

SM Energy Co
Form DEF 14A
April 12, 2011

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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 12, 2011

Dear Stockholder:

You are cordially invited to attend the 2011 Annual Meeting of Stockholders of SM Energy Company, which is to be held in the Forum Room of Wells Fargo Bank located at 1740 Broadway in Denver, Colorado, on Wednesday, May 25, 2011, at 3:30 p.m. local time.

At the Annual Meeting, you and the other stockholders of record on March 28, 2011, will vote on:

the election of eight individuals to our Board of Directors;

the ratification of the appointment by the Audit Committee of Deloitte & Touche LLP as our independent registered public accounting firm for 2011;

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

an advisory vote on the frequency of advisory votes regarding the compensation of our named executive officers.

You will also have the opportunity to hear reports on our operations and to ask questions of general interest. You can find other, more specific, information about the Annual Meeting in the accompanying Proxy Statement. You can find detailed information about our company in our 2010 Annual Report to Stockholders, which consists of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010, and is available on our website, www.sm-energy.com.

Pursuant to U.S. Securities and Exchange Commission rules, we may provide you with access to our proxy materials via the Internet. As a result, many beneficial owners of our stock will be receiving a Notice of Internet Availability of Proxy Materials (the "Notice") instead of a paper copy of the accompanying Proxy Statement and our 2010 Annual Report. The Notice contains instructions on how to access those documents over the Internet. The Notice also contains instructions on how to request a paper copy of our proxy materials, including the accompanying Proxy Statement, our 2010 Annual Report, and a form of proxy card. We will mail printed proxy materials to all stockholders of record.

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

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

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

Very truly yours,

Anthony J. Best
Chief Executive Officer and President

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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 25, 2011**

To All Stockholders:

The 2011 Annual Meeting of Stockholders of SM Energy Company is to be held in the Forum Room of Wells Fargo Bank located at 1740 Broadway in Denver, Colorado, on Wednesday, May 25, 2011, at 3:30 p.m. local time. The purposes of the Annual Meeting are to:

1. elect eight individuals to our Board of Directors to serve during the next year;
2. ratify the appointment by the Audit Committee of Deloitte & Touche LLP as our independent registered public accounting firm for 2011;
3. hold an advisory vote regarding the compensation of our named executive officers;
4. hold an advisory vote on the frequency of advisory votes regarding the compensation of our named executive officers; and
5. transact any 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 28, 2011, may vote at the Annual Meeting.

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

By Order of the Board of Directors
SM Energy Company,

C. Mark Brannum
Senior Legal Counsel and Secretary

Denver, Colorado
April 12, 2011

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SM Energy Company

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

PROXY STATEMENT

GENERAL

Name Change

On May 26, 2010, our stockholders voted to change the name of our company to SM Energy Company from St. Mary Land & Exploration Company.

Background

This Proxy Statement contains information about the 2011 Annual Meeting of Stockholders (the "Annual Meeting") of SM Energy Company to be held in the Forum Room of Wells Fargo Bank located at 1740 Broadway in Denver, Colorado, on Wednesday, May 25, 2011, at 3:30 p.m. local time. Our Board of Directors ("Board") is using this Proxy Statement to solicit proxies for use at the Annual Meeting. In this Proxy Statement, the terms "we," "us," and "our" refer to SM Energy Company inclusive of its subsidiaries.

The proxy materials, including this Proxy Statement, a proxy card or voting instruction card, and our 2010 Annual Report to Stockholders, which consists of our Annual Report on Form 10-K for the fiscal year ended December 31, 2010 ("2010 Annual Report"), are being distributed and made available on or about April 12, 2011. In accordance with rules and regulations adopted by the U.S. Securities and Exchange Commission (the "SEC"), we are furnishing our proxy materials to many beneficial owners of our stock via the Internet. A Notice of Internet Availability of Proxy Materials (the "Notice") will be mailed by intermediaries on or about April 12, 2011, to beneficial owners of our stock. Stockholders will have the ability to access the proxy materials on a website referred to in the Notice or request that we send them a printed set of the proxy materials by following the instructions in the Notice. The Notice will also provide instructions on how to vote your shares. The proxy materials are being mailed to all stockholders of record on or about April 12, 2011.

Purposes of the Annual Meeting

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

the election eight individuals to the Board to serve during the next year;

the ratification of the appointment by the Audit Committee of Deloitte & Touche LLP as our independent registered public accounting firm for 2011;

an advisory vote regarding the compensation of our named executive officers;

an advisory vote on the frequency of advisory votes regarding the compensation of our named executive officers; and

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the transaction of any 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 items noted above.

Who Can Vote

Only stockholders of record at the close of business on the record date, March 28, 2011, are entitled to receive notice of the Annual Meeting and to vote shares of our common stock held on that date. As of March 28, 2011, there were 63,615,858 shares of our common stock issued and outstanding, net of 102,246 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 broker, bank or other nominee 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 stock 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, since you are not the stockholder of record, you may not vote these shares in person at the Annual Meeting unless you obtained 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 by mailing a completed proxy card, via the Internet or by telephone. Instructions for voting via the Internet or by telephone are set forth on the enclosed proxy card. To vote by mailing a proxy card, sign, date and return the enclosed proxy card in the enclosed prepaid and addressed envelope and your shares will be voted at the Annual Meeting in the manner you direct. In the event no directions are specified, the proxies will be voted as follows:

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

FOR the ratification of the appointment by the Audit Committee of Deloitte & Touche LLP as our independent registered public accounting firm for 2011;

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

FOR every THREE YEARS as the frequency of future advisory votes regarding the compensation of our named executive officers; and

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

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Street Name Stockholder. If your shares are registered in the name of a bank or brokerage firm and you have not elected to receive your proxy materials electronically, you may nevertheless be eligible to vote your shares via the Internet or by telephone rather than by mailing a completed voting instruction card provided by the bank or brokerage firm. Please check the voting instructions card

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provided by your bank or brokerage firm for availability and instructions. If Internet or telephone voting is unavailable from your bank or brokerage firm, 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 in care of 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 nominee in accordance with that entity'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 broker or other nominee describing how to vote your shares. If you do not instruct your broker or nominee how to vote your shares, they may vote your shares as they decide as to each matter for which they have discretionary authority under the rules of the New York Stock Exchange ("NYSE").

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

Abstentions occur when stockholders are present at the Annual Meeting but fail to vote or voluntarily withhold their vote for any of the matters upon which the 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*) and Proposal 4 (*Advisory Vote on the Frequency of Executive Compensation Advisory Votes*), and your shares will be considered "broker non-votes" with respect to these proposals. If your shares are held in street name

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and you do not give voting instructions, the record holder will nevertheless be entitled to vote your shares with respect to Proposal 2 (*Ratification of Appointment of Deloitte & Touche LLP as our Independent Registered Public Accounting Firm for 2011*) in the discretion of the record holder.

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

Proposal 2 (*Ratification of Appointment of Deloitte & Touche LLP as Our Independent Registered Public Accounting Firm for 2011*): Under our By-Laws, ratification of the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2011, 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*): Under our By-Laws, 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 our company or the Board, nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on, our company or the Board. However, the Compensation Committee will take into account the outcome of the vote when considering future executive compensation decisions.

Proposal 4 (*Advisory Vote on the Frequency of Executive Compensation Advisory Votes*): Under our By-Laws, 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 but will have no effect on the outcome of the vote on this proposal. Broker non-votes will have no effect on the outcome of the vote on this proposal. However, because this vote is advisory and non-binding, if none of the frequency options receive a majority vote of the shares present in person or by proxy at the Annual Meeting and entitled to vote, the option receiving the greatest number of votes will be considered the frequency recommended by our stockholders. While this vote is required by law, it will neither be binding on our company or the Board, nor will it create or imply any change in the fiduciary duties of, or impose any additional fiduciary duty on, our company or the Board. However, the Board will take into account the outcome of this vote in making a determination on the frequency at which advisory votes on executive compensation will be included in our proxy statements for future annual meetings.

Payment of Proxy Solicitation Costs

We will pay all costs of soliciting proxies. We have retained Alliance Advisors LLC to assist in the solicitation of proxies for an estimated fee of \$8,500, plus reimbursement of reasonable out-of-pocket expenses. The solicitation may be made personally or by mail, facsimile, telephone, messenger, or via the Internet. In addition, our officers, directors, and employees may also solicit proxies in person, by

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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 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: Corporate Governance Guidelines, Code of Business Conduct and Ethics, which applies to all employees, officers, and members of the Board, and the charters for the Audit, Compensation, Executive, and Nominating and Corporate Governance Committees. 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, our 2010 Annual Report, and our Proxy Statement that are delivered 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, 2010 Annual Report or Proxy Statement, please submit a request to our Corporate Secretary at 1775 Sherman Street, Suite 1200, Denver, CO 80203 or call (303) 861-8140, and we will promptly send you what you have requested. You can also contact our Corporate Secretary at the address and phone number above if you receive multiple copies of our proxy materials and you would prefer to receive a single copy in the future, or if you would like to opt out of householding for future mailings. Beneficial owners can request information about householding from their banks, brokers, or other holders of record.

**IMPORTANT NOTICE REGARDING THE INTERNET AVAILABILITY OF
PROXY MATERIALS FOR THE STOCKHOLDERS
MEETING TO BE HELD ON MAY 25, 2011**

The Notice of Annual Meeting of Stockholders, the Proxy Statement for the 2011 Annual Meeting of Stockholders, and the 2010 Annual Report to Stockholders, which includes the Annual Report on Form 10-K for the fiscal year ended December 31, 2010, are available at www.proxyease.com/sm-energy/2011

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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, Corporate Governance Guidelines and a Code of Business Conduct and Ethics (the "Code"). These documents provide the framework for our corporate governance. A complete copy of the current version of each of these documents is available on our website at www.sm-energy.com or in print, free of charge, to any stockholder who requests it by contacting our Corporate Secretary. The Board regularly reviews corporate governance developments and modifies our governance documents as appropriate.

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

Board and Committee Independence

The Board is comprised of a majority of independent directors. The Board has determined that Ms. Baumann, Dr. Bickle, Dr. Brand, Mr. Gardiner, Mr. Quintana, Mr. Seidl and Mr. Sullivan are independent and do not have any material relationship with our company 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 our company. 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 the following transactional relationship: as discussed in more detail in the "Related Person Transactions" section below, we entered into an agreement with TESCO Corporation, for which Mr. Quintana serves as an employee, executive officer, and director, whereby TESCO may provide certain oilfield drilling technology services to us. In 2010, we paid TESCO \$346,683, which represented 0.09% of TESCO's total reported revenues for 2010 of \$378.7 million, and as of March 31, 2011, we had paid TESCO \$291,635 for services in 2011. Mr. Quintana had no input or involvement in our selection of TESCO for these services, and our selection was based on TESCO's industry recognized ability to supply specific high quality tools and services for our drilling and completion needs, particularly our well casing operations in the Haynesville shale area of our ArkLaTex region.

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

Board Leadership Structure

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

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The Board believes that this leadership structure is optimal for our company 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, Executive Committee meetings, and executive sessions of the Board; and serving as a liaison between our management and directors on a regular basis.

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

In addition to having an independent Chairman of the Board, the Board has a separate lead independent director position. Mr. Seidl currently serves in that capacity, and in Mr. Seidl's absence, Mr. Sullivan serves as lead independent director. The lead independent director is responsible for presiding at executive sessions of non-management directors, which typically meet immediately before or after each regularly scheduled meeting of the Board or as deemed necessary.

The Board has seven independent members and only one non-independent member, the 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, the Board has three committees comprised solely of independent directors, and each has a different independent director serving as chairperson 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 the 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 our company and our stockholders.

Communications with the Board

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

Board and Committee Meetings

The full Board met 11 times during 2010. Each incumbent director participated in at least 10 of the Board meetings and 80% of the committee meetings held during the director's tenure on the Board in 2010. It is our policy that each director is expected to attend the Annual Meeting of Stockholders. Each director attended the 2010 Annual Meeting of Stockholders.

The Board has an Audit Committee, Nominating and Corporate Governance Committee, Compensation Committee, and an Executive Committee. Each of the committees and the entire Board separately evaluated their respective performance for the year 2010 and completed written evaluations. The performance evaluation process was supervised by and reviewed by the NCG Committee and discussed among and approved by the full Board.

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The following table sets forth the members of each committee, as of December 31, 2010, and the number of meetings held in 2010.

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		
William J. Gardiner	X*			X
Julio M. Quintana			X	
John M. Seidl	X	X*		
William D. Sullivan		X	X	X*
Number of meetings in 2010	7	5	8	0

*

Chairperson

The Audit Committee assists the Board in fulfilling its oversight responsibilities of our financial reporting and internal control processes. Audit Committee members are prohibited from serving on more than three audit committees of public companies. The Audit Committee is solely responsible for the engagement and discharge of our independent registered public accounting firm and reviews our quarterly and annual financial results. The Audit Committee reviews the audit plan and the results of the audit with our independent auditors and reviews the independence of the auditors, the range of audit fees, the scope and adequacy of our system of internal accounting controls, and our financial risk management policies. The Audit Committee also has oversight responsibility for our internal audit function. The Audit Committee is currently composed of three directors, each of whom is independent as defined by the NYSE listing standards. See the "Report of the Audit Committee" contained in this Proxy Statement. While all of the Audit Committee members are considered financially literate, the Board has determined that two of the three members of the current Audit Committee, Mr. Gardiner and Mr. Seidl, are audit committee financial experts as the term is defined by the SEC. As described above, Messrs. Gardiner and Seidl are also independent.

The NCG Committee's primary function is to nominate individuals to be elected to the Board and to oversee all corporate governance policies of our company. For additional information on the functions performed by the NCG Committee, see "Director Nominations" below.

The Compensation Committee's primary function is to oversee the administration of our employee benefit plans and to establish our compensation policies. The Compensation Committee approves and/or recommends to the Board the compensation arrangements for senior management and directors, adoption of compensation plans in which 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 and our company 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.

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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 the Chairman of the Board and Mr. Best serving as Chief Executive Officer, supports this approach by facilitating communication between management and the Board regarding risk management issues. We also believe that this design better positions the Board to evaluate the performance of management, more efficiently facilitates communication of the views of the independent directors, and contributes to effective corporate governance.

In conjunction with our annual business plan process, management completes and updates an enterprise risk management document (the "ERM Document"), utilizing the Committee of Sponsoring Organizations of the Treadway Commission Enterprise Risk Management framework and incorporating the information gathered during business strategy sessions. Risk prevention or mitigation steps are documented for the more material risks identified based upon projected likelihood and impact of any occurrence of the particular risk. The final ERM Document becomes part of our Business Plan for each year.

We also maintain a Financial Risk Management Committee made up of the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, Treasurer and the Vice President Engineering and Evaluation. The Financial Risk Management Committee meets separately and, together with management, conducts an update of the Enterprise Risk Management process. Minutes of these meetings are recorded, 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. As part of this framework, the Audit Committee reviews and discusses with management our risk assessment and risk management guidelines and policies with respect to our significant financial risk exposures, and the steps management has taken, as well as the specific guidelines and policies which have been established, to monitor, control, mitigate, and report those exposures. These reviews and discussions cover our oil and natural gas commodity price hedging arrangements, interest rate risk management, and insurance coverage, as appropriate. In addition, our internal auditors, who report directly to the Audit Committee with respect to internal audit matters, provide the Audit Committee and management with ongoing assessments of our risk management processes. The Audit Committee also has oversight responsibility for the integrity of our financial statements and financial reporting processes and systems of internal controls regarding finance, accounting, and compliance with legal and regulatory requirements. In addition, the Compensation Committee periodically reviews our most significant risks to ensure that compensation programs 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 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 2010 and early 2011. 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

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positions of responsibility and leadership, an understanding of our business environment, and a reputation for integrity. In addition, the Corporate Governance Guidelines provide that a director who retires or experiences a significant change in his or her professional or business responsibilities, including a change in his or her principal occupation, position or business affiliation, should, if requested by the NCG Committee, be prepared to offer his or her resignation from the Board. Upon tender of a resignation, the NCG Committee and the Board may review the continued appropriateness of Board membership under the circumstances.

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

When seeking new director candidates, the NCG Committee solicits suggestions from incumbent directors, management, stockholders, and others. The NCG Committee screens all potential candidates in the same manner regardless of the source of the recommendation. The NCG Committee has authority under its charter to retain a search firm for this purpose. If the NCG Committee believes a candidate would be a valuable addition to the Board, it recommends his or her candidacy to the Board. During 2010 and 2011, the NCG Committee began a search for a new Board member. The NCG Committee first solicited suggestions from incumbent directors, management, stockholders, and others, and then engaged Korn/Ferry International, an executive and director search firm, to help identify and evaluate potential candidates for an additional member of the Board, with a specific charge to identify candidates with extensive geosciences experience. Stephen R. Brand was identified as such a candidate and was recommended to the NCG Committee by Korn/Ferry, and after reviewing Dr. Brand's skills and qualifications with Korn/Ferry, and interviewing Dr. Brand, the NCG Committee recommended Dr. Brand's appointment to the Board in March 2011.

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

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

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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 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 (1) we are a participant, (2) the aggregate amount involved will or may be expected to exceed \$120,000, and (3) a related person has or will have a direct or indirect material interest. For purposes of the Related Person Policy, a "related person" means (1) any of our directors, executive officers, or nominees for director, (2) any stockholder that beneficially owns more than 5% of our outstanding shares of common stock, and (3) 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, the best interests of our company and its 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 Chairman 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 see that they are in compliance with the policy and remain appropriate.

In addition, our By-Laws provide that a director, officer, or employee of our company may not pursue for his or her own account a business or investment opportunity that he or she learned about through his or her affiliation with our company. Our By-Laws also provide that our officers or employees may not pursue for his or her own account an oil and gas opportunity that he or she independently learned about unless (1) with respect to an officer of our company, the officer's pursuit of the opportunity has been approved by the Board, and (2) with respect to a non-officer of our company, the employee's pursuit of the opportunity has been approved by a senior officer of our company with full knowledge of that opportunity. These restrictions do not apply to the acquisition of less than 1% of the publicly traded stock of another company.

Related Person Transactions

We recognize that transactions with related persons may raise questions among stockholders as to whether those transactions are consistent with our best interests and the 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, the best interests of our company and its stockholders, including but not limited to situations where we may obtain products or services of a nature, quantity or quality, or on other terms, that are not readily available from alternative sources or when we provide products or services to related persons on an arm's length basis on terms comparable to those provided to unrelated third parties or on terms comparable to those provided to employees generally. Set forth below is a description of all transactions between our company and related persons since the beginning of January 1, 2010.

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Mr. Quintana is the President, Chief Executive Officer, and a director of TESCO Corporation, which designs, manufactures, and delivers technology based solutions for the upstream energy industry, including oilfield drilling technology, services, and equipment. We have an agreement with TESCO for the provision of services to us in connection with our drilling and completion operations. This agreement continues until canceled by either us or TESCO on 30 days advance written notice. Pursuant to this agreement, we are obligated to pay TESCO only for services actually performed. This agreement does not require us to make any other payments to TESCO. Prior to 2010, the services provided by TESCO and the amounts we paid did not exceed the threshold amount for review under our Related Person Policy. In May 2010, as part of its annual review of related party transactions, the Audit Committee reviewed the relationship between TESCO and our company and determined at such time that we had not paid any amounts to TESCO during 2010. During August 2010 through December 2010, TESCO provided services to us in our ArkLaTex region. In December 2010, the Audit Committee again reviewed the relationship between our company and TESCO, but the final 2010 amounts paid to or incurred to be paid to TESCO were not then available for review. Upon the later calculation of the final 2010 amounts paid to TESCO, we determined that we had paid TESCO \$346,683 for services rendered after August 2010. In addition, as of March 31, 2011, we had paid TESCO \$291,635 for services in 2011. Based upon these amounts, the Audit Committee reviewed the relationship between our company and TESCO and determined that the relationship is in the best interests of our company and its stockholders.

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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, 2011, by all beneficial owners of more