

SM Energy Co
Form DEF 14A
April 13, 2012

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Table of Contents](#)

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

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

SM Energy Company

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
 - (2) Aggregate number of securities to which transaction applies:
 - (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

Edgar Filing: SM Energy Co - Form DEF 14A

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.

o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

Edgar Filing: SM Energy Co - Form DEF 14A

Table of Contents

April 13, 2012

Dear Stockholder:

You are cordially invited to attend the 2012 Annual Meeting of Stockholders of SM Energy Company, which is to be held in the J.D. Hershner Room of Wells Fargo Bank located at 1700 Lincoln Street, Denver, Colorado, on Wednesday, May 23, 2012, at 3:30 p.m. local time.

At the Annual Meeting, you and the other stockholders of record on March 26, 2012, will vote on:

the election of eight individuals to our Board of Directors, to serve until the next annual meeting of our stockholders;

the ratification of the appointment by our Audit Committee of Deloitte & Touche LLP as our independent registered public accounting firm for 2012; and

an advisory vote to approve the compensation of our named executive officers.

You will also have the opportunity to hear reports on our operations and to ask questions of general interest. You can find other, more specific, information about the Annual Meeting in the accompanying Proxy Statement. You can find detailed information about our company in our 2011 Annual Report to Stockholders, which consists of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and is available on our website, www.sm-energy.com.

Pursuant to United States Securities and Exchange Commission rules, we may provide you with access to our proxy materials via the Internet. As a result, many beneficial owners of our stock will be receiving a Notice of Internet Availability of Proxy Materials (the "Notice") instead of a paper copy of the accompanying Proxy Statement and our 2011 Annual Report to Stockholders. The Notice contains instructions on how to access those documents via the Internet. The Notice also contains instructions on how to request a paper copy of our proxy materials, including the accompanying Proxy Statement, our 2011 Annual Report to Stockholders, and a form of proxy card. We will mail printed proxy materials to all stockholders of record.

You may vote your shares by using the telephone or Internet voting systems described on the Notice or the proxy card. If you receive a printed copy of a proxy card by mail, you may submit your proxy card by completing and signing the proxy card and returning it promptly. This will ensure that your shares are represented at the Annual Meeting even if you cannot attend.

If you have any questions concerning the Annual Meeting or the above proposals and you are the stockholder of record of your shares, please contact our Corporate Secretary at (303) 861-8140. If your shares are held by a bank, broker, or other nominee, rather than in your own name (that is, in "street name"), please contact your bank, broker, or other nominee for questions concerning the Annual Meeting or the above proposals. If you are the stockholder of record of your shares and have questions regarding your stock ownership, please contact our transfer agent, Computershare Trust Company, Inc., by telephone at (303) 262-0600.

We hope to see many of you at our Annual Meeting in Denver.

Very truly yours,

Anthony J. Best
Chief Executive Officer and President

Table of Contents

SM Energy Company

1775 Sherman Street, Suite 1200
Denver, Colorado 80203

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD
WEDNESDAY, MAY 23, 2012**

To All Stockholders:

The 2012 Annual Meeting of Stockholders of SM Energy Company is to be held in the J.D. Hershner Room of Wells Fargo Bank located at 1700 Lincoln Street, Denver, Colorado, on Wednesday, May 23, 2012, at 3:30 p.m. local time. The purposes of the Annual Meeting are to:

1. elect eight individuals to our Board of Directors, to serve until the next annual meeting of our stockholders;
2. ratify the appointment by our Audit Committee of Deloitte & Touche LLP as our independent registered public accounting firm for 2012;
3. hold an advisory vote to approve the compensation of our named executive officers; and
4. transact such other business that may properly come before the Annual Meeting or any adjournment(s) or postponement(s) thereof.

Only stockholders of record at the close of business on March 26, 2012, may vote at the Annual Meeting.

Please vote by using the telephone or Internet voting systems described in the Notice of Internet Availability of Proxy Materials or the proxy card or, if the attached Proxy Statement and a proxy card were mailed to you, please sign, date, and return the proxy card in the enclosed envelope as soon as possible.

By Order of the Board of Directors,

David W. Copeland
Senior Vice President, General Counsel and Corporate Secretary

Denver, Colorado
April 13, 2012

Table of Contents

TABLE OF CONTENTS

	Page
<u>General</u>	<u>1</u>
<u>Background</u>	<u>1</u>
<u>Purposes of the Annual Meeting</u>	<u>1</u>
<u>Who Can Vote</u>	<u>1</u>
<u>Differences Between Stockholders of Record and Street Name Holders</u>	<u>2</u>
<u>How to Vote</u>	<u>2</u>
<u>Revoking a Proxy</u>	<u>3</u>
<u>Quorum</u>	<u>3</u>
<u>Voting Requirements: Vote Treatment</u>	<u>3</u>
<u>Payment of Proxy Solicitation Costs</u>	<u>4</u>
<u>Other Available Information</u>	<u>4</u>
<u>Stockholders Sharing the Same Address</u>	<u>4</u>
<u>Corporate Governance</u>	<u>6</u>
<u>General</u>	<u>6</u>
<u>Board and Committee Independence</u>	<u>6</u>
<u>Board Leadership Structure</u>	<u>6</u>
<u>Communications with the Board</u>	<u>7</u>
<u>Board and Committee Meetings</u>	<u>7</u>
<u>Risk Oversight</u>	<u>9</u>
<u>Director Nominations and Qualifications</u>	<u>10</u>
<u>Certain Relationships and Related Transactions</u>	<u>11</u>
<u>Policies and Procedures on Transactions with Related Persons</u>	<u>11</u>
<u>Related Person Transactions</u>	<u>12</u>
<u>Security Ownership of Certain Beneficial Owners and Management</u>	<u>13</u>
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	<u>15</u>
<u>Executive Compensation</u>	<u>16</u>
<u>Compensation Discussion and Analysis</u>	<u>16</u>
<u>Compensation Committee Report</u>	<u>32</u>
<u>Executive Compensation Tables</u>	<u>33</u>
<u>Equity Compensation Plans</u>	<u>38</u>
<u>Potential Payments Upon Termination or Change of Control</u>	<u>39</u>
<u>Director Compensation</u>	<u>41</u>
<u>Compensation Committee Interlocks and Insider Participation</u>	<u>43</u>
<u>Proposal 1 Election of Directors</u>	<u>43</u>
<u>Proposal 2 Ratification of the Appointment of Deloitte & Touche LLP as our Independent Registered Public Accounting Firm for 2012</u>	<u>48</u>
<u>Proposal 3 Advisory Vote on Executive Compensation</u>	<u>49</u>
<u>Report of the Audit Committee</u>	<u>51</u>
<u>Independent Registered Public Accounting Firm</u>	<u>52</u>
<u>Audit Committee Preapproval Policy and Procedures</u>	<u>52</u>
<u>Stockholder Proposals for the 2013 Annual Meeting of Stockholders</u>	<u>53</u>
<u>2011 Annual Report</u>	<u>53</u>
<u>Other Matters</u>	<u>54</u>

Table of Contents

SM Energy Company

1775 Sherman Street, Suite 1200
Denver, Colorado 80203
(303) 861-8140

PROXY STATEMENT

GENERAL

Background

This Proxy Statement contains information about the 2012 Annual Meeting of Stockholders (the "Annual Meeting") of SM Energy Company to be held in the J.D. Hershner Room of Wells Fargo Bank located at 1700 Lincoln Street, Denver, Colorado, on Wednesday, May 23, 2012, at 3:30 p.m. local time. Our Board of Directors ("Board") is using this Proxy Statement to solicit proxies for use at the Annual Meeting. In this Proxy Statement, the terms "we," "us," and "our" refer to SM Energy Company, inclusive of its subsidiaries.

The proxy materials, including this Proxy Statement, a proxy card or voting instruction card, and our 2011 Annual Report to Stockholders, which consists of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011 ("2011 Annual Report"), are being distributed and made available on or about April 13, 2012. In accordance with rules and regulations adopted by the U.S. Securities and Exchange Commission (the "SEC"), we are furnishing our proxy materials to many beneficial owners of our stock via the Internet. A Notice of Internet Availability of Proxy Materials (the "Notice") will be mailed by intermediaries on or about April 13, 2012, to beneficial owners of our stock. Stockholders will have the ability to access the proxy materials on a website referred to in the Notice or request that we send them a printed set of the proxy materials by following the instructions in the Notice. The Notice will also provide instructions on how to vote your shares. The proxy materials are being mailed to all stockholders of record on or about April 13, 2012.

Purposes of the Annual Meeting

As stated in the accompanying Notice of Annual Meeting of Stockholders, at the Annual Meeting, our stockholders will be asked to vote on:

the election of eight individuals to our Board, to serve until the next annual meeting of our stockholders;

the ratification of the appointment by our Audit Committee of Deloitte & Touche LLP as our independent registered public accounting firm for 2012;

an advisory vote to approve the compensation of our named executive officers; and

the transaction of such other business that may properly come before the Annual Meeting or any adjournment(s) or postponement(s) thereof.

Each proposal is described in more detail in this Proxy Statement.

As of the date of this Proxy Statement, we are not aware of any business to come before the Annual Meeting other than the first three items noted above.

Who Can Vote

Only stockholders of record at the close of business on the record date, March 26, 2012, are entitled to receive notice of the Annual Meeting and to vote shares of our common stock held on that date. As of March 26, 2012, there were 64,149,203 shares of our common stock issued and outstanding.

Table of Contents

net of 81,067 shares held in treasury. Holders of our common stock are entitled to one vote per share and are not allowed to cumulate votes in the election of directors.

Differences Between Stockholders of Record and Street Name Holders

Most stockholders hold their shares through a bank, broker or other nominee rather than directly in their own name (that is, in "street name"). As summarized below, there are some distinctions between shares held of record and those owned in street name.

Stockholder of Record. If your shares are registered directly in your name with our transfer agent, Computershare Trust Company, Inc., you are considered, with respect to those shares, the stockholder of record. As the stockholder of record, you have the right to grant your voting proxy directly or to vote in person at the Annual Meeting.

Street Name Stockholder. If your shares are held in a brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in "street name." As the beneficial owner, you have the right to direct your broker or nominee how to vote and are also invited to attend the Annual Meeting. However, because you are not the stockholder of record, you may not vote these shares in person at the Annual Meeting unless you obtain a signed proxy from the record holder giving you the right to vote the shares.

How to Vote

Stockholder of Record. Stockholders whose shares are registered in their own name may vote via the Internet, by telephone or by mailing a completed proxy card. Instructions for voting via the Internet or by telephone are set forth on the enclosed proxy card. To vote by mailing a proxy card you must, sign, date and return the enclosed proxy card in the enclosed prepaid and addressed envelope and your shares will be voted at the Annual Meeting in the manner you direct. In the event no directions are specified, the proxies will be voted as follows:

FOR the election of the eight nominees named in this Proxy Statement under the caption "Proposal 1 Election of Directors";

FOR the ratification of the appointment by our Audit Committee of Deloitte & Touche LLP as our independent registered public accounting firm for 2012;

FOR the advisory approval of the compensation of our named executive officers; and

in the discretion of the proxy holders named on the proxy card as to any other matter that may properly come before the Annual Meeting.

Street Name Stockholder. If your shares are registered in the name of a bank, broker or other nominee and you have not elected to receive your proxy materials electronically, you may nevertheless be eligible to vote your shares via the Internet or by telephone rather than by mailing a completed voting instruction card provided by the bank, broker or other nominee. Please check the voting instruction card provided by your bank, broker or other nominee for availability and instructions. If Internet or telephone voting is unavailable from your bank, broker or other nominee, please complete and return the enclosed voting instruction card in the prepaid and addressed envelope provided.

If you hold shares in **BOTH** street name and as a stockholder of record, **YOU MUST VOTE SEPARATELY** for each set of shares.

Table of Contents

Revoking a Proxy

If you are a stockholder of record, you can revoke your proxy at any time before it is exercised by:

submitting a new proxy with a later date either signed and returned by mail or transmitted using the telephone or Internet voting procedures before the Annual Meeting;

voting in person at the Annual Meeting; however, attending the Annual Meeting without completing a ballot will not revoke any previously submitted proxy; or

filing a written revocation before the Annual Meeting with our Corporate Secretary at our principal executive offices, which are located at 1775 Sherman Street, Suite 1200, Denver, CO 80203.

If you are a street name stockholder and you vote by proxy, you may change your vote by submitting new voting instructions to your bank, broker or other nominee in accordance with your nominee's procedures.

Quorum

A quorum of stockholders is necessary to hold a valid meeting. A quorum will exist if stockholders holding one-third of our outstanding shares of common stock are present at the Annual Meeting in person or by proxy. Abstentions and broker non-votes (as described below) count as present for establishing a quorum. Shares held by us as treasury shares are not entitled to vote and do not count toward a quorum. If a quorum is not present, the Annual Meeting may be adjourned until a quorum is obtained.

Voting Requirements; Vote Treatment

If you hold your shares in "street name," you will receive instructions from your bank, broker or other nominee describing how to vote your shares. If you do not instruct your bank, broker or other nominee how to vote your shares, it may vote your shares as it decides as to each matter for it has discretionary authority under the rules of the New York Stock Exchange ("NYSE").

There are also non-discretionary matters for which banks, brokers and other nominees do not have discretionary authority to vote unless they receive timely instructions from you. When a bank, broker or other nominee does not have discretion to vote on a particular matter, you have not given timely instructions on how the bank, broker or other nominee should vote your shares, and the bank, broker or other nominee indicates it does not have authority to vote such shares on its proxy, a "broker non-vote" results. Although any broker non-vote would be counted as present at the meeting for purposes of determining a quorum, it would be treated as not entitled to vote with respect to non-discretionary matters.

Abstentions occur when stockholders are present at the Annual Meeting but fail to vote or voluntarily withhold their vote for any of the matters upon which stockholders are voting.

If your shares are held in street name and you do not give voting instructions, pursuant to Rule 452 of the NYSE, the record holder will not be permitted to vote your shares with respect to Proposal 1 (*Election of Directors*) and Proposal 3 (*Advisory Vote on Executive Compensation*), and your shares will be considered "broker non-votes" with respect to these proposals. If your shares are held in street name and you do not give voting instructions, the record holder will nevertheless be entitled to vote your shares with respect to Proposal 2 (*Ratification of Appointment of Deloitte & Touche LLP as our Independent Registered Public Accounting Firm for 2012*) in the discretion of the record holder.

Table of Contents

Proposal 1 (*Election of Directors*): Our Restated By-Laws (our "By-Laws") provide that the election of directors shall be decided by the vote of the holders of a majority of the shares present in person or by proxy at the Annual Meeting and entitled to vote. In order for a director nominee to be elected, the number of votes cast "For" the nominee must exceed the number of votes cast "Against" such nominee. Abstentions will be counted in determining the total number of shares "entitled to vote" on the election of directors and will have the same effect as a vote "Against" a director. Broker non-votes will have no effect on the outcome of the vote for directors.

Proposal 2 (*Ratification of Appointment of Deloitte & Touche LLP as Our Independent Registered Public Accounting Firm for 2012*): Ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012, requires the affirmative vote of the holders of a majority of the shares present in person or by proxy at the Annual Meeting and entitled to vote. Abstentions will be counted in determining the total number of shares "entitled to vote" on this proposal and will have the same effect as a vote "Against" the proposal.

Proposal 3 (*Advisory Vote on Executive Compensation*): Approval of this proposal requires the affirmative vote of the holders of a majority of the shares present in person or by proxy at the Annual Meeting and entitled to vote. Abstentions will be counted in determining the total number of shares "entitled to vote" on this proposal and will have the same effect as a vote "Against" the proposal. Broker non-votes will have no effect on the outcome of the vote on this proposal. While this vote is required by law, it will neither be binding on us or the Board, nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on, us or the Board. However, the Compensation Committee of our Board will take into account the outcome of the vote when considering future executive compensation decisions.

Payment of Proxy Solicitation Costs

We will pay all costs of soliciting proxies. We have retained Alliance Advisors LLC to assist in the solicitation of proxies for an estimated fee of \$8,500, plus reimbursement of reasonable out-of-pocket expenses. The solicitation may be made personally or by mail, facsimile, telephone, messenger, or via the Internet. In addition, our officers, directors, and employees may also solicit proxies in person, by telephone, or by other electronic means of communication. Such directors, officers and employees will not be additionally compensated but may be reimbursed for reasonable out-of-pocket expenses incurred in connection with such solicitation. We may reimburse brokerage firms, custodians, nominees, fiduciaries and other persons representing beneficial owners of our common stock for their reasonable out-of-pocket expenses in forwarding solicitation material to such beneficial owners.

Other Available Information

We make available through the Corporate Governance section of our website the following documents: our Corporate Governance Guidelines; our Code of Business Conduct and Ethics (the "Code"); and the charters for the Audit, Compensation, Executive, and Nominating and Corporate Governance Committees of our Board. These documents will be furnished in print to any stockholder upon request. Information on our website is not incorporated by reference into this Proxy Statement and should not be considered part of this document.

Stockholders Sharing the Same Address

We have adopted a procedure approved by the SEC called "householding." Under this procedure, stockholders of record who have the same address and last name will receive only one copy of our Notice of Internet Availability, 2011 Annual Report, and Proxy Statement until such time as one or

Table of Contents

more of these stockholders notifies us that they want to receive separate copies. This procedure reduces our printing costs and postage fees. Stockholders who participate in householding will continue to have access to and may utilize separate proxy voting instructions.

If you receive a single set of proxy materials as a result of householding and you would like to receive a separate copy of our Notice of Internet Availability, 2011 Annual Report or Proxy Statement, please submit a request to our Corporate Secretary at 1775 Sherman Street, Suite 1200, Denver, Colorado 80203 or call (303) 861-8140, and we will promptly send you what you have requested. You can also contact our Corporate Secretary at the address and phone number above if you receive multiple copies of our proxy materials and you would prefer to receive a single copy in the future, or if you would like to opt out of householding for future mailings. Beneficial owners can request information about householding from their bank, broker, or other nominee.

**IMPORTANT NOTICE REGARDING THE INTERNET AVAILABILITY OF
PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD ON MAY 23, 2012**

The Notice of Annual Meeting of Stockholders, the Proxy Statement for the 2012 Annual Meeting of Stockholders, and the 2011 Annual Report to Stockholders, which includes the Annual Report on Form 10-K for the fiscal year ended December 31, 2011, are available at [http:// www.proxyease.com/sm-energy/2012](http://www.proxyease.com/sm-energy/2012)

Table of Contents

CORPORATE GOVERNANCE

General

We are committed to sound corporate governance principles. To evidence this commitment, the Board has adopted charters for its committees, our Corporate Governance Guidelines and the Code. These documents provide the framework for our corporate governance. A complete copy of the current version of each of these documents is available on our website at www.sm-energy.com or in print, free of charge, to any stockholder who requests it by contacting our Corporate Secretary. The Board regularly reviews corporate governance developments and modifies our governance documents as appropriate.

The Code, which applies to all directors, employees and officers, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, requires that any exception to or waiver for an executive officer or director be made only by the Board and disclosed as required by law, SEC rules and regulations, and NYSE rules. Changes to, or waivers from, the Code for any of our executive officers or directors will be disclosed on our website at www.sm-energy.com within two business days after such change or waiver. To date, our Board has neither received any requests for, nor granted, waivers of the Code for any of our executive officers or directors.

Board and Committee Independence

The Board is comprised of a majority of independent directors. The Board has determined that Barbara M. Baumann, Larry W. Bickle, Stephen R. Brand, William J. Gardiner, Julio M. Quintana, John M. Seidl and William D. Sullivan are independent and do not have any material relationship with us other than as a director and stockholder. In its review of the independence of these directors, the Board considered past employment, remuneration, and any other relationship with us. In making its determination as to the independence of its members, the Board considered the independence tests described in Section 303A.02 of the Corporate Governance Standards of the NYSE's Listed Company Manual.

In making its determination as to Mr. Quintana's independence, the Board considered our relationship with Tesco Corporation ("TESCO"), which is discussed in more detail in the "Related Person Transactions" section below. In 2006, we entered into an agreement with TESCO for which Mr. Quintana serves as an employee, executive officer, and director. Under our agreement, TESCO provides certain drilling and casing technology services to us. In 2011, we paid TESCO \$1,029,665, which represented less than 1% of TESCO's total reported 2011 revenues of \$513.0 million, and as of March 31, 2012, we had paid TESCO \$172,495 for services in 2012. Mr. Quintana had no input or involvement in our selection of TESCO for these services, and our selection was based on TESCO's industry-recognized ability to supply specific high quality tools and services for drilling and casing needs, which are particularly well suited for certain of our operations.

The Audit Committee, the Compensation Committee, and the Nominating and Corporate Governance Committee ("NCG Committee") of our Board are each comprised solely of independent directors under the applicable requirements of the NYSE and SEC.

Board Leadership Structure

Since February 2007, our Board's leadership structure has separated the roles of Chief Executive Officer and Chairman of the Board. Mr. Sullivan, an independent director with over eight years' experience serving on the Board, experience serving on several other public company boards, and over 30 years of experience working with oil and gas exploration and production companies, including as an executive officer, serves as our Chairman of the Board, and Anthony J. Best serves as our Chief Executive Officer.

Table of Contents

Our Board believes that this leadership structure is optimal for us and our stockholders. The Chairman of the Board is responsible for providing leadership to the Board; facilitating communications among the directors; setting the Board meeting agenda in consultation with the Chief Executive Officer; presiding at Board meetings and Executive Committee meetings; and serving as a liaison between our management and directors.

Our Corporate Governance Guidelines allow our Board to choose whether to keep the roles of Chief Executive Officer and Chairman of our Board separate or whether to permit one person to serve in both capacities. As part of its annual self-evaluation process, our Board evaluates our leadership structure to determine whether our Board continues to believe that it provides the optimal structure for us and our stockholders at that time. While recognizing that different board leadership structures can be appropriate at different times and under different circumstances, our Board has determined that our current leadership structure is preferable, with Mr. Best serving as our Chief Executive Officer, and Mr. Sullivan serving as our Chairman of the Board.

In addition to having an independent Chairman of the Board, the Board has a separate lead independent director position, which is Mr. Bickle, who assumed such role on January 1, 2012, upon our Board's appointment of him as Chair of its NCG Committee. The lead independent director is responsible for presiding at executive sessions of non-management directors, which typically meet immediately before or after each regularly scheduled meeting of the Board or as deemed necessary. In the lead independent director's absence, the Chairman of the Board serves as lead independent director.

The Board has seven independent members and only one non-independent member, our Chief Executive Officer. A number of our independent Board members are currently serving or have served as members of senior management of other companies in the oil and gas industry and are currently serving or have served as directors of other public companies. As discussed above, our Board has three committees comprised solely of independent directors, and each has a different independent director serving as chair of the committee. The specific experiences, qualifications, attributes, and skills of each independent director, which enable him or her to effectively serve on his or her respective Board committees, are briefly described in each director nominee's biographical information below. The number of independent and experienced directors that make up our Board, the specific experiences and skills that they bring to their respective Board committees, and the overall leadership of the Board by the Chairman of the Board benefits us and our stockholders.

Communications with the Board

The Board welcomes questions or comments about our company and its operations. Interested parties and stockholders may contact the Board as a whole, non-management directors, or any one or more specified individual directors by sending a letter to the intended recipients' attention in care of SM Energy Company, Corporate Secretary, 1775 Sherman Street, Suite 1200, Denver, CO 80203. All such communications will be forwarded to the Chair of the NCG Committee, who shall facilitate the review of such communications.

Board and Committee Meetings

Our Board met 11 times during 2011. Each incumbent director participated in at least 90% of the Board meetings and 100% of his or her appointed committee meetings held during the director's tenure on the Board in 2011. It is our policy that each director is expected to attend the annual meeting of our stockholders, and each director attended the 2011 Annual Meeting of Stockholders.

Our Board has an Audit Committee, a Nominating and Corporate Governance Committee, a Compensation Committee, and an Executive Committee. Our Board and each of its committees, other than our Executive Committee, which did not meet during 2011, separately evaluated their respective

Edgar Filing: SM Energy Co - Form DEF 14A

Table of Contents

performance for 2011 and completed written evaluations. The performance evaluation process was directed by the NCG Committee and the evaluations were discussed and accepted by the Board.

The following table identifies the members of each committee, as of December 31, 2011, and sets forth the number of meetings held in 2011:

Name of Director	Audit Committee	Nominating and Corporate Governance Committee	Compensation Committee	Executive Committee
Barbara M. Baumann			X*	X
Anthony J. Best				X
Larry W. Bickle	X	X		
Stephen R. Brand		X	X	
William J. Gardiner	X*			X
Julio M. Quintana			X	
John M. Seidl	X	X*		
William D. Sullivan		X	X	X*
Number of meetings held in 2011	7	2	9	0

*

Chair

As a result of the NCG Committee's annual review of the membership of each committee of the Board, the NCG Committee recommended certain changes to the membership of the Audit Committee, the Compensation Committee and the NCG Committee. The Board approved and adopted these changes, effective as of January 1, 2012.

The following table sets forth the membership of each committee, as of January 1, 2012:

Name of Director	Audit Committee	Nominating and Corporate Governance Committee	Compensation Committee	Executive Committee
Barbara M. Baumann			X*	X
Anthony J. Best				X
Larry W. Bickle	X	X*		
Stephen R. Brand		X	X	
William J. Gardiner	X*			X
Julio M. Quintana	X	X		
John M. Seidl			X	
William D. Sullivan				X*

*

Chair

The Audit Committee assists the Board in fulfilling its oversight responsibilities over our financial reporting and internal control processes. Audit Committee members are prohibited from serving on more than three audit committees of public companies. The Audit Committee is solely responsible for the engagement and discharge of our independent registered public accounting firm and reviews our quarterly and annual financial results. The Audit Committee reviews the audit plan and the results of the audit with our independent auditors and reviews the independence of the auditors, the range of audit fees, the scope and adequacy of our system of internal accounting controls, and our financial risk management policies. The Audit Committee also has oversight responsibility for our internal audit functions and any related party transactions. The Audit Committee is currently composed of three directors, each of whom is independent as defined by the NYSE listing standards. See the "Report of the Audit Committee" contained in this Proxy Statement. While all of the Audit Committee members

Table of Contents

are considered financially literate, the Board has determined that one of the three members of the current Audit Committee, Mr. Gardiner, is an audit committee financial expert as the term is defined by the SEC. As described above, Mr. Gardiner is also independent.

The NCG Committee's primary function is to nominate individuals to be elected to the Board, to evaluate and plan for management succession, to review the structure and composition of all committees of the Board, and to oversee all of our corporate governance functions. For additional information on the functions performed by the NCG Committee, see "Director Nominations and Qualifications" below.

The Compensation Committee's primary function is to oversee the administration of our employee benefit plans and to establish and administer our compensation policies. The Compensation Committee approves and/or recommends to the Board the compensation arrangements for our senior management and directors, adoption of compensation plans in which our officers and directors are eligible to participate, and the granting of equity based compensation or other benefits under compensation plans. The "Compensation Discussion and Analysis" section of this Proxy Statement describes these responsibilities and the manner in which they are discharged.

The Executive Committee has the authority to act on behalf of the Board with respect to matters as to which it has been authorized to act by the Board, provided that such matters are not in conflict with our Certificate of Incorporation, our By-Laws or applicable laws, regulations, or rules or the listing standards of the NYSE.

There are no arrangements or understandings between any director and any other person pursuant to which that director was or is to be elected.

Risk Oversight

While the Board oversees our risk management processes, with particular focus on the most significant risks we face, management is responsible for day-to-day risk management. We believe this division of responsibilities is the most effective approach for addressing the risks we face, and that the current Board leadership structure, with Mr. Sullivan serving as our Chairman of the Board and Mr. Best serving as our Chief Executive Officer, supports this approach by facilitating communication between management and the Board regarding risk management issues. We also believe that this design places the Board in a better position to evaluate the performance of management, more efficiently facilitates communication of the views of the independent directors, and contributes to effective corporate governance.

We maintain an Enterprise Risk Management Committee comprised of our Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, General Counsel, Vice President Human Resources, and Treasurer. The committee meets quarterly to update our enterprise risk management profile (the "ERM Document"), utilizing the Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management framework, and incorporating information gathered during business strategy sessions. Risk prevention or mitigation steps are documented for the material risks identified based upon projected likelihood and impact of any occurrence of the particular risk. The ERM Document is reviewed with our Board annually.

We also maintain a Financial Risk Management Committee comprised of our Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Treasurer and Vice President Engineering and Evaluation. The committee meets quarterly and more frequently, as necessary, to discuss our interest rate and commodity hedging activities and, as appropriate, to approve additional hedges. Minutes of these meetings are recorded, and the activities of the Committee are regularly reported to the Audit Committee.

Table of Contents

The Audit Committee provides significant assistance to the Board in the oversight of our financial risk management processes. The Audit Committee reviews and discusses with management our risk assessment and risk management guidelines and policies with respect to our significant financial risk exposures, and the steps management has taken, as well as the specific guidelines and policies that have been established, to monitor, control, mitigate, and report those exposures. These reviews and discussions include a review of our oil and natural gas commodity price hedging arrangements, interest rate risk management, and insurance coverage, as appropriate. In addition, our internal auditors, who report directly to the Audit Committee with respect to internal audit matters, provide the Audit Committee and management with ongoing assessments of our risk management processes. The Audit Committee also has oversight responsibility for the integrity of our financial statements and financial reporting processes and systems of internal controls regarding finance, accounting, and compliance with legal and regulatory requirements. In addition, the Compensation Committee periodically reviews our compensation programs to ensure that they do not encourage excessive risk-taking. The Audit Committee and Compensation Committee report regularly to the full Board on their respective risk management oversight activities.

Director Nominations and Qualifications

Our Corporate Governance Guidelines and the Charter of the NCG Committee provide that the NCG Committee is responsible for identifying and recommending directors for nomination by the Board for election as members of the Board. The NCG Committee performed its evaluation and nominating functions during 2011 and early 2012. The NCG Committee selects a nominee based on the nominee's skills, achievements, and experience. As set forth in the director qualification standards included in our Corporate Governance Guidelines and reflected in the discussion below, the Board as a whole should have broad and relevant experience in high-level business policymaking and a commitment to represent the long-term interests of our stockholders. These standards also provide that each director should have experience in positions of responsibility and leadership, an understanding of our business environment, and a reputation for integrity. In addition, the Corporate Governance Guidelines provide that a director who retires or experiences a significant change in his or her professional or business responsibilities, including a change in his or her principal occupation, position or business affiliation, should, if requested by the NCG Committee, be prepared to offer his or her resignation from the Board. Upon tender of a resignation, the NCG Committee and the Board may review the continued appropriateness of Board membership under the circumstances.

Under the framework of the Corporate Governance Guidelines, the NCG Committee evaluates each potential nominee individually and in the context of the Board as a whole. The objective is to recommend individuals and a group that will effectively contribute to our long-term success and represent the interests of all of our stockholders. In determining whether to recommend a director for reelection, the NCG Committee also considers the director's past attendance at meetings and participation in and contributions to Board activities.

When seeking new director candidates, the NCG Committee considers suggestions from incumbent directors, management, stockholders, and others. The NCG Committee screens all potential candidates in the same manner regardless of the source of the recommendation. The NCG Committee has authority under its charter to retain a search firm for this purpose. If the NCG Committee believes a candidate would be a valuable addition to the Board, it recommends his or her candidacy to the Board.

Although the NCG Committee does not have a formal policy with regard to the consideration of diversity in identifying director nominees, the NCG Committee believes that the Board should reflect diversity in its broadest sense, including persons diverse in professional experiences relevant to us, skills, backgrounds, perspectives, gender, race, ethnicity, and national origin. In considering diversity in identifying director nominees, the NCG Committee considers the Board as a whole, without reference to specific representative directors, with the overall objective of establishing a group of directors that

Table of Contents

reflects diversity, that can work in a collaborative and effective manner, and that can best contribute to our long-term success. The NCG Committee believes that the current Board members and director nominees reflect our commitment to diversity. Out of a total of eight directors, we currently have one female director and one Hispanic director, each of whom has served on the Board for several years.

As noted above, the NCG Committee will consider stockholder recommendations for candidates for the Board. All stockholder recommendations must comply with the notice requirements contained in Section 4(g) of our By-Laws, which requires, among other things, detailed information concerning the stockholder making the proposal (and the beneficial owner on whose behalf the proposal is made, if any), the name and address of the stockholder and specific information concerning such stockholder's interests in our securities. In addition, the notice must include the recommended candidate's name, biographical data, qualifications, details regarding any material monetary agreements between the stockholder and the proposed nominee and a written questionnaire completed by the proposed nominee. We will furnish copies of our By-Laws to any person who requests them without charge. Requests for copies should be directed to our Corporate Secretary. For additional information about stockholder nominations, including nominations for the 2012 Annual Meeting of Stockholders, see "Stockholder Proposals for the 2012 Annual Meeting of Stockholders." No stockholder director nominations were received in connection with the Annual Meeting.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Policies and Procedures on Transactions with Related Persons

We have adopted a Related Person Transactions Policy (the "Related Person Policy"), which sets forth the policies and procedures for the Audit Committee's review of any transaction, arrangement, or relationship (including any indebtedness or guarantee of indebtedness) or series of similar transactions, arrangements, or relationships in which (a) we are a participant, (b) the aggregate amount involved will or may be expected to exceed \$120,000 per annum, and (c) a related person has or will have a direct or indirect material interest. For purposes of the Related Person Policy, a "related person" means (i) any of our directors, executive officers, or nominees for director, (ii) any stockholder that beneficially owns more than 5% of our outstanding shares of common stock, and (iii) any immediate family member of any of the foregoing. The Audit Committee approves or ratifies only those transactions that it determines in good faith are in, or are not inconsistent with, our best interests and the best interests of our stockholders.

In determining whether to approve or ratify a transaction with a related person, the Audit Committee takes into account the factors it deems appropriate, which may include, among others, the benefits to us, the availability of other sources for comparable products or services, the impact on a director's independence in the event the related person is a director, and the extent of the related person's interest in the transaction. The policy also provides for the delegation of Audit Committee authority to the Chair of the Audit Committee for any related person transaction requiring pre-approval or ratification between meetings of the Audit Committee. The Audit Committee reviews and assesses ongoing relationships with a related person on at least an annual basis to ensure that they are in compliance with the policy and remain appropriate.

In addition, our By-Laws provide that a director, officer, or employee of our company may not pursue for his or her own account a business or investment opportunity that he or she learned about through his or her affiliation with us. Our By-Laws also provide that our officers or employees may not pursue for his or her own account an oil and gas opportunity that he or she independently learned about unless (a) with respect to an officer, the officer's pursuit of the opportunity has been approved by the Board, and (b) with respect to a non-officer, the employee's pursuit of the opportunity has been approved by one of our senior officers with full knowledge of that opportunity. These restrictions do not apply to the acquisition of less than 1% of the publicly traded stock of another company.

Table of Contents

Related Person Transactions

We recognize that transactions with related persons may raise questions among stockholders regarding whether those transactions are consistent with our best interests and the best interests of our stockholders. It is our policy to enter into or ratify such transactions only when the Board, acting through the Audit Committee or as otherwise described herein, determines that the transaction in question is in, or is not inconsistent with, our best interests and the best interests of our stockholders, including but not limited to, situations where we may obtain products or services of a nature, quantity or quality, or on other terms, that are not readily available from alternate sources or when we provide products or services to related persons on an arm's length basis on terms comparable to those provided to unrelated third parties or on terms comparable to those provided to employees generally. Set forth below is a description of all transactions between our company and related persons since the beginning of January 1, 2011:

Mr. Quintana is the President, Chief Executive Officer, and a director of TESCO, which designs, manufactures, and delivers technology based solutions for the upstream energy industry, including oilfield drilling and completion technology, services, and equipment. We have an agreement with TESCO for its provision of services to us in connection with our drilling and completion operations. This agreement continues until canceled by either us or TESCO on 30 days advance written notice. Pursuant to this agreement, we are obligated to pay TESCO only for services actually performed or equipment delivered, as the case may be. This agreement does not require us to make any other payments to TESCO. Mr. Quintana does not have any direct or indirect interest in the transaction, other than as a result of serving as an executive officer and director of TESCO. Prior to 2010, the services provided by TESCO and the amounts we paid did not exceed the threshold amount for review under our Related Person Policy. In 2010, we paid TESCO \$346,683 for any services rendered. In 2011, we paid TESCO \$1,029,665 for services rendered. As of March 31, 2012, we had paid TESCO \$172,495 for services rendered during 2012. In accordance with our Related Persons Transaction Policy, based upon these amounts, the Audit Committee reviewed the relationship between us and TESCO and determined that the relationship is in our best interests and the best interests of our stockholders.

Table of Contents**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT****Common Stock**

The following table shows beneficial ownership of shares of our common stock as known by us as of March 15, 2012, by all beneficial owners of more than 5% of the outstanding shares of our common stock as of March 15, 2012, by each director, director nominee, and named executive officer, and all directors and executive officers as a group. Restricted stock units and performance share units are not included in this table as no actual shares have been issued with respect to our outstanding restricted stock units and performance share units. A supplemental table has been included later in this section describing the number of restricted stock units and performance share units owned by the individuals described below.

Name of Beneficial Owner	Shares beneficially owned, excluding options	Options exercisable within 60 days of 3/15/2012	Total shares beneficially owned ⁽¹⁾	Percent beneficially owned ⁽²⁾
Name and Address of Stockholders Owning More Than 5%				
BlackRock, Inc. ⁽³⁾ 40 East 52 nd Street New York, NY 10022	6,132,358		6,132,358	9.6%
Goldman Sachs Asset Management ⁽⁴⁾ 200 West Street New York, NY 10282	3,818,930		3,818,930	6.0%
T. Rowe Price Associates, Inc. ⁽⁵⁾ 100 East Pratt Street Baltimore, MD 21202	3,664,270		3,664,270	5.7%
Name and Position of Directors, Director Nominees and Named Executive Officers				
Barbara M. Baumann, Director	32,148	34,586	66,734	*
Larry W. Bickle, Director	105,286	34,586	139,872	*
Stephen R. Brand, Director	2,784		2,784	*
William J. Gardiner, Director	45,148	21,200	66,348	*
Julio M. Quintana, Director	26,093		26,093	*
John M. Seidl, Director	8,370		8,370	*
William D. Sullivan, Director	49,551		49,551	*
Anthony J. Best, Chief Executive Officer, President and Director	71,961		71,961	*
A. Wade Pursell, Executive Vice President and Chief Financial Officer	17,630		17,630	*
Javan D. Ottoson, Executive Vice President and Chief Operating Officer	24,858		24,858	*
David W. Copeland, Senior Vice President, General Counsel and Corporate Secretary	26,093		26,093	*
Paul M. Veatch, Senior Vice President and Regional Manager				*
All executive officers and directors as a group (18 persons, including those named above)	474,948	99,512	574,460	*

*

Less than 1%.

Table of Contents

- (1) According to SEC rules, beneficial ownership includes shares as to which the individual or entity has voting power or investment power and any shares that the individual has the right to acquire within 60 days of a date reasonably selected by us, through the exercise of any stock option or other right. We selected March 15, 2012, as the determination date.
- (2) Based on an aggregate of 64,148,874 shares of common stock outstanding as of March 15, 2012.
- (3) According to a Statement on Schedule 13G filed by BlackRock, Inc. ("BlackRock") on February 8, 2012, by reason of advisory and other relationships with persons who own shares of our common stock, BlackRock may be deemed to be the beneficial owner of a total of 6,132,358 shares, with shared voting power as to zero shares, shared dispositive power as to zero shares, and sole voting power as to 6,132,358 shares and sole dispositive power as to 6,132,358 shares.
- (4) According to a Statement on Schedule 13G filed by Goldman Sachs Asset Management ("Goldman") on February 10, 2012, by reason of advisory and other relationships with persons who own shares of our common stock, Goldman may be deemed to be the beneficial owner of a total of 3,818,930 shares, with shared voting power as to 3,818,930 shares, shared dispositive power as to 3,818,930 shares, and sole voting power as to zero shares and sole dispositive power as to zero shares.
- (5) According to a Statement on Schedule 13G filed by T. Rowe Price Associates, Inc. ("T. Rowe") on February 13, 2012, by reason of advisory and other relationships with persons who own shares of our common stock, T. Rowe may be deemed to be the beneficial owner of a total of 3,664,270 shares, with shared voting power as to zero shares, shared dispositive power as to zero shares, and sole voting power as to 828,970 shares and sole dispositive power as to 3,664,270 shares.

Restricted Stock Units and Performance Share Units

Restricted Stock Units ("RSUs") represent the right to receive shares of stock to be delivered upon settlement, subject to risk of forfeiture and cancellation. The holders of RSUs do not have voting rights, nor are they entitled to receive cash payments equal to any cash dividends and other distributions paid in cash on our common stock. The RSU awards vest pursuant to dates established by their corresponding Restricted Stock Unit Award Agreements.

We began issuing RSUs on June 30, 2004, to eligible officers and key employees following the approval of our Restricted Stock Plan by our stockholders. Grants of RSUs were made annually under the Restricted Stock Plan in 2004 and 2005. In 2006 and 2007, RSU grants were made under our stockholder approved Equity Incentive Compensation Plan (the "Equity Plan"), subject to our performance criteria. These grants were made in the first quarter immediately following each year-end. In June 2008, we issued certain transitional RSUs in connection with the cessation of the Net Profits Interest Bonus Plan ("NPP"), and on August 1, 2009, as part of our Long Term Incentive Plan ("LTIP") under the Equity Plan, we issued a percentage of that year's awards as RSUs. In both 2010 and 2011, we also issued RSUs as part of our LTIP awards. Neither the transitional RSUs nor the LTIP RSU awards were subject to performance criteria. We have also issued RSUs to Mr. Best under the terms of his employment contract.

Performance Share Units ("PSUs") represent the right to receive, upon settlement of the PSUs after the completion of a three-year performance period, a number of shares of our common stock that may be from zero to two times the number of PSUs granted on the award date, depending on the extent to which we have achieved our performance goals and the extent to which the PSUs have vested. The holders of PSUs do not have voting rights, nor are they entitled to receive cash payments equal to any cash dividends or other distributions paid in cash on our common stock.

We began granting PSUs under the Equity Plan to eligible officers and key employees on August 1, 2008.

Table of Contents

The following table shows the number of RSUs and PSUs owned by each of the directors, our named executive officers and all directors and executive officers as a group, as of March 15, 2012. The PSUs listed below represent the right to receive, upon settlement of the PSUs after the completion of the three-year performance periods ending June 30, 2012, June 30, 2013, and June 30, 2014, a number of shares of our common stock that may vary from zero to two times the number of PSUs indicated, which were granted on the respective award dates, depending on the extent to which we have achieved certain performance goals during a certain performance period and the extent to which the PSUs have vested.

	Total Restricted Stock Units	Total Performance Share Units	Total Vested Performance Share Units⁽¹⁾
Barbara M. Baumann			
Larry W. Bickle			
Stephen R. Brand			
William J. Gardiner			
Julio M. Quintana			
John M. Seidl			
William D. Sullivan			
Anthony J. Best	30,508	119,920	27,735
A. Wade Pursell	13,257	54,600	14,530
Javan D. Ottoson	15,049	65,793	17,283
David W. Copeland	7,139	3,957	
Paul M. Veatch	6,686	28,385	8,178
All executive officers and directors as a group (18 persons, including those named above)	100,336	373,400	95,456

(1) PSUs granted on August 1, 2009, vested one-seventh on August 1, 2010 and two-sevenths on August 1, 2011. PSUs granted on July 1, 2010, vested one-seventh on July 1, 2011. The amounts shown reflect the vested portion of the PSUs owned by each director, named executive officer and all directors and executive officers as a group. The actual number of shares of our common stock issued to settle the PSUs at the end of the performance period may vary from zero to two times the number of PSUs indicated, depending on the extent to which we have achieved our performance goals.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Under United States securities laws, directors, executive officers, and persons beneficially holding more than 10% of our common stock must report their initial ownership of our common stock and any subsequent changes in that ownership in reports that must be filed with the SEC and provided to us. The SEC has designated specific deadlines for these reports and we must identify in this Proxy Statement those persons who did not file these reports when due.

Based solely on a review of reports furnished to us, and written representations from our officers and directors, all directors, executive officers, and 10% owners timely filed all reports regarding transactions in our securities required to be filed for 2011 under Section 16(a) under the Exchange Act, except that Mr. Pursell inadvertently failed to timely report one transaction involving a charitable gift of 267 shares of our common stock. A Form 4 reporting Mr. Pursell's gift was filed after the error was discovered.

Table of Contents

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This section describes the compensation programs for our Chief Executive Officer, Chief Financial Officer and each of our three other most highly compensated executive officers employed at the end of the 2011 fiscal year, who we collectively refer to in this "Executive Compensation" section as our "NEOs" or "Named Executive Officers." Our NEOs for fiscal 2011 are:

Anthony J. Best, Chief Executive Officer and President;

A. Wade Pursell, Executive Vice President and Chief Financial Officer;

Javan D. Ottoson, Executive Vice President and Chief Operating Officer;

David W. Copeland, Senior Vice President, General Counsel and Corporate Secretary; and

Paul M. Veatch, Senior Vice President and Regional Manager.

Executive Summary

Our leadership and culture encourage long-term stockholder value creation, not short-term stockholder value maximization. We evaluate performance using both quantitative and qualitative factors and review not only "what" is achieved, but also "how" it is achieved. We provide what we believe to be a balanced mix of base salary, annual cash incentives through our Short Term Incentive Plan ("STIP"), and long-term equity incentives through our LTIP. Our base salary program provides a level of income that does not vary with our performance. We balance incentives tied to short-term annual performance with incentives tied to our multi-year performance. In this way, our executives are motivated to consider the impact of decisions over the short, intermediate, and long term. The performance metrics used in our annual STIP include those we believe are the key drivers of long-term stockholder value creation: production volume; proved developed reserve additions; finding and development costs; cash flow; net income; environmental, health, and safety goals; and exploration success and inventory growth. In addition, the program is not completely formulaic because the Compensation Committee has the discretion to adjust bonuses based on the "quality" of the results as well as individual performance and behavior, and has used that discretion to adjust calculated bonuses in the past.

In 2011, our strong financial and operational performance significantly advanced our goal of long-term stockholder value creation. We exceeded our STIP annual targets with respect to four out of five quantitative metrics:

we achieved 117% of our target production volume, with 169.7 BCFE produced a new Company record;

we added 372.4 BCFE to our proved developed reserves (as adjusted for performance revisions and our transition to reporting our production on a three-stream basis), or 148% of our 251.7 BCFE target a new Company record;

we exceeded our cash flow target by \$195.7 million, with total cash flow of \$865.3 million, or 129% of our \$669.6 million target a new Company record; and

we limited our finding and development costs to \$4.12 per MCFE, beating our target by 2%.

We missed, by approximately 7%, our target with respect to our fifth quantitative metric, net income, primarily due to end-of-year impairments driven by low natural gas prices, which broadly affected our industry. We viewed our performance with respect to our qualitative

metric for exploration success and inventory growth as neutral, with substantial increases in acreage acquired, but with fewer

Table of Contents

exploration tests than expected. Further, we did not achieve all of our goals for our qualitative metric pertaining to environmental, health and safety performance.

Our strong overall performance influenced the Compensation Committee to pay actual 2011 bonuses for the NEOs substantially above their target bonus amounts.

Our current LTIP uses a combination of service-vesting restricted stock units (RSUs) and performance-based share units (PSUs). We believe these types of long-term incentives appropriately balance risk and reward, because such units have both upside potential and downside risk. The performance measures used in our LTIP balance our absolute total stockholder return, as well as our total stockholder return relative to our peers, over the long-term. We have outstanding stock options, but we discontinued granting stock options to employees after December 2003 and to directors after December 2004. We believe that long-term incentive programs that overemphasize stock options could contribute to both risk-taking and a disproportionate focus on short-term share price increases, especially if stock options become "underwater" (i.e., the option exercise price is above the then current share price). Underwater options could arguably encourage executives to take risks in attempts to increase share price; in such cases, options have upside opportunity, but no downside risk.

Our executive compensation program incorporates the following:

The majority of our executive compensation is variable and linked to meeting our short-term and long-term financial and strategic goals and to creation of long-term stockholder value.

Executives receive a significant portion of their compensation in the form of equity and are subject to meaningful stock ownership guidelines to further align their interests with those of our long-term stockholders.

The Compensation Committee annually reviews an analysis of our incentive compensation plans prepared by the Compensation Committee's compensation consultant, to ensure they are designed appropriately and do not encourage excessive risk taking.

We do not have severance packages that mitigate consequences of poor performance. With the exception of our Chief Executive Officer, Mr. Best, we typically do not provide severance benefits in the event of termination without cause not related to a change of control. Mr. Best receives severance benefits only in the event of a termination without cause and such benefits are reasonable compared to current industry practice. All executive severance benefits related to a change of control require a "double-trigger," meaning they require first that a qualifying change of control event has occurred, and second that the executive has been involuntarily or constructively terminated. We do not provide golden parachute excise tax "gross-ups."

With the exception of a supplemental executive retirement plan (the "SERP"), which is intended to provide benefits similar to those received by all employees but with respect to income above the Internal Revenue Code ("IRC") limit, the benefits provided to the NEOs are the same as those provided to all employees. Supplemental executive benefits, including disability and life insurance, were discontinued in July 2010.

Stockholder Advisory Voting on Compensation

On May 25, 2011, we held our 2011 Annual Meeting of Stockholders. At that meeting, our stockholders were provided the opportunity to cast non-binding advisory votes on (a) the compensation of our NEOs, and (b) the frequency with which our stockholders should be provided the opportunity to vote on the compensation of our NEOs in the future. Over 99% of votes cast by stockholders at the meeting were voted to approve the compensation of our NEOs, following the recommendation of our Board, and approximately 67% of votes cast were voted in favor of a one-year frequency for future advisory votes on compensation. Consistent with these results, our Compensation Committee applied a

Table of Contents

similar compensation philosophy when setting 2012 executive compensation and our Board determined to conduct annual advisory votes on compensation in the future.

Objectives of Executive Compensation Program

Our overall executive compensation program is designed to promote superior returns for our stockholders through the preservation, development and growth of our oil, natural gas and natural gas liquid assets. The objectives of our executive compensation program are to:

1. Provide competitive total compensation opportunities that allow us to attract, retain, compensate, and motivate talented management.

Our pay philosophy is to target overall compensation opportunities at levels competitive with equivalent positions at companies with which we may compete for talent. In general, our compensation program corresponds to the median of our industry peer group (see "Compensation Determination Process" for further detail). Actual compensation earned by a particular individual may be above or below the target level based on company and individual performance measured against the established metrics of our incentive compensation programs.

2. Link compensation earned to the achievement of our short-term and long-term financial and strategic objectives.

We believe that the proportion of total compensation that is performance-based, and therefore "at risk," should increase with an individual's level of responsibility. Our compensation system is designed to provide the appropriate level of balance between fixed and variable compensation, cash and equity compensation, and short-term and long-term incentives. To this end, our STIP rewards annual operating and financial performance in terms of quantitative measures of cash flow, net income, production volume, proved reserve growth, finding and development costs, and discretionary qualitative measures of environmental, health, and safety and exploration success and inventory growth (see "Elements of Compensation Short-Term Incentive Plan"). Our LTIP rewards total stockholder return, both on an absolute basis and relative to an index of peer exploration and production companies (see "Elements of Compensation Long-Term Incentive Plan").

3. Align performance incentives with the long-term interests of our stockholders.

Alignment of long-term interests between stockholders and management is achieved by paying a substantial portion of total compensation in the form of equity-based incentives and through stock ownership guidelines that encourage executives to have a meaningful ownership stake over their tenure. In addition, the metrics used for our STIP include those we believe drive long-term value creation, while realized compensation under our LTIP is aligned with absolute and relative returns realized by our stockholders.

4. Ensure programs are cost-effective and financially efficient.

As part of the process of approving new programs, changes to existing programs, and awards under our programs (e.g., salary increases, bonus payments, and equity compensation grants), our Compensation Committee evaluates numerous relevant considerations, including the financial impact of such compensation, expected accounting treatment, potential stockholder dilution, and the impact on our financial results. The Compensation Committee strives for the development of programs that are affordable, that are designed in the most financially efficient manner possible, and that satisfy our other objectives.

In addition, we make reasonable efforts to maximize the tax deductibility of all elements of compensation. Under Section 162(m) of the IRC, compensation in excess of \$1.0 million per

Table of Contents

year paid to certain of our NEOs is not tax deductible unless certain requirements are met, including that the compensation is "performance-based" as defined in Section 162(m). Our STIP and LTIP are administered so that compensation awarded and paid to our NEOs is intended to be "performance-based" under Section 162(m) and therefore fully tax-deductible; however, the Compensation Committee reserves the right to provide compensation that does not meet Section 162(m) deductibility requirements.

5.

Uphold high standards of good corporate governance and strive to achieve evolving best practices. The Compensation Committee, with the assistance of management and the Compensation Committee's independent compensation consultant, Frederic W. Cook & Co., Inc. ("F. W. Cook"), stays abreast of current and developing corporate governance standards and industry trends with respect to executive compensation and makes changes to our programs, as it deems appropriate, to reflect best practices and/or new legislation.

Compensation Determination Process

Responsibilities of the Compensation Committee

Our executive compensation is determined by our Board and our Compensation Committee, as discussed below. The Compensation Committee is comprised of three independent directors and operates under the framework of a formal charter. Members of the Compensation Committee are appointed by the Board for, among other things, the purposes of:

overseeing the administration of our employee compensation and benefit plans;

reviewing and approving our general compensation strategy and objectives;

reviewing and recommending to the Board for its approval our compensation plans, policies and programs;

reviewing the performance and approving the compensation of our Chief Executive Officer;

reviewing and approving the base salary compensation for our executive officers other than our Chief Executive Officer; and

reviewing and approving the STIP and LTIP awards to our executive officers.

In 2011, the Compensation Committee met nine times to review and administer the matters noted above and other related matters.

Independence of the Compensation Committee

Based upon the independence tests set forth in Section 303A.02 of the Corporate Governance Standards of the NYSE Listed Company Manual, the members of the Compensation Committee are independent.

Independent Compensation Consultants

Since 2007, the Compensation Committee has engaged F. W. Cook as its independent executive compensation consultant. F. W. Cook reports directly to the Compensation Committee and the Compensation Committee may replace F. W. Cook or hire additional consultants or other advisors as it deems necessary. A principal of F. W. Cook attends Compensation Committee meetings, as requested, and communicates with the Compensation Committee between meetings. The services F. W. Cook provides include advising the Compensation Committee on the design of our executive compensation programs and the evolving best practices related thereto, providing market information and analysis

Table of Contents

regarding the competitiveness of our executive compensation opportunities, compensation risk assessments and equity compensation practices of our peers. To facilitate the delivery of these services to the Compensation Committee, F. W. Cook interfaces with our management, in particular the Vice President Human Resources. F. W. Cook does not provide directly, or indirectly through affiliates, any non-executive compensation services, such as pension consulting or human resource outsourcing, to us or any other clients. The total consulting fees we pay to F. W. Cook are less than 1% of the total annual revenues of F. W. Cook, and F. W. Cook consultants working with us are prohibited from owning any of our shares of common stock directly, although such shares may be owned within mutual funds. In addition, no officer, director, stockholder or employee of F. W. Cook has any known personal relationship with any of our officers, directors, stockholders or employees that would present a potential conflict to their independence. F. W. Cook has agreed to advise the Compensation Committee if any potential conflict of interest arises that could cause F. W. Cook's independence to be questioned and not to undertake any project for our management, except at the request of the Compensation Committee and as agent for the Compensation Committee. In 2011, F. W. Cook did not provide any services to us other than those requested by the Compensation Committee and related to F. W. Cook's engagement as the independent consultant to the Compensation Committee.

Compensation Risk Assessment

Each year, the Compensation Committee performs a compensation risk assessment. In 2010 and again in 2011, the Compensation Committee has determined that risks arising from our compensation policies and practices for our employees are not reasonably likely to have a material adverse effect on us. The Compensation Committee conducts an annual review and evaluation of our compensation policies and practices for all employees to determine whether and to what extent, if any, our policies and practices of compensating our employees could result in risk taking incentives, and whether risks arising from our compensation policies and practices for our employees are reasonably likely to have a material adverse effect on us. In its most recent review and evaluation, the Compensation Committee considered a compensation risk assessment performed by F.W. Cook, in addition to its annual review of our compensation policies and practices. F.W. Cook and the Compensation Committee determined that our compensation policies and practices do not encourage behaviors that would create a material risk to us.

Role of Management in Determination Process

Under the oversight of our Chief Executive Officer and Vice President Human Resources, management provides recommendations to the Compensation Committee on matters of compensation philosophy and plan design. Our Chief Executive Officer provides recommendations for pay levels for executives other than himself based on competitive market data, internal fairness between executives, past performance, and future potential. Our Human Resources department supports management and the Compensation Committee by providing information on historical compensation levels, employee evaluations, analyzing comparative industry data, and interfacing with F. W. Cook. While members of the management team attend Compensation Committee meetings, they are not generally present during executive sessions, and individual members of the management team are never present during discussions of their respective compensation. The Compensation Committee and the Board, as required under the Compensation Committee's charter, make all final decisions with respect to compensation of our executive officers.

Comparative Peer Group

One of the objectives of our executive compensation program is to ensure that total compensation opportunities provided to our executive officers are competitive with the companies against which we compete for business opportunities, investment dollars, and executive talent. Criteria for selection of

Table of Contents

peer companies include standard measures such as revenues, assets, number of employees, and enterprise value, as well as several industry-specific criteria such as annual production volume, fiscal year-end reserves, total costs incurred in oil and gas activities, and the magnitude of each company's offshore and non-U.S.-based operations. Based upon these criteria, F. W. Cook, with input from the Compensation Committee, develops a peer group for us that includes the 15-20 companies that best fit the established selection criteria, without reviewing individual company salary data, and excludes companies from a peer group for a prior year that no longer satisfies one or more of F.W. Cook's selection criteria. The peer group used for 2011 compensation comparisons was approved in July 2010 and consisted of the following companies:

Berry Petroleum Company	Forest Oil Corporation
Bill Barrett Corporation	Penn Virginia Corporation
Cabot Oil & Gas Corporation	Quicksilver Resources Inc.
Cimarex Energy Company	Range Resources Corporation
Comstock Resources, Inc.	Stone Energy Corporation
Concho Resources Inc.	Swift Energy Company
Continental Resources, Inc.	Ultra Petroleum Corp.
Denbury Resources Incorporated	Whiting Petroleum Corporation
EXCO Resources, Incorporated	

This peer group includes fourteen of the companies included in our 2010 peer group, plus three additional companies: Comstock Resources, Inc., Range Resources Corporation, and Stone Energy Corporation. Companies in the 2010 peer group excluded from the 2011 peer group were: Encore Acquisition Company and Petrohawk Energy Corporation.

In May 2011, F.W. Cook conducted an analysis of competitive pay levels for the executive officers named in the most recently filed proxy statements of the peer group companies versus corresponding positions at our company. Competitive data generally reflected actual amounts paid for 2010 performance, although some information was available on 2011 target compensation levels. Findings from this analysis indicated that base salaries for our NEOs generally approximated the median of the peer group. Target annual cash compensation (base salary plus target annual bonus) was near the 25th percentile for Messrs. Best, Ottoson, and Pursell, and between the 25th percentile and median for other named executives. Target total direct compensation (base salary, plus target bonus, plus long-term incentive compensation) was near the 25th percentile for Mr. Best and approximated the peer group median for the other NEOs. This analysis excluded amounts paid in connection with our NPP because those amounts are earned compensation from prior years' grants.

Elements of Compensation

The principal components of our executive compensation program and the purpose of each component are summarized in the following table. Our executive compensation program is comprised

Table of Contents

of the same components as the compensation program for other employees. The only material differences are the target pay levels and the proportion of each component.

Compensation Element	Description	Purpose
<i>Base Salary</i>	Fixed cash compensation, targeted at 50 th percentile of survey and peer group data for employees meeting all performance expectations	Provide an appropriate level of cash compensation necessary to attract and retain employees; and recognize skills, competencies, experience, and individual contributions
<i>STIP</i>	Annual cash incentive opportunity with ultimate award dependent upon our annual performance in key metrics	Drive and incentivize superior annual performance at company, regional, and individual levels
<i>LTIP</i>	Equity-based compensation opportunity with ultimate award dependent upon our long-term performance in total stockholder return on an absolute basis and relative to a peer group	Drive stockholder value creation; align management interests with those of stockholders, encourage retention; and reward long-term company performance
<i>Employee Stock Purchase Plan</i>	Enables employees to purchase and hold shares of our common stock at a 15% discount of the fair market value at the beginning or end of the offering period	Facilitate share ownership among employees for the purposes of aligning employees' interests with those of stockholders
<i>Qualified Retirement Plans</i>	Includes qualified defined benefit pension plan and 401(k) plan with company match	Attract and retain employees; encourage retention; and support succession planning objectives by ensuring sufficiency of retirement replacement income
<i>Supplemental Retirement Plan</i>	Provides benefits under qualified pension plan formula on earnings above the IRC limits for the qualified plan (\$245,000 for 2011)	Attract and retain executives; encourage retention; and support succession planning objectives by ensuring sufficiency of retirement replacement income
<i>Benefits and Perquisites</i>	Medical, dental, life, wellness, and disability insurance	Attract and retain highly qualified employees; and support the overall health and wellbeing of all employees

Table of Contents

Target Competitive Positioning

Our pay philosophy is for each executive's target compensation opportunity to approximate market medians in total compensation and across individual compensation elements. Actual pay and award value may be higher or lower than target, based on performance results and changes in our performance, including our share price.

Total Direct Compensation Mix

The charts below show the 2011 target total direct compensation mix for our Chief Executive Officer and other NEOs. As the charts illustrate, 88% and 79% of total target compensation for our Chief Executive Officer and other NEOs, respectively, is attributable to the performance-based STIP and LTIP, and thus is variable and tied to performance (i.e., "at risk").

CEO

Other NEOs

Base Salary

Base salary is intended to provide a foundation of executive compensation that recognizes the level of responsibility and authority of each individual executive and compensates for the individual executive's day to day contributions to our success. Based on competitive market data, individual performance and potential, internal equity considerations, and input from the Chief Executive Officer (for executives other than himself), the Compensation Committee approved the following salary adjustments on March 31, 2011, effective April 3, 2011, for the NEOs:

Name	2010 Salary	2011 Salary	% Change	2011 Salary % +/- 2010 Peer Group Median
Best	\$ 550,000	\$ 580,000	5.45%	-6%
Ottoson	\$ 366,000	\$ 385,000	5.19%	-6%
Pursell	\$ 325,000	\$ 338,000	4.00%	0%
Copeland		\$ 310,000		4%
Veatch	\$ 250,000	\$ 260,000	4.00%	-9%

The salary increases approved in 2011 were based on the Compensation Committee's decision that our executive officers' individual performances, corporate performance, industry inflation, and the competitive aspects of the oil and gas industry justified the increases with individual adjustments

Table of Contents

determined with reference to respective comparative industry data by position and our goal of paying at or near the median.

Short-Term Incentive Plan

The STIP is designed to reward executives for their achievement of our annual business plan measured by certain performance objectives. These performance objectives are reviewed each year by management and the Compensation Committee, and after the approval of these objectives, are published as annual goals. These goals may be adjusted from time to time during the year due to significant changes in our business in the discretion of the Compensation Committee. For example, due to the transition in 2011 from reporting our production on a two-stream basis (oil and gas) to reporting our production on a three-stream basis (oil, gas and natural gas liquids), the Compensation Committee adjusted the goals for production volume, proved developed reserves and finding and development costs. Payments under the STIP are in the form of annual cash bonuses under our Cash Bonus Plan, which was approved by our stockholders in May 2008.

Each STIP participant is assigned a target bonus as a percentage of base salary, based on the pay level that the Compensation Committee deems to be competitive and appropriate assuming all of our performance goals are achieved at the "target" level. Actual bonuses may range from 0 to 2 times the target level based on the Compensation Committee's assessment of our performance and that of each of our executive officers. Target bonuses for 2011 as percentages of base salary for the NEOs were the same as in 2010 and were as follows:

	2011 Target Bonus Level, % of base salary	Maximum % of base salary
Chief Executive Officer and President	100%	200%
Executive Vice President and Chief Operating Officer	90%	180%
Executive Vice President and Chief Financial Officer	80%	160%
Senior Vice President and General Counsel	70%	140%
Senior Vice President and Regional Manager	70%	140%
&		