

SM Energy Co
Form DEF 14A
April 11, 2013

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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)

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April 11, 2013

Dear Stockholder:

You are cordially invited to attend the 2013 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 22, 2013, at 3:30 p.m. local time.

At the Annual Meeting, you and other stockholders of record on March 25, 2013, will vote on:

the election of nine 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 Ernst & Young LLP, as our independent registered public accounting firm for 2013;

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

the approval of an amendment and restatement of our Equity Incentive Compensation Plan, including an increase in the stated total number of shares authorized for issuance under this plan from 7,600,000 shares to 10,700,000 shares; and

the reapproval of our Cash Bonus Plan by stockholders to ensure that incentive compensation paid under this plan can be eligible for the "performance-based compensation" exemption from the limits on tax deductibility imposed by Section 162(m) of the Internal Revenue Code.

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 2012 Annual Report to Stockholders, which includes our Annual Report on Form 10-K for the fiscal year ended December 31, 2012, 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 common 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 2012 Annual Report to Stockholders. The Notice contains instructions concerning how to access those documents via the Internet. The Notice also contains instructions concerning how to request a paper copy of our proxy materials, including the accompanying Proxy Statement, our 2012 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 in 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.

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Only stockholders of record, holders of our shares of common stock in street name and our guests will be permitted to attend the 2013 Annual Meeting. If you are a stockholder of record, you will need to bring with you to the meeting either the Notice of Internet Availability of Proxy Materials or any proxy card that is sent to you. Otherwise, you will be admitted only upon other verification of record ownership at the admission counter. If you own shares held in street name, you will need to bring the Notice of Internet Availability of Proxy Materials, any voting instruction form that is sent to you, or your most recent brokerage statement or a letter from your bank, broker, or other record holder indicating that you beneficially owned shares of our common stock on March 25, 2013. We can use that to verify your beneficial ownership of our common stock and admit you to the meeting. If you intend to vote at the meeting, you also will need to bring to the meeting a legal proxy from your bank, broker, or other holder of record that authorizes you to vote the shares that the record holder holds for you in its name.

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

Very truly yours,

Anthony J. Best
Chief Executive Officer

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SM Energy Company

1775 Sherman Street, Suite 1200
Denver, Colorado 80203

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
TO BE HELD
WEDNESDAY, MAY 22, 2013**

To All Stockholders:

The 2013 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 22, 2013, at 3:30 p.m. local time. The purposes of the Annual Meeting are to:

1. elect nine 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 Ernst & Young LLP, as our independent registered public accounting firm for 2013;
3. hold an advisory vote to approve the compensation of our named executive officers;
4. approve an amendment and restatement of our Equity Incentive Compensation Plan, including an increase in the stated total number of shares authorized for issuance under this plan from 7,600,000 shares to 10,700,000 shares;
5. reapprove our Cash Bonus Plan by stockholders to ensure that incentive compensation paid under this plan can be eligible for the "performance-based compensation" exemption from the limits on tax deductibility imposed by Section 162(m) of the Internal Revenue Code; and
6. 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 25, 2013, may vote at the Annual Meeting.

Only stockholders of record, holders of our shares of common stock in street name and our guests will be permitted to attend the 2013 Annual Meeting. If you are a stockholder of record, you will need to bring with you to the meeting either the Notice of Internet Availability of Proxy Materials or any proxy card that is sent to you. Otherwise, you will be admitted only upon other verification of record ownership at the admission counter. If you own shares held in street name, you will need to bring the Notice of Internet Availability of Proxy Materials, any voting instruction form that is sent to you, or your most recent brokerage statement or a letter from your bank, broker, or other record holder indicating that you beneficially owned shares of our common stock on March 25, 2013. We can use that to verify your beneficial ownership of our common stock and admit you to the meeting. If you intend to vote at the meeting, you also will need to bring to the meeting a legal proxy from your bank, broker, or other holder of record that authorizes you to vote the shares that the record holder holds for you in its name.

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,

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David W. Copeland

Executive Vice President, General Counsel and Corporate Secretary

Denver, Colorado
April 11, 2013

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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 2013 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 22, 2013, 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 and at any adjournment(s) or postponement(s) thereof. 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 2012 Annual Report to Stockholders, which includes our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 ("2012 Annual Report"), are being distributed and made available on or about April 12, 2013. In accordance with rules and regulations adopted by the United States 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 12, 2013, to beneficial owners of our common 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, as of close of business on March 25, 2013, on or about April 12, 2013.

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

the ratification of the appointment by our Audit Committee of Ernst & Young LLP, as our independent registered public accounting firm for 2013;

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

the approval of an amendment and restatement of our Equity Incentive Compensation Plan, including an increase in the stated total number of shares authorized for issuance under this plan from 7,600,000 shares to 10,700,000 shares;

the reapproval of our Cash Bonus Plan by stockholders to ensure that incentive compensation paid under this plan can be eligible for the "performance-based compensation" exemption from the limits on tax deductibility imposed by Section 162(m) of the Internal Revenue Code; 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.

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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 five items noted above.

Who Can Vote

Only stockholders of record at the close of business on the record date, March 25, 2013, are entitled to receive notice of the Annual Meeting and to vote shares of our common stock held on that date. As of March 25, 2013, there were 66,229,168 shares of our common stock issued and outstanding, net of 50,581 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 (that is, in "street name") rather than directly in their own 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 nine 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 Ernst & Young LLP as our independent registered public accounting firm for 2013;

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

FOR the approval of an amendment and restatement of our Equity Incentive Compensation Plan, including an increase in the stated total number of shares authorized for issuance under this plan from 7,600,000 shares to 10,700,000 shares;

FOR the reapproval of our Cash Bonus Plan by stockholders to ensure that incentive compensation paid under this plan can be eligible for the "performance-based compensation" exemption from the limits on tax deductibility imposed by Section 162(m) of the Internal Revenue Code; and

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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, or any adjournment(s) or postponement(s) thereof.

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 your 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.

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 which 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.

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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*), Proposal 3 (*Advisory Vote on Executive Compensation*), Proposal 4 (*Approval of Amendment and Restatement of our Equity Incentive Compensation Plan*) and Proposal 5 (*Reapproval of Cash Bonus Plan*); 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 Ernst & Young LLP as our Independent Registered Public Accounting Firm for 2013*) in the discretion of the record holder.

Proposal 1 (*Election of Directors*): Our Amended and 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 Ernst & Young LLP as Our Independent Registered Public Accounting Firm for 2013*): Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2013, 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 nor 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.

Proposal 4 (*Approval of Amendment and Restatement of our Equity Incentive Compensation Plan*): Under New York Stock Exchange ("NYSE") rules and regulations promulgated under Section 162(m) of the Internal Revenue Code ("IRC"), the approval of the amendment and restatement of our Equity Incentive Compensation Plan, including an increase to the number of shares authorized for issuance under this plan requires the affirmative vote of a majority of the votes cast on the amendment, and the NYSE rules require that the total votes cast represent over 50 percent of all shares entitled to vote. Abstentions will have the effect of votes against approval of the amendment. Broker non-votes will have no effect on the outcome of the vote on this proposal.

Proposal 5 (*Reapproval of Our Cash Bonus Plan*): Under regulations promulgated under Section 162(m) of the IRC ("Section 162(m)"), the reapproval of our Cash Bonus Plan requires the affirmative vote of a majority of the votes cast on our Cash Bonus Plan. Abstentions will

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have the effect of votes against reapproval of our Cash Bonus Plan. Broker non-votes will have no effect on the outcome of the vote on this proposal.

Payment of Proxy Solicitation Costs

We will pay all costs of soliciting proxies. We have retained The Proxy Advisory Group, LLC to assist us in the preparation of this Proxy Statement and the solicitation of proxies for total fees of \$23,500, and Alliance Advisors LLC to assist us in the coordination and mailing of proxy materials for total estimated fees 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 Financial Code of Ethics (the "Financial Code"); our Code of Business Conduct and Conflict of Interest Policy (the "Code"); and the Charters of 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, 2012 Annual Report, and Proxy Statement until such time as one or 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, 2012 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 such to you. You may 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 22, 2013**

The Notice of Annual Meeting of Stockholders, the Proxy Statement for the 2013 Annual Meeting of Stockholders, and the 2012 Annual Report to Stockholders, which includes the Annual Report on Form 10-K for the fiscal year ended December 31, 2012, are available at <http://viewproxy.com/sm-energy/2013/>.

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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, the Financial Code and the Code. These documents provide the framework for our corporate governance. A complete copy 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 Financial Code, which applies to our principal executive officer, principal financial officer and principal accounting officer or controller, as well as persons performing similar functions and other officers and employees identified by our Chief Financial Officer, requires that any exception to or waiver for an executive officer subject to the Financial Code be made only by the Audit Committee of the Board and disclosed as required by law, SEC rules and regulations, and NYSE rules. Changes to, or waivers from, the Financial Code for any of our executive officers subject to the Financial Code will be disclosed on our website at www.sm-energy.com within two business days after such change or waiver. To date, the Audit Committee of our Board has not granted waivers of the Financial Code for any of our executive officers subject to the Financial Code.

Board and Committee Independence

The Board is comprised of a majority of independent directors, two of which, Stephen R. Brand and Loren M. Leiker, joined the Board in the last two years. The Board has determined that Barbara M. Baumann, Larry W. Bickle, Stephen R. Brand, William J. Gardiner, Loren M. Leiker, 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, based on Tesco's industry-recognized ability to supply specific high quality equipment and services for drilling and casing needs, which are particularly well suited for certain of our operations. Under our agreement, Tesco from time to time upon our request, provides equipment or services to us. In 2012, we paid Tesco \$600,265 which represented less than 1% of Tesco's total reported 2012 revenues of \$553 million, and, as of March 31, 2013, we had paid Tesco \$350,517 for equipment and services in 2013. Mr. Quintana had no input in our selection of Tesco for any equipment or services, or the terms of our agreement with Tesco. Decisions to use Tesco are made by technical professionals supervising the relevant regional activity, based on their assessment of Tesco's products and services and related costs in comparison to other providers. The amount we paid Tesco during 2012 for equipment and services represented approximately 6% of the total amount we paid to all service providers (including Tesco) for similar equipment and services during 2012.

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.

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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 serving on our Board since 2004, has 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. Anthony J. Best serves as our Chief Executive Officer.

Our Board believes that, at this time, 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. Dr. Bickle assumed that 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 routinely meet immediately before or after each regularly scheduled meeting of the Board or as otherwise deemed necessary. In the lead independent director's absence, the Chairman of the Board serves as lead independent director.

The Board has eight 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. Interested parties and stockholders may contact the Board as a whole, only the 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 provided to the Chair of the NCG Committee, who shall facilitate the review of such communications.

Table of Contents**Board and Committee Meetings**

Our Board met eight times during 2012 and our non-management directors met six times in 2012. Each incumbent director participated in at least 75% of the Board meetings and 100% of his or her appointed committee meetings held during the director's tenure on the Board in 2012. It is our policy that each director is expected to attend the annual meeting of our stockholders, and each director then serving on the Board attended the 2012 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 separately evaluated their respective performance for 2012, and the Audit Committee, Compensation Committee and NCG Committee each completed written evaluations. The Executive Committee did not complete a written evaluation due to its unique purpose and infrequent meeting schedule. 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, 2012, and sets forth the number of meetings held in 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
Loren M. Leiker	X	X		
Julio M. Quintana	X	X		
John M. Seidl			X	
William D. Sullivan				X*
Number of meetings held in 2012	9	4	9	1

*

Chair

The Audit Committee assists the Board in fulfilling its oversight responsibilities over our financial reporting and internal control processes. Pursuant to our Audit Committee charter, our Audit Committee members are prohibited from serving on more than three audit committees of public companies (one of which is SM Energy Company), and no Audit Committee member currently serves on more than two of such committees. 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 four 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 are considered financially literate, the Board has determined that two members of the current Audit Committee, Dr. Bickle and Mr. Gardiner, are audit committee financial experts as the term is defined by the SEC. As described above, Dr. Bickle and Mr. Gardiner are also independent.

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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 establish and administer our compensation policies and oversee the administration of our employee benefit plans. 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 have an Enterprise Risk Management Committee comprised of our Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, General Counsel, Senior Vice President Human Resources, and Treasurer. The committee meets quarterly to update our enterprise risk management profile (the "ERM Plan"), utilizing the Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management framework, and incorporating information gathered during the business strategy sessions. Minutes of these meetings are kept, and the activities of the committee are regularly reported to the Audit Committee and the Board. 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 Plan is reviewed with our Board annually.

We also have a Financial Risk Management Committee comprised of our Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Senior Vice President Portfolio Development and Technical Services, Treasurer and Vice President Engineering, Evaluation and A&D. 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 kept, and the activities of the committee are regularly reported to the Audit Committee.

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

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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, natural gas and natural gas liquids 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 2012 and early 2013. 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, our 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. In accordance with our Corporate Governance Guidelines, each director has signed and delivered to the Board a resignation letter that is contingent upon (i) his or her failure to receive, in accordance with our By-Laws, the affirmative vote of the holders of a majority of the shares of capital stock in an election of directors at the 2013 Annual Meeting of Stockholders; and (ii) acceptance of his or her resignation by the Board in accordance with the policies and procedures adopted by the Board for such purpose.

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 re-election, 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, but did not retain such a firm during 2012 when Mr. Leiker joined our Board, due to his specific abilities, widely known reputation in our industry and long tenure with his prior employer, a recognized leader in our industry. If the NCG Committee believes a candidate would be a valuable addition to the Board, it recommends his or her candidacy to the Board.

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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 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 nine 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 2014 Annual Meeting of Stockholders, see "Stockholder Proposals for the 2014 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 Policy and Procedures with Respect to Related Person Transactions (the "Related Person Transactions 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 our Related Person Transactions 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

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through his or her affiliation with us. These restrictions do not apply to the acquisition of less than 1% of the publicly traded stock of another company.

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. Such transactions include, but are 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 obtain products or services from, or provide products or services to, related persons on an arm's length basis on terms comparable to those obtained from or provided to unrelated third parties or on terms comparable to those obtained from or provided to employees generally. The only transaction between our company and a related person since January 1, 2012, is our relationship with Tesco, which was referenced above. 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 equipment and 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 provided, as the case may be, as requested by us from time to time. This agreement does not require us to make any other payments to Tesco, nor does it obligate us to use Tesco for any services or equipment. 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. Mr. Quintana had no input in our selection of Tesco for equipment and services or the terms of our agreement with Tesco. Decisions to use Tesco are made by technical professionals supervising the relevant regional activity, based on their assessment of Tesco's equipment and services and related costs in comparison to other providers. In 2012, we paid Tesco \$600,265. The amount we paid Tesco during 2012 for equipment and services represented approximately 6% of the total amount paid by us to all service providers (including Tesco) for similar equipment and services during 2012. As of March 31, 2013, we had paid Tesco \$350,517 for equipment and services rendered during 2013. In accordance with our Related Person Transactions Policy, 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, 2013, by all beneficial owners of more than 5% of the outstanding shares of our common stock as of March 15, 2013, 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 3/15/2013	Total shares beneficially owned ⁽¹⁾	Percent beneficially owned ⁽²⁾
Name and Address of Stockholders Owning More Than 5%				
T. Rowe Price Associates, Inc. ⁽³⁾ 100 East Pratt Street Baltimore, MD 21202	8,658,950		8,658,950	13.1%
BlackRock, Inc. ⁽⁴⁾ 40 East 52 nd Street New York, NY 10022	6,923,952		6,923,952	10.5%
Steven A. Cohen ⁽⁵⁾ 72 Cummings Point Road Stamford, CT 06902	3,434,958		3,434,958	5.2%
Name and Position of Directors, Director Nominees and Named Executive Officers				
Barbara M. Baumann, Director	36,024	21,200	57,224	*
Larry W. Bickle, Director	115,856	21,200	137,056	*
Stephen R. Brand, Director	5,668		5,668	*
William J. Gardiner, Director	49,024	21,200	70,224	*
Loren M. Leiker, Director	3,986		3,986	*
Julio M. Quintana, Director	29,969		29,969	*
John M. Seidl, Director	11,254		11,254	*
William D. Sullivan, Director	54,779		54,779	*
Anthony J. Best, Chief Executive Officer and Director	143,081		143,081	*
Javan D. Ottoson, President and Chief Operating Officer	71,187		71,187	*
A. Wade Pursell, Executive Vice President and Chief Financial Officer	52,008		52,008	*
David W. Copeland, Executive Vice President, General Counsel and Corporate Secretary	38,564		38,564	*
Herbert S. Vogel, Senior Vice President Portfolio Development and Technical Services	732		732	*
All executive officers and directors as a group (21 persons, including those named above)	848,726	63,600	912,326	1.4%

*

Less than 1%.

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- (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, 2013, as the determination date.
- (2) Based on an aggregate of 66,229,168 shares of common stock outstanding as of March 15, 2013.
- (3) According to a Statement on Schedule 13G filed by T. Rowe Price Associates, Inc. ("T. Rowe") on February 6, 2013, 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 8,658,950 shares, with shared voting power as to zero shares, shared dispositive power as to zero shares, and sole voting power as to 1,993,250 shares and sole dispositive power as to 8,658,950 shares.
- (4) According to a Statement on Schedule 13G filed by BlackRock, Inc. ("BlackRock") on January 11, 2013, 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 6,923,952 shares, with shared voting power as to zero shares, shared dispositive power as to zero shares, and sole voting power as to 6,923,952 shares and sole dispositive power as to 6,923,952 shares.
- (5) According to a Statement on Schedule 13G filed by Steven A. Cohen on March 13, 2013, by reason of advisory and other relationships with persons who own shares of our common stock, Mr. Cohen may be deemed to be the beneficial owner of a total of 3,434,958 shares, with shared voting power as to 3,434,958 shares, shared dispositive power as to 3,434,958 shares, and sole voting power as to zero shares and sole dispositive power as to zero shares.

Restricted Stock Units and Performance Share Units

Restricted stock units ("RSUs") represent the right to receive shares of our common 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 certain of our key employees, including our officers, 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 our Equity Plan, we issued a percentage of that year's awards as RSUs. In 2010, 2011 and 2012, we also issued RSUs as part of our LTIP compensation. Neither the transitional RSUs nor the LTIP RSU awards were subject to performance criteria. We have also issued RSUs to Mr. Best earned by him under 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 our Equity Plan to certain of our key employees, including our officers, on August 1, 2008.

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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, 2013.

	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			
Loren M. Leiker			
Julio M. Quintana			
John M. Seidl			
William D. Sullivan			
Anthony J. Best	33,446	144,369	20,101
Javan D. Ottoson	25,340	65,709	10,215
A. Wade Pursell	12,464	53,358	8,360
David W. Copeland	7,809	15,294	565
Herbert S. Vogel	4,036	6,637	
All Executive Officers and Directors as a group (21 persons, including those named above)	113,080	417,561	61,466

(1) PSUs granted on July 1, 2010, vested one-seventh on July 1, 2011 and two-sevenths on July 1, 2012. PSUs granted on July 1, 2011, vested one-seventh on July 1, 2012. 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 2012 under Section 16(a) under the Exchange Act.

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EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This section describes the objectives and elements of 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 2012 fiscal year, whom we collectively refer to in this "Executive Compensation" section as our "NEOs" or "Named Executive Officers." Our NEOs for fiscal 2012 are:

Anthony J. Best, Chief Executive Officer;

Javan D. Ottoson, President and Chief Operating Officer;

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

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

Herbert S. Vogel, Senior Vice President Portfolio Development and Technical Services.

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. 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. Our LTIP rewards total stockholder return, both on an absolute basis and relative to an index of peer exploration and production companies.

In 2012, our operational and financial performance in the face of significant commodity price weakness continued to advance our goal of creating long-term stockholder value. Our production of 218.9 billion cubic feet equivalent ("BCFE") met our target and set a new production record for our company, and representing 29% growth in production from 2011. We also exceeded our proved developed reserve additions target 417.7 BCFE by four percent, adding 436.3 BCFE to our proved developed reserves. In spite of average realized natural gas and natural gas liquids ("NGL") prices that were 20% and 32% below our projections for 2012, respectively, we also achieved solid overall financial performance in 2012. Notwithstanding this significant commodity price weakness in 2012, we missed our cash flow target by less than four percent, largely due to continued progress in reducing our costs. We missed our net income target primarily due to impairments of proved property that were a result of the negative commodity price environment and asset performance related reserve revisions. Our finding and development costs also missed our target by less than three percent, primarily due to higher than expected capital costs related to our non-operated Eagle Ford Shale program, but yielded a 14% improvement over 2011. On balance, our performance with respect to the qualitative STIP factors was also positive. We viewed our performance with respect to our qualitative metric for exploration success and inventory growth as generally positive, with substantial increases in our acreage inventory and a greater number of exploration tests than expected. We did not achieve all of our goals for our

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qualitative metric pertaining to environmental, health and safety performance, despite continuing improvement in several areas.

While we view 2012 as a solid year overall, the combination of our strong operational performance offset by our slight misses on two of our financial metrics and our significant miss on our net income metric influenced the Compensation Committee to pay actual 2012 bonuses for the NEOs that were below their target bonus amounts. We believe that this result indicates that our STIP is appropriately designed to link compensation earned to the achievement of our financial and strategic objectives.

Our current LTIP uses a combination of service-vesting RSUs and performance-based 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 reward total stockholder return, both on an absolute basis and relative to an index of peer exploration and production companies. 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 independent 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. Under his employment agreement, Mr. Best receives severance benefits only in the event of a termination without cause, and consistent with advice from F. W. Cook, we believe that such benefits are consistent with current industry practice. All executive benefits under the change of control executive severance agreements with our other NEOs and under all equity-based awards grants on or after May 21, 2008, that are 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 IRC limit, the retirement benefits provided to the NEOs are the same as those provided to all employees. We discontinued supplemental executive benefits, including disability and life insurance, in July 2010.

Stockholder Advisory Vote on Compensation

On May 23, 2012, we held our 2012 Annual Meeting of Stockholders. At that meeting, our stockholders were provided the opportunity to cast a non-binding advisory vote on the compensation of our then NEOs. Over 97% of votes cast approved the compensation of our then NEOs, consistent with the recommendation of our Board. Because the vote was advisory, the result was not binding on the

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Compensation Committee. However, the Compensation Committee believes that this overwhelming approval of the compensation of our NEOs by our stockholders indicates that our stockholders believe that our compensation philosophy and our executive compensation policies are effective and are aligned with stockholders' interests. The Compensation Committee took into account the outcome of the vote and other factors, as more fully discussed herein, in reviewing our executive compensation policies in 2012 and in determining that no significant changes to our executive compensation programs and policies were necessary in 2012.

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, based on analysis performed by the Compensation Committee's independent compensation consultant, Frederic W. Cook & Co., Inc. ("F. W. Cook"), our compensation program is expected to result in total direct compensation for our NEOs around 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 intended 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 based upon 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.*

We believe that we achieve alignment of long-term interests between stockholders and management by paying a substantial portion of total compensation in the form of equity-based incentives and through stock ownership guidelines that ensure executives have a meaningful ownership stake during 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), the Compensation Committee evaluates numerous relevant considerations, including the

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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), compensation in excess of \$1.0 million per 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). The Compensation Committee administers our STIP and LTIP 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, and it is possible that Section 162(m) may disallow compensation deductions that would otherwise be available to us.

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, 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 the 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; and

reviewing the performance and approving the compensation for our executive officers, including our Chief Executive Officer;

In 2012, the Compensation Committee met nine times to 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 Board has determined that the members of the Compensation Committee are independent.

Independent Compensation Consultant

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,

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and communicates with the Compensation Committee between meetings. The services F. W. Cook provides, based upon direction from the Compensation Committee, 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 regarding the competitiveness of our executive compensation opportunities, conducting compensation risk assessments and providing analysis concerning the 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 our 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 and the 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. After consideration of disclosures and representations made by F. W. Cook concerning the foregoing, the Compensation Committee determined in 2012 that F. W. Cook's work did not raise any potential conflicts of interest. 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 2012, 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 2012 and 2013, the Compensation Committee determined that the 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's annual review and evaluation of our compensation policies and practices for all employees evaluates 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. As part of its review and evaluation, the Compensation Committee considers 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 and its analysis of comparative industry data, and by 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.

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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 the selection of peer companies with our General Industry Classification Standard Code include standard measures such as revenue, 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. F. W. Cook identifies peer companies that are within 50% - 200% of our company for at least four of these criteria and that have corporate structures similar to ours. The Compensation Committee, with input from F. W. Cook, selects a peer group that includes the 15-20 companies that best fit the selection criteria, excluding those companies from the peer group from the previous year that no longer satisfy the selection criteria. The peer group used for 2012 compensation comparisons was approved in January 2012 and consisted of the following companies:

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

This peer group includes fifteen of the companies included in our 2011 peer group, plus two additional companies: Energen Resources Corporation and Plains Exploration & Production Company. Companies in the 2011 peer group excluded from the 2012 peer group were: Penn Virginia Corporation and Swift Energy Company.

In May 2012, 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. For certain NEO positions, F. W. Cook also supplements this analysis with data from relevant third party, independent compensation surveys focused on the exploration and production industry (the Energy 27 Group and Effective Compensation, Inc surveys). Competitive data generally reflected actual amounts paid for 2011 performance, although some information was available on 2012 target compensation levels. Findings from this analysis indicated that base salaries for our NEOs, other than for Mr. Best, were in the median range of the peer group; the base salary for Mr. Best approximated the 25th percentile of the peer group. Target annual cash compensation (base salary plus target annual bonus) was near the 25th percentile for Mr. Best and Mr. Pursell, and between the 25th percentile and median for other NEOs. Target total direct compensation (base salary plus target bonus plus long-term incentive compensation) was near the median for Mr. Best and between the 25th percentile and median for the other NEOs.

Tally Sheets

To enhance the analytical data used by the Compensation Committee to evaluate the compensation of our CEO, President, and CFO and to provide the Compensation Committee with a consolidated source for viewing the aggregate value of all material elements of compensation for those executives, our Human Resources department provides the Compensation Committee and F. W. Cook with a tally sheet summary of all of the compensation and benefit arrangements for each of those executives, including severance arrangements and all benefits provided in connection with termination of

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employment. The tally sheets show the amount the executive would receive under various foreseeable circumstances (*e.g.*, termination with or without cause; resignation; retirement or termination in connection with change in control).

The Compensation Committee does not assign a specific weighting to the tally sheets in its overall decision-making process concerning compensation, but rather uses the information provided to gain additional perspective and as a reference.

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 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 in the total pay mix.

Compensation Element	Description	Purpose
<i>Base Salary</i>	based on individual experience and expertise, and targeted at 50 th percentile of peer group	attract and retain qualified employees; and recognize skills, competencies, experience, and individual contributions
<i>STIP</i>	annual cash incentive opportunity dependent upon annual performance in key metrics	drive and incentivize superior annual performance
<i>LTIP</i>	equity-based compensation opportunity dependent upon our long-term performance with respect to total stockholder return	drive stockholder value creation; align management interests with stockholders; encourage retention; and reward long-term company performance
<i>Employee Stock Purchase Plan</i>	employees, including our executives, may purchase shares of our common stock at a 15% discount to the fair market value	facilitate share ownership among employees; and align 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; 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 (\$250,000 for 2012)	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 well-being of all employees

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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. As noted above, based on our most recent competitive review, actual pay opportunities for several of our NEOs fell short of the desired median competitive position.

Total Direct Compensation Mix

The charts below show the 2012 target total direct compensation mix for our Chief Executive Officer and other NEOs. As the charts illustrate, 86% and 75% 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 2012 salaries on March 29, 2012, effective April 2, 2012, for the NEOs:

Name	2011 Salary	2012 Salary	% Change	2012 Salary % +/- 2011 Peer Group Median
Best	\$ 580,000	\$ 650,000	12.07%	(10)%
Ottoson	\$ 385,000	\$ 430,000	11.69%	(1)%
Pursell	\$ 338,000	\$ 360,000	6.51%	(4)%
Copeland	\$ 310,000	\$ 328,600	6.00%	(1)%
Vogel ⁽¹⁾	\$	\$ 310,000		(1)%

(1) Mr. Vogel commenced his employment on March 12, 2012.

The salary increases approved in 2012 were based on the Compensation Committee's decision that our executive officers' individual performances, corporate performance, industry inflation, and the

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competitive aspects of the oil and gas industry justified the increases with individual adjustments determined with reference to respective comparative industry data by position and our goal of target compensation approximating the median of our comparative peer group.

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. At the discretion of the Compensation Committee, these goals may be adjusted from time to time during the year due to significant changes in our business; however, no adjustments were made during 2012. Payments under the STIP are in the form of annual cash bonuses under our Cash Bonus Plan, which was last approved by our stockholders in May 2008, and is being submitted to our stockholders for re-approval at the Annual Meeting.

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 zero to two 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 2012 as percentages of base salary for the NEOs were the same as in 2011 and were as follows:

Name	2012 Target Bonus Level, % of base salary	Maximum % of base salary
Best	100%	200%
Ottoson	90%	180%
Pursell	80%	160%
Copeland	70%	140%
Vogel	70%	140%

In order for the STIP bonus pool to be funded for executive officers, the 2012 STIP required that our 2012 cash flow, as described below, exceed a threshold level of \$500 million. If our cash flow had not exceeded the threshold level, no STIP bonus would be paid regardless of the results of any other metric. Our actual cash flow was \$1.03 billion, resulting in full initial funding of the STIP bonus pool for executive officers. The Compensation Committee then examined our performance under five quantitative and two qualitative metrics to determine actual bonus payments to executive officers by reducing (but not increasing) the amounts funded through achievement of the cash flow threshold. Using this construct, bonus payments to our executive officers under the STIP are intended to be "performance-based," as defined under Section 162(m), and therefore fully deductible for federal income tax purposes. The Compensation Committee evaluated our performance in the following five quantitative areas with respect to the annual cash bonus awards for our executive officers:

	Minimum	Target	Maximum	Actual	% of Target
Production Volume (BCFE)	186.5	219.4	252.4	218.9	100%
Proved Developed Reserve Additions (BCFE) ⁽¹⁾	355.0	417.7	480.4	436.3	104%
Finding and Development Costs (\$ per MCFE) ⁽²⁾	\$ 3.96	\$ 3.44	\$ 2.92	\$ 3.54	103%
Cash Flow (\$ in millions)	\$ 858.4	\$ 1,073.3	\$ 1,341.3	\$ 1,031.9	96%
Net Income (\$ in millions)	\$ 120.0	\$ 160.0	\$ 200.0	\$ (54.2)	*

*
Not meaningful.

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- (1) Adjusted for engineering revisions to proved developed reserves due to asset performance.
- (2) Based on proved developed reserve additions, as adjusted for engineering revisions due to asset performance (excluding land costs). As noted below, our actual finding and development cost missed our target by 3%.

Production Volume The production volume target represents the volume of oil, gas and NGLs estimated by our 2012 business plan to be produced and sold during 2012. This measure is important because proceeds from the sale of production generates essentially all of our revenue. In 2012, we met our corporate production volume target and three of our four regions exceeded their individual targets.

Proved Developed Reserve Additions The proved developed reserve additions target represents the proved developed reserves estimated to be added from projects funded by our capital program during 2012. This measure is important because proved developed reserves are the primary source of future production and cash flow for us and, as such, relate directly to the value of our company. In 2012, we generated 4% more proved developed reserve additions than our target amount.

Finding and Development Costs Finding and development costs are a measure of the efficiency of our capital program in adding value. The finding and development costs target represents the estimated cost of proved developed reserve additions on a dollar per million cubic feet equivalent ("MCFE") basis, as projected by our 2012 business plan. In 2012, our finding and development costs missed our target by 3%, largely as a result of higher than expected proved developed reserve additions being offset by higher than expected capital costs associated with our non-operated Eagle Ford Shale program, but yielded a 14% improvement over 2011.

Cash Flow Our cash flow target is calculated based on our GAAP net income, as adjusted for miscellaneous gains and losses; depreciation, depletion and amortization; impairment and abandonment expense; exploration expense; all taxes; change in NPP liability; stock compensation expense; interest expense and unrealized derivative gains/losses. This measure is important because our cash flow is the primary source of funding for our ongoing capital program and working capital needs, as well as a key factor in stockholder value creation. In 2012, our cash flow was less than our 2012 business plan target by less than 4%, due to a significant weakness in commodity prices, including approximately 20% lower than projected average realized natural gas prices and 32% lower than projected average realized NGL prices for the year ended December 31, 2012, which was partially offset by the results of our continued efforts to reduce costs.

Net Income The GAAP net income target represents the amount of GAAP net income initially expected to be generated based on achieving projected 2012 business plan results. This measure is important because the rate at which non-cash costs are incurred is related to investment efficiency over time, and non-recurring events can be materially positive or negative relative to expectations. In 2012, we suffered a net loss, primarily due to impairments of proved property resulting from the negative commodity price environment and performance related reserve revisions.

Additionally, the Compensation Committee assessed our performance in the following qualitative areas:

environmental, health, and safety (EHS)

Our EHS performance, based on statistical industry measurements, improved in many respects during 2012; however, we continued to experience some significant safety challenges in our operational activities where dramatic ramp-up in drilling and completion activity have strained the capabilities of our drilling and completion contractors. As a result, the Compensation Committee exercised its discretion with respect to this qualitative measure in 2012 and reduced the cash bonuses for our NEOs that it would have otherwise approved on the basis of the other quantitative and qualitative measures.

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exploration success and inventory growth

Our performance with respect to our qualitative metric for exploration success and inventory growth was positive, with substantial increases in acreage acquired, and greater number of exploration tests than expected. Accordingly, the Compensation Committee gave positive credit for this qualitative measure in 2012.

The Compensation Committee determines amounts earned under the STIP not only by the extent to which management achieved the quantitative and qualitative performance goals, but also by evaluating how management achieved those goals. Each quantitative factor is not equally weighted and the Compensation Committee considers each quantitative and qualitative factor individually and collectively. Because quantitative goals must be determined at the beginning of the year, the Compensation Committee's exercise of judgment and discretion protects the STIP from having an illogical outcome if circumstances change during the year such that the formulaic goals no longer comport with "common sense."

The Compensation Committee considered all of the above-mentioned factors and used its judgment and discretion to determine the following actual bonuses for the NEOs:

Name	Salary Paid in 2012	Actual STIP		
		Target STIP (% of Base Salary)	% of Base Salary	Amount
Best	\$ 631,154	100%	89%	\$ 560,000
Ottoson	\$ 417,885	90%	80%	\$ 335,000
Pursell	\$ 354,077	80%	71%	\$ 250,000
Copeland	\$ 323,592	70%	62%	\$ 200,000
Vogel	\$ 244,423	70%	64%	\$ 155,697

Long-Term Incentive Plan

The LTIP, which we implemented in its current form in 2008, is an equity compensation program that utilizes performance share units, or PSUs, and restricted stock units, or RSUs, to reward our executive officers and other key employees for long-term growth in our net asset value, as reflected in our absolute and relative cumulative total stockholder return, which includes the effects of dividends ("TSR"). Awards of PSUs and RSUs are issued pursuant to our Equity Plan.

Under our LTIP, participants were each awarded RSUs and PSUs during the third quarter of 2012, for the performance measurement period beginning July 1, 2012, and ending June 30, 2015. The ratio of PSUs to RSUs in an LTIP participant's grant varies based upon each participant's position. Our NEOs receive 75% of their award in the form of PSUs, with the balance in the form of RSUs. RSUs are settled in shares of our common stock at the time of vesting, and PSUs are settled in shares of our common stock, depending on the extent to which we have satisfied the performance criteria, at the end of the three-year performance period. The actual number of shares of our common stock issued to settle PSUs at the end of the three-year performance period can range from 0% to 200% of the number of PSUs, depending on our absolute and relative TSR. TSR is measured on a compound annualized basis, and relative TSR is compared to the TSR of an equal weighted index of peer companies (the "TSR Peer Group"). The TSR Peer Group consists of companies from our comparative peer group, as recommended by F. W. Cook and selected by the Compensation Committee based upon the criteria discussed above, with any adjustments to that list of companies as deemed necessary or

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appropriate by the Compensation Committee in its discretion. As of July 1, 2012, for the 2012-2015 performance period, the constituents of the TSR Peer Group included:

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

At any time, during the three-year performance period, the Compensation Committee may elect to modify the TSR Peer Group if significant changes occur relating to any member of the TSR Peer Group, and in March 2013 it elected to exclude Berry Petroleum Company and Plains Exploration & Production Company due to their respective pending acquisitions by other energy companies not in the TSR Peer Group.

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The performance matrix for the 2012-2015 performance period is shown below:

2012 PAYOUT MATRIX

(Earned multiplier equals sum of Column A and Column B; subject to maximum multiplier of 2.0 and minimum multiplier of 0.0)

Ann. TSR	Column A	Column B		MULTIPLIER MODIFIER
	Absolute TSR	EARNED MULTIPLIER	TSR vs. Peer Index % Point Deviation From Peers	
0%			-10%	(0.80)
1%		0.050	-8%	(0.60)
2%		0.100	-6%	(0.40)
3%		0.150	-4%	(0.20)
4%		0.200	-2%	
5%		0.275	0% (Index TSR)	0.20
6%		0.350	+2%	0.40
7%		0.425	+4%	0.60
8%		0.500	+6%	0.80
9%		0.575	+8%	1.00
10%		0.650		
11%		0.725		
12%		0.800		
13%		0.875		
14%		0.950		
15%		1.025		
16%		1.100		
17%		1.200		
18%		1.300		
19%		1.400		
20%		1.500		
21%		1.600		
22%		1.700		
23%		1.800		
24%		1.900		
25%		2.000		

As an example, if an NEO had a target number of 16,000 share units, 4,000 would be RSUs and 12,000 would be PSUs. Assuming we still employed the NEO at the end of the three-year performance period, if our absolute TSR was 15% compounded annually, but our relative TSR underperformed against the TSR Peer Group by four percentage points, the result would be a total multiplier of 0.825 (1.025 - 0.20). The multiplier would then be applied to the 12,000 PSUs previously awarded, resulting in the issuance of 9,900 shares of our common stock to the executive officer at the end of the three-year period in settlement of the PSUs (i.e., 12,000 × 0.825). In addition, during the three-year performance period, we would issue 4,000 shares of our common stock in settlement of the RSUs as vested in accordance with the pre-determined vesting schedule, provided that the executive was still employed by us on each vesting date.

The PSUs and RSUs awarded and individual allocations to our NEOs were approved by the Compensation Committee during the second quarter of 2012. A total of 157,180 PSUs and RSUs were granted to our NEOs during 2012. In its determination of the total pool value for 2012, the Compensation Committee considered various factors, including historical fair value transfer (or the

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percentage of market capitalization transferred to employees annually in the form of stock based awards and other forms of ownership in our company, "FVT") under our long term incentive compensation system compared to our peer group companies, input from F. W. Cook on expected trends in FVT for the subject period, and shares available under our Equity Plan. The 2012 PSUs and RSUs have a three-year vesting schedule, with one-third vesting on the first three anniversaries of the award date. We settle the RSUs with shares of our common stock as they vest. If an NEO is terminated, voluntarily or involuntarily, prior to the third anniversary of the award date, he/she will retain all shares of common stock previously issued by us to settle the RSUs as they vest, but will forfeit all unvested RSUs. No settlement of vested PSUs occurs until the three-year performance period is concluded. However, if an NEO is terminated, voluntarily or involuntarily, he/she retains vested PSUs, which would be settled at the end of the three-year performance period. All PSUs granted are also subject to a cap in value per unit calculated based on an absolute TSR of 50% for each year and an assumed multiplier of 2.0.

Special Equity Grants

Special grants of equity are made outside of our annual LTIP process for executives and other employees as part of compensation packages designed to recruit or retain such persons. In 2012, special grants were made to two NEOs. Mr. Vogel received a special grant of 2,542 RSUs on March 14, 2012, (\$200,005 in grant value) as a part of the compensation package designed to recruit him, and Mr. Ottoson received a special grant of 10,000 RSUs on October 3, 2012, (\$550,200 in grant value), in recognition of his promotion to President of the Company.

Net Profits Interest Bonus Plan

Prior to 2008, our long-term incentive program for executives and key employees consisted of the NPP and an RSU program. The NPP was designed to reward the contributions made by our executives and other key employees to our long-term financial success. Under the NPP, participants shared in the net profits derived from our investment in all oil and gas activity from a specific pool of properties in a given year after we recovered the capital costs associated with that pool.

Once vested, the participant receives a share of the distributable proceeds, in the form of annual cash payments, regardless of employment with us. The complex nature of the NPP and the delay and uncertainty in realization of compensation value until pool payout was reached made the NPP less attractive to newly recruited and highly marketable executives and employees. Accordingly, we discontinued the NPP in 2007 on a prospective basis, and the 2007 pool was the last NPP pool created. We will continue to make payments under the NPP for pool years established prior to 2008 for as long as a subject pool remains in payout status.

Certain of our executives participate in NPP pools that contribute significantly to their yearly realized compensation; however, due to attrition, not all executives participate in NPP pools, and certain executives that do participate have not received compensation because the NPP pools in which they participate have not reached payout status. Each of Mr. Best and Mr. Ottoson participate in two NPP pools and currently receive no compensation from these pools because they have not reached payout status.

Retirement Programs Pension and 401(k) Plans

Our executives are eligible to participate in our qualified, non-contributory defined benefit pension plan (the "Qualified Pension Plan") and a 401(k) plan on the same basis as all of our employees. The SERP is intended to restore the benefits that would otherwise accrue to certain executive-level employees in the absence of IRC limits on the Qualified Pension Plan. The SERP is an unfunded non-qualified plan. We provide these plans to remain competitive in the hiring and retention of

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qualified personnel, and to support our succession planning objectives with a goal of providing retirement replacement income.

The Qualified Pension Plan in combination with the SERP for certain executive-level employees provide a benefit after 25 years of credited service to us equal to 35% of final average compensation. Final compensation is the average of the highest three consecutive years of the ten years preceding termination of employment. For each NEO, the level of compensation used to determine benefits payable under the Qualified Pension Plan and the SERP is that executive's average base salary, excluding bonuses.

Our 401(k) plan is a defined contribution plan also intended to be qualified under the IRC and subject to the Employee Retirement Income Security Act of 1974. The 401(k) plan allows eligible employees to contribute up to 60% of their income on a pretax basis through contributions to the 401(k) plan, subject to annual limits to amounts determined by IRC regulations (\$17,000 for 2012). We match each employee's contributions in cash on a dollar for dollar basis, up to 6% of the employee's pretax income. Company contributions vest over an employee's first five years of employment.

Benefits and Perquisites

The NEOs and all other executives are eligible to participate in our various competitive medical and dental programs on the same basis as all other employees. These plans are intended to provide benefits that support the wellbeing and overall health of executives and employees. Our NEOs are also provided, at no cost, consistent with all employees, group term life insurance up to 2.5 times their respective base salaries up to \$1,500,000. We also provide financial planning services to our executives, including the NEOs, upon their election.

Employee Stock Purchase Plan

The purpose of our Employee Stock Purchase Plan ("ESPP") is to provide an opportunity for eligible employees, including our NEOs, to purchase shares of our common stock at a discount to the market price. The plan cycle consists of two periods each year, with plan periods for the six months ending June 30 and December 31 of each year. The ESPP allows employees to purchase our common stock through payroll deductions of up to 15% of their base compensation. The purchase price of the stock is the lower of 85% of the fair market value of the stock at the beginning or ending of the period. The maximum amount an employee can purchase through the plan is \$25,000 per year, pursuant to IRC restrictions.

Other Executive Compensation Matters

Employment Agreements

Mr. Best is the only executive that has a written employment agreement. Mr. Best's employment agreement became effective May 1, 2006, and continues in effect until either party gives 30-days' prior written notice. Mr. Best has earned and been awarded all cash and equity compensation due him under such agreement, other than any compensation that he may receive in certain termination scenarios, as discussed below.

Our employment agreement with Mr. Best provides severance benefits under certain termination scenarios. See "Potential Payments upon Termination or Change of Control." The energy industry's history of executive employment terminations during cyclical downturns or strategic shifts in the industry or by particular companies contributed to a widespread, heightened concern for long-term job stability by executives. In response to this concern, arrangements that provide compensation assurances in the event of an executive's termination without cause, death, or incapacity are common practice, especially when recruiting executives to join a new company, a practice supported by F. W. Cook. The

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post-termination payment provisions in our employment agreement with Mr. Best were an important factor in our ability to recruit Mr. Best to join us as President and Chief Operating Officer in 2006. We believe that the two-year period for post-employment compensation and insurance protection is appropriate to allow Mr. Best adequate time to obtain comparable employment in the event of a termination, and is reasonable in view of the terms offered by other companies in our industry who compete with us for executive talent.

The employment of all other executives remains "at will," subject to and in accordance with the terms and conditions of written offers of employment.

Change of Control Severance Benefits

Change of control severance protection is provided to executives at the level of vice president and above, including each of our NEOs, and certain other key employees, through change of control executive severance agreements. See "Potential Payments upon Termination or Change of Control *Change of Control Arrangements*" for more information about these agreements and potential payments in the event of a termination of employment following a change in control. No excise tax "gross up" payments are provided.

Clawback Policy

While our Board has elected not to adopt a formal clawback policy due to the uncertainties that exist in the absence of the expected SEC rulemaking, our proposed amendments to our Equity Plan include provisions permitting the clawback of awards as necessary to comply with the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010 or other applicable law. We believe that our compensation structure, together with our strong culture of business integrity and systems of internal control, make it unlikely that incentive compensation would be paid to any of our executive officers on the basis of overstated results.

Stock Ownership Guidelines

To further align senior management's interests with the interests of our stockholders with respect to long-term growth of stockholder value, the Compensation Committee has established and the Board has approved equity ownership guidelines for executives as follows:

Chief Executive Officer	5 times annual base salary
Chief Operating Officer and Chief Financial Officer	3 times annual base salary
Senior Vice Presidents and Vice Presidents	1 times annual base salary

Equity holdings include the value of vested and unvested RSUs for purposes of these calculations. Until an executive achieves the required ownership level, except for net settlements of equity awards for purposes of paying tax withholding obligations, an executive may not sell equity awarded to such executive, unless approved by the Compensation Committee for the Chief Executive Officer, Chief Operating Officer, or Chief Financial Officer, and by the Chief Executive Officer for all other officers.

Timing of Equity Grants

Equity grants awarded as part of the LTIP and pursuant to our Equity Plan are made during the third quarter of each year. The Compensation Committee generally approves these grants at its June meeting. The Compensation Committee or the Board has in the past, and may in the future, make limited grants of equity on other dates for newly hired or other executives and other employees as part of compensation packages designed to recruit, retain or reward such persons.

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Securities Trading Policy

We maintain a Securities Trading Policy, the overall goal of which is to inform our officers, employees and directors of the risks of trading in public company securities at a time when they may be in possession of material, non-public information. In addition, our policy provides mechanisms to specifically address trading by officers, certain other employees and directors during prescribed periods of time when the risk of being in possession of material, non-public information is perceived to be highest, and generally prohibits our officers, certain other employees and directors from trading in any of our securities without obtaining pre-clearance. Our policy also prohibits officers, employees and directors from (a) entering into transactions that "hedge" the value of our stock, (b) holding our securities in margin accounts, (c) pledging our securities to secure indebtedness, and (d) buying or selling options or derivatives with respect to our securities.

Compensation Committee Report

The Compensation Committee of SM Energy Company has reviewed and discussed the disclosures contained under "Compensation Discussion and Analysis" with management and its compensation consultant and, based on such review and discussions, the Committee recommended to the Board of Directors that the disclosures set forth under the heading "Compensation Discussion and Analysis" be included in this Proxy Statement and incorporated by reference into SM Energy Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

Respectfully submitted by the Compensation Committee of the Board of Directors,

Barbara M. Baumann, Chair
Stephen R. Brand
John M. Seidl

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Executive Compensation Tables

Summary Compensation Table for 2010, 2011, and 2012

This Summary Compensation table sets forth the annual and long term compensation received during each of the last three years by our NEOs. In addition to salaries paid, the table reflects RSUs granted in 2010, 2011, and 2012 to our NEOs. The table also reflects PSUs granted to our NEOs in 2010, 2011, and 2012. Eligible employees participate in our STIP and LTIP as described more fully in the "Compensation Discussion and Analysis" and disclosed in the Summary Compensation Table below. Mr. Best is our only NEO with whom we have an employment agreement, as described above under "Other Executive Compensation Matters."

Name and Principal Position	Year	Salary	Bonus ⁽¹⁾	Stock Awards ⁽²⁾	Option Awards ⁽²⁾	Non-Equity Incentive Plan Compensation ⁽³⁾	Change In Pension Value and Non-Qualified Deferred Compensation ⁽⁴⁾	All Other Compensation ⁽⁵⁾	Total
Anthony J. Best Chief Executive Officer (principal executive officer)	2012	\$ 631,154	\$	\$ 3,499,983	\$	\$ 560,000	\$ 144,834	\$ 49,445	\$ 4,885,416
	2011	\$ 571,923	\$	\$ 3,699,746	\$	\$ 921,281	\$ 122,446	\$ 28,330	\$ 5,343,726
	2010	\$ 540,039	\$	\$ 2,398,049	\$	\$ 918,066	\$ 106,079	\$ 26,284	\$ 3,988,517
Javan D. Ottoson President and Chief Operating Officer	2012	\$ 417,885	\$	\$ 2,150,211	\$	\$ 335,000	\$ 75,455	\$ 50,055	\$ 3,028,606
	2011	\$ 379,885	\$	\$ 1,479,922	\$	\$ 545,514	\$ 57,672	\$ 40,373	\$ 2,503,366
	2010	\$ 360,346	\$	\$ 1,291,292	\$	\$ 583,761	\$ 45,209	\$ 40,939	\$ 2,321,547
A. Wade Pursell Executive Vice President and Chief Financial Officer (principal financial officer)	2012	\$ 354,077	\$	\$ 1,299,999	\$	\$ 250,000	\$ 44,233	\$ 31,720	\$ 1,980,029
	2011	\$ 334,500	\$	\$ 1,189,066	\$	\$ 434,830	\$ 29,876	\$ 34,845	\$ 2,023,117
	2010	\$ 319,885	\$	\$ 1,060,706	\$	\$ 447,838	\$ 21,780	\$ 90,504	\$ 1,940,713
David W. Copeland Executive Vice President, General Counsel and Corporate Secretary	2012	\$ 323,592	\$	\$ 550,021	\$	\$ 200,000	\$ 69,844	\$ 67,818	\$ 1,211,275
	2011	\$ 304,039	\$	\$ 875,745	\$	\$ 345,887	\$	\$ 47,984	\$ 1,573,655
Herbert S. Vogel Senior Vice President Portfolio Development and Technical Services	2012	\$ 244,423	\$ 250,000	\$ 660,011	\$	\$ 155,697	\$	\$ 160,661	\$ 1,470,792

(1) Mr. Vogel received a \$250,000 signing bonus as part of his hiring in 2012. The bonus was paid in two equal increments during 2012.

(2) The amounts in this column represent the aggregate grant date fair values of PSU and RSU awards computed in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, "Compensation - Stock Compensation" ("FASB ASC Topic 718"), excluding the effect of estimated forfeitures related to service-based vesting conditions. These grant date fair values have been determined based on the assumptions and methodologies discussed in Note 7 of the Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2012. PSU awards are subject to market-based performance conditions relating to our total stockholder return and relative stockholder return compared to a peer company index over a three-year performance period. The grant date fair values of PSU awards reflected in this column are based on the estimate as of the grant date of the probable outcome of these performance conditions, and those grant date fair values for Mr. Best, Mr. Ottoson, Mr. Pursell, Mr. Copeland, and Mr. Vogel respectively are \$2,624,990, \$1,200,010, \$974,989, \$412,513, and \$344,991. If instead we assume that the highest level of performance conditions will be achieved, the grant date fair values of those awards as computed in accordance with FASB ASC Topic 718 for Mr. Best, Mr. Ottoson, Mr. Pursell, Mr. Copeland, and Mr. Vogel respectively are \$4,960,110, \$2,267,507, \$1,842,313, \$779,474, and \$651,886.

(3) The amounts in the column represent the bonuses paid in 2013, 2012, and 2011 but earned during 2012, 2011 and 2010 performance periods, respectively, under the STIP.

(4)

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The amounts shown in this column are attributable to the increase, if any, in the actuarial value of each NEO's combined benefits under our qualified and non-qualified benefit plans determined using interest rate and mortality assumptions consistent with those used in our financial statements. No NEO received preferential or above market earnings on deferred compensation.

(5)

Amounts consist of our contribution to the 401(k) Profit Sharing Plan, holiday bonus, life insurance premiums, financial consulting services, disability insurance premiums and any accrued vacation time due the employee at the time of termination. In 2012, relocation benefits of \$31,712, and \$130,737 were paid to Mr. Copeland and Mr. Vogel respectively.

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Pursuant to our STIP, and in accordance with our Cash Bonus Plan, the Compensation Committee established the qualitative metrics for our 2012 STIP on February 21, 2012. As discussed above, we made the bonus payments associated with the 2012 STIP in 2013. In addition, pursuant to our LTIP, and in accordance with our Equity Plan, we granted PSUs and RSUs to our NEOs on July 1, 2012. The Compensation Committee approved these grants on June 25, 2012. Mr. Vogel received a special grant on March 14, 2012, upon joining the Company, and Mr. Ottoson received a special grant on October 3, 2012, when he was promoted to President of the Company. The Compensation Committee approved the grant to Mr. Vogel on March 12, 2012, and the Board approved the grant to Mr. Ottoson on September 28, 2012. These grants are summarized in the table below.

Name	Grant Date	Estimated Possible Payouts Under Non-Equity Incentive Plan Awards		Estimated Future Payouts Under Equity Incentive Plan Awards		All Other Stock Awards: Number of Shares of Stock or Units ⁽⁵⁾	Grant Date Fair Value of Stock and Option Awards ⁽⁶⁾
		Target ⁽¹⁾	Maximum ⁽²⁾	Threshold ⁽³⁾	Maximum ⁽⁴⁾		
Anthony J. Best	2/21/12	\$ 631,154	\$ 1,262,308				
	7/1/12					17,817	\$ 874,993
	7/1/12			50,500	101,000		\$ 2,624,990
Javan D. Ottoson	2/21/12	\$ 376,097	\$ 752,193				
	7/1/12					8,145	\$ 400,001
	7/1/12			23,086	46,172		\$ 1,200,010
	10/3/12					10,000	\$ 550,200
A. Wade Pursell	2/21/12	\$ 283,262	\$ 566,523				
	7/1/12					6,618	\$ 325,010
	7/1/12			18,757	37,514		\$ 974,989
David W. Copeland	2/21/12	\$ 226,514	\$ 453,029				
	7/1/12					2,800	\$ 137,508
	7/1/12			7,936	15,872		\$ 412,513
Herbert S. Vogel	3/12/12	\$ 171,096	\$ 342,192				
	3/14/12					2,542	\$ 200,005
	7/1/12					2,342	\$ 115,016
	7/1/12			6,637	13,274		\$ 344,991

(1) This amount represents the salary amount actually paid to each of our NEOs in 2012, multiplied by the applicable STIP target percentage.

(2) This amount represents the salary amount actually paid to each of our NEOs in 2012, multiplied by the applicable STIP maximum percentage.

(3) This amount represents the number of shares of common stock to be issued upon settlement of PSUs granted under our Equity Plan, assuming the target number of one share of common stock per PSU granted. PSUs represent the right to receive, upon settlement of the PSUs after the completion of a three-year performance period ending June 30, 2015, 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 our performance criteria have been achieved and the extent to which the PSUs have vested. The performance criteria for the PSUs are based on a combination of our TSR for the performance periods and the relative measure of our TSR compared with the cumulative TSR of an index comprised of certain peer companies for the performance period. The PSUs will vest one-third on July 1, 2013, one-third on July 1, 2014, and one-third on July 1, 2015, and are subject to transfer restrictions until the PSUs are settled at the end of the three-year performance period.

(4) This amount represents the number of shares of common stock to be issued upon settlement of PSUs granted under our Equity Plan, assuming the maximum multiplier of two shares of common stock per PSU granted.

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- (5) This amount represents RSUs granted under our Equity Plan. The RSUs vest one-third on July 1, 2013, one-third on July 1, 2014, and one-third on July 1, 2015, with the exception of the March 14, 2012 special grant to Mr. Vogel, which vests one-third on July 1, 2012, one-third on July 1, 2013, and one-third on July 1, 2014, and the October 3, 2012 special grant to Mr. Ottoson, which vests 100% on October 3, 2015. Prior to vesting, the RSUs are subject to transfer restrictions and may be forfeited to us upon termination of employment. The RSUs are not eligible for dividends and are not credited with dividend equivalents. Holders of RSUs have no rights as stockholders of common stock until such time as the RSUs are settled for shares of common stock on the settlement date.
- (6) The grant date fair value of a PSU is calculated using a Geometric Brownian Motion Model, and the aggregate grant date fair value represented in this column for PSUs is calculated based upon the number of PSUs granted.

Outstanding Equity Awards at 2012 Fiscal Year-End

The following table shows outstanding equity awards for our NEOs as of December 31, 2012:

Name	Option Awards				Stock Awards				
	Number of Securities Underlying Unexercisable Options	Number of Securities Underlying Exercisable Options	Equity Incentive Plan Awards: Number of Securities Underlying	Option Price	Option Expiration Date	Number of Shares or Units of Stock That Have Not Vested	Market Value of Stock that Have Not Vested ⁽¹⁾	Equity Incentive Plan Awards: Number of Unearned Shares, Other Rights That Have Not Vested ⁽¹⁾	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Other Rights That Have Not Vested ⁽¹⁾
Anthony J. Best				\$		6,824 ⁽²⁾	\$ 356,281		\$
				\$			\$	36,646 ⁽³⁾	\$ 1,913,288
				\$		8,805 ⁽⁴⁾	\$ 459,709		\$
				\$			\$	30,774 ⁽⁵⁾	\$ 1,606,711
				\$		17,817 ⁽⁶⁾	\$ 930,226		\$
Javan D. Ottoson				\$			\$	50,500 ⁽⁷⁾	\$ 2,636,605
				\$		3,674 ⁽²⁾	\$ 191,820		\$
				\$			\$	19,733 ⁽³⁾	\$ 1,030,260
				\$		3,521 ⁽⁴⁾	\$ 183,831		\$
				\$			\$	12,310 ⁽⁵⁾	\$ 642,705
				\$		8,145 ⁽⁶⁾	\$ 425,250		\$
A. Wade Pursell				\$			\$	23,086 ⁽⁷⁾	\$ 1,205,320
				\$		10,000 ⁽⁸⁾	\$ 522,100		\$
				\$		3,018 ⁽²⁾	\$ 157,570		\$
				\$			\$	16,209 ⁽³⁾	\$ 846,272
				\$		2,828 ⁽⁴⁾	\$ 147,650		\$
David W. Copeland				\$			\$	9,891 ⁽⁵⁾	\$ 516,409
				\$		6,618 ⁽⁶⁾	\$ 345,526		\$
				\$			\$	18,757 ⁽⁷⁾	\$ 979,303
				\$		3,878 ⁽²⁾	\$ 202,470		\$
				\$		1,131 ⁽⁴⁾	\$ 59,050		\$
Herbert S. Vogel				\$			\$	3,957 ⁽⁵⁾	\$ 206,595
				\$		2,800 ⁽⁶⁾	\$ 146,188		\$
				\$			\$	7,936 ⁽⁷⁾	\$ 414,339
				\$		1,694 ⁽⁴⁾	\$ 88,444		\$
			\$		2,342 ⁽⁶⁾	\$ 122,276		\$	
			\$			\$	6,637 ⁽⁷⁾	\$ 346,518	

(1)

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The market value of RSUs and PSUs that have not vested is calculated using the closing price of \$52.21 of our common stock on December 31, 2012. The market value of PSUs is calculated based upon a target of one share of our common stock per PSU.

(2)

These RSUs vest 1/7th on July 1, 2011, 2/7ths on July 1, 2012, and 4/7ths on July 1, 2013.

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- (3) These PSUs vest 1/7th on July 1, 2011, 2/7ths on July 1, 2012, and 4/7ths on July 1, 2013. The PSUs are subject to a three-year performance period ending June 30, 2013. The award is reported at target of one share of our common stock per PSU. Because these PSUs are not settled until the end of the applicable three-year performance period, these PSUs include the number of PSUs that have yet to be settled rather than the number of unvested PSUs.
- (4) These RSUs vest 1/7th on July 1, 2012, 2/7ths on July 1, 2013, and 4/7ths on July 1, 2014.
- (5) These PSUs vest 1/7th on July 1, 2012, 2/7ths on July 1, 2013, and 4/7ths on July 1, 2014. The PSUs are subject to a three-year performance period ending June 30, 2014. The award is reported at target of one share of our common stock per PSU. Because these PSUs are not settled until the end of the applicable three-year performance period, the PSUs shown in the table above include both vested and unvested PSUs.
- (6) These RSUs vest 1/3rd on July 1, 2013, 1/3rd on July 1, 2014, and 1/3rd on July 1, 2015.
- (7) These PSUs vest 1/3rd on July 1, 2013, 1/3rd on July 1, 2014, and 1/3rd on July 1, 2015. The PSUs are subject to a three-year performance period ending June 30, 2015. The award is reported at target of one share of our common stock per PSU. Because these PSUs are not settled until the end of the applicable three-year performance period, these PSUs include the number of PSUs that have yet to be settled rather than the number of unvested PSUs.
- (8) These RSUs have a three-year cliff vesting period that ends on October 3, 2015. These RSUs were granted in conjunction with Mr. Ottoson's promotion to President.

2012 Option Exercises and Stock Vested

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise	Value Realized on Exercise	Number of Shares Acquired on Vesting ⁽¹⁾	Value Realized on Vesting ⁽²⁾
Anthony J. Best		\$	119,879	\$ 5,674,230
Javan D. Ottoson		\$	76,354	\$ 3,613,509
A. Wade Pursell		\$	64,411	\$ 3,048,247
David W. Copeland		\$	2,130	\$ 102,474
Herbert S. Vogel		\$	848	\$ 40,797

- (1) This column represents the number of shares of common stock issued upon the vesting and settlement of RSUs and PSUs during 2012. As discussed above, each RSU represents a right to receive one share of our common stock upon settlement pursuant to the terms of the award agreement, and each PSU represents the right to receive, upon settlement of the PSU after the completion of a three-year performance period, a number of shares of our common stock that ranges from zero to two times, depending on the extent to which we have achieved our performance goals. This table does not include any vested, outstanding PSUs, because all outstanding PSUs are subject to the applicable three-year performance period, and thus have not been settled.
- (2) The value realized on vesting and settlement of the RSUs and PSUs is computed by multiplying the number of shares of common stock issued upon the vesting and settlement of RSUs or settlement of PSUs by the per share closing market price of the underlying shares on the vesting and/or settlement date, or, if the vesting and/or settlement date was not a normal market trading date, then on the last normal market trading date which preceded the vesting/settlement date. The per share closing market prices utilized for this computation were \$48.11 on July 2, 2012, for the vesting and settlement of the first vesting tranche of the 2011 RSU awards and the vesting and settlement of the second vesting tranche of the 2010 RSU awards; \$47.30 on the vesting and settlement date of August 1, 2012, for the third vesting tranche of the August 1, 2009 RSU awards; and \$47.30 on the vesting and settlement date of August 1, 2012, for the for the full settlement of the August 1, 2009 PSU awards, which were earned at 200% of target.

Pension Benefits

Our Qualified Pension Plan is a qualified, noncontributory defined benefit plan, which is available to substantially all employees who meet age and service requirements. In addition, we sponsor the SERP to provide an equivalent benefit on earnings above the qualified plans IRC limits (the 2012 limit was \$250,000 in annual base salary income for certain executive officers with a title of at least Vice President).

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The following table represents the value of the NEOs' pension benefits as of December 31, 2012:

Name	Plan Name	Number of Years Credited Service	Present Value of Accumulated Benefit	Payment During Last Fiscal Year
Anthony J. Best	Qualified Pension Plan	7	\$ 250,455	\$
	Non-Qualified SERP Pension Plan	7	\$ 340,482	\$
Javan D. Ottoson	Qualified Pension Plan	6	\$ 154,811	\$
	Non-Qualified SERP Pension Plan	6	\$ 88,901	\$
A. Wade Pursell	Qualified Pension Plan	4	\$ 80,353	\$
	Non-Qualified SERP Pension Plan	4	\$ 29,931	\$
David W. Copeland	Qualified Pension Plan	2	\$ 54,923	\$
	Non-Qualified SERP Pension Plan	2	\$ 14,921	\$
Herbert S. Vogel ⁽¹⁾	Qualified Pension Plan		\$ 0	\$
	Non-Qualified SERP Pension Plan		\$ 0	\$

(1) As of December 31, 2012, Mr. Vogel was not a plan participant because he began his employment on March 12, 2012.

Nonqualified Deferred Compensation

Although the NPP may be considered a non-qualified deferred compensation plan because amounts are paid under the NPP from net profits, if any, from oil and gas activity from designated pools of properties in years after the participants have earned such net profits interests, the NPP is not a plan whereby specific determinable compensation amounts or balances are deferred. The NPP is described in the "Compensation Discussion and Analysis" herein, and NPP compensation amounts are reflected in the Summary Compensation Table above (no NPP compensation was paid to any NEO in 2012).

Our SERP is a nonqualified deferred compensation plan. The SERP is a non-contributory plan, and additional information about the SERP, including the present value of the accumulated benefits under the SERP for each NEO, is set forth in the "Retirement Plans Pension Benefits" section below. In addition, annual increases in the actuarial value of benefits under the SERP are included in the Change In Pension Value and Non-Qualified Deferred Compensation Earnings column of the Summary Compensation Table above.

Potential Payments Upon Termination or Change of Control***Employment Agreements and Termination of Employment***

We entered into an employment agreement with Mr. Best dated May 1, 2006, and he has earned and been awarded all cash and equity compensation due him under such agreement, other than any compensation that he may receive in certain termination scenarios, as discussed below.

Mr. Best participates in the fringe benefits and other benefit plans and practices of ours in the same manner and to the same comparable extent as our other senior executives.

Our employment agreement with Mr. Best provides that in the event that we terminate Mr. Best's employment for any reason other than (a) the death or incapacity of Mr. Best or (b) his gross negligence, gross incompetence, fraud, or dishonesty, as determined by the Board, we must continue Mr. Best's base salary at its rate at the time of such termination for a period of two years thereafter, together with a continuation for two years of the insurance benefits in effect for him at the time of such termination.

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Based on Mr. Best's annual salary and level of insurance benefits in effect as of December 31, 2012, the total amount of cash payments that would have been made to Mr. Best for a period of two years after a termination on December 31, 2012, would have been \$1,300,000, and the estimated value of insurance benefits to be paid over such period would have been approximately \$43,793.

Our employment agreement with Mr. Best also provides that in the event that Mr. Best's employment is terminated under circumstances such that the terms of our change of control executive severance agreement for Mr. Best would apply, and to the extent that severance pay or benefits, each considered separately, to be received by Mr. Best pursuant to the terms of the change of control executive severance agreement would exceed the severance pay or benefits, each considered separately, pursuant to the terms of Mr. Best's employment agreement, Mr. Best shall receive such excess severance pay or benefits under the change of control executive severance agreement pursuant to the terms thereof. Our change of control executive severance agreements are discussed below.

Change of Control Arrangements

Change of control severance protection is provided to executives at the level of Vice President and above, including each of our NEOs, and to certain other key employees, through change of control executive severance agreements. These agreements have a "double trigger" mechanism, which requires first that a qualifying change of control event has occurred, and second that the executive has been terminated or that certain other conditions are met, as summarized below, before severance benefits will be provided. Executive officers are entitled to receive severance payments in the event that their employment is terminated within two and one-half years after a change of control of our company (a) without "cause" by our company or (b) for "good reason" by the officer, each as defined in the agreements. The term "good reason" incorporates the concept of a change in the executive's status, authority, position, offices, titles, duties, or responsibilities that are reasonably viewed as a diminution of duties at any time within the 90 days preceding a change of control event or within two and one-half years thereafter. The term "good reason" also contemplates a reduction in the executive's base salary and benefits over this same time frame, or the requirement that an executive relocate his base of employment outside a 25 mile radius from the executive's location at that time. Severance payments equal to a maximum of two and one-half times annual base salary, depending on the length of time of employment after the change of control, provided that in no event would the severance payments equal less than one times annual base salary. In addition, all insurance and benefits will be provided for a period of one year after termination. In the event the executive is subject to golden parachute excise taxes under Section 4999 of the IRC, severance benefits may be reduced to avoid excise taxes, if doing so would increase the net after tax benefits to the executive. No excise tax "gross-up" payments are provided.

A change of control is defined to include (a) an acquisition of more than 50% of the common stock or assets of our company in a reorganization, merger, or consolidation of our company, or (b) a change in more than 50% of the composition of the Board, other than as a result of the election of new members of the Board by a vote of the incumbent members of the Board or by our stockholders pursuant to the recommendation of the incumbent members of the Board.

Particularly in view of the propensity for mergers, acquisitions, and consolidations in our industry, we believe that these change of control executive severance agreements promote stability and continuity among our executives, allowing them to remain neutral in the face of a transaction that would benefit stockholders, but would result in their involuntary termination. Such agreements are customary for executives in our industry and are offered by companies who compete with us for executive talent. The double trigger feature provides a sufficient level of protection for the executive as well as a retention incentive benefiting our company and stockholders without creating an unreasonable impediment to a potential acquirer of our company. The maximum two and one-half times base salary post-change of control severance benefit, and the minimum one times base salary benefit and insurance coverage

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period under these agreements for our executives, are comparable to payment levels and periods offered under similar arrangements by other companies in our industry, and are designed to facilitate reasonable compensation and insurance and benefits protection during a reasonable period of time to allow the executive to obtain comparable employment.

Based on the respective annual base salaries and benefit levels of the NEOs as of December 31, 2012, under the change of control executive severance agreements, the total maximum severance payments for two and one-half years, the total minimum severance payments for one year, and the estimated value of continued benefits for one year after severance for each of the NEOs who were employed by us as of December 31, 2012, would be as follows:

Name	Maximum Severance Payments	Minimum Severance Payments	Estimated Value of Benefits for One Year ⁽¹⁾
Anthony J. Best ⁽²⁾	\$ 1,625,000	\$ 1,300,000	\$ 21,896
Javan D. Ottoson	\$ 1,075,000	\$ 430,000	\$ 21,534
A. Wade Pursell	\$ 900,000	\$ 360,000	\$ 20,756
David W. Copeland	\$ 821,500	\$ 328,600	\$ 20,756
Herbert S. Vogel	\$ 775,000	\$ 310,000	\$ 20,477

(1) The change of control executive severance agreements provide that the benefits shall be limited to the extent that the executive obtains any such benefits pursuant to a subsequent employer's benefit plans. The maximum period for receipt of benefits under the change of control executive severance agreements is one year for all NEOs with the exception of Mr. Best as described in footnote 2.

(2) The employment agreement between our company and Mr. Best provides that in the event of a change of control of our company and a termination of Mr. Best's employment, we must pay minimum severance payments and insurance benefits to Mr. Best at the rate at the time of such termination for a period of two years thereafter, and, to the extent that severance pay or benefits to be received by Mr. Best under the terms of the change in control executive severance agreement between our company and Mr. Best would exceed the severance pay or benefits under his employment agreement, Mr. Best shall receive the excess severance pay and benefits under such change of control executive severance agreement.

Under our change of control executive severance agreements with our executives, the severance payments are to be made in such base salary installment amounts and pursuant to such base salary installment payment schedule as were in effect immediately prior to the change of control, and our company or its successor is obligated to make such payments. We also have change in control arrangements with a majority of our non-executive employees.

Equity Compensation Plans

Under the ESPP, shares of our common stock and under our Equity Plan, options, restricted stock, RSUs, PSUs, stock appreciation rights, and stock-based awards are authorized for grant or issuance as compensation to eligible employees, consultants and members of the Board. Our stockholders have

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approved each of these plans. The following table is a summary of the shares of common stock authorized for issuance under our existing equity compensation plans as of December 31, 2012:

Plan category	(a) Number of securities to be issued upon exercise of outstanding options, warrants, and rights	(b) Weighted-average exercise price of outstanding options, warrants, and rights	(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:			
Equity Incentive Compensation Plan			
Stock options and incentive stock options ⁽¹⁾	267,846	\$ 14.95	
Restricted stock ⁽¹⁾⁽³⁾	496,244	N/A	
Performance share units ⁽¹⁾⁽³⁾⁽⁴⁾	899,604	N/A	
Total for Equity Incentive Compensation Plan	1,663,694	\$ 14.95	1,366,465
Employee Stock Purchase Plan ⁽²⁾			1,307,484
Equity compensation plans not approved by security holders			
Total for all plans	1,663,694	\$ 14.95	2,673,949

(1) In May 2006, our stockholders approved our Equity Plan to authorize the issuance of restricted stock, restricted stock units, non-qualified stock options, incentive stock options, stock appreciation rights, performance shares, performance units, and stock-based awards to key employees, consultants, and members of the Board of Directors of SM Energy or any affiliate of SM Energy. Our Equity Plan serves as the successor to the St. Mary Land & Exploration Company Stock Option Plan, the St. Mary Land & Exploration Company Incentive Stock Option Plan, the SM Energy Company Restricted Stock Plan, and the SM Energy Company Non-Employee Director Stock Compensation Plan (collectively referred to as our "Predecessor Plans"). All grants of equity are now made under our Equity Plan, and no further grants will be made under our Predecessor Plans. Each outstanding award under a Predecessor Plan immediately prior to the effective date of our Equity Plan continues to be governed solely by the terms and conditions of the instruments evidencing such grants or issuances. Our Board of Directors approved amendments to our Equity Plan in 2009 and 2010 and each amended plan was approved by our stockholders at the respective annual stockholders' meetings. The awards granted in 2012, 2011, and 2010 under our Equity Plan were 724,671, 386,802, and 540,774, respectively.

(2) Under the SM Energy Company ESPP, eligible employees may purchase shares of our common stock through payroll deductions of up to 15 percent of their eligible compensation. The purchase price of the stock is the lower of 85 percent of the fair market value of the stock on the first or last day of the six-month offering period, and shares issued under the ESPP as of December 31, 2012, have no minimum restriction period. The ESPP is intended to qualify under Section 423 of the IRC. Shares issued under the ESPP totaled 66,485, 41,358, and 52,948 in 2012, 2011, and 2010, respectively.

(3) RSUs and PSUs do not have exercise prices associated with them, but rather a weighted-average per unit fair value which is presented in order to provide additional information regarding the potential dilutive effect of the awards. The weighted-average grant date per unit fair value for the outstanding RSUs and PSUs was \$51.81 and \$63.08, respectively.

(4) The number of awards vested assumes a one multiplier. The final number of shares issued may vary depending on the final three-year multiplier, which ranges from zero to two.

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DIRECTOR COMPENSATION

General

Mr. Best, our Chief Executive Officer and only employee director, does not receive additional compensation for serving on the Board or any committee of the Board.

The annual service period for our directors is the period from one stockholders' annual meeting to the next. In May 2012, F. W. Cook conducted an analysis of compensation for members of the boards of directors of our peer companies versus the compensation for members of our Board. F. W. Cook's analysis generally revealed that our director compensation approximated the median of the peer group. Based on F. W. Cook's analysis, the Compensation Committee elected not to recommend to our Board changes to the director compensation package for the current period from the 2011-2012 service period, with the exception of its recommendation to pay each director \$1,500 for each Board or committee meeting in excess of 30. The Compensation Committee recommended to our Board the director compensation package for the annual service period from May 24, 2012, through May 22, 2013, which our Board approved on May 24, 2012. Director compensation is primarily paid in the form of stock grants.

The annual compensation for each non-employee director is as follows:

A \$55,000 retainer (in lieu of Board and committee meeting attendance fees) payable at the individual director's option, either entirely in cash or shares of our common stock. Ms. Baumann, Dr. Bickle, Mr. Gardiner, Mr. Quintana and Mr. Sullivan each elected to have their 2012 retainers paid in shares of our common stock, which resulted in a grant on May 24, 2012, of 992 shares of our common stock to each under our Equity Plan. Mr. Leiker joined the Board of Directors effective July 16, 2012. Mr. Leiker elected to receive common stock for the pro rata share of his retainer, which resulted in a grant of 1,020 shares issued on July 16, 2012, under our Equity Plan. In the event any director attends in excess of 30 Board and committee meetings in the aggregate during the period from May 24, 2012, through May 22, 2013, such director shall receive \$1,500 per meeting for each meeting in excess of 30.

A grant of shares of our common stock with a value of \$160,000 resulting in a grant on May 24, 2012, to each non-employee director of 2,884 shares of our common stock issued under our Equity Plan. Mr. Leiker received a pro rata grant of restricted stock of 2,966 shares of our common stock on July 16, 2012, under our Equity Plan. These shares and any shares issued pursuant to any retainer are earned over the director's annual service period. However, shares issued to a director who thereafter resigns from the Board before completing the annual service period, but after having completed at least five years of service as a Board member, are treated as fully earned. All shares issued to a director for compensation may not be transferred until two years after the date of issuance. The related compensation expense we record is the fair value of the share grant as calculated under the valuation provisions required by FASB ASC Topic 718.

Reimbursement for expenses incurred in attending Board and committee meetings and director education programs.

Chairs of the following committees are paid the indicated cash retainers at the beginning of the annual director service period in recognition of the additional workload of their respective committee assignments:

Audit Committee Chair \$20,000

Compensation Committee Chair \$15,000

NCG Committee Chair \$10,000

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Mr. Sullivan was paid a retainer for his service as non-executive Chairman of the Board of \$75,000 for the 2012-2013 annual service period. The retainer was paid in the form of shares of our common stock on May 24, 2012, which resulted in a grant of 1,352 shares of our common stock. The retainer was in addition to his basic non-employee director compensation.

Non-employee directors may participate in our matching charitable gift program, maintained for current and former employees to encourage financial support for charitable organizations that are exempt from federal income taxation. Our annual charitable gifts budget, which includes this matching program, is determined prior to the commencement of each year as a percentage of the average of the prior three years' total income, before taxes and charitable contributions, and all annually budgeted funds are expended for charitable purposes. Ms. Baumann, Dr. Bickle, Mr. Seidl, and Mr. Sullivan participated in this program during 2012, and we matched a total of \$33,417 in non-employee director contributions for 2012 under this program. We may suspend, change, revoke or terminate the program at any time.

Our directors are eligible to participate in our health, pharmacy, dental, and vision insurance programs. Directors are charged a premium that is equal to the COBRA rates associated with our plan. Participation in this plan is considered non-compensatory.

The Compensation Committee has established equity ownership guidelines for the non-employee directors of three times their annual stock-based retainer. Equity holdings include the value of vested and unvested RSUs for purposes of these calculations. New directors are allowed time to meet this guideline and are not required to acquire shares in the open market for this purpose.

The following table sets forth the annual and long-term compensation paid during 2012 to our non-employee directors. The stock based component of the compensation reflects the grant date fair value. Cash based compensation is recorded based on the monetary amount paid to the individual director.

2012 Director Compensation

Name	Fees Earned or Paid in Cash	Stock Awards ⁽²⁾⁽³⁾⁽⁴⁾	Option Awards ⁽⁵⁾	Change In Pension Value and Non-Equity Non-Qualified Incentive Plan Compensation			All Other Compensation ⁽⁶⁾	Total
				Non-Equity Compensation	Non-Qualified Earnings	Deferred		
Barbara M. Baumann	\$ 15,000	\$ 215,079	\$	\$	\$	\$ 10,000	\$ 240,079	
Larry W. Bickle	\$ 10,000	\$ 215,079	\$	\$	\$	\$ 12,500	\$ 237,579	
Stephen R. Brand	\$ 55,000	\$ 160,033	\$	\$	\$	\$	\$ 215,033	
William J. Gardiner	\$ 20,000	\$ 215,079	\$	\$	\$	\$	\$ 235,079	
Loren M. Leiker ⁽¹⁾	\$	\$ 183,635	\$	\$	\$	\$	\$ 183,635	
Julio M. Quintana	\$	\$ 215,079	\$	\$	\$	\$	\$ 215,079	
John M. Seidl	\$ 55,000	\$ 160,033	\$	\$	\$	\$ 6,917	\$ 221,950	
William D. Sullivan	\$	\$ 290,102	\$	\$	\$	\$ 4,000	\$ 294,102	

(1) Mr. Leiker was issued 3,986 shares of our common stock upon his election to the Board on July 16, 2012. This pro rata stock award was for the period from July 16, 2012 through May 22, 2013, and is considered to be earned over the director's pro-rated annual service period and fully vested on May 22, 2013. The shares also carry a transfer restriction imposed by us that expires on May 24, 2014. The value of the stock awards represents the grant date fair value.

(2) Each of our non-employee directors, with the exception of Mr. Leiker, was issued 2,884 shares of our common stock on May 24, 2012, after such director's election to the Board on May 23, 2012. As discussed above in footnote 1, Mr. Leiker was issued 3,986 shares of our common stock upon his election to the Board on July 16, 2012. Mr. Sullivan was issued an additional 1,352 shares of our common stock on May 24, 2012,

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for serving as the Non-Executive Chairman of the Board. Ms. Baumann, Dr. Bickle, Mr. Gardiner, Mr. Quintana and Mr. Sullivan elected to receive an additional 992 shares of our common stock on May 24, 2012, in lieu of the \$55,000 annual cash retainer. These stock awards are for the annual service period from May 24, 2012 through May 22, 2013. The shares are considered to be earned over the director's annual service period and fully vested May 22, 2013. The shares also carry a transfer restriction imposed by us that expires two years after the date of issuance of the shares. The value of the stock awards represents the grant date fair value.

- (3) The grant date fair value of each share of our common stock issued to non-employee directors over their past three years of service to us is set forth in the following table and is computed in accordance with FASB ASC Topic 718, based on the closing stock price on the grant date. There were no forfeitures by directors during fiscal 2012.

Grant Date	Shares	Value	Grantee
7/16/2012	3,986	\$ 183,635	Leiker
5/24/2012	2,884	\$ 160,033	Brand, Seidl
5/24/2012	3,876	\$ 215,079	Baumann, Bickle, Gardiner, and Quintana
5/24/2012	5,228	\$ 290,102	Sullivan
5/26/2011	2,395	\$ 159,986	Brand, Seidl
5/26/2011	3,218	\$ 214,962	Baumann, Bickle, Gardiner, and Quintana
5/26/2011	3,517	\$ 234,936	Sullivan
3/21/2011	389	\$ 28,471	Brand
5/27/2010	3,750	\$ 159,975	Baumann, Bickle, Gardiner, Quintana, and Seidl
5/27/2010	5,508	\$ 234,971	Sullivan

- (4) As of December 31, 2012, our non-employee directors held the following number of shares of restricted stock, which was granted in 2012: Ms. Baumann 3,876, Dr. Bickle 3,876, Dr. Brand 2,884, Mr. Gardiner 3,876, Mr. Leiker 3,986, Mr. Quintana 3,876, Mr. Seidl 2,884, Mr. Sullivan 5,228.

- (5) For the year ended December 31, 2012, no stock options were issued to directors, nor have any stock options been issued to the directors since December 2004. As of December 31, 2012, the non-employee directors held the following number of stock options: Ms. Baumann 21,200, Dr. Bickle 21,200, and Mr. Gardiner 21,200. Dr. Brand, Mr. Leiker, Mr. Quintana, Mr. Seidl and Mr. Sullivan do not hold any outstanding stock options. The options described above are cumulative unexercised options granted to the directors over their years of service to us.

- (6) The amounts in this column represent matching charitable contributions made on the behalf of Ms. Baumann, Dr. Bickle, Mr. Seidl and Mr. Sullivan for the year 2012 under our matching charitable gift program.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

None of the directors who served on the Compensation Committee during fiscal year 2012 has ever served as one of our officers or employees. During fiscal year 2012, there were no Compensation Committee interlocks.

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PROPOSAL 1 ELECTION OF DIRECTORS

Our directors are elected annually. At the Annual Meeting, nine directors are to be elected to serve for one year or until their successors are elected and qualified. Based on the recommendations of the NCG Committee, the Board has nominated the following individuals for re-election as directors to serve until the 2014 Annual Meeting of Stockholders and until their successors have been elected and qualified, or until their earlier resignation or removal:

Barbara M. Baumann
Anthony J. Best
Larry W. Bickle
Stephen R. Brand
William J. Gardiner
Loren M. Leiker
Julio M. Quintana
John M. Seidl
William D. Sullivan

Each nominee is currently a director, and all nominees, other than Mr. Leiker, who was appointed to the Board effective September 16, 2012, were previously elected to the Board by our stockholders. Each nominee has consented to being named as a nominee in this Proxy Statement and has indicated a willingness to serve if elected. Although the Board does not contemplate that any of the nominees will be unable to serve, if such a situation arises prior to the Annual Meeting, the proxy holders will vote for the election of such other person(s) as may be nominated by the Board.

Set forth below is certain biographical information, as of the filing date of this Proxy Statement, for each nominee for election as director, including his or her principal occupation, business experience, and public company directorships held during the last five years. There are no family relationships among any of our directors or executive officers.

As discussed above, the NCG Committee utilizes the framework of our Corporate Governance Guidelines to select nominees based on their skills, achievements, and experience, and believes that each nominee should have experience in positions of responsibility and leadership, and an understanding of our oil and natural gas exploration and production business. The overall objective is to identify a group of directors that can best contribute to our long-term success. All of the nominees discussed below are seasoned leaders who bring to the Board a vast array of oil and gas industry, public and private company, and other business experience, all at the senior executive officer level, and who meet the director qualification standards set forth in our Corporate Governance Guidelines. Among other attributes, as a group, these nominations possess a wide breadth of varied skills and experience in leadership, the energy industry, finance and accounting, risk management, operations management, strategic planning, business development, regulatory and government affairs, corporate governance, human resources and compensation, and public policy qualities that led the NCG Committee and the Board to conclude that these individuals should serve as our directors at this time, in light of our business and structure, overall industry environment, and our long-term strategy. The specific experiences, qualifications, attributes, and skills of each nominee are briefly described in each nominee's biographical information below. In addition, the nominees, whose experiences cover various aspects of the energy industry, represent diverse backgrounds, skill sets, and viewpoints, with a blend of historical and newer perspectives on our company, and have a demonstrated ability to work collaboratively with candid discussion.

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	Age	Director Since
<p>Barbara M. Baumann. Ms. Baumann is President of Cross Creek Energy Corporation, a direct investor in and consultant to energy-related companies. Ms. Baumann has held that position since July 2003. From 2000 to July 2003, Ms. Baumann was Executive Vice President of Associated Energy Managers LLC, an investment manager and general partner of a private equity energy fund. From 1981 to 1999, Ms. Baumann worked for Amoco in a variety of positions, including serving as Vice President of the Company's San Juan Basin Business Unit. Ms. Baumann is also a director of UNS Energy Corporation (NYSE: UNS), the parent company for Tucson Electric Power Company and is an independent trustee of the Putnam Mutual Funds. Ms. Baumann brings to the Board over 26 years of experience in the oil and gas exploration and production industry, including broad strategic planning, economic evaluation, operational, natural gas marketing, and human resources management skills and experience, which are important to the oversight of our financial, operational, and compensation management functions. She also has significant financial management and accounting management experience, which is important in our oversight of our financial reporting and financial risk management functions. Ms. Baumann's service on other public company boards enhances her strong corporate governance background, and her position as an independent trustee of a large family of mutual funds provides important insights into stockholder concerns.</p>	57	2002
<p>Anthony J. Best. Mr. Best joined the Company in June 2006 as President and Chief Operating Officer. In December 2006, Mr. Best relinquished his position as Chief Operating Officer when Javan D. Ottoson was elected to that office. Mr. Best was elected Chief Executive Officer and a director of the Company in February 2007. Mr. Best relinquished position as President when the Board appointed Mr. Ottoson to that office in October 2012. From November 2005 to June 2006, Mr. Best was developing a business plan and securing capital commitments for a new exploration and production entity. From 2003 to October 2005, Mr. Best was President and Chief Executive Officer of Pure Resources, Inc., an independent oil and natural gas exploration and production company that was a subsidiary of Unocal, where he managed all of Unocal's onshore United States assets. From 2000 to 2002, Mr. Best had an oil and gas consulting practice, working with various energy firms. From 1979 to 2000, Mr. Best was with ARCO in a variety of positions, including serving as President ARCO Latin America, President ARCO Permian, Field Manager for Prudhoe Bay and VP External Affairs for ARCO Alaska. Mr. Best brings to the Board over 34 years of broad experience in the oil and gas exploration and production industry, and as our Chief Executive Officer, a deep understanding of our business, operations, and long-term strategic issues and goals.</p>		