on March 11, 2005.
(4) George P. Mitchell has reported ownership on Schedule 13G filed on January 28, 2002. Mr. Mitchell disclaims beneficial ownership of 598,166 of these shares which are deemed beneficially owned by Mr. Mitchell s wife.
(5) Includes 1,073,724 shares owned of record by Mr. Nichols, 85,930 shares owned of record by Mr. Nichols as Trustee of a family trust, 157,248 shares owned by Mr. Nichols wife, and 975,000 shares which are deemed beneficially owned pursuant to stock options held by Mr. Nichols.
(6) Includes 702,000 shares acquired as a result of the merger of Mitchell Energy & Development Corp. into Devon. These shares are held by a family limited partnership, the general partner of which is a limited liability company that is owned in equal shares by the 10 adult children of George P. Mitchell and Cynthia Woods Mitchell and for which J. Todd Mitchell acts as the sole manager. The limited liability company owns a 0.1% general partnership interest in the partnership. Mr. & Mrs. Mitchell own a 5% limited partnership interest in the partnership, and the trusts for the 10 adult children of Mr. & Mrs. Mitchell (including J. Todd Mitchell) each owns a 9.49% limited partnership interest in the partnership. J. Todd Mitchell is the sole Trustee of each of the trusts. J. Todd Mitchell disclaims beneficial ownership of the shares of common stock referred to in this footnote except to the extent of his pecuniary interest therein. Also includes 2,000 shares owned of record by J. Todd Mitchell. The remaining 14,000 shares are deemed beneficially owned pursuant to stock options held by Mr. Mitchell.
(7) Includes 68,200 shares owned of record by Mr. Smette and 439,800 shares that are deemed beneficially owned pursuant to stock options held by Mr. Smette.
(8) Includes 105,034 shares owned of record by Mr. Gellert, 46,532 shares held by Mr. Gellert s wife, 200,000 shares held in a partnership in which he is General Partner, and 44,000 shares that are deemed beneficially owned pursuant to stock options held by Mr. Gellert.
(9) Includes 34,082 shares owned of record by Ms. Moon, 4,724 shares held in a family trust, 500 shares held by Ms. Moon s spouse, 120 shares held by Ms. Moon as Custodian for immediate family members and 331,800 shares that are deemed beneficially owned pursuant to stock options held by Ms. Moon.
(10) Includes 54,951 shares owned of record by Mr. Richels, and 256,600 shares that are deemed beneficially owned pursuant to stock options held by Mr. Richels.
(11) Includes 59,294 shares owned of record by Mr. Jennings, 702 shares held in the Devon Energy Incentive Savings Plan and 235,600 shares that are deemed beneficially owned pursuant to stock options held by Mr. Jennings.
(12) Includes 100,862 shares owned of record by Mr. Gavrin, 2,178 shares owned by Mr. Gavrin s wife and 74,158 shares owned of record by Mr. Gavrin as Trustee of a family trust. The remaining 44,000 shares are deemed beneficially owned pursuant to stock options held by Mr. Gavrin.
(13) Includes 72,270 shares owned of record by Mr. Hill, 23,884 shares owned by a partnership in which Mr. Hill shares voting and investment power, 4,726 shares owned by Mr. Hill s immediate family and 28,800 shares that are deemed beneficially owned pursuant to stock options held by Mr. Hill.
(14) Includes 4,820 shares owned of record by Mr. Kanovsky, 72,232 shares held indirectly through a family owned entity, C2SKY, Inc., and 32,000 shares that are deemed beneficially owned pursuant to stock options held by Mr. Kanovsky.
(15) Includes 4,550 shares owned of record by Mr. Fluor, a 33,917 share interest in the OEI Outside Directors Deferred Fee Plan and 46,088 shares that are deemed beneficially owned pursuant to stock options held by Mr. Fluor.
(16) Includes 13,062 shares owned of record by Dr. Mitchell, a 2,824 share interest in the OEI Outside Directors Deferred Fee Plan, 9,686 shares in a Trust and 57,694 shares that are deemed beneficially owned pursuant to stock options held by Dr. Mitchell.

(17) Includes 8,715 shares owned of record by Mr. Howard, a 13,935 share interest in the OEI Outside Directors Deferred Fee Plan and 58,340 shares that are deemed beneficially owned pursuant to stock options held by Mr. Howard.

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(18) Includes 2,000 shares owned of record by Mr. Ferguson and 46,088 shares that are deemed beneficially owned pursuant to stock options held by Mr. Ferguson.
(19) Includes 19,066 shares owned of record by Mr. Johnson and 26,000 shares that are deemed beneficially owned pursuant to stock options held by Mr. Johnson.
(20) Includes 2,446 shares owned of record by Mr. Mosbacher and 26,000 shares that are deemed beneficially owned pursuant to stock options held by Mr. Mosbacher.
(21) Includes 2,842,210 shares that are deemed beneficially owned pursuant to stock options held by Directors and executive officers.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Based solely upon a review of Forms 3, 4 and 5 furnished to the Company during and with respect to its most recently completed fiscal year, and any written representations of reporting persons, the Company believes that all transactions by reporting persons during 2004 were reported on a timely basis.

INFORMATION ABOUT EXECUTIVE OFFICERS

Information concerning our executive officers is set forth below. Information concerning J. Larry Nichols is set forth under the caption Election of Directors Directors whose Terms Expire in 2006.

John Richels ***President***

Mr. Richels, age 54, was elected President of Devon in 2004. He previously served as a Senior Vice President of Devon and President and Chief Executive Officer of Devon s Canadian subsidiary. Mr. Richels joined Devon through its 1998 acquisition of Canadian-based Northstar Energy Corporation where he held the position of Executive Vice President and Chief Financial Officer from 1996 to 1998 and served on the Board of Directors from 1993 to 1996. Prior to joining Northstar, Mr. Richels was Managing Partner, Chief Operating Partner and a member of the Executive Committee of the Canadian based national law firm, Bennett Jones. Mr. Richels previously has served as a Director of a number of publicly traded companies and is Vice-Chairman of the Board of Governors of the Canadian Association of Petroleum Producers. He holds a bachelor s degree in economics from York University and a law degree from the University of Windsor. While employed by Bennett Jones in the 1980s, Mr. Richels served as General Counsel of the XV Olympic Winter Games Organizing Committee in Calgary.

Stephen J. Hadden ***Senior Vice President Exploration and Production***

Mr. Hadden, age 50, was elected to the position of Senior Vice President, Exploration and Production, in July 2004. Mr. Hadden joined Texaco, now ChevronTexaco, as a field engineer in 1977, subsequently holding a series of engineering and management positions with increasing responsibility in the United States, including Assistant to the President of Texaco Exploration Production, Division Manager for the Bakersfield Producing Division, Assistant to the Chairman of the Board of Texaco where he assisted executive management with the oversight of Texaco s worldwide business in over 140 countries. He also served as Vice President of Texaco Exploration and Production with responsibility for the company s western region, and then served as Vice President of the California Business Unit. In 2002, he became an independent consultant. Mr. Hadden received his Bachelor of Science in Chemical Engineering from Pennsylvania State University.

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Brian J. Jennings ***Senior Vice President Corporate Finance and Development***
Chief Financial Officer

Mr. Jennings, age 44, was elected to the position of Senior Vice President Corporate Finance and Development and Chief Financial Officer in March 2004. He served as Senior Vice President Corporate Finance and Development from 2001 to March 2004. Mr. Jennings joined Devon in March 2000 as Vice President Corporate Finance. Prior to joining Devon, Mr. Jennings was a Managing Director in the Energy Investment Banking Group of PaineWebber, Inc. He began his banking career at Kidder, Peabody in 1989 before moving to Lehman Brothers in 1992 and later to PaineWebber in 1997. Mr. Jennings specialized in providing strategic advisory and corporate finance services to public and private companies in the E & P and oilfield service sectors. He began his energy career with ARCO International Oil & Gas, a subsidiary of Atlantic Richfield Company. Mr. Jennings received his Bachelor of Science in Petroleum Engineering from the University of Texas at Austin and his Master of Business Administration from the University of Chicago s Graduate School of Business.

Duke R. Ligon ***Senior Vice President & General Counsel***

Mr. Ligon, age 63, was elected to the position of Senior Vice President and General Counsel in 1999. Mr. Ligon had previously joined Devon as Vice President and General Counsel in 1997. In addition to Mr. Ligon s primary role of managing Devon s corporate legal matters (including litigation), he has direct involvement with Devon s governmental affairs, and its merger and acquisition activities. Prior to joining Devon, Mr. Ligon practiced energy law for 12 years, most recently as a partner at the law firm of Mayer, Brown & Platt (now Mayer, Brown, Rowe & Maw) in New York City. In addition, he was a Senior Vice President and Managing Director for investment banking at Bankers Trust Company in New York City for 10 years. Mr. Ligon also served for three years in various positions with the U.S. Departments of the Interior and Treasury, as well as the Department of Energy. Mr. Ligon holds an undergraduate degree in chemistry from Westminster College and a law degree from the University of Texas School of Law.

Marian J. Moon ***Senior Vice President Administration***

Ms. Moon, age 54, was elected to the position of Senior Vice President Administration in 1999. Ms. Moon is responsible for Human Resources, Office Administration, Information Technology, Process Development and Corporate Governance. Ms. Moon has been with Devon for 21 years serving in various capacities, including Manager of Corporate Finance and Corporate Secretary. Prior to joining Devon, Ms. Moon was employed for 11 years by Amarex, Inc., an Oklahoma City based oil and natural gas production and exploration firm, where she served most recently as Treasurer. Ms. Moon is a member of the Society of Corporate Secretaries & Governance Professionals. She is a graduate of Valparaiso University.

Darryl G. Smette ***Senior Vice President Marketing and Midstream***

Mr. Smette, age 57, was elected to the position of Senior Vice President Marketing and Midstream in 1999. Mr. Smette previously held the position of Vice President Marketing and Administrative Planning since 1989. He joined Devon in 1986 as Manager of Gas Marketing. His marketing background includes 15 years with Energy Reserves Group, Inc./ BHP Petroleum (Americas), Inc., most recently as Director of Marketing. He is also an oil and gas industry instructor, approved by the University of Texas Department of Continuing Education. Mr. Smette is a member of the Oklahoma Independent Producers Association, Natural Gas Association of Oklahoma and the American Gas Association. He holds an undergraduate degree from Minot State University and a Master s degree from Wichita State University.

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EXECUTIVE COMPENSATION

Summary Compensation Table

The following table sets forth information regarding annual and long-term compensation during 2002, 2003 and 2004 for the CEO and the four most highly compensated executive officers, other than the CEO, who were serving as executive officers of the Company on December 31, 2004.

			Annual Compensation		Long Term Compensation		
Name	Principal Position	Year	Salary	Bonus	Restricted Stock Awards	Awards of Options (# of Shares)	All Other Compensation
J. Larry Nichols	Chairman and CEO	2004	$ 1,100,000	$ 2,200,000	$ 2,814,365(1)(2)	165,000	$ 12,300(3)
	Chairman and CEO	2003	800,000	1,500,000	1,057,000(1)	120,000	12,000(3)
	Chairman, President and CEO	2002	715,000	1,500,000	0	210,000	11,000(3)
John Richels	President	2004	$ 750,000	$ 1,125,000	$ 1,715,521(4)(6)	67,000	$ 72,203(5)
	Senior Vice President	2003	370,000	490,000	0	56,000	32,869(3)
	Senior Vice President	2002	340,000	380,000	0	106,000	21,595(3)
Brian J. Jennings	Senior Vice President and CFO	2004	$ 550,000	$ 800,000	$ 1,098,330(1)(7)	62,000	$ 42,300(8)
	Senior Vice President	2003	360,000	500,000	480,935(1)	56,000	17,000(8)
	Senior Vice President	2002	325,000	400,000	0	106,000	16,000(8)
Marian J. Moon	Senior Vice President	2004	$ 400,000	$ 600,000	$ 672,875(1)(9)	35,000	$ 45,267(8)
	Senior Vice President	2003	350,000	480,000	480,935(1)	56,000	37,715(8)
	Senior Vice President	2002	325,000	380,000	0	106,000	14,000(8)
Darryl G. Smette	Senior Vice President	2004	$ 500,000	$ 800,000	$ 769,000(1)(10)	40,000	$ 56,471(8)
	Senior Vice President	2003	450,000	550,000	480,935(1)	56,000	44,385(8)

Senior Vice President	2002	400,000	487,570	0	106,000	43,385(8)

(1) The value shown is based on the closing price of the Company s common stock on the grant dates. The restricted stock awarded September 15, 2004 vests 33.3% on each grant anniversary beginning in 2005. The restricted stock awarded December 9, 2004 vests 25% on each grant anniversary beginning in 2005. The restricted stock awarded December 4, 2003 vests 25% on each grant anniversary beginning in 2004. Cash dividends on shares of restricted stock are paid at the same times and in the same amounts as on other shares of common stock.

(2) On December 31, 2004, Mr. Nichols held 104,500 shares of restricted stock valued at $4,067,140.

(3) Consists of Company matching contributions to the Devon Energy Incentive Savings Plan.

(4) On December 31, 2004, Mr. Richels held 49,700 shares of restricted stock valued at $1,934,324.

(5) Consists of Company matching contributions to the Devon Energy Incentive Savings Plan and relocation expenses totaling $59,903.

(6) The value shown is based on the closing price of the Company s common stock on the grant dates. The restricted stock awarded September 15, 2004 vests 33.3% on each grant anniversary beginning in 2005. The restricted stock awarded December 9, 2004 vests 25% on each grant anniversary beginning in 2005. The restricted stock awarded January 1, 2004 vests 25% on each grant anniversary beginning in 2005. Cash dividends on shares of restricted stock are paid at the same times and in the same amounts as on other shares of common stock.

(7) On December 31, 2004, Mr. Jennings held 42,650 shares of restricted stock valued at $1,659,938.

(8) Consists of Company matching contributions to the Devon Energy Incentive Savings Plan and the Devon Energy Deferred Compensation Savings Plan.

(9) On December 31, 2004, Ms. Moon held 31,150 shares of restricted stock valued at $1,212,358.

(10) On December 31, 2004, Mr. Smette held 33,650 shares of restricted stock valued at $1,309,658.

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Option Grants in 2004

The following table sets forth information concerning options to purchase common stock granted in 2004 to the five individuals named in the Summary Compensation Table. The material terms of such options appear in the following table and the footnotes thereto.

	Individual Grants				
Name	Options Granted	Percent of Total Options Granted in 2004	Exercise Price Per Share	Expiration Date	Grant Date Present Value
J. Larry Nichols	40,000(1)	1.3%	$ 34.27(2)	09/14/2012	$ 1,370,800(3)
	125,000(4)	3.9%	$ 38.45(5)	12/08/2012	$ 4,806,250(6)
John Richels	12,000(1)	0.4%	$ 34.27(2)	09/14/2012	$ 411,240(3)
	55,000(4)	1.7%	$ 38.45(5)	12/08/2012	$ 2,114,750(6)
Brian J. Jennings	12,000(1)	0.4%	$ 34.27(2)	09/14/2012	$ 411,240(3)
	50,000(4)	1.6%	$ 38.45(5)	12/08/2012	$ 1,922,500(6)
Marian J. Moon	35,000(4)	1.1%	$ 38.45(5)	12/08/2012	$ 1,345,750(6)
Darryl G. Smette	40,000(4)	1.3%	$ 38.45(5)	12/08/2012	$ 1,538,000(6)

(1) These options were a one-time award granted as of September 15, 2004. (See Compensation Committee Report on Executive Compensation Stock Awards.) 20% of such grant was immediately vested and exercisable. An additional 20% of such grant becomes vested and exercisable on the 4th day of December in each of the years 2004, 2005, 2006 and 2007.

(2) Exercise Price is the closing price of common stock as reported by the American Stock Exchange on the date of grant.

(3) The Grant Date Present Value is an estimation of the possible future value of the option based upon the Black-Scholes Option Pricing Model. The following assumptions were used in the model: volatility (a measure of the historic variability of a stock price) 37.6%; risk-free interest rate (the interest paid by zero-coupon U.S. government issues with a remaining term equal to the expected life of the options) 3.4% per annum; annual dividend yield 0.6%; and expected life of the options five years from grant date. The option value estimated using this model does not necessarily represent the value to be realized by the named officers.

(4) These options were granted as of December 9, 2004. 20% of such grant was immediately vested and exercisable. An additional 20% of such grant becomes vested and exercisable on each of the next four anniversary dates of the original grant.

(5) Exercise Price is the closing price of common stock as reported by the New York Stock Exchange on the date of grant.

(6) The Grant Date Present Value is an estimation of the possible future value of the option based upon the Black-Scholes Option Pricing Model. The following assumptions were used in the model: volatility (a measure of the historic variability of a stock price) 37.2%; risk-free interest rate (the interest paid by zero-coupon

U.S. government issues with a remaining term equal to the expected life of the options) 3.5% per annum; annual dividend yield 0.5%; and expected life of the options five years from grant date. The option value estimated using this model does not necessarily represent the value to be realized by the named officers.

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Aggregate Option Exercises in 2004 and Year-End Option Values

The following table sets forth information for the five individuals named in the Summary Compensation Table concerning the exercise of options to purchase common stock in 2004 and unexercised options to purchase common stock held at December 31, 2004.

Name	Number of Shares Acquired Upon Exercise	Value Realized[2]	Number of Unexercised Options at 12/31/04		Value of Unexercised In-the-Money Options at 12/31/04[1]	
			Exercisable	Unexercisable	Exercisable	Unexercisable
J. Larry Nichols	144,000	$ 3,034,260	975,000	322,000	$ 18,758,835	$ 3,294,530
John Richels		$	256,600	148,400	$ 4,054,704	$ 1,602,786
Brian J. Jennings	50,000	$ 815,608	235,600	144,400	$ 3,792,834	$ 1,600,906
Marian J. Moon	24,000	$ 340,294	331,800	125,200	$ 5,967,053	$ 1,561,786
Darryl G. Smette	34,200	$ 821,687	448,800	129,200	$ 8,705,661	$ 1,563,666

(1) The value is based on the aggregate amount of the excess of $38.92 (the closing price as reported by the NYSE for December 31, 2004) over the relevant exercise price for outstanding options that were in-the-money at year-end.

(2) The value is based on the excess of the market price on the date of exercise over the relevant exercise price for the options exercised.

Retirement Plans

We have three applicable retirement plans, as follows:

Basic Plan. The Basic Plan is a qualified defined benefit retirement plan which provides benefits based upon employment service with Devon. Each eligible employee who retires is entitled to receive annual retirement income, computed as a percentage of final average compensation (which consists of the average of the highest three consecutive years salaries, wages, and bonuses out of the last 10 years, excluding employee contributions into the Devon Energy Deferred Compensation Savings Plan), and credited years of service. Contributions by employees are neither required nor permitted under the Basic Plan. Benefits are computed based on straight-life annuity amounts and are reduced by Social Security benefits. Benefits under the Basic Plan are reduced for certain highly compensated employees, including all of the five individuals named in the Summary Compensation Table, in order to comply with certain requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code.

Benefit Restoration Plan. The Benefit Restoration Plan is a non-qualified retirement benefit plan, the purpose of which is to restore retirement benefits for certain selected key management and highly compensated employees because their benefits under the Basic Plan are reduced in order to comply with certain requirements of the Employee Retirement Income Security Act of 1974 and the Internal Revenue Code or because their final average earnings are reduced as a result of contributions into the Devon Energy Deferred Compensation Savings Plan. An employee must be selected by the Compensation Committee in order to be eligible for participation in the Benefit Restoration Plan. All other provisions of the Benefit Restoration Plan essentially mirror those of the Basic Plan. The Benefit Restoration

Plan is informally funded through a rabbi trust arrangement.

Supplemental Retirement Plan. The Supplemental Retirement Plan is another non-qualified retirement plan for a small group of executives, the purpose of which is to provide additional retirement benefits for long-service executives. The plan vests after 10 years of service, and provides retirement income equal to 65% of the executive s final average compensation less any benefits due to the participant under Social Security, multiplied by a fraction, the numerator of which is his credited years of service (not to exceed 20) and the denominator of which is 20 (or less, if so determined by the Compensation Committee), less any benefits payable under the Basic Plan.

In general, benefits will be paid under the Supplemental Retirement Plan when the participant retires from the Company. However, in the event that the executive s employment with the Company is terminated under conditions that qualify him or her to a severance benefit under an employment agreement, then the

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executive will be 100% vested in his or her benefit and entitled to receive the actuarial equivalent of such benefit earned as of the date of termination of employment. If the executive is terminated within two years following a change of control, his or her benefit will be paid in a single lump sum payment. Otherwise, the benefit will be paid monthly for the life of the executive. Change of control is defined as the date on which one of the following occurs: (i) an entity or group acquires 30% or more of the Company s outstanding voting securities, (ii) the incumbent board ceases to constitute at least a majority of the Company s board, or (iii) a merger, reorganization or consolidation is consummated, after shareholder approval, unless (a) substantially all of the shareholders prior to the transaction continue to own more than 50% of the voting power after the transaction, (b) no person owns 30% or more of the combined voting securities, and (c) the incumbent board constitutes at least a majority of the board after the transaction. The Supplemental Retirement Plan is informally funded through a rabbi trust arrangement.

The following table sets forth the credited years of service as of December 31, 2004 under Devon s Retirement Plans for each of the five individuals named in the Summary Compensation Table.

Name of Individual	Credited Years of Service Basic Plan	Credited Years of Service Supplemental Retirement Plan
J. Larry Nichols	35	35
John Richels	1*	9
Brian J. Jennings	5	5
Marian J. Moon	21	21
Darryl G. Smette	18	18

* Devon provides defined benefits and defined contribution plans to its employees in Canada. Prior to 2004, Mr. Richels was entitled to benefits from these plans. However, in his role as President and subsequent relocation to the United States, Mr. Richels now is covered under the U.S. plans.

The following table shows the estimated annual retirement benefits payable under the Basic Plan, the Benefit Restoration Plan and the Supplemental Retirement Plan to the participants therein, including the five individuals named in the Summary Compensation Table. The amount presented assumes a normal retirement in 2004 at age 65.

	Years of Service			
Final Average Compensation[1]	5	10	15	20 or more
$ 500,000	$ 76,000	$ 152,000	$ 228,000	$ 304,000
600,000	92,000	184,000	276,000	369,000
700,000	108,000	217,000	325,000	434,000
800,000	124,000	249,000	374,000	499,000
900,000	141,000	282,000	423,000	564,000
1,000,000	157,000	314,000	471,000	629,000
1,500,000	238,000	477,000	715,000	954,000
2,000,000	319,000	639,000	959,000	1,279,000

(1) Final Average Compensation consists of the average of the highest three consecutive years salary, wages and bonuses out of the last 10 years, excluding employee contributions into the Devon Energy Deferred

Compensation Savings Plan.

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Employment Agreements

A small number of senior executives, including the five individuals named in the Summary Compensation Table, are covered by employment agreements and are entitled to certain additional compensation under the following events:

(1) employment with the Company is involuntarily terminated other than for cause; or

(2) employee voluntarily terminates for good reason, as those terms are defined in each of the senior executives employment agreements.

In either case, the payment due to the executive would be equal to three times the annual compensation of the executive. In addition, the employment agreement provides for the executive to receive the same basic health and welfare benefits that the executive would otherwise be entitled to receive if the executive were an employee of the Company for three years after termination. If the executive is terminated within two years of a change in control, the executive is also entitled to an additional three years of service credit and age in determining eligibility for retiree medical and supplemental retirement benefits. Change of control is defined in the employment agreements the same as in the Retirement Plans described above.

Director Compensation

Non-management Directors of Devon receive:

an annual retainer of $50,000, payable quarterly.

$2,000 for each Board meeting attended. Directors participating in a telephonic Board meeting receive a fee of $1,000.

an additional $5,000 per year for each Director serving as Chairman of the Compensation Committee, the Nominating and Governance Committee and the Reserves Committee of the Board.

an additional $7,000 per year for the Director serving as Chairman of the Audit Committee of the Board.

an additional $2,000 per year for all Audit Committee members.

$2,000 for each Committee meeting attended. Directors participating in a telephonic Committee meeting receive a fee of $1,000.

an annual grant of 2,000 stock options.

an annual award of 2,000 shares of restricted stock.

Stock awards to Non-Management Directors are granted immediately following each Annual Meeting of stockholders. Stock options are granted at an exercise price equal to the fair market value of the common stock on that date. Unexercised stock options will expire eight years from the date of grant. Restricted stock awards vest 25 percent on each anniversary of the date of grant. Cash dividends on shares of restricted stock are paid at the same times and in the same amounts as on other shares of common stock.

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Equity Compensation Plan Information

The following table sets forth information as of December 31, 2004 about Devon s common stock that may be issued under Devon s equity compensation plans.

Plan category	Column a Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Column b Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Column c Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
Equity compensation plans approved by security holders	19,775,000(1)	$ 25.54	16,022,000(2)
Equity compensation plans not approved by security holders			
Total(3)	19,775,000	$ 25.54	16,022,000

(1) As of December 31, 2004, the Company s total outstanding options were 19,775,000. As a result of various stock option exercises and cancellations during the first quarter of 2005, the Company s total outstanding options as of March 31, 2005 were 17,103,000, with a weighted average exercise price of $26.00 and a five-year weighted average term to expiration.

(2) Of these shares, a maximum of 1,991,000 may be issued in the form of restricted stock, however, upon stockholder approval of the 2005 plan, the Board of Directors will terminate the 2003 plan and all shares remaining in the 2003 plan, and no further grants or awards will be made under the 2003 plan.

(3) As of December 31, 2004, options to purchase an aggregate of 4,893,000 shares of Devon s common stock at a weighted average exercise price of $25.73 were outstanding under the following equity compensation plans, which options were assumed in connection with merger and acquisition transactions: Santa Fe Snyder Corporation 1999 Stock Compensation Retention Plan, Santa Fe Energy Resources, Inc. 1995 Incentive Stock Compensation Plan, Santa Fe Energy Resources 1990 Incentive Stock Compensation Plan, Pennzoil Company 1990 Stock Option Plan, Pennzoil Company 1992 Stock Option Plan, Pennzoil Company 1995 Stock Option Plan, Pennzoil Company 1997 Incentive Plan, Pennzoil Company 1997 Stock Option Plan, PennzEnergy Company 1998 Incentive Plan, and Pennzoil Company 1998 Stock Option Plan, Mitchell Energy & Development Corp. 1995 Stock Option Plan, Mitchell Energy & Development Corp. 1999 Stock Option Plan, Global Natural Resources Inc. 1989 Key Employee Stock Option Plan, Global Natural Resources Inc. 1992 Stock Option Plan,

Ocean Energy, Inc. Long Term Incentive Plan for Non-Executive Employees, Ocean Energy, Inc. 2001 Long Term Incentive Plan, Ocean Energy, Inc. 1999 Long Term Incentive Plan, Ocean Energy, Inc. 1998 Long Term Incentive Plan, Ocean Energy, Inc. 1996 Long Term Incentive Plan, Ocean Energy, Inc. 1994 Long Term Incentive Plan, Seagull Energy Corporation 1998 Omnibus Stock Option Plan, Seagull Energy Corporation 1995 Omnibus Stock Plan, Seagull Energy Corporation 1993 Stock Option Plan, Seagull Energy Corporation 1993 Non-Employee Directors Stock Option Plan, Seagull Energy Corporation 1990 Stock Option Plan, United Meridian Corporation 1994 Employee Nonqualified Stock Option Plan, United Meridian Corporation 1994 Outside Director s Nonqualified Stock Option Plan and United Meridian Corporation 1987 Nonqualified Stock Option Plan. No further grants or awards will be made under the assumed equity compensation plans and the options under these equity compensation plans are not reflected in the table above.

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PERFORMANCE GRAPH

The following performance graph compares Devon s cumulative total stockholder return on its common stock for the five-year period from December 31, 1999 to December 31, 2004, with the cumulative total return of the Standard & Poor s 500 stock index and the stock index by Standard Industrial Classification Code, or SIC Code, for Crude Petroleum and Natural Gas. The SIC Code for Crude Petroleum and Natural Gas is 1311. The identities of the companies included in the index will be provided upon request.

COMPARE 5-YEAR CUMULATIVE TOTAL RETURN
AMONG DEVON ENERGY CORP.,
S&P 500 INDEX AND SIC CODE INDEX

	Devon Energy Corporation	SIC Code Index	S&P 500 Index
1999	100.00	100.00	100.00
2000	186.16	127.04	90.89
2001	118.52	116.56	80.09
2002	141.35	124.27	62.39
2003	177.04	199.58	80.29
2004	242.16	253.54	89.02

Assumes $100 Invested On December 31, 1999 assumes dividend reinvested fiscal year ending December 31, 2004

* Total return assumes reinvestment of dividends.

RELATED PARTY TRANSACTIONS

Mr. George Mitchell, the beneficial owner of approximately 5.2% of Devon s common stock and the father of J. Todd Mitchell, one of our Directors, owns, indirectly, a majority interest in Rock Solid Images (RSI), which provides seismic data and analysis software. Devon utilizes several RSI software packages and also utilized RSI for specific reservoir analysis. Devon has, as part of a consortium, sponsored research and development by RSI in the areas of seismic attenuation and lithology and fluids prediction. J. Todd Mitchell serves as non-executive Chairman of RSI. Devon paid RSI $112,825 in 2003 and $105,600 in 2004 for the foregoing products and services.

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SUBMISSION OF STOCKHOLDER PROPOSALS AND NOMINEES

Any stockholder desiring to present a proposal for inclusion in our Proxy Statement for our 2006 Annual Meeting of Stockholders must present the proposal to our Corporate Secretary not later than December 27, 2005. Only those proposals that comply with the requirements of Rule 14a-8 promulgated under the Securities Exchange Act of 1934 will be included in our Proxy Statement for the 2006 Annual Meeting. Written notice of stockholder proposals submitted outside the process of Rule 14a-8 for consideration at the 2006 Annual Meeting of Stockholders, but not included in our Proxy Statement, must be received by our Corporate Secretary between February 8, 2006 and March 10, 2006 in order to be considered timely, subject to any provisions of our Bylaws. The Chairman of the meeting may determine that any proposal for which we did not receive timely notice shall not be considered at the meeting. If, in the discretion of the Chairman, any such proposal is to be considered at the meeting, the persons designated in our Proxy Statement shall be granted discretionary authority with respect to the untimely stockholder proposal.

OTHER MATTERS

Our Board of Directors knows of no other matter to come before the meeting other than that set forth herein and in the accompanying Notice of Annual Meeting of Stockholders. However, if any other matters should properly come before the meeting, it is the intention of the persons named in the accompanying proxy to vote such proxies, as they deem advisable in accordance with their best judgment.

Your cooperation in giving this matter your immediate attention and in returning your proxy promptly will be appreciated.

BY ORDER OF THE BOARD OF DIRECTORS

Janice A. Dobbs
Corporate Secretary

April 26, 2005

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Appendix A

DEVON ENERGY CORPORATION
2005 LONG-TERM INCENTIVE PLAN

ARTICLE I
PURPOSE

Section 1.1 *Purpose.* This 2005 Long-Term Incentive Plan (the Plan) is established by Devon Energy Corporation (the Company) to create incentives which are designed to motivate Participants to put forth maximum effort toward the success and growth of the Company and to enable the Company to attract and retain experienced individuals who by their position, ability and diligence are able to make important contributions to the Company s success. Toward these objectives, the Plan provides for the grant of Options, Restricted Stock Awards, Canadian Restricted Stock Units, Performance Units and Performance Bonuses to Eligible Employees and the grant of Nonqualified Stock Options and Restricted Stock Awards to Eligible Directors, subject to the conditions set forth in the Plan. The Plan is designed to provide flexibility to meet the needs of the Company over three to four years in a changing and competitive environment while minimizing dilution to the Company s stockholders. The Company does not intend to use all incentive vehicles at all times for each participant but will selectively grant Awards to achieve long-term goals. Generally, Awards will be granted in such a way to align the interests of the participants with those of the Company s stockholders. Generally, maximum individual Awards as designated by this Plan will only be awarded if individual and Company results are such that exceptional stockholder value is achieved.

Section 1.2 *Establishment.* The Plan is effective as of June 8, 2005 and for a period of eight years thereafter. The Plan shall continue in effect until all matters relating to the payment of Awards and administration of the Plan have been settled.

The Plan shall be approved by the holders of at least a majority of the voting power of outstanding shares of Common Stock and the Company s Special Voting Stock, par value $.10 per share, voting as a single class, present, or represented, and entitled to vote at a meeting called for such purpose, which approval must occur within the period ending twelve months after the date the Plan is adopted by the Board. Pending such approval by the Company s stockholders, Awards under the Plan may be granted, but no such Awards may be exercised prior to receipt of such stockholder approval. In the event such stockholder approval is not obtained within such twelve-month period, all such Awards shall be void. Following approval of the Plan, no new Awards will be granted under the Company s existing 2003 Long-Term Incentive Plan.

Section 1.3 *Shares Subject to the Plan.* Subject to the limitations set forth in the Plan, Awards may be made under this Plan for a total of 32,000,000 shares of Common Stock. Any shares granted as Options shall be counted against this limit as one share for each share granted. Any shares granted as Awards other than Options shall be counted against this limit as 2.2 shares for each share granted. Shares of Common Stock tendered to the Company in the form of payment for the exercise price of an Option or applied in satisfaction of tax withholding obligations shall not be available for issuance under the Plan. Provided further, that a maximum of 10,000,000 shares of the total authorized under this Section 1.3 may be granted as Incentive Stock Options. The limitations of this Section 1.3 shall be subject to adjustment pursuant to Article X. The number of shares that are subject to Options or other Awards outstanding at any time under the Plan shall not exceed the number of shares which then remain available for issuance under the Plan. The Company, during the term of the Plan, shall at all times reserve and keep available sufficient shares to satisfy the requirements of the Plan.

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ARTICLE II
DEFINITIONS

Section 2.1 *Account* means the recordkeeping account established by the Company to which will be credited an Award of Performance Units to a Participant.

Section 2.2 *Affiliated Entity* means any partnership or limited liability company in which a majority of the partnership or other similar interest thereof is owned or controlled, directly or indirectly, by the Company or one or more of its Subsidiaries or Affiliated Entities or a combination thereof. For purposes hereof, the Company, a Subsidiary or an Affiliated Entity shall be deemed to have a majority ownership interest in a partnership or limited liability company if the Company, such Subsidiary or Affiliated Entity shall be allocated a majority of partnership or limited liability company gains or losses or shall be or control a managing director or a general partner of such partnership or limited liability company.

Section 2.3 *Award* means, individually or collectively, any Option, Restricted Stock Award, Canadian Restricted Stock Unit, Performance Unit or Performance Bonus granted under the Plan to an Eligible Employee by the Committee or any Nonqualified Stock Option or Restricted Stock Award granted under the Plan to an Eligible Director by the Board pursuant to such terms, conditions, restrictions, and/or limitations, if any, as the Committee may establish by the Award Agreement or otherwise.

Section 2.4 *Award Agreement* means any written instrument that establishes the terms, conditions, restrictions, and/or limitations applicable to an Award in addition to those established by this Plan and by the Committee s exercise of its administrative powers.

Section 2.5 *Board* means the Board of Directors of the Company.

Section 2.6 *Canadian Employee Benefit Plan* has the meaning set out under Article VII of the Plan.

Section 2.7 *Canadian Employee Benefit Trust* has the meaning set out under Article VII of the Plan.

Section 2.8 *Canadian Restricted Stock Unit* means the Awards under Article VIII of the Plan authorized for grant to Eligible Employees of one of the Company s Canadian Subsidiaries or Affiliated Entities who perform the majority of their employment duties in Canada.

Section 2.9 *Change of Control Event* shall be deemed to have occurred each time any one of the events described in paragraphs (i), (ii), (iii), or (iv) below occurs; provided that if a Change of Control Event occurs by reason of an acquisition by any Person that comes within the provisions of paragraph (i) below, no additional Change of Control Event shall be deemed to occur under such paragraph (i) by reason of subsequent changes in holdings by such Person (except if the holdings by such Person are reduced below 30% and thereafter increase to 30% or above). For the purpose of this Section 2.9, the term Company shall include Devon Energy Corporation and any successor thereto.

(i) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a Person) if, immediately after such acquisition, such Person has beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 30% or more of either (I) the then outstanding shares of common stock of the Company (the Outstanding Company Common Stock) or (II) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the Outstanding Company Voting Securities); provided, however, that the following acquisitions shall not constitute a Change of Control Event: (A) any acquisition by an underwriter temporarily holding securities pursuant to an offering of such securities; (B) any acquisition by the Company; (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (D) any acquisition by any corporation pursuant to a transaction which complies with clauses (A), (B), and (C) of paragraph (iii) below.

(ii) Individuals who, as of the effective date of this Plan, constitute the Board (the Incumbent Board) cease for any reason to constitute at least a majority of the Board; provided, however, that any

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individual becoming a director subsequent to the effective date whose election, appointment or nomination for election by the Company s stockholders was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for purposes of this definition, any such individual whose initial assumption of office occurs as a result of an actual or publicly threatened election contest (as such terms are used in Rule 14a-11 promulgated under the Exchange Act) with respect to the election or removal of directors or other actual or publicly threatened solicitation of proxies or consents by or on behalf of a Person other than the Board.

(iii) A reorganization, share exchange, merger or consolidation (a Business Combination), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the ultimate parent entity resulting from such Business Combination (including, without limitation, an entity which, as a result of such transaction, has ownership of the Company or all or substantially all of the assets of the Company either directly or through one or more subsidiaries) in substantially the same relative proportions as their ownership, immediately prior to such Business Combination, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 30% or more of, respectively, the then outstanding common stock of the ultimate parent entity resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such entity except to the extent that such ownership existed prior to the Business Combination, and (C) at least a majority of the members of the Board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Incumbent Board providing for such Business Combination, or were elected, appointed or nominated by the Incumbent Board.

(iv) Approval by the stockholders of the Company of (A) a complete liquidation or dissolution of the Company, or (B) the sale or other disposition of all or substantially all of the assets of the Company, other than to an entity with respect to which following such sale or other disposition, (1) more than 50% of, respectively, the then outstanding shares of common stock of such entity and the combined voting power of the then outstanding voting securities of such entity entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same relative proportions as their ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (2) less than 30% of, respectively, the then outstanding shares of common stock of such entity and the combined voting power of the then outstanding voting securities of such entity entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by any Person (excluding any employee benefit plan (or related trust) of the Company or such entity), except to the extent that such Person owned 30% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities prior to the sale or disposition, and (3) at least a majority of the members of the Board of directors of such entity were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Incumbent Board providing for such sale or other disposition of assets of the Company, or were elected, appointed or nominated by the Incumbent Board.

For purposes of Awards granted to employees of Devon Canada, the Committee may define a change of control event to include a change of control of Devon Canada as the Committee determines and as contained in the applicable Award.

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Section 2.10 *Code* means the Internal Revenue Code of 1986, as amended. References in the Plan to any section of the Code shall be deemed to include any amendments or successor provisions to such section and any regulations under such section.

Section 2.11 *Committee* shall have the meaning set forth in Section 3.1.

Section 2.12 *Common Stock* means the common stock, par value $.10 per share, of the Company, and after substitution, such other stock as shall be substituted therefore as provided in Article VIII.

Section 2.13 *Compensation Committee* means the Compensation Committee of the Board.

Section 2.14 *Date of Grant* means the date on which the grant of an Award is authorized by the Committee or the Board or such later date as may be specified by the Committee or the Board in such authorization.

Section 2.15 *Eligible Employee* means any employee of the Company, a Subsidiary, or an Affiliated Entity as approved by the Committee.

Section 2.16 *Eligible Director* means any member of the Board who is not an employee of the Company or any Subsidiary.

Section 2.17 *Exchange Act* means the Securities Exchange Act of 1934, as amended.

Section 2.18 *Executive Officer Participants* means Participants who are subject to the provisions of Section 16 of the Exchange Act.

Section 2.19 *Fair Market Value* means (A) during such time as the Common Stock is listed upon the New York Stock Exchange or any other established stock exchange, the closing price of the Common Stock as reported by such stock exchange on the day for which such value is to be determined, or, if no sale of the Common Stock shall have been made on any such stock exchange that day, on the next preceding day on which there was a sale of such Common Stock, or (B) during any such time as the Common Stock is not listed upon an established stock exchange, the mean between dealer bid and ask prices of the Common Stock in the over-the-counter market on the day for which such value is to be determined, as reported by the National Association of Securities Dealers, Inc., or (C) during any such time as the Common Stock cannot be valued pursuant to (A) or (B) above, the fair market value shall be as determined by the Board considering all relevant information including, by example and not by limitation, the services of an independent appraiser.

Section 2.20 *Incentive Stock Option* means an Option within the meaning of Section 422 of the Code.

Section 2.21 *Non-Executive Officer Participants* means Participants who are not subject to the provisions of Section 16 of the Exchange Act.

Section 2.22 *Nonqualified Stock Option* means an Option which is not an Incentive Stock Option.

Section 2.23 *Option* means an Award granted under Article V of the Plan and includes both Nonqualified Stock Options and Incentive Stock Options to purchase shares of Common Stock.

Section 2.24 *Participant* means an Eligible Employee of the Company, a Subsidiary, or an Affiliated Entity to whom an Award has been granted by the Committee or an Eligible Director to whom an Award has been granted by the Board under the Plan.

Section 2.25 *Performance Bonus* means the cash bonus which may be granted to Eligible Employees under Article IX of the Plan.

Section 2.26 *Performance Units* means those monetary units that may be granted to Eligible Employees pursuant to Article VIII hereof.

Section 2.27 *Plan* means Devon Energy Corporation 2005 Long-Term Incentive Plan.

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Section 2.28 *Regular Award Committee* means a committee comprised of the individual who is the Company s chief executive officer and such additional members, if any, as shall be appointed by the Compensation Committee.

Section 2.29 *Restricted Stock Award* means an Award granted to an Eligible Employee or Eligible Director under Article VI of the Plan.

Section 2.30 *Secretary* means the corporate secretary of the Company duly elected by the Board.

Section 2.31 *Subsidiary* shall have the same meaning set forth in Section 424 of the Code.

ARTICLE III

ADMINISTRATION

Section 3.1 *Administration of the Plan by the Committee.* For purposes of administration, the Plan shall be deemed to consist of three separate stock incentive plans, a Non-Executive Officer Participant Plan which is limited to Non-Executive Officer Participants, an Executive Officer Participant Plan which is limited to Executive Officer Participants and a Non-Employee Director Participant Plan which is limited to Eligible Directors. Except for administration and the category of Eligible Employees eligible to receive Awards, the terms of the Non-Executive Officer Participant Plan and the Executive Officer Participant Plan are identical. The Non-Employee Director Plan has other variations in terms and only permits the grant of Nonqualified Stock Options and Restricted Stock.

The Non-Executive Officer Participant Plan shall be administered by the Compensation Committee. The Compensation Committee may, at its discretion, delegate authority to the Regular Award Committee to administer the Non-Executive Officer Participant Plan to the extent permitted by applicable law, rule or regulation. The Regular Award Committee may only act within guidelines established by the Compensation Committee. The Executive Officer Participant Plan shall be administered by the Compensation Committee. With respect to the Non-Executive Officer Participant Plan and to decisions relating to Non-Executive Officer Participants, including the grant of Awards, the term Committee shall mean the Compensation Committee, and refer to the Regular Award Committee as authorized by the Compensation Committee; and with respect to the Executive Officer Participant Plan and to decisions relating to the Executive Officer Participants, including the granting of Awards, the term Committee shall mean only the Compensation Committee.

Unless otherwise provided in the by laws of the Company or the resolutions adopted from time to time by the Board establishing the Committee, the Board may from time to time remove members from, or add members to, the Committee. Vacancies on the Committee, however caused, shall be filled by the Board. The Committee shall hold meetings at such times and places as it may determine. A majority of the members of the Committee shall constitute a quorum, and the acts of a majority of the members present at any meeting at which a quorum is present or acts reduced to or approved in writing by a majority of the members of the Committee shall be the valid acts of the Committee.

Subject to the provisions of the Plan, the Committee shall have exclusive power to:

(a) Select Eligible Employees to participate in the Plan.

(b) Determine the time or times when Awards will be made.

(c) Determine the form of an Award, whether an Option, Restricted Stock Award, Canadian Restricted Stock Unit, Performance Unit, or Performance Bonus, the number of shares of Common Stock or Performance Units subject to the Award, the amount and all the terms, conditions (including performance requirements), restrictions and/or limitations, if any, of an Award, including the time and conditions of exercise or vesting, and the terms of any Award Agreement.

(d) Determine whether Awards will be granted singly or in combination.

(e) Accelerate the vesting, exercise or payment of an Award or the performance period of an Award.

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(f) Determine whether and to what extent an Award may be deferred, either automatically or at the election of the Participant or the Committee.

(g) Take any and all other action it deems necessary or advisable for the proper operation or administration of the Plan.

Section 3.2 *Administration of Grants to Eligible Directors.* The Board shall have the exclusive power to select Eligible Directors to participate in the Plan and to determine the number of Nonqualified Stock Options or shares of Restricted Stock awarded to Eligible Directors selected for participation. The Compensation Committee shall administer all other aspects of the Awards made to Eligible Directors.

Section 3.3 *Compensation Committee to Make Rules and Interpret Plan.* The Committee in its sole discretion shall have the authority, subject to the provisions of the Plan, to establish, adopt, or revise such rules and regulations and to make all such determinations relating to the Plan, as it may deem necessary or advisable for the administration of the Plan. The Committee s interpretation of the Plan or any Awards and all decisions and determinations by the Committee with respect to the Plan shall be final, binding, and conclusive on all parties.

Section 3.4 *Section 162(m) Provisions.* The Company intends for the Plan and the Awards made thereunder to qualify for the exception from Section 162(m) of the Code for qualified performance based compensation. Accordingly, the Committee shall make determinations as to performance targets and all other applicable provisions of the Plan as necessary in order for the Plan and Awards made thereunder to satisfy the requirements of Section 162(m) of the Code.

ARTICLE IV
GRANT OF AWARDS

Section 4.1 *Grant of Awards.* Awards granted under this Plan shall be subject to the following conditions:

(a) Subject to Article X, the aggregate number of shares of Common Stock made subject to the grant of Options to any Eligible Employee in any calendar year may not exceed 800,000.

(b) Subject to Article X, the aggregate number of shares of Common Stock made subject to the grant of Restricted Stock Awards and Performance Unit Awards to any Eligible Employee in any calendar year may not exceed 400,000.

(c) The maximum amount made subject to the grant of Performance Bonuses to any Eligible Employee in any calendar year may not exceed $2,500,000.

(d) Any shares of Common Stock related to Awards which terminate by expiration, forfeiture, cancellation or otherwise or are exchanged in the Committee s discretion for Awards not involving Common Stock, shall be available again for grant under the Plan and shall not be counted against the shares authorized under Section 1.3.

(e) Common Stock delivered by the Company in payment of an Award authorized under Articles V and VI of the Plan may be authorized and unissued Common Stock or Common Stock held in the treasury of the Company.

(f) The Compensation Committee shall, in its sole discretion, determine the manner in which fractional shares arising under this Plan shall be treated.

(g) The Compensation Committee shall from time to time establish guidelines for the Regular Award Committee regarding the grant of Awards to Eligible Employees.

(h) Separate certificates or a book-entry registration representing Common Stock shall be delivered to a Participant upon the exercise of any Option.

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(i) Restricted Stock Awards and Canadian Restricted Stock Units which vest based upon the Participant s continued employment shall be limited in such a way that, except in the case of death, disability, the occurrence of a Change of Control Event or termination for an approved reason, (i) no portion of the Award will vest prior to the first anniversary of the Date of Grant; (ii) up to one-third of the shares subject to the Award is eligible to vest on or after the first anniversary of the Date of Grant; (iii) up to an additional one-third of the shares subject to the Award is eligible to vest on or after the second anniversary of the Date of Grant; and (iv) up to an additional one-third of the shares subject to the Award is eligible to vest on or after the third anniversary of the Date of Grant.

(j) Restricted Stock Awards and Canadian Restricted Stock Units which vest based upon performance standards shall require that, except in the case of death, disability as defined in the Award Agreement, the occurrence of a Change of Control Event or termination for an approved reason, the holder must remain in the employment of the Company, a Subsidiary, or an Affiliated Entity for at least one year from Date of Grant.

(k) The Committee shall be prohibited from canceling, reissuing or modifying Awards if such action will have the effect of repricing the Participant s Award.

(l) Eligible Directors may only be granted Nonqualified Stock Options or Restricted Stock Awards under this Plan.

(m) Subject to Article X, the aggregate number of shares of Common Stock made subject to the grant of Options to any individual Eligible Director in any calendar year may not exceed 30,000.

(n) Subject to Article X, in no event shall more than 15,000 shares of Restricted Stock be awarded to any individual Eligible Director in any calendar year.

(o) The maximum term of any Award shall be eight years.

ARTICLE V

STOCK OPTIONS

Section 5.1 *Grant of Options.* The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant Options to Eligible Employees. These Options may be Incentive Stock Options or Nonqualified Stock Options, or a combination of both. The Board may, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant Nonqualified Stock Options to Eligible Directors. Each grant of an Option shall be evidenced by an Award Agreement executed by the Company and the Participant, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve, subject to the requirements of Section 5.2.

Section 5.2 *Conditions of Options.* Each Option so granted shall be subject to the following conditions:

(a) *Exercise Price.* As limited by Section 5.2(e) below, each Option shall state the exercise price which shall be set by the Committee at the Date of Grant; provided, however, no Option shall be granted at an exercise price which is less than the Fair Market Value of the Common Stock on the Date of Grant.

(b) *Form of Payment.* The exercise price of an Option may be paid (i) in cash or by check, bank draft or money order payable to the order of the Company; (ii) by delivering shares of Common Stock having a Fair Market Value on the date of payment equal to the amount of the exercise price, but only to the extent such exercise of an Option would not result in an adverse accounting charge to the Company for financial accounting purposes with respect to the shares used to pay the exercise price unless otherwise determined by the Committee; or (iii) a combination of the foregoing. In addition to the foregoing, the Committee may permit an Option granted under the Plan to be exercised by a broker-dealer acting on behalf of a Participant through procedures approved by the Committee.

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(c) *Exercise of Options.* Options granted under the Plan shall be exercisable, in whole or in such installments and at such times, and shall expire at such time, as shall be provided by the Committee in the Award Agreement. Exercise of an Option shall be by notice to the Secretary of such exercise stating the election to exercise in the form and manner determined by the Committee. Every share of Common Stock acquired through the exercise of an Option shall be deemed to be fully paid at the time of exercise and payment of the exercise price.

(d) *Other Terms and Conditions.* Among other conditions that may be imposed by the Committee, if deemed appropriate, are those relating to (i) the period or periods and the conditions of exercisability of any Option; (ii) the minimum periods during which Participants must be employed by the Company, its Subsidiaries, or an Affiliated Entity, or must hold Options before they may be exercised; (iii) the minimum periods during which shares acquired upon exercise must be held before sale or transfer shall be permitted; (iv) conditions under which such Options or shares may be subject to forfeiture; (v) the frequency of exercise or the minimum or maximum number of shares that may be acquired at any one time; (vi) the achievement by the Company of specified performance criteria; and (vii) non-compete and protection of business matters.

(e) *Special Restrictions Relating to Incentive Stock Options.* Options issued in the form of Incentive Stock Options shall only be granted to Eligible Employees of the Company or a Subsidiary, and not to Eligible Employees of an Affiliated Entity unless such entity shall be considered as a disregarded entity under the Code and shall not be distinguished for federal tax purposes from the Company or the applicable Subsidiary.

(f) *Application of Funds.* The proceeds received by the Company from the sale of Common Stock pursuant to Options will be used for general corporate purposes.

(g) *Stockholder Rights.* No Participant shall have a right as a stockholder with respect to any share of Common Stock subject to an Option prior to purchase of such shares of Common Stock by exercise of the Option.

ARTICLE VI

RESTRICTED STOCK AWARDS

Section 6.1 *Grant of Restricted Stock Awards.* The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant a Restricted Stock Award to any Eligible Employee. Restricted Stock Awards shall be awarded in such number and at such times during the term of the Plan as the Committee shall determine. The Board may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant a Restricted Stock Award to an Eligible Director. Each Restricted Stock Award may be evidenced in such manner as the Committee deems appropriate, including, without limitation, a book-entry registration or issuance of a stock certificate or certificates, and by an Award Agreement setting forth the terms of such Restricted Stock Award.

Section 6.2 *Conditions of Restricted Stock Awards.* The grant of a Restricted Stock Award shall be subject to the following:

(a) *Restriction Period.* Each Restricted Stock Award shall require the holder to remain in the employment of the Company, a Subsidiary, or an Affiliated Entity for a prescribed period (a Restriction Period). Subject to Sections 4.1(i) and (j), the Committee shall determine the Restriction Period or Periods that shall apply to the shares of Common Stock covered by each Restricted Stock Award or portion thereof. In addition to any time vesting conditions determined by the Committee, Restricted Stock Awards may be subject to the achievement by the Company of specified performance criteria based upon the Company s achievement of operational, financial or stock performance criteria more specifically listed in Exhibit A attached, as established by the Committee. At the end of the Restriction Period, assuming the fulfillment of any other specified vesting conditions, the restrictions imposed by the

Committee shall lapse with respect to the shares of Common Stock covered by the Restricted Stock Award or portion thereof.

(b) *Restrictions.* The holder of a Restricted Stock Award may not sell, transfer, pledge, exchange, hypothecate, or otherwise dispose of the shares of Common Stock represented by the Restricted Stock Award during the applicable Restriction Period. The Committee shall impose such other restrictions and conditions on any shares of Common Stock covered by a Restricted Stock Award as it may deem advisable including, without limitation, restrictions under applicable Federal or state securities laws, and may legend the certificates representing Restricted Stock to give appropriate notice of such restrictions.

(c) *Rights as Stockholders.* During any Restriction Period, the Committee may, in its discretion, grant to the holder of a Restricted Stock Award all or any of the rights of a stockholder with respect to the shares, including, but not by way of limitation, the right to vote such shares and to receive dividends. If any dividends or other distributions are paid in shares of Common Stock, all such shares shall be subject to the same restrictions on transferability as the shares of Restricted Stock with respect to which they were paid.

ARTICLE VII

CANADIAN RESTRICTED STOCK UNITS

Section 7.1 *Establishment.* The Committee may authorize the establishment of an employee benefit plan (a *Canadian Employee Benefit Plan*) which shall be considered as a part of this Plan for the purpose of providing benefits to Eligible Employees of one of the Company s Canadian Subsidiaries or Affiliated Entities who perform the majority of their employment duties in Canada. Benefits granted in the Canadian Employee Benefit Plan will take the form of Canadian Restricted Stock Units having substantially the same after-tax effect for such Canadian Eligible Employees as would Restricted Stock Awards granted by the Company to non-Canadian Eligible Employees. The Committee may further authorize the establishment of an employee benefit trust (a *Canadian Employee Benefit Trust*) for the purpose of holding the assets of the Employee Benefit Plan and shall appoint one or more persons who are residents of Canada to act as trustees of the Canadian Employee Benefit Trust.

Section 7.2 *Grant of Awards and Contributions to Canadian Employee Benefit Trust.* The Committee may grant to Eligible Employees, Canadian Restricted Stock Units entitling such Eligible Employees to an interest in the assets of the Canadian Employee Benefit Trust in such form that it determines necessary to comply with applicable Canadian tax law requirements, subject to the terms of the Canadian Employee Benefit Plan and such other terms and conditions as it may determine. Each Award of Canadian Restricted Stock Units shall be evidenced by an Award Agreement and such Award Agreement shall contain the terms and conditions of the Award subject to the provisions of the Canadian Employee Benefit Plan. At the time of granting an Award of Canadian Restricted Stock Units, the Committee may authorize the Company or any of its Canadian Subsidiaries or Affiliated Entities to make cash contributions to the Canadian Employee Benefit Trust, with such contributions to be used as specified in the Canadian Employee Benefit Plan, including for the purpose of acquiring shares of Common Stock of the Company on the open market through the facilities of a stock exchange. The Committee shall designate, at the time of making any contribution in respect of a Participant, when the shares of Common Stock of the Company which are acquired with the contribution pursuant to the terms of the Canadian Employee Benefit Plan are to vest pursuant to the applicable Award Agreement, and shall inform the trustees of the same.

Section 7.3 *Holding of Shares of Common Stock in Trust.* Subject to the specific provisions of the Employee Benefit Plan, upon completion of any purchases of shares of Common Stock of the Company by the trustees, the trustees shall immediately notionally allocate such shares to an account in respect of each Participant in proportion to the contributions received in respect of each Participant in the preceding month. The Trustees shall hold the shares in trust in the name of the trustee, until such time as: (i) the Canadian Restricted Stock Units granted to Participants are vested, in accordance with the vesting conditions designated

by the Committee in the Award Agreement, or (ii) the Canadian Restricted Stock Units are forfeited by Eligible Employees as provided in the Canadian Employee Benefit Plan.

Section 7.4 *Conditions of Awards.* Each Award of Canadian Restricted Stock Units shall be subject to the following general conditions (with the specific details to be determined by the Company upon establishment of the Canadian Employee Benefit Plan):

(a) *Vesting Period.* The Committee shall establish in the Award Agreement the vesting periods applicable to a grant of Canadian Restricted Stock Units, subject to compliance with the timing requirements specified in Section 7.4(b).

(b) *Settlement in Stock.* Upon satisfaction of the vesting requirements established by the Committee, the Committee will authorize the trustees to distribute the shares of the Common Stock of the Company which have been allocated to such Participant s account to the Participant. Participants will not be entitled to receive cash in settlement of an Award of a Canadian Restricted Stock Unit. The Company, its Canadian Subsidiaries or Affiliated Entities, and the trustees may withhold from any amount payable to an Eligible Employee, either under the Canadian Employee Benefit Plan, or otherwise, such amount as may be necessary so as to ensure compliance with the applicable provisions of any federal, provincial or local law relating to the withholding of tax or other required deductions. For greater certainty and notwithstanding any other provision of the Canadian Employee Benefit Plan, all amounts payable to, or in respect of, a Participant under the Canadian Employee Benefit Plan shall be paid within three years following the end of the year in respect of which the Award of Canadian Restricted Stock Units was made.

(c) *Rights of Stockholders.* Prior to the date the shares of Common Stock are distributed by the trustees, Participants will have no rights to the shares of Common Stock and no rights as shareholders of the Company with respect to the shares of Common Stock held by the Canadian Employee Benefit Trust related to an Award. Title and all incidents of beneficial ownership of the shares of Common Stock will remain with the trustees while the shares are held in trust.

(d) *Additional Awards.* The Committee may authorize the Company or its Canadian Subsidiaries or Affiliated Entities to grant an additional Award to the Participant equal to the dividend that the Participant would have received had the Award been made with the underlying shares of Common Stock directly, rather than in Canadian Restricted Stock Units.

ARTICLE VIII
PERFORMANCE UNITS

Section 8.1 *Grant of Awards.* The Committee may, from time to time, subject to the provisions of the Plan and such other terms and conditions as it may determine, grant Performance Units to Eligible Employees. Each Award of Performance Units shall be evidenced by an Award Agreement executed by the Company and Eligible Employee, and shall contain such terms and conditions and be in such form as the Committee may from time to time approve, subject to the requirements of Section 8.2.

Section 8.2 *Conditions of Awards.* Each Award of Performance Units shall be subject to the following conditions:

(a) *Establishment of Award Terms.* Each Award shall state the target, maximum and minimum value of each Performance Unit payable upon the achievement of performance goals.

(b) *Achievement of Performance Goals.* The Committee shall establish performance targets for each Award for a period of no less than a year based upon some or all of the operational, financial or performance criteria listed in Exhibit A attached. The Committee shall also establish such other terms and conditions as it deems appropriate to such Award. The Award may be paid out in cash or Common Stock as determined in the sole discretion of the Committee.

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ARTICLE IX
PERFORMANCE BONUS

Section 9.1 *Grant of Performance Bonus.* The Committee may from time to time, subject to the provisions of the Plan and such other terms and conditions as the Committee may determine, grant a Performance Bonus to certain Eligible Employees selected for participation. The Committee will determine the amount that may be earned as a Performance Bonus in any period of one year or more upon the achievement of a performance target established by the Committee. The Committee shall select the applicable performance target for each period in which a performance bonus is awarded. The performance target shall be based upon all or some of the operational, financial or performance criteria more specifically listed in Exhibit A attached.

Section 9.2 *Payment of Performance Bonus.* In order for any Participant to be entitled to payment of a Performance Bonus the applicable performance target established by the Committee must first be obtained or exceeded. Payment of a Performance Bonus shall be made within 60 days of the Committee s certification that the performance target has been achieved unless the Participant has previously elected to defer payment pursuant to a nonqualified deferred compensation plan adopted by the Company. Payment of a Performance Bonus may be made in either cash or Common Stock as determined in the sole discretion of the Committee.

ARTICLE X
STOCK ADJUSTMENTS

Section 10.1 *Stock Adjustments.* In the event that the shares of Common Stock, as constituted on the effective date of the Plan, shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Company or of another corporation (whether by reason of merger, consolidation, recapitalization, reclassification, stock split, combination of shares or otherwise), or if the number of such shares of Common Stock shall be increased through the payment of a stock dividend, or if rights or warrants to purchase securities of the Company shall be issued to holders of all outstanding Common Stock, then there shall be substituted for or added to each share available under and subject to the Plan (including those held in the Canadian Benefit Trust), and each share theretofore appropriated under the Plan, the number and kind of shares of stock or other securities into which each outstanding share of Common Stock shall be so changed or for which each such share shall be exchanged or to which each such share shall be entitled, as the case may be, on a fair and equivalent basis in accordance with the applicable provisions of Section 424 of the Code; provided, however, with respect to Options, in no such event will such adjustment result in a modification of any Option as defined in Section 424(h) of the Code. In the event there shall be any other change in the number or kind of the outstanding shares of Common Stock, or any stock or other securities into which the Common Stock shall have been changed or for which it shall have been exchanged, then if the Committee shall, in its sole discretion, determine that such change equitably requires an adjustment in the shares available under and subject to the Plan, or in any Award, theretofore granted, such adjustments shall be made in accordance with such determination, except that no adjustment of the number of shares of Common Stock available under the Plan or to which any Award relates that would otherwise be required shall be made unless and until such adjustment either by itself or with other adjustments not previously made would require an increase or decrease of at least 1% in the number of shares of Common Stock available under the Plan or to which any Award relates immediately prior to the making of such adjustment (the Minimum Adjustment). Any adjustment representing a change of less than such minimum amount shall be carried forward and made as soon as such adjustment together with other adjustments required by this Article X and not previously made would result in a Minimum Adjustment. Notwithstanding the foregoing, any adjustment required by this Article X which otherwise would not result in a Minimum Adjustment shall be made with respect to shares of Common Stock relating to any Award immediately prior to exercise, payment or settlement of such Award. No fractional shares of Common Stock or units of other securities shall be issued pursuant to any such adjustment, and any fractions resulting from any such adjustment shall be eliminated in each case by rounding downward to the nearest whole share.

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ARTICLE XI
GENERAL

Section 11.1 *Amendment or Termination of Plan.* The Board may alter, suspend or terminate the Plan at any time. In addition, the Board may, from time to time, amend the Plan in any manner, but may not without stockholder approval adopt any amendment which would (i) increase the aggregate number of shares of Common Stock available under the Plan (except by operation of Article X), (ii) materially modify the requirements as to eligibility for participation in the Plan, or (iii) materially increase the benefits to Participants provided by the Plan.

Section 11.2 *Termination of Employment; Termination of Service.* If an Eligible Employee s employment with the Company, a Subsidiary, or an Affiliated Entity terminates for a reason other than death, disability, retirement, or any approved reason, all unexercised, unearned, and/or unpaid Awards, including, but not by way of limitation, Awards earned, but not yet paid, all unpaid dividends and dividend equivalents, and all interest, if any, accrued on the foregoing shall be cancelled or forfeited, as the case may be, unless the Eligible Employee s Award Agreement provides otherwise. The Compensation Committee shall (i) determine what events constitute disability, retirement, or termination for an approved reason for purposes of the Plan, and (ii) determine the treatment of a Participant under the Plan in the event of his death, disability, retirement, or termination for an approved reason. The Committee shall also determine the method, if any, for accelerating the vesting or exercisability of any Awards, or providing for the exercise of any unexercised Awards in the event of an Eligible Employee s death, disability, retirement, or termination for an approved reason.

In the event an Eligible Director terminates service as a director of the Company, the unvested portion of any Award shall be forfeited unless otherwise accelerated pursuant to the terms of the Eligible Director s Award Agreement or by the Board. The Eligible Director shall have a period of three years following the date he ceases to be a director to exercise any Nonqualified Stock Options which are otherwise exercisable on his date of termination of service.

Section 11.3 *Nontransferability of Awards.* Except as otherwise provided by wills or the laws of descent and distribution, the Award may be exercised during the lifetime of the participant only by the Participant. More particularly (but without limiting the generality of the foregoing), the Award shall not be assigned, transferred (except as provided above), pledged or hypothecated in any way whatsoever, shall not be assigned by operation of law, and shall not be subject to execution, attachment or similar process. Any attempted assignment, transfer, pledge hypothecation, or other disposition of the award contrary to the provisions hereof, shall be null and void and without effect.

Section 11.4 *Withholding Taxes.* Unless otherwise paid by the Participant, the Company, its Subsidiaries or any of its Affiliated Entities shall be entitled to deduct from any payment under the Plan, regardless of the form of such payment, the amount of all applicable income and employment taxes required by law to be withheld with respect to such payment or may require the Participant to pay to it such tax prior to and as a condition of the making of such payment. In accordance with any applicable administrative guidelines it establishes, the Committee may allow a Participant to pay the amount of taxes required by law to be withheld from an Award by (i) directing the Company to withhold from any payment of the Award a number of shares of Common Stock having a Fair Market Value on the date of payment equal to the amount of the required withholding taxes or (ii) delivering to the Company previously owned shares of Common Stock having a Fair Market Value on the date of payment equal to the amount of the required withholding taxes. However, any payment made by the Participant pursuant to either of the foregoing clauses (i) or (ii) shall not be permitted if it would result in an adverse accounting charge with respect to such shares used to pay such taxes unless otherwise approved by the Committee.

Section 11.5 *Dividends and Dividend Equivalents Awards.* The Committee may choose, at the time of the grant of any Award or any time thereafter up to the time of payment of such Award, to include as part of such Award an entitlement to receive dividends or dividend equivalents subject to such terms, conditions, restrictions, and/or limitations, if any, as the Committee may establish. Dividends and dividend

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equivalents granted hereunder shall be paid in such form and manner (i.e., lump sum or installments), and at such time as the Committee shall determine. All dividends or dividend equivalents which are not paid currently may, at the Committee s discretion, accrue interest.

Section 11.6 *Change of Control.* Notwithstanding any other provision in this Plan to the contrary, Awards granted under the Plan to any Eligible Employee or Eligible Director may, in the discretion of the Committee, provide in the Award Agreement that such Awards shall be immediately vested, fully earned and exercisable upon the occurrence of a Change of Control Event.

Section 11.7 *Amendments to Awards.* Subject to the limitations of Article IV, such as the prohibition on repricing of Options, the Committee may at any time unilaterally amend the terms of any Award Agreement, whether or not presently exercisable or vested, to the extent it deems appropriate. However, amendments which are adverse to the Participant shall require the Participant s consent.

Section 11.8 *Regulatory Approval and Listings.* The Company shall use its best efforts to file with the Securities and Exchange Commission as soon as practicable following approval by the stockholders of the Company of the Plan as provided in Section 1.2 of the Plan, and keep continuously effectively, a Registration Statement on Form S-8 with respect to shares of Common Stock subject to Awards hereunder. Notwithstanding anything contained in this Plan to the contrary, the Company shall have no obligation to issue shares of Common Stock under this Plan prior to:

(a) the obtaining of any approval from, or satisfaction of any waiting period or other condition imposed by, any governmental agency which the Committee shall, in its sole discretion, determine to be necessary or advisable;

(b) the admission of such shares to listing on the stock exchange on which the Common Stock may be listed; and

(c) the completion of any registration or other qualification of such shares under any state or Federal law or ruling of any governmental body which the Committee shall, in its sole discretion, determine to be necessary or advisable.

Section 11.9 *Right to Continued Employment.* Participation in the Plan shall not give any Eligible Employee any right to remain in the employ of the Company, any Subsidiary, or any Affiliated Entity. The Company or, in the case of employment with a Subsidiary or an Affiliated Entity, the Subsidiary or Affiliated Entity reserves the right to terminate any Eligible Employee at any time. Further, the adoption of this Plan shall not be deemed to give any Eligible Employee or any other individual any right to be selected as a Participant or to be granted an Award.

Section 11.10 *Beneficiary Designation.* In the event of the death of a Participant, the portion of the Participant s Award with respect to which vesting dates have occurred shall be paid to the then surviving beneficiary designated by the Participant, and if there is no beneficiary then surviving or designated, then such benefits will automatically be paid to the estate of the Participant.

Section 11.11 *Reliance on Reports.* Each member of the Committee and each member of the Board shall be fully justified in relying or acting in good faith upon any report made by the independent public accountants of the Company and its Subsidiaries and upon any other information furnished in connection with the Plan by any person or persons other than himself or herself. In no event shall any person who is or shall have been a member of the Committee or of the Board be liable for any determination made or other action taken or any omission to act in reliance upon any such report or information or for any action taken, including the furnishing of information, or failure to act, if in good faith.

Section 11.12 *Construction.* Masculine pronouns and other words of masculine gender shall refer to both men and women. The titles and headings of the sections in the Plan are for the convenience of reference only, and in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control.

Section 11.13 *Governing Law.* The Plan shall be governed by and construed in accordance with the laws of the State of Delaware except as superseded by applicable Federal law.

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Section 11.14 *Severability.* If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal, or unenforceable in any jurisdiction or as to any Participant or Award, or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to the applicable laws, or if it cannot be construed or deemed amended without, in the determination of the Committee, materially altering the intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction, Participant or Award and the remainder of the Plan and any such Award shall remain in full force and effect.

Section 11.15 *Other Laws.* The Committee may refuse to issue or transfer any shares of Common Stock or other consideration under an Award if, acting in its sole discretion, it determines that the issuance or transfer of such shares or such other consideration might violate any applicable law or regulation or entitle the Company to recover the same under Section 16(b) of the Exchange Act, and any payment tendered to the Company by a Participant, other holder or beneficiary in connection with the exercise of such Award shall be promptly refunded to the relevant Participant, holder or beneficiary.

Section 11.16 *No Trust or Fund Created.* Except as provided in the Canadian Benefit Plan for the creation of the Canadian Benefit Trust, neither the Plan nor an Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a Participant or any other person. To the extent that a Participant acquires the right to receive payments from the Company pursuant to an Award, such right shall be no greater than the right of any general unsecured creditor of the Company.

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Exhibit A

DEVON ENERGY CORPORATION
2005 LONG-TERM INCENTIVE PLAN
PERFORMANCE CRITERIA

Operational Criteria may include:

Reserve additions/replacements

Finding & development costs

Production volume

Production Costs

Financial Criteria may include:

Earnings (Net income, Earnings before interest, taxes, depreciation and amortization (EBITDA), Earnings per share)

Cash flow

Operating income

General and Administrative Expenses

Debt to equity ratio

Debt to cash flow

Debt to EBITDA

EBITDA to Interest

Return on Assets

Return on Equity

Return on Invested Capital

Profit returns/margins

Midstream margins

Stock Performance Criteria:

Stock price appreciation

Total stockholder return

Relative stock price performance

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6 **DETACH PROXY CARD HERE** 6

DEVON ENERGY CORPORATION

PROXY SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned stockholder of Devon Energy Corporation, a Delaware corporation, hereby nominates and appoints J. Larry Nichols and Marian J. Moon with full power of substitution, as true and lawful agents and proxies to represent the undersigned and vote all shares of common stock of Devon Energy Corporation owned by the undersigned in all matters coming before the Annual Meeting of Stockholders (or any adjournment thereof) of Devon Energy Corporation to be held on the Third Floor of the Bank One Center, 100 North Broadway, Oklahoma City, Oklahoma, on Wednesday, June 8, 2005, at 8:00 a.m. local time. The Board of Directors recommends a vote **FOR** Agenda Items 1, 2 and 3 and recommends a vote **AGAINST** Agenda Item 4 as set forth on the reverse side.

Do not return your Proxy Card if you are voting by Telephone or Internet

Address Change/Comments

CONTINUED AND TO BE SIGNED ON REVERSE SIDE

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You can submit your proxy by mail, by telephone or through the Internet.
Please use only one of the three response methods.

BY MAIL

Mark, sign and date your
proxy card and return it in
the enclosed envelope to:
Wachovia Bank, N.A.
Attn: Proxy Tabulation NC-1153
P.O. Box 563994
Charlotte, NC 28256-9912

BY TELEPHONE

(Available only until 5:00 pm EDT
on June 7, 2005)
Call toll free **1-866-214-3726** on
any touch-tone telephone to
authorize the voting of your shares.
You may call 24 hours a day, 7 days
a week. You will be prompted to
follow simple instructions.

THROUGH THE INTERNET

(Available only until 5:00 pm EDT
on June 7, 2005)
Access the website at
https://www.proxyvotenow.com/dvn
to authorize the voting of your shares.
You may access the site 24 hours a day,
7 days a week. You will be prompted to
follow simple instructions.

If you vote by telephone or through the Internet, please DO NOT mail back this proxy card.

6 **DETACH PROXY CARD HERE** 6

x **Please mark votes as in this example.**

WHEN PROPERLY EXECUTED, THIS PROXY WILL BE VOTED IN THE MANNER SPECIFIED BELOW BY THE STOCKHOLDER. TO THE EXTENT CONTRARY SPECIFICATIONS ARE NOT GIVEN, THIS PROXY WILL BE VOTED IN ACCORDANCE WITH THE RECOMMENDATIONS OF THE BOARD OF DIRECTORS.

The Board of Directors recommends a vote FOR Agenda Items 1, 2 and 3 and recommends a vote AGAINST Agenda Item 4.

(1) Election of Directors
NOMINEES: (01) John A. Hill, (02) William J. Johnson and (03) Robert A. Mosbacher, Jr.
To withhold authority to vote for any individual nominee(s), write the name(s) of such nominee(s) in the space provided below.

FOR (all nominees) o
WITHHOLD (as to all nominees) o

(2) Ratify the appointment of KPMG LLP as the Company s Independent Auditors for the Year Ending December 31, 2005

o FOR o AGAINST o ABSTAIN

(3) Adoption of the Devon Energy Corporation 2005 Long-Term Incentive Plan

o FOR o AGAINST o ABSTAIN

(4) Revised Director Election Vote Standard

o FOR o AGAINST o ABSTAIN

(5) Other Matters: In its discretion, to vote with respect to any other matter that may come up before the meeting or any adjournment thereof, including matters incident to its conduct.

I RESERVE THE RIGHT TO REVOKE THE PROXY AT ANY TIME BEFORE THE EXERCISE THEREOF.

Please sign exactly as your name appears at left, indicating your official position or representative capacity, if applicable. If shares are held jointly, each owner should sign.

Date: , 2005

Signature

Signature

Mark here if you plan to attend the meeting o

Mark here for address change and note on reverse o