

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

**FORM 8-K**

**CURRENT REPORT**

**Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported)  
November 2, 2010 (November 2, 2010)

**SM Energy Company**  
(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction  
of incorporation)

001-31539  
(Commission  
File Number)

41-0518430  
(I.R.S. Employer  
Identification No.)

1775 Sherman Street, Suite 1200,                      80203  
Denver, Colorado    (Zip Code)  
(Address of principal executive offices)

Registrant's telephone number, including area code: (303) 861-8140

Not applicable  
(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2.):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Item 2.02 Results of Operations and Financial Condition.**

In accordance with General Instruction B.2. of Form 8-K, the following information, including Exhibits 99.1 and 99.2, shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934 (the "Exchange Act") or otherwise subject to the liabilities of that section, nor shall such information and Exhibits be deemed incorporated by reference in any filing under the Securities Act of 1933 or the Exchange Act, except as shall be expressly set forth by specific reference in such a filing.

On November 2, 2010, SM Energy Company (the "Company") issued a press release announcing its results of operations for the third quarter of 2010. A copy of the press release is furnished as Exhibit 99.1 to this report and incorporated by reference herein. As indicated in the press release, the Company has scheduled a third quarter 2010 earnings teleconference call for November 3, 2010, at 8:00 a.m. (Mountain Time). The teleconference call is publicly accessible, and the press release includes instructions as to when and how to access the teleconference and the location on the Company's web site where the teleconference information will be available.

The press release also contains information about the Company's operating cash flow, which is a "non-GAAP financial measure" under SEC rules. The press release also presents information about the Company's net cash provided by operating activities, which is the most directly comparable GAAP financial measure, and contains a reconciliation of operating cash flow to net cash provided by operating activities for the periods presented, a presentation of other cash flow information under GAAP, and a statement indicating why management believes that the presentation of operating cash flow provides useful information to investors.

The press release contains information about the Company's adjusted net income, which is a "non-GAAP financial measure" under SEC rules. The press release also presents information about the Company's net income, which is the most directly comparable GAAP financial measure, and contains a reconciliation of adjusted net income to net income for the periods presented and a statement indicating why management believes that the presentation of adjusted net income provides useful information to investors.

Additionally, on November 2, 2010, the Company issued a separate press release providing an update of its operating activities and performance guidance for the remainder of 2010. A copy of the press release is furnished as Exhibit 99.2 to this report and incorporated by reference herein.

**Item 9.01 Financial Statements and Exhibits.**

(d) Exhibits.

The following exhibits are furnished as part of this report:

Exhibit 99.1

Press release of SM Energy Company dated November 2, 2010, entitled SM Energy Reports Results for Third Quarter of 2010

Exhibit 99.2

Press release of SM Energy Company dated November 2, 2010, entitled SM Energy Provides Operations Update on Key Programs

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

SM ENERGY COMPANY

Date: November 2, 2010

By: /s/ MARK T. SOLOMON  
Mark T. Solomon  
Controller

A. Collins

861-8140

FOR IMMEDIATE RELEASE

## SM ENERGY REPORTS RESULTS FOR THIRD QUARTER OF 2010

- Quarterly production of 298.4 MMCFE/d at high end of guidance of 277-299 MMCFE/d
- Sequential equivalent daily production growth of 8%; daily oil production grows 12% from second quarter of 2010
- Company reports net income of \$15.5 million, or \$0.24 per diluted share
- Adjusted net income of \$20.0 million, or \$0.31 per diluted share
- Costs within or below guidance for the quarter

DENVER, November 2, 2010 – SM Energy Company (NYSE: SM) today reports financial results from the third quarter of 2010. In addition, a new presentation covering these results and updating the Company's operating activities will be posted on its website at sm-energy.com. This presentation will be referenced during the conference call scheduled for 8:00 a.m. Mountain time (10:00 a.m. Eastern time) on November 3, 2010. Information for the earnings call can be found below.

## MANAGEMENT COMMENTARY

Tony Best, CEO and President, remarked, "SM Energy has had another very solid quarter. We performed very well against our guidance and continue to execute well on our business plan. We look to have a strong finish to 2010 and position ourselves for even greater success in 2011."

## THIRD QUARTER 2010 RESULTS

SM Energy posted net income for the third quarter of 2010 of \$15.5 million, or \$0.24 per diluted share. This compares to a net loss of (\$4.4 million), or (\$0.07) per diluted share, for the same period in 2009. Adjusted net income for the quarter was \$20.0 million, or \$0.31 per diluted share, versus adjusted net income of \$14.7 million, or \$0.23 per diluted share, for the third quarter of 2009. Adjusted net income excludes certain items that the Company believes affect the comparability of operating results. Items excluded are generally one-time items or are items whose timing and/or amount cannot be reasonably estimated. A summary of the adjustments made to arrive at adjusted net income is presented in the table below.

	For the Three Months Ended September 30,			
	2010		2009	
Weighted-average diluted share count (in millions)	64.8		62.5	
	Per Diluted Share		Per Diluted Share	
	\$ in millions	\$ in millions	\$ in millions	\$ in millions
Reported net income (loss)	\$ 15.5	\$ (4.4)	\$ (0.07)	\$ (0.07)
<b>Adjustments net of tax:</b>				
Change in Net Profits Plan liability	\$ 2.5	\$ 4.3	\$ 0.07	\$ 0.07
Unrealized derivative loss	\$ 3.6	\$ 2.6	\$ 0.04	\$ 0.04
(Gain) loss on divestiture activity	\$ (2.6)	\$ 7.1	\$ 0.11	\$ 0.11
Loss related to hurricanes	-	\$ 0.7	\$ 0.01	\$ 0.01
Adjusted net income (loss), before impairments	\$ 19.0	\$ 10.3	\$ 0.29	\$ 0.16
<b>Non-cash impairments net of tax:</b>				
Impairment of proved properties	-	\$ 0.1	\$ 0.00	\$ 0.00
Abandonment and impairment of unproved properties	\$ 1.1	\$ 3.0	\$ 0.05	\$ 0.05
Impairment of materials inventory	-	\$ 1.3	\$ 0.02	\$ 0.02
Adjusted net income	\$ 20.0	\$ 14.7	\$ 0.31	\$ 0.23

NOTE: Totals may not add due to rounding

Operating cash flow increased to \$130.1 million for the third quarter of 2010 from \$99.9 million in the same period last year. Net cash provided by operating activities also increased to \$148.2 million for the third quarter of 2010 from \$111.3 million in the same period in 2009.

Adjusted net income and operating cash flow are non-GAAP financial measures – please refer to the respective reconciliation in the accompanying Financial Highlights section at the end of this release for additional information about these measures.

SM Energy reported quarterly production of 298.4 MMCFE/d, which was at the high end of the guidance range of 277 to 299 MMCFE/d. Production came in at the high end of guidance primarily due to strong results in the Company's Eagle Ford shale program. Sequentially equivalent production grew 8% from 276.4 MMCFE/d in the second quarter of 2010 driven by a 12% increase in oil production.

Revenues and other income for the current quarter were \$226.9 million compared to \$185.8 million for the same period in 2009. For the third quarter of 2010, the average equivalent price per MCFE, net of hedging, was \$7.51 per MCFE, which is an increase of 9% from the \$6.86 per MCFE realized in the comparable period in 2009. Average realized prices, inclusive of hedging activities, were \$5.81 per Mcf and \$64.28 per barrel in the third quarter of 2010, which is an increase of 17% and 3%, respectively, from the same period a year ago. SM Energy reports its gas volumes on a "wet gas" basis, meaning that revenue dollars associated with natural gas liquids ("NGLs") are reported within the Company's natural

gas revenues.

Lease operating expense (“LOE”) of \$1.06 per MCFE in the third quarter of 2010 was below the Company’s guidance of \$1.20 to \$1.25 per MCFE. Lease operating expense for the quarter represents an 18% decrease from the \$1.30 per MCFE in the comparable period last year. Sequentially, LOE declined 8% or \$0.09 per MCFE in the third quarter of 2010 from the preceding quarter. A decline in workover activity in the Rocky Mountain region resulting from the divestiture of non-core assets early in the year was a driver for the decline in LOE. LOE on a per MCFE basis is also being driven lower by higher production.

Transportation expense of \$0.18 per MCFE in the third quarter of 2010 was below guidance of \$0.21 to \$0.23 per MCFE. The reported per unit expense decreased from \$0.20 per MCFE for the comparable period in 2009. Sequentially, transportation expense was also down 10% from \$0.20 per MCFE in the second quarter of 2010.

Production taxes on a per MCFE basis increased 15% from \$0.34 to \$0.39 between the third quarters of 2009 and 2010. The increase is a function of commodity price realizations, which on a pre-hedge basis were higher in the third quarter of 2010 compared to the same period last year. The Company’s realized production tax rate for the third quarter was 5.4%, which was below the provided guidance of 7% of pre-hedge oil and natural gas revenue. The difference from guidance is related to severance tax holidays benefitting the Mid-Continent region in the third quarter of 2010.

Total general and administrative (“G&A”) expense for the third quarter of 2010 was \$0.96 per MCFE, which was below the guidance range of \$1.04 to \$1.10 per MCFE provided by the Company. Cash G&A expense was \$0.61 per MCFE for the quarter, compared to a guidance range of \$0.65 to \$0.67 per MCFE. Non-cash G&A for the third quarter was \$0.21 per MCFE versus a guidance range of \$0.20 to \$0.22 per MCFE. G&A related to cash payments from the Company’s legacy Net Profits Plan (“NPP”) program was \$0.14 per MCFE in the quarter compared to a guidance range of \$0.19 to \$0.21 per MCFE.

Depletion and depreciation expense (“DD&A”) was \$3.05 per MCFE in the third quarter of 2010, which was within the Company’s guidance range of \$2.90 to \$3.10 per MCFE. Sequentially, DD&A decreased 4% from \$3.17 per MCFE in the second quarter of 2010. The Company’s DD&A rate is impacted by a number of factors, including divestitures and the accounting treatment of assets held for sale.

In the third quarter of 2010, SM Energy recognized a pre-tax non-cash expense of \$4.1 million as a result of an increase in the NPP liability. The NPP liability is a significant management estimate that is highly sensitive to a number of assumptions including future commodity prices, production rates, and operating costs. The last pool created under this legacy compensation plan was in 2007.

## **FINANCIAL POSITION AND LIQUIDITY**

As of September 30, 2010, SM Energy had total long-term debt of \$275.4 million. The balance on the Company’s 3.50% Senior Convertible Notes was \$273.4 million, net of debt discount, and the Company’s long-term credit facility had a balance of \$2.0 million. The Company’s debt-to-book capitalization ratio was 19% as of the end of the quarter.

The borrowing base for the long-term credit facility was re-determined by SM Energy’s bank group on September 21, 2010, and was increased from \$900 million to \$1.1 billion. The Company has a commitment amount of \$678 million from the Company’s bank group. SM Energy is in compliance with all of the covenants associated with this facility.

## **EARNINGS CALL INFORMATION**

The Company has scheduled a teleconference to discuss the third quarter results on November 3, 2010 at 8:00 a.m. Mountain time (10:00 a.m. Eastern time). The call participation number is 800-573-4752 and the participant passcode is 96275028. An audio replay of the call will be available approximately two hours after the call at 888-286-8010, with the passcode 89724964. International participants can dial 617-224-4324 to take part in the conference call, using passcode 96275028 and can access a replay of the call at 617-801-6888, using passcode 89724964. Replays can be accessed through November 17, 2010.

This call is being webcast live and can be accessed at SM Energy Company’s website at [sm-energy.com](http://sm-energy.com). An audio recording of the conference call will be available at that site through November 17, 2010.

## **INFORMATION ABOUT FORWARD LOOKING STATEMENTS**

This release contains forward looking statements within the meaning of securities laws, including forecasts and projections. The words “will,” “believe,” “budget,” “anticipate,” “plan,” “intend,” “estimate,” “forecast,” “look,” and “expect” and similar expressions are intended to identify forward looking statements. These statements involve known and unknown risks, which may cause SM Energy’s actual results to differ materially from results expressed or implied by the forward looking statements. These risks include such factors as the volatility and level of oil and natural gas prices, uncertainties inherent in projecting future rates of production from drilling activities and acquisitions, the availability of debt and equity financing for purchasers of oil and gas properties, the ability of the banks in the Company’s credit facility to fund requested borrowings, the ability of hedge counterparties to settle hedges in favor of the Company, the risks associated with the Company’s hedging strategy, the uncertain nature of the expected benefits from the divestiture or joint ventures of oil and gas properties, the ability to close announced divestitures or joint venture of oil and gas properties, and other such matters discussed in the “Risk Factors” section of SM Energy’s 2009 Annual Report on Form 10-K and subsequent quarterly reports filed on Form 10-Q. Although SM Energy may from time to time voluntarily update its prior forward looking statements, it disclaims any commitment to do so except as required by securities laws.

## **ABOUT THE COMPANY**

SM Energy Company, formerly named St. Mary Land & Exploration Company, is an independent energy company engaged in the exploration, exploitation, development, acquisition, and production of natural gas and crude oil. SM Energy routinely posts important information about the Company on its website. For more information about SM Energy, please visit its website at [sm-energy.com](http://sm-energy.com).

**SM ENERGY COMPANY**  
**FINANCIAL HIGHLIGHTS**  
September 30, 2010

**Guidance Comparison**

	For the Three Months Ended September 30, 2010	
	Actual	Guidance Range
Oil and gas production (MMCFE per day)	298.4	277 - 299
Lease operating expense (per MCFE)	\$ 1.06	\$ 1.20 - \$1.25
Transportation expense (per MCFE)	\$ 0.18	\$ 0.21 - \$0.23
Production taxes, as a percentage of pre-hedge revenue	5.4%	7%
General and administrative - cash (per MCFE)	\$ 0.61	\$ 0.65 - \$0.67
General and administrative - cash related to Net Profits Plan (per MCFE)	\$ 0.14	\$ 0.19 - \$0.21
General and administrative - non-cash (per MCFE)	\$ 0.21	\$ 0.20 - \$0.22
General and administrative - TOTAL (per MCFE)	\$ 0.96	\$ 1.04 - \$1.10
Depreciation, depletion, and amortization (per MCFE)	\$ 3.05	\$ 2.90 - \$3.10

**Production Data**

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2010	2009	Percent Change	2010	2009	Percent Change
<b>Average realized sales price, before hedging:</b>						
Oil (per Bbl)	\$ 68.56	\$ 61.93	11%	\$ 70.70	\$ 49.82	42%
Gas (per Mcf)	4.93	3.37	46%	5.20	3.49	49%
<b>Average realized sales price, net of hedging:</b>						
Oil (per Bbl)	\$ 64.28	\$ 62.65	3%	\$ 65.46	\$ 54.32	21%
Gas (per Mcf)	5.81	4.95	17%	6.07	5.44	12%
<b>Production:</b>						
Oil (MMBbls)	1.6	1.5	4%	4.5	4.8	-6%
Gas (Bcf)	17.9	17.2	4%	51.2	54.1	-5%
BCFE (6:1)	27.5	26.4	4%	78.3	83.0	-6%
<b>Daily production:</b>						
Oil (MBbls per day)	17.3	16.6	4%	16.6	17.6	-6%
Gas (MMcf per day)	194.8	187.1	4%	187.4	198.0	-5%
MMCFE per day (6:1)	298.4	286.7	4%	286.9	303.8	-6%
<b>Margin analysis per MCFE:</b>						
Average realized sales price, before hedging	\$ 7.19	\$ 5.79	24%	\$ 7.48	\$ 5.16	45%
Average realized sales price, net of hedging	7.51	6.86	9%	7.75	6.70	16%
Lease operating expense	1.06	1.30	-18%	1.12	1.34	-16%
Transportation	0.18	0.20	-10%	0.18	0.19	-5%
Production taxes	0.39	0.34	15%	0.46	0.33	39%
General and administrative	0.96	0.79	22%	0.96	0.67	43%
Operating margin	\$ 4.92	\$ 4.23	16%	\$ 5.03	\$ 4.17	21%
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	\$ 3.05	\$ 2.54	20%	\$ 3.08	\$ 2.76	12%

**Consolidated Statements of Operations**

(In thousands, except per share amounts)

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2010	2009	2010	2009
Operating revenues and other income:				
Oil and gas production revenue	\$ 197,354	\$ 152,651	\$ 586,128	\$ 428,347
Realized oil and gas hedge gain	8,847	28,331	20,771	127,230
Gain (loss) on divestiture activity	4,184	(11,277)	132,183	(10,632)
Marketed gas system and other operating revenue	16,499	16,082	59,634	45,260
Total operating revenues and other income	<u>226,884</u>	<u>185,787</u>	<u>798,716</u>	<u>590,205</u>
Operating expenses:				
Oil and gas production expense	44,606	48,634	138,114	153,928
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	83,800	66,958	241,335	229,061
Exploration	14,437	15,733	42,833	48,821
Impairment of proved properties	-	91	-	153,183
Abandonment and impairment of unproved properties	1,719	4,761	4,998	20,294
Impairment of materials inventory	-	2,114	-	13,449
General and administrative	26,219	20,790	75,103	55,349
Change in Net Profits Plan liability	4,086	6,804	(29,785)	(14,038)
Marketed gas system expense	14,697	14,360	52,550	41,352
Unrealized derivative (gain) loss	5,727	4,117	(4,095)	17,251
Other expense	541	968	2,071	12,424
Total operating expenses	<u>195,832</u>	<u>185,330</u>	<u>523,124</u>	<u>731,074</u>
Income (loss) from operations	31,052	457	275,592	(140,869)
Nonoperating income (expense):				
Interest income	85	90	268	217
Interest expense	(6,339)	(7,565)	(19,469)	(21,324)
Income (loss) before income taxes	24,798	(7,018)	256,391	(161,976)
Income tax benefit (expense)	(9,346)	2,603	(96,693)	61,616
<b>Net income (loss)</b>	<b>\$ 15,452</b>	<b>\$ (4,415)</b>	<b>\$ 159,698</b>	<b>\$ (100,360)</b>
Basic weighted-average common shares outstanding	<u>63,031</u>	<u>62,505</u>	<u>62,914</u>	<u>62,420</u>
Diluted weighted-average common shares outstanding	<u>64,794</u>	<u>62,505</u>	<u>64,599</u>	<u>62,420</u>
<b>Basic net income (loss) per common share</b>	<b>\$ 0.25</b>	<b>\$ (0.07)</b>	<b>\$ 2.54</b>	<b>\$ (1.61)</b>
<b>Diluted net income (loss) per common share</b>	<b>\$ 0.24</b>	<b>\$ (0.07)</b>	<b>\$ 2.47</b>	<b>\$ (1.61)</b>

**Consolidated Balance Sheets**

(In thousands, except share amounts)

ASSETS	September 30, 2010	December 31, 2009
Current assets:		
Cash and cash equivalents	\$ 7,089	\$ 10,649
Accounts receivable	121,010	116,136
Refundable income taxes	1,371	32,773
Prepaid expenses and other	12,847	14,259
Derivative asset	56,199	30,295
Deferred income taxes	-	4,934
Total current assets	<u>198,516</u>	<u>209,046</u>
Property and equipment (successful efforts method), at cost:		
Land	1,483	1,371
Proved oil and gas properties	3,137,262	2,797,341
Less - accumulated depletion, depreciation, and amortization	(1,234,802)	(1,053,518)
Unproved oil and gas properties, net of impairment allowance of \$62,395 in 2010 and \$66,570 in 2009	79,466	132,370
Wells in progress	129,102	65,771
Materials inventory, at lower of cost or market	27,810	24,467
Oil and gas properties held for sale less accumulated depletion, depreciation, and amortization	114,863	145,392
Other property and equipment, net of accumulated depreciation of \$17,301 in 2010 and \$14,550 in 2009	19,048	14,404
	<u>2,274,232</u>	<u>2,127,598</u>
Other noncurrent assets:		
Derivative asset	29,444	8,251
Other noncurrent assets	16,805	16,041
Total other noncurrent assets	<u>46,249</u>	<u>24,292</u>
<b>Total Assets</b>	<b><u>\$ 2,518,997</u></b>	<b><u>\$ 2,360,936</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 316,179	\$ 236,242
Derivative liability	53,732	53,929
Deposit associated with oil and gas properties held for sale	-	6,500
Deferred income taxes	1,143	-
Total current liabilities	<u>371,054</u>	<u>296,671</u>
Noncurrent liabilities:		
Long-term credit facility	2,000	188,000
Senior convertible notes, net of unamortized discount of \$14,096 in 2010, and \$20,598 in 2009	273,404	266,902
Asset retirement obligation	64,286	60,289
Asset retirement obligation associated with oil and gas properties held for sale	3,076	18,126
Net Profits Plan liability	140,506	170,291
Deferred income taxes	422,021	308,189
Derivative liability	25,450	65,499
Other noncurrent liabilities	14,749	13,399
Total noncurrent liabilities	<u>945,492</u>	<u>1,090,695</u>
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value: authorized - 200,000,000 shares; issued: 63,147,163 shares in 2010 and 62,899,122 shares in 2009; outstanding, net of treasury shares: 63,044,978 shares in 2010 and 62,772,229 shares in 2009	631	629
Additional paid-in capital	183,203	160,516
Treasury stock, at cost: 102,635 shares in 2010 and 126,893 shares in 2009	(456)	(1,204)
Retained earnings	1,004,984	851,583
Accumulated other comprehensive income (loss)	14,089	(37,954)
Total stockholders' equity	<u>1,202,451</u>	<u>973,570</u>
<b>Total Liabilities and Stockholders' Equity</b>	<b><u>\$ 2,518,997</u></b>	<b><u>\$ 2,360,936</u></b>

## Consolidated Statements of Cash Flows

(In thousands)

	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2010	2009	2010	2009
Cash flows from operating activities:				
Net income (loss)	\$ 15,452	\$ (4,415)	\$ 159,698	\$ (100,360)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
(Gain) loss on divestiture activity	(4,184)	11,277	(132,183)	10,632
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	83,800	66,958	241,335	229,061
Exploratory dry hole expense	(38)	182	289	4,849
Impairment of proved properties	-	91	-	153,183
Abandonment and impairment of unproved properties	1,719	4,761	4,998	20,294
Impairment of materials inventory	-	2,114	-	13,449
Stock-based compensation expense*	7,989	5,469	19,853	12,978
Change in Net Profits Plan liability	4,086	6,804	(29,785)	(14,038)
Unrealized derivative (gain) loss	5,727	4,117	(4,095)	17,251
Loss related to hurricanes	-	1,153	-	8,273
Amortization of debt discount and deferred financing costs	3,365	3,219	10,022	8,922
Deferred income taxes	6,875	(5,934)	85,695	(69,082)
Plugging and abandonment	(884)	(9,755)	(7,106)	(12,110)
Other	(6,022)	(187)	(3,085)	1,432
Changes in current assets and liabilities:				
Accounts receivable	(12,565)	9,695	(4,937)	58,844
Refundable income taxes	21,844	(2,821)	31,402	10,340
Prepaid expenses and other	660	(1,569)	512	(8,660)
Accounts payable and accrued expenses	20,824	20,132	47,123	7,794
Excess income tax benefit from the exercise of stock options	(438)	-	(1,376)	-
<b>Net cash provided by operating activities</b>	<b>148,210</b>	<b>111,291</b>	<b>418,360</b>	<b>353,052</b>
Cash flows from investing activities:				
Net proceeds from sale of oil and gas properties	11,503	56	259,501	1,137
Proceeds from insurance settlement	-	15,336	-	15,336
Capital expenditures	(184,057)	(76,640)	(488,684)	(292,466)
Acquisition of oil and gas properties	(685)	(14)	(685)	(58)
Deposits to restricted cash	19,595	-	-	-
Receipts from restricted cash	-	-	-	14,398
Receipts from short-term investments	-	-	-	1,002
Other	-	-	(6,492)	-
<b>Net cash used in investing activities</b>	<b>(153,644)</b>	<b>(61,262)</b>	<b>(236,360)</b>	<b>(260,651)</b>
Cash flows from financing activities:				
Proceeds from credit facility	111,000	132,500	315,059	1,898,500
Repayment of credit facility	(109,000)	(172,500)	(501,059)	(1,963,500)
Debt issuance costs related to credit facility	-	(14)	-	(11,074)
Proceeds from sale of common stock	200	113	3,116	1,179
Dividends paid	-	-	(3,144)	(3,120)
Excess income tax benefit from the exercise of stock options	438	-	1,376	-
Other	(364)	-	(908)	-
<b>Net cash provided by (used in) financing activities</b>	<b>2,274</b>	<b>(39,901)</b>	<b>(185,560)</b>	<b>(78,015)</b>
Net change in cash and cash equivalents	(3,160)	10,128	(3,560)	14,386
Cash and cash equivalents at beginning of period	10,249	10,389	10,649	6,131
<b>Cash and cash equivalents at end of period</b>	<b>\$ 7,089</b>	<b>\$ 20,517</b>	<b>\$ 7,089</b>	<b>\$ 20,517</b>

\* Stock-based compensation expense is a component of exploration expense and general and administrative expense on the consolidated statements of operations. For the three months ended September 30, 2010, and 2009, approximately \$2.3 million and \$1.5 million, respectively of stock-based compensation expense was included in exploration expense. For the three months ended September 30, 2010, and 2009, approximately \$5.7 million and \$4.0 million, respectively

of stock-based compensation expense was included in general and administrative expense. For the nine months ended September, 30, 2010, and 2009, approximately \$5.7 million and \$4.4 million, respectively of stock-based compensation expense was included in exploration expense. For the nine months ended September, 30, 2010 and 2009, approximately \$14.1 million and \$8.6 million, respectively of stock-based compensation expense was included in general and administrative expense.

## Adjusted Net Income

(In thousands, except per share data)

Reconciliation of net income (loss) (GAAP) to Adjusted net income (Non-GAAP):	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	<b>Reported net income (loss) (GAAP)</b>	\$ 15,452	\$ (4,415)	\$ 159,698
<b>Adjustments net of tax: (1)</b>				
Change in Net Profits Plan liability	2,546	4,281	(18,552)	(8,699)
Unrealized derivative (gain) loss	3,569	2,590	(2,551)	10,689
(Gain) loss on divestiture activity	(2,607)	7,094	(82,333)	6,588
Loss related to hurricanes (2)	-	725	-	5,126
Adjusted net income (loss), before impairment adjustments	<u>18,960</u>	<u>10,275</u>	<u>56,262</u>	<u>(86,656)</u>
<b>Non-cash impairments net of tax: (1)</b>				
Impairment of proved properties	-	57	-	94,912
Abandonment and impairment of unproved properties	1,071	2,995	3,113	12,574
Impairment of materials inventory	-	1,330	-	8,333
<b>Adjusted net income, non-recurring items &amp; non-cash impairments (Non-GAAP) (3)</b>	<u>\$ 20,031</u>	<u>\$ 14,657</u>	<u>\$ 59,375</u>	<u>\$ 29,163</u>
<b>Adjusted net income per share (Non-GAAP)</b>				
Basic	\$ 0.32	\$ 0.23	\$ 0.94	\$ 0.47
Diluted	\$ 0.31	\$ 0.23	\$ 0.92	\$ 0.47
<b>Average number of shares outstanding</b>				
Basic	<u>63,031</u>	<u>62,505</u>	<u>62,914</u>	<u>62,420</u>
Diluted	<u>64,794</u>	<u>62,505</u>	<u>64,599</u>	<u>62,420</u>

(1) Adjustments are shown net of tax using the effective income tax rate; calculated by dividing the income tax benefit (expense) by income (loss) before income taxes as stated on the consolidated statement of operations. Effective income tax rates for the three months ended September 30, 2010 and 2009, were 37.7% and 37.1% respectively. Effective income tax rates for the nine months ended September 30, 2010 and 2009, were 37.7% and 38.0% respectively.

(2) The loss related to hurricanes is included within line item other expense on the consolidated statements of operations.

(3) Adjusted net income excludes certain items that the Company believes affect the comparability of operating results. Items excluded generally are one-time items or are items whose timing and/or amount cannot be reasonably estimated. These items include non-cash adjustments and impairments such as the change in the Net Profits Plan liability, unrealized derivative (gain) loss, impairment of proved properties, abandonment and impairment of unproved properties, impairment of materials inventory, (gain) loss on divestiture activity, and loss related to hurricanes. The non-GAAP measure of adjusted net income is presented because management believes it provides useful additional information to investors for analysis of SM Energy's fundamental business on a recurring basis. In addition, management believes that adjusted net income is widely used by professional research analysts and others in the valuation, comparison, and investment recommendations of companies in the oil and gas exploration and production industry, and many investors use the published research of industry research analysts in making investment decisions. Adjusted net income should not be considered in isolation or as a substitute for net income, income from operations, cash provided by operating activities or other income, profitability, cash flow, or liquidity measures prepared under GAAP. Since adjusted net income excludes some, but not all, items that affect net income and may vary among companies, the adjusted net income amounts presented may not be comparable to similarly titled measures of other companies.

## Operating Cash Flow

(In thousands)

Reconciliation of net cash provided by operating activities (GAAP) to Operating cash flow (Non-GAAP):	For the Three Months		For the Nine Months	
	Ended September 30,		Ended September 30,	
	2010	2009	2010	2009
Net cash provided by operating activities (GAAP)	\$ 148,210	\$ 111,291	\$ 418,360	\$ 353,052
Changes in current assets and liabilities	\$ (30,325)	\$ (25,437)	\$ (72,724)	\$ (68,318)
Exploration	\$ 14,437	\$ 15,733	42,833	48,821
Less: Exploratory dry hole expense	\$ 38	\$ (182)	(289)	(4,849)
Less: Stock-based compensation expense included in exploration	\$ (2,286)	\$ (1,533)	(5,724)	(4,397)
Operating cash flow (Non-GAAP) (4)	<u>\$ 130,074</u>	<u>\$ 99,872</u>	<u>\$ 382,456</u>	<u>\$ 324,309</u>

(4) Beginning in the third quarter of 2009 the Company changed its definition of operating cash flow. Prior periods have been conformed to the current definition and the change in the definition did not result in a material variance to results under the prior definition. Operating cash flow is computed as net cash provided by operating activities adjusted for changes in current assets and liabilities and exploration, less exploratory dry hole expense, and stock-based compensation expense included in exploration. The non-GAAP measure of operating cash flow is presented because management believes that it provides useful additional information to investors for analysis of SM Energy's ability to internally generate funds for exploration, development, acquisitions, and to service debt. In addition, operating cash flow is widely used by professional research analysts and others in the valuation, comparison, and investment recommendations of companies in the oil and gas exploration and production industry, and many investors use the published research of industry research analysts in making investment decisions. Operating cash flow should not be considered in isolation or as a substitute for net income, income from operations, net cash provided by operating activities or other income, profitability, cash flow, or liquidity measures prepared under GAAP. Since operating cash flow excludes some, but not all items that affect net income and net cash provided by operating activities and may vary among companies, the operating cash flow amounts presented may not be comparable to similarly titled measures of other companies. See the consolidated statements of cash flows herein for more detailed cash flow information.

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**FOR IMMEDIATE RELEASE****SM ENERGY PROVIDES OPERATIONS UPDATE ON KEY PROGRAMS**

- *Strong 'simul-frac' test results in operated Eagle Ford and Bakken/Three Forks programs*
- *Long-term commitments being made in operated Eagle Ford to support acceleration*
- *Production guidance range for 2010 increased to 106.5 – 109 BCFE, up from 104 – 108 BCFE without increase in capital budget*

**DENVER, November 2, 2010** – SM Energy Company (NYSE: SM) today announces an update of its operational activities and its production outlook and performance guidance for the remainder of 2010.

**MANAGEMENT COMMENTARY**

Tony Best, President and CEO, commented, “The results of our drilling programs in the SM Energy operated Eagle Ford and Bakken/Three Forks programs continue to meet or exceed expectations. These two programs are the core that the company will be growing from for the next several years. The results from our simul-frac testing are very promising and provide us a clearer picture of how to optimize the long-term development of these assets.”

**OPERATED EAGLE FORD SHALE**

SM Energy has had 2 operated rigs running on its acreage during the third quarter of 2010. Nine (9) wells were spud and nine (9) wells were completed during the quarter. The Company currently has 31 operated wells completed and turned to sales, 24 of which were completed in 2010. Current gross production from the operated Eagle Ford program is 58.5 MMcf/d of rich gas and 2000 Bbl/d of condensate, or approximately 70 MMCFE/d. The Company is currently limited in its rich gas production due to temporary infrastructure limitations, and expectations are that an additional 10 MMcf/d will be available to the Company in the fourth quarter of 2010 under its existing downstream arrangement.

As a result of the infrastructure limitation described above, only three (3) of the wells completed and turned to sales were allowed to flow at unrestricted rates. The results from those wells are as follows:

- Galvan Ranch 16H (SM 100% WI) – this well was drilled in the northeast corner of the Company’s Galvan Ranch acreage with a 5,600 ft lateral using a 17-stage completion. The 7- and 30-day average production rates were roughly 8.4 MMCFE/d and 7.8 MMCFE/d, respectively. The rich gas production has approximately 1250 BTU/SCF and a condensate yield of roughly 55 barrels of condensate per MMcf of gas produced (“BPM”).

SM Energy completed a two (2) well simultaneous fracture completion (“simul-frac”) in the northern portion of our Galvan Ranch acreage. The wells were drilled on 120 acre spacing. Both used a well design that used a 5,600 ft lateral and a 17-stage completion. The results from these wells were as follows:

- Galvan Ranch 10H (SM 100% WI) – the 7- and 30-day average production rates were roughly 8.0 MMCFE/d and 7.3 MMCFE/d, respectively. The rich gas production has approximately 1250 BTU/SCF and a condensate yield of roughly 25 BPM.
- Galvan Ranch 14H (SM 100% WI) – the 7- and 30-day average production rates were roughly 7.0 MMCFE/d and 5.9 MMCFE/d, respectively. The rich gas production has approximately 1250 BTU/SCF and a condensate yield of roughly 10 BPM.

The Company is encouraged by the production results for the simul-frac pilot and the micro-seismic data that was collected during the completion. Several additional pilots are planned for 2011 to experiment with tighter spacing and alternative completion designs.

In preparation for the increase in activity planned for 2011 and beyond, SM Energy has begun making longer term commitments for the services that will be required to accelerate activity in this program. The Company has recently committed to two (2) new-build drilling rigs that will arrive in 2011 and will be on three (3) year contracts. Additionally, the contracts for the two (2) drilling rigs currently operating for the Company have been extended. Subsequent to quarter end, an agreement was entered into which secures a portion of the completion services needed to support the aforementioned drilling fleet. The Company is continuing negotiations with other providers to secure additional completion services. Lastly, SM Energy is in talks with marketing firms to provide additional takeaway capacity that will allow the Company to ramp up production up to and through the arrival of the previously announced Eagle Ford Gathering, LLC infrastructure capacity that is scheduled to be available after mid-year 2011.

**PARTNER-OPERATED EAGLE FORD SHALE**

The operating partner on the non-operated portion of SM Energy’s Eagle Ford shale position operated an average of six (6) drilling rigs during the quarter, and it is expected that additional rigs will be added in the fourth quarter of 2010. The Company has continued to participate in the drilling of this liquids rich program. SM Energy also plans on participating in the build out of the mid-stream facilities that are being built to support this development. The Company’s net daily production from this program grew 142% from 5.7 MMCFE/d to 13.8 MMCFE/d during the second quarter of 2010 to the third quarter of 2010.

The operator of this acreage, Anadarko Petroleum, has publicly announced that it is considering a joint venture arrangement on its share of the acreage. SM Energy will continue to monitor and evaluate its partner’s activity, and will consider its own options, related to an outside joint venture.

**WILLISTON BASIN (BAKKEN & THREE FORKS)**

SM Energy had two (2) operated rigs running in the Williston Basin during the third quarter of 2010. The focus of this operated program has been on Bakken and Three Forks wells. The Company drilled a three (3) well simul-frac completion pilot in a 1,280 acre spacing unit in its Bear Den prospect during the third quarter, which was completed around mid-October. The initial 24-hour combined production rate from the wells in this pilot was around 6,000 BOE/d, restricted on choke with flowing pressures ranging from 1,800 psig to 2,300 psig. As of the date of this release, all three wells continue to flow with high pressure. Following is additional information on the wells in the pilot:

- Norby 16-20H (SM 68% WI) – a Bakken well drilled with a 9,850 ft lateral and was completed using a 10-stage completion. The 7-day average production rate was 955 BOE/d.
- Norby 9-20H (SM 68% WI) – a Bakken well drilled with a 9,760 ft lateral and was completed using a 10-stage completion. The 7-day average production rate was roughly 1,100 BOE/d.
- Wilson 8-20H (SM 68% WI) – a Bakken well drilled with a 9,670 ft lateral and was completed using a 20-stage completion. The 7-day average production rate was 1,140 BOE/d.

SM Energy also completed the Lee 13-8H Bakken well during the third quarter of 2010 in northern McKenzie County with the following results:

- Lee 13-8H (SM 59% WI) – a Bakken well drilled with a 10,500 ft effective lateral and was completed using a 14-stage completion. The 7-day and 30-day average production rates were roughly 900 BOE/d and 650 BOE/d, respectively.

SM Energy plans to continue operating two (2) drilling rigs in the play for the remainder of the year.

## OTHER ACTIVITY

Below is a brief update of the Company's other development and exploratory activities:

In the Permian Basin, SM Energy recently finished the drilling of its 20-acre spacing pilot in the Wolfberry tight oil program. The Company will operate one rig in the basin while the performance of the 20-acre spaced wells is monitored.

In the Woodford shale, the Company is finishing the drilling of four (4) wells that are scheduled for simul-frac completion in December 2010. The activity in this program is focused in the rich gas window of the play, which is located in the central part of our acreage position.

SM Energy recently completed two (2) horizontal wells in the Shelby trough acreage in East Texas targeting the Haynesville shale. Those wells had initial production rates of 10 MMCFE/d to 12 MMCFE/d on restricted chokes. The majority of our 2010 operated drilling is being funded by our Carry and Earning Agreement that we entered into earlier this year.

In the Granite Wash, the Company recently completed a second well in the Marmaton B interval in western Oklahoma. The 7-day average production rate for the McGuire 1-6H (SM 70% WI) was 6.9 MMCFE/d. The Company's first test of the Marmaton C interval is currently being completed in the Stiles Ranch area on the Texas side of the play. SM Energy plans to remain active in this high liquids play throughout the remainder of 2010 as it continues to test the potential of its acreage, all of which is held by production.

Lastly, in the Company's Niobrara exploration program in southeastern Wyoming, the second test well in this program recently finished drilling and is currently being completed. SM Energy's first well in this play, the Atlas 1-19H (SM 94% WI), was recently placed on pump and is currently producing approximately 350 Bbl/d.

## 2010 CAPITAL INVESTMENT BUDGET UNCHANGED

The capital expenditure budget for 2010 remains unchanged from the Company's last update at \$871 million. Please refer to the Company's press release from August 2, 2010 for a detailed breakdown of the budget.

## DIVESTITURE PROGRAM UPDATE

The Company currently has two (2) material divestiture packages that are being marketed. Data rooms for the two packages opened in early to mid-October and bids are expected in mid-November for both packages. The sale of the non-core proved developed properties is expected to close in late December 2010. The Marcellus shale package is expected to close in early January 2011. The Company anticipates proceeds of \$300 to \$500 million from these transactions.

## INCREASED PRODUCTION FORECAST & UPDATED PERFORMANCE GUIDANCE

The Company's updated guidance for the remainder of 2010 is as follows:

<u>Production</u>	<b>1Q10A</b>	<b>2Q10A</b>	<b>3Q10A</b>	<b>4Q10E</b>	<b>FY 2010E</b>
Average daily production (MMCFE/d)	286	276	298	305 – 330	291 – 298
Total production (BCFE)	25.7	25.2	27.5	28.0 – 30.5	106.5 – 109.0

Reported production for the first quarter of 2010 includes slightly over 1 BCFE of production related to non-core properties that were divested during the quarter.

### Costs

LOE (\$/MCFE)	<b>4Q10</b>
Transportation (\$/MCFE)	\$1.15 - \$1.20
Production Taxes (% of pre-hedge O&G revenue)	\$0.20 - \$0.22
	7%
G&A - cash NPP (\$/MCFE)	\$0.16 - \$0.18
G&A - other cash (\$/MCFE)	\$0.54 - \$0.58
G&A - non-cash (\$/MCFE)	\$0.18 - \$0.20
G&A TOTAL (\$/MCFE)	\$0.88 - \$0.96
DD&A (\$/MCFE)	\$2.90 - \$3.20
Non-cash interest expense (\$MM)	\$3.4
	<b>FY 2010</b>
Effective income tax rate range	37.6 % - 38.1%
% of income tax that is current	<10%

A summary of the Company's current hedge position is included in the appendix in the investor relations presentation that will supplement the Company's earnings call scheduled for November 3, 2010. The presentation can be found in the Investor Relations section of the Company's website at [sm-energy.com](http://sm-energy.com).

## INFORMATION ABOUT FORWARD LOOKING STATEMENTS

This release contains forward looking statements within the meaning of securities laws, including forecasts and projections. The words "will," "believe," "budget," "plan," "intend," "estimate," "forecast," and "expect" and similar expressions are intended to identify forward looking statements. These statements involve known and unknown risks, which may cause SM Energy's actual results to differ materially from results expressed or implied by the forward looking statements. These risks include such factors as the volatility and level of oil and natural gas prices, the uncertain nature of the expected benefits from the acquisition and divestiture of oil and gas properties, uncertainties inherent in projecting future rates of production from drilling activities and acquisitions, the ability of purchasers of production to pay for divested properties, the availability of debt and equity financing, the ability of the banks in the Company's credit facility to fund requested borrowings, the ability of hedge counterparties to settle hedges in favor of the Company, the imprecise nature of estimating oil and gas reserves, the availability of additional economically attractive exploration, development, and property acquisition opportunities for future growth and any necessary financings, unexpected drilling conditions and results, unsuccessful exploration and development drilling, drilling and operating service availability, the risks associated with the Company's hedging strategy, and other such matters discussed in the "Risk Factors" section of SM Energy's 2009 Annual Report on Form 10-K and subsequent quarterly reports filed on Form 10-Q. Although SM Energy may from time to time voluntarily update its prior forward looking statements, it disclaims any commitment to do so except as required by securities laws.

## ABOUT THE COMPANY

SM Energy Company, formerly named St. Mary Land & Exploration Company, is an independent energy company engaged in the exploration, exploitation, development, acquisition, and

production of natural gas and crude oil. SM Energy routinely posts important information about the Company on its website. For more information about SM Energy, please visit its website at [sm-energy.com](http://sm-energy.com).