

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 1, 2012 (October 31, 2012)

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, Denver, Colorado
(Address of principal executive offices)

80203
(Zip Code)

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 Exhibit 99.1, 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 Exhibit 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 October 31, 2012, SM Energy Company (the "Company") issued a press release announcing its financial results for the third quarter of 2012, as well as providing an operational update. As indicated in the press release, the Company has scheduled a related third quarter of 2012 earnings teleconference call for November 1, 2012, at 8:00 a.m. (Mountain Time). The teleconference call is publicly accessible, and the press release includes instructions concerning how to access the teleconference and the location on the Company's web site where the teleconference information will be available. A copy of the press release is furnished as Exhibit 99.1 to this report and incorporated by reference herein.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits.
Exhibit 99.1

The following exhibit is furnished as part of this report:
Press release of SM Energy Company dated October 31, 2012 entitled SM Energy Reports Results for Third Quarter of 2012; Provides Operations Update

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 1, 2012

By: /s/ KELLY E. COLLINS

Kelly E. Collins

Director of Financial Reporting & Assistant Corporate Secretary

Exhibit 99.1

For Information

James R. Edwards
303-837-2444

FOR IMMEDIATE RELEASE

**SM ENERGY REPORTS RESULTS FOR THE THIRD QUARTER OF 2012;
PROVIDES OPERATIONS UPDATE**

- ***Record quarterly production of 57.0 BCFE or 9.5 MMBOE, an average of 620 MMCFE/d; above quarterly guidance range of 565 - 603 MMCFE/d***
- ***Full-year production guidance increased to 215.5 - 218.5 BCFE***
- ***Quarterly GAAP net loss of \$38.3 million or \$0.58 per diluted share; adjusted net income of \$9.7 million or \$0.14 per diluted share***
- ***Quarterly EBITDAX of \$260.9 million; 22% sequential growth over second quarter***

DENVER, CO OCTOBER 31, 2012 - SM Energy Company (NYSE: SM) announces financial results for the third quarter of 2012 and provides an operations update. In addition, a new presentation for the Company's third quarter earnings and operations update will be posted on the Company's website at www.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 1, 2012. Information for the earnings call can be found below.

THIRD QUARTER 2012 RESULTS

SM Energy reported a net loss for the third quarter of 2012 of \$38.3 million or \$0.58 per diluted share. This compares to net income of \$230.1 million, or \$3.41 per diluted share, for the same period of 2011. Adjusted net income for the third quarter of 2012 was \$9.7 million, or \$0.14 per diluted share, compared to adjusted net income of \$42.4 million, or \$0.63 per diluted share, for the same period of 2011. Adjusted net income excludes certain items that the Company believes affect the comparability of operating results. The Company generally excludes non-recurring items, items whose timing and/or amount cannot be reasonably estimated, and large non-cash items, such as gains or losses on divestiture activity and unrealized gains or losses from derivative activity. The table below presents a summary of the adjustments made to arrive at adjusted net income:

Adjusted Net Income Reconciliation

(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, | |
|--|---|------------------|
| | 2012 | 2011 |
| Reported net income (loss) (GAAP) | \$ (38,336) | \$ 230,097 |
| Adjustments, net of tax: ⁽¹⁾ | | |
| Change in Net Profits Plan liability | 500 | (15,631) |
| Unrealized derivative (gain) loss | 41,869 | (82,877) |
| (Gain) loss on divestiture activity | 5,350 | (119,586) |
| Impairment of proved properties | — | 30,425 |
| Abandonment & impairment of unproved properties | 280 | — |
| Adjusted net income (Non-GAAP) | <u>\$ 9,663</u> | <u>\$ 42,428</u> |
| Adjusted net income per diluted common share: | <u>\$ 0.14</u> | <u>\$ 0.63</u> |
| Diluted weighted-average common shares outstanding: ⁽²⁾ | <u>66,973</u> | <u>67,386</u> |

(1) For the three-month periods ended September 30, 2012 and September 30, 2011, adjustments are shown net of tax and are calculated using an effective tax rate of 37.3%, which approximates the Company's statutory tax rate, as adjusted for ordinary permanent differences.

(2) For periods where the Company reports a GAAP net loss, the diluted weighted average share count is calculated using potentially dilutive securities related to unvested Restricted Stock Units, in-the-money outstanding options to purchase the Company's common stock, contingent Performance Share Awards, and contingent Performance Stock Units. On a GAAP basis, these items are not treated as dilutive securities in periods where the Company reports a GAAP loss for the quarter.

Earnings before interest, taxes, depreciation, depletion, amortization, accretion, and exploration expense ("EBITDAX") was \$260.9 million for the third quarter of 2012, an increase of 21% from \$215.5 million for the same period of 2011.

Adjusted net income and EBITDAX are non-GAAP financial measures — please refer to the respective reconciliations in the accompanying Financial Highlights section at the end of this release for additional information about these measures.

Revenues and other income for the third quarter were \$379.0 million compared to \$530.6 million for the same period of 2011. The decrease in operating revenue in the third quarter of 2012 was primarily due to a decrease in divestiture activity in the current period compared to the same period in 2011, when the Company recognized approximately \$191 million in gains from divestiture activity. The table below provides the average realized prices received by product for the Company, as well as the adjusted prices received after taking into account cash settlements for derivative transactions:

Average Realized Commodity Prices for Quarter Ended September 30, 2012

| | Before the effect of derivative cash settlements | After the effect of derivative cash settlements |
|------------------------------|---|--|
| Oil (\$/Bbl) | \$ 83.98 | \$ 82.15 |
| Gas (\$/Mcf) | \$ 3.05 | \$ 3.44 |
| Natural gas liquids (\$/Bbl) | \$ 34.82 | \$ 37.39 |
| Equivalent (\$/MCFE) | \$ 6.56 | \$ 6.76 |

The table below presents key performance measures and metrics, as well as previously provided guidance for the third quarter of 2012:

| Production | <u>Reported</u> | <u>3Q12 Guidance</u> |
|--|------------------------|-----------------------------|
| Average daily production (MMCFE/d) | 620 | 565 - 603 |
| Total production (BCFE) | 57.0 | 52.0 - 55.5 |
| Costs | | |
| LOE (\$/MCFE) | \$0.82 | \$0.88 - \$0.94 |
| Transportation (\$/MCFE) | \$0.65 | \$0.69 - \$0.73 |
| Production taxes (% of pre-derivative oil, gas, and NGL revenue) | 5.1% | 6.1% |
| G&A - Cash (\$/MCFE) | \$0.37 | \$0.44 - \$0.47 |
| G&A - Cash NPP (\$/MCFE) | \$0.07 | \$0.07 - \$0.09 |
| G&A - Non-cash (\$/MCFE) | <u>\$0.12</u> | <u>\$0.13 - \$0.15</u> |
| Total G&A (\$/MCFE) | \$0.56 | \$0.64 - \$0.71 |
| DD&A (\$/MCFE) | \$3.38 | \$3.20 - \$3.40 |
| Non-cash interest expense (\$MM) | \$1.1 | \$1.1 |

For the third quarter of 2012, SM Energy met or beat guidance on all metrics. Production was approximately 6% above the midpoint of third quarter guidance, primarily driven by growth in the Company's operated Eagle Ford shale program as the Company's third party midstream provider alleviated infrastructure constraints on its midstream gathering system. LOE was lower than guidance primarily due to the operated Eagle Ford shale program, where cost saving initiatives and the installation of a water recycling facility have driven costs below the Company's earlier forecast. For transportation costs, the Company was below guidance due to anticipated third party field compression and oil gathering facilities not coming online during the third quarter as planned. The Company's production tax rate as a percentage of oil, gas, and NGL revenue was lower than guidance due to severance tax incentives granted to deep gas wells associated with the Texas portion of the Company's Haynesville shale program. G&A per MCFE was lower than guidance as a result of a combination of higher than forecasted production and lower than forecasted compensation related expenses.

FINANCIAL POSITION AND LIQUIDITY

At the end of the third quarter of 2012, SM Energy had total long-term debt of approximately \$1.3 billion. A summary of the Company's long-term debt is shown in the table below:

Schedule of long-term debt

(\$ in millions)

| Debt Issue | | Amount outstanding at September 30, 2012 |
|---------------------------|----|---|
| Revolving credit facility | \$ | 228 |
| Senior Notes due 2019 | | 350 |
| Senior Notes due 2021 | | 350 |
| Senior Notes due 2023 | | 400 |
| Total | \$ | 1,328 |

On August 31, 2012, the Company's bank group redetermined its borrowing base, increasing it to \$1.55 billion from \$1.4 billion at June 30, 2012. SM Energy has elected to keep its current commitments under its credit facility unchanged at \$1.0 billion. As of September 30, 2012, SM Energy's debt-to-book capitalization ratio was 47% and the ratio of the Company's debt to twelve month trailing EBITDAX was 1.3 times. As of the end of the third quarter, SM Energy was in compliance with all of the covenants associated with its long-term debt.

OPERATIONS UPDATE

Production

SM Energy reported quarterly production of 57.0 BCFE or 9.5 MMBOE, resulting in average daily production of 620 MMCFE per day for the third quarter of 2012. Reported production was 6% above the midpoint of the previously provided production guidance range of 565 to 603 MMCFE per day. Reported production increased by 13% from the quarterly production of 50.6 BCFE in the second quarter of 2012. The Company's Eagle Ford program is primarily responsible for this production growth.

Eagle Ford Shale

The Company's operated net production in the Eagle Ford shale averaged 243 MMCFE/d in the third quarter of 2012, an 18% increase from second quarter production of 207 MMCFE/d. Average daily production from the Company's operated Eagle Ford shale program increased 90% from the third quarter of 2011 to the third quarter of 2012. During the third quarter of 2012, SM Energy operated six drilling rigs on its operated Eagle Ford shale acreage. At the end of the third quarter, one rig was released and the Company expects to exit the year with five operated rigs. During the quarter, the Company's midstream provider began installing additional planned tank batteries in its infield gathering system. At the end of the quarter, the system had five of the six planned tank batteries installed, and the Company expects the sixth remaining battery to be operational by year end. During the third quarter, the Company completed 24 wells on its operated acreage. Based on the current drilling schedule, the Company now expects to complete 74 wells in 2012, with another 21 drilled wells waiting on completion at year end.

In the non-operated portion of the Company's Eagle Ford shale program, net production for the third quarter of 2012 averaged 14.0 MBOE/d. The operator ran approximately nine drilling rigs and one spudder rig during the third quarter of 2012, and is expected to continue at the same activity level for the remainder of the year.

Bakken / Three Forks

SM Energy operated four drilling rigs during the third quarter, and plans to operate those four rigs for the remainder of 2012. The Company continues to focus three of its rigs on Bakken and Three Forks drilling in its Raven and Bear Den prospects in McKenzie and Williams Counties, North Dakota, while the fourth operated rig focuses on the Three Forks formation in the Company's Gooseneck prospect in Divide County, North Dakota. Third quarter average daily production for the Company's Bakken / Three Forks program was 11.0 MBOE/d, a 6% increase from the second quarter of 2012 and a 96% increase from the third quarter of 2011. During the first half of 2012, the Company transitioned most of its drilling and completion activity in the Williston Basin to multi-well pad infill drilling. During the quarter, the Company completed nine operated wells in its Bakken / Three Forks program. While the Company has divested a number of its non-operated Williston Basin assets, the Company is still participating in a number of non-operated wells throughout the Williston Basin.

Permian Basin

In the third quarter of 2012, the Company increased its acreage position in the Permian Basin by approximately 10,300 net acres to a total of approximately 125,600 net acres in the basin. During the third quarter, the Company operated four drilling rigs. Two of these rigs were focused on the Company's Mississippian limestone project in the northern Midland Basin, where it continues to delineate its approximately 68,000 net acre position. One operated rig is focused on the Leonard shale, with four wells in various stages of drilling and completion. The Company expects to evaluate the performance of these initial wells prior to providing any additional commentary on this program.

Other Activity

In its Granite Wash program, the Company operated three rigs and completed four wells in the third quarter of 2012. The Company plans to drop one of the rigs during the fourth quarter of 2012, exiting the year with two operated rigs. The Company also operated one rig in its Powder River Basin program in Wyoming, where it is testing long lateral Frontier wells as well as the prospectivity of other intervals.

UPDATED PRODUCTION, AND PERFORMANCE GUIDANCE

The Company is providing updated production and cost guidance for fourth quarter and full year 2012 in the table below:

Guidance for 2012

| | 4Q12 | FY2012 |
|--|-----------------|-----------------|
| Production (BCFE) | 57.5 - 60.5 | 215.5 - 218.5 |
| Average daily production (MMCFE/d) | 625 - 658 | 589 - 597 |
| Oil production (as % of total) | | ~28% |
| Natural gas production (as % of total) | | ~55% |
| NGL production (as % of total) | | ~17% |
| | | |
| LOE (\$/MCFE) | \$0.82 - \$0.87 | \$0.81 - \$0.86 |
| Transportation (\$/MCFE) | \$0.69 - \$0.73 | \$0.62 - \$0.65 |
| Production taxes (% of pre-derivative oil, gas, and NGL revenue) | 6.1% | 5.3% |
| | | |
| G&A - Cash (\$/MCFE) | \$0.40 - \$0.44 | \$0.41 - \$0.45 |
| G&A - Cash NPP (\$/MCFE) | \$0.07 - \$0.09 | \$0.08 - \$0.10 |
| G&A - Non-cash (\$/MCFE) | \$0.11 - \$0.13 | \$0.10 - \$0.12 |
| Total G&A (\$/MCFE) | \$0.58 - \$0.66 | \$0.59 - \$0.67 |
| | | |
| DD&A (\$/MCFE) | \$3.20 - \$3.40 | \$3.20 - \$3.40 |
| Non-cash interest expense (\$MM) | \$ 1.1 | \$ 6.8 |
| | | |
| Effective income tax rate range | | 37.3% - 37.8% |
| % of income tax that is current | | <5% |

EARNINGS CALL INFORMATION

The Company has scheduled a teleconference to discuss these results and other operational matters for November 1, 2012, at 8:00 a.m. Mountain Time (10:00 a.m. Eastern Time). The call participation number is 877-445-0811 and the conference ID number is 42308521. An audio replay of the call will be available approximately two hours after the call at 855-859-2056, with the conference ID number 42308521. International participants can dial 617-401-8115 to take part in the conference call, using the conference ID number 42308521, and can access a replay of the call at 404-537-3406, using conference ID number 42308521. Replays can be accessed through November 15, 2012.

This call is being webcast live and can be accessed at SM Energy Company's website at www.sm-energy.com. An audio recording of the conference call will be available at that site through November 15, 2012.

INFORMATION ABOUT FORWARD LOOKING STATEMENTS

This release may contain or incorporate by reference forward looking statements within the meaning of securities laws, including estimates, forecasts, plans and projections. The words "will," "believe," "budget," "anticipate," "plan," "intend," "estimate," "forecast," and "expect" and similar expressions are intended to identify forward looking statements. The forward looking statements contained in this release speak as of the date of this release. 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, natural gas, and natural gas liquids prices, the uncertain nature of the expected benefits from the acquisition, divestiture, or joint venture of oil and gas properties, the uncertain nature of announced divestiture, joint venture, farm down or similar efforts and the ability to complete such transactions, uncertainties inherent in projecting future rates of production from drilling activities and acquisitions, the ability of midstream service providers to purchase or market the Company's production, the ability of purchasers of production to pay for those sales, 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 derivative counterparties to settle derivative contracts 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, the availability of drilling, completion, and operating equipment and services, the risks associated with the Company's commodity price risk management strategy, uncertainty regarding the ultimate impact of potentially dilutive securities, and other such matters discussed in the "Risk Factors" section of SM Energy's 2011 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 is an independent energy company engaged in the acquisition, exploration, development, and production of crude oil, natural gas, and natural gas liquids in onshore North America. SM Energy routinely posts important information about the Company on its website. For more information about SM Energy, please visit its website at www.sm-energy.com

SM ENERGY COMPANY
FINANCIAL HIGHLIGHTS
September 30, 2012

Guidance Comparison

| | For the Three Months Ended September 30, 2012 | |
|---|--|-----------------------|
| | Actual | Guidance Range |
| Average daily production (MMCFE per day) | 620 | 565 - 603 |
| Total production (BCFE) | 57.0 | 52.0 - 55.5 |
| Lease operating expense (per MCFE) | \$0.82 | \$0.88 - \$0.94 |
| Transportation expense (per MCFE) | \$0.65 | \$0.69 - \$0.73 |
| Production taxes, as a percentage of pre-derivative oil, gas, and NGL revenue | 5.1% | 6.1% |
| General and administrative - Cash (per MCFE) | \$0.37 | \$0.44 - \$0.47 |
| General and administrative - Cash related to Net Profits Plan (per MCFE) | \$0.07 | \$0.07 - \$0.09 |
| General and administrative - Non-cash (per MCFE) | \$0.12 | \$0.13 - \$0.15 |
| Total General and administrative (per MCFE) | \$0.56 | \$0.64- \$0.71 |
| Depreciation, depletion, and amortization (per MCFE) | \$3.38 | \$3.20 - \$3.40 |
| Non-cash interest expense (\$MM) | \$1.1 | \$1.1 |

SM ENERGY COMPANY
FINANCIAL HIGHLIGHTS
September 30, 2012

| <u>Production Data</u> | <u>For the Three Months Ended September 30,</u> | | | <u>For the Nine Months Ended September 30,</u> | | |
|--|---|-------------|---------------------------|--|-------------|---------------------------|
| | <u>2012</u> | <u>2011</u> | <u>Percent Change</u> | <u>2012</u> | <u>2011</u> | <u>Percent Change</u> |
| Average realized sales price, before the effects of derivative cash settlements: | | | | | | |
| Oil (per Bbl) | \$ 83.98 | \$ 82.63 | 2% | \$ 85.76 | \$ 88.54 | (3)% |
| Gas (per Mcf) | 3.05 | 4.52 | (33)% | 2.78 | 4.51 | (38)% |
| NGL (per Bbl) | 34.82 | 56.10 | (38)% | 38.53 | 52.71 | (27)% |
| Equivalent (per MCFE) | \$ 6.56 | \$ 7.65 | (14)% | \$ 6.63 | \$ 7.90 | (16)% |
| Average realized sales price, including the effects of derivative cash settlements: | | | | | | |
| Oil (per Bbl) | \$ 82.15 | \$ 75.02 | 10% | \$ 83.04 | \$ 78.13 | 6% |
| Gas (per Mcf) | 3.44 | 4.89 | (30)% | 3.35 | 4.97 | (33)% |
| NGL (per Bbl) | 37.39 | 49.71 | (25)% | 39.61 | 46.45 | (15)% |
| Equivalent (per MCFE) | \$ 6.76 | \$ 7.40 | (9)% | \$ 6.85 | \$ 7.57 | (10)% |
| Production: | | | | | | |
| Oil (MMBbls) | 2.6 | 2.0 | 33% | 7.5 | 5.6 | 33% |
| Gas (Bcf) | 31.3 | 25.9 | 21% | 88.1 | 71.5 | 23% |
| NGL (MMBbls) | 1.7 | 0.8 | 109% | 4.2 | 2.2 | 91% |
| BCFE (6:1) | 57.0 | 42.5 | 34% | 158.3 | 118.4 | 34% |
| Average daily production: | | | | | | |
| Oil (MBbls per day) | 28.6 | 21.5 | 33% | 27.4 | 20.6 | 33% |
| Gas (MMcf per day) | 340.3 | 281.2 | 21% | 321.5 | 262.0 | 23% |
| NGL (MBbls per day) | 18.0 | 8.6 | 109% | 15.3 | 8.0 | 91% |
| MMCFE per day (6:1) | 619.6 | 462.1 | 34% | 577.6 | 433.7 | 33% |
| Per MCFE Data: | | | | | | |
| Realized price before the effects of derivative cash settlements | \$ 6.56 | \$ 7.65 | (14)% | \$ 6.63 | \$ 7.90 | (16)% |
| Lease operating expense | 0.82 | 0.94 | (13)% | 0.83 | 0.90 | (8)% |
| Transportation costs | 0.65 | 0.56 | 16% | 0.61 | 0.47 | 30% |
| Production taxes | 0.33 | 0.33 | —% | 0.33 | 0.29 | 14% |
| General and administrative | 0.56 | 0.70 | (20)% | 0.58 | 0.70 | (17)% |
| Operating profit, before the effects of derivative cash settlements | \$ 4.20 | \$ 5.12 | (18)% | \$ 4.28 | \$ 5.54 | (23)% |
| Derivative cash settlements | 0.20 | (0.25) | (180)% | 0.22 | (0.33) | (167)% |
| Operating profit, including the effects of derivative cash settlements | \$ 4.40 | \$ 4.87 | (10)% | \$ 4.50 | \$ 5.21 | (14)% |
| Depletion, depreciation, amortization, and asset retirement obligation liability accretion | \$ 3.38 | \$ 2.89 | 17% | \$ 3.31 | \$ 2.90 | 14% |

SM ENERGY COMPANY
FINANCIAL HIGHLIGHTS
September 30, 2012

Consolidated Statements of Operations

(in thousands, except per share amounts)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|-------------------|--|-------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Operating revenues and other income: | | | | |
| Oil, gas, and NGL production revenue | \$ 373,928 | \$ 325,231 | \$ 1,049,131 | \$ 935,478 |
| Realized hedge gain (loss) | 501 | (6,843) | 2,338 | (14,548) |
| Gain (loss) on divestiture activity | (8,532) | 190,728 | (31,246) | 245,662 |
| Marketed gas system and other operating revenue | 13,054 | 21,458 | 40,571 | 57,184 |
| Total operating revenues and other income | <u>378,951</u> | <u>530,574</u> | <u>1,060,794</u> | <u>1,223,776</u> |
| Operating expenses: | | | | |
| Oil, gas, and NGL production expense | 102,447 | 77,753 | 280,713 | 196,907 |
| Depletion, depreciation, amortization, and asset retirement obligation liability accretion | 192,432 | 123,067 | 523,610 | 343,805 |
| Exploration | 25,417 | 11,272 | 66,031 | 33,587 |
| Impairment of proved properties | — | 48,525 | 38,523 | 48,525 |
| Abandonment and impairment of unproved properties | 447 | — | 11,296 | 4,316 |
| General and administrative | 32,171 | 29,787 | 91,443 | 82,958 |
| Change in Net Profits Plan liability | 798 | (24,930) | (17,342) | (24,719) |
| Unrealized and realized derivative (gain) loss | 55,856 | (128,425) | (40,040) | (83,872) |
| Marketed gas system and other operating expense | 12,219 | 20,737 | 40,780 | 57,746 |
| Total operating expenses | <u>421,787</u> | <u>157,786</u> | <u>995,014</u> | <u>659,253</u> |
| Income (loss) from operations | (42,836) | 372,788 | 65,780 | 564,523 |
| Nonoperating income (expense): | | | | |
| Interest income | 126 | 27 | 201 | 382 |
| Interest expense | (18,362) | (9,372) | (45,352) | (33,636) |
| Income (loss) before income taxes | (61,072) | 363,443 | 20,629 | 531,269 |
| Income tax benefit (expense) | 22,736 | (133,346) | (7,740) | (195,142) |
| Net income (loss) | <u>\$ (38,336)</u> | <u>\$ 230,097</u> | <u>\$ 12,889</u> | <u>\$ 336,127</u> |
| Basic weighted-average common shares outstanding | <u>65,745</u> | <u>63,904</u> | <u>64,815</u> | <u>63,665</u> |
| Diluted weighted-average common shares outstanding | <u>65,745</u> | <u>67,386</u> | <u>67,343</u> | <u>67,390</u> |
| Basic net income (loss) per common share | <u>\$ (0.58)</u> | <u>\$ 3.60</u> | <u>\$ 0.20</u> | <u>\$ 5.28</u> |
| Diluted net income (loss) per common share | <u>\$ (0.58)</u> | <u>\$ 3.41</u> | <u>\$ 0.19</u> | <u>\$ 4.99</u> |

SM ENERGY COMPANY
FINANCIAL HIGHLIGHTS
September 30, 2012

Consolidated Balance Sheets

(in thousands, except per share amounts)

| ASSETS | September 30, 2012 | December 31, 2011 |
|--|----------------------------|----------------------------|
| Current assets: | | |
| Cash and cash equivalents | \$ 184 | \$ 119,194 |
| Accounts receivable | 235,887 | 210,368 |
| Refundable income taxes | 3,242 | 5,581 |
| Prepaid expenses and other | 39,014 | 68,026 |
| Derivative asset | 41,865 | 55,813 |
| Deferred income taxes | 5,746 | 4,222 |
| Total current assets | <u>325,938</u> | <u>463,204</u> |
| Property and equipment (successful efforts method), at cost: | | |
| Land | 1,845 | 1,548 |
| Proved oil and gas properties | 5,197,761 | 4,378,987 |
| Less - accumulated depletion, depreciation, and amortization | (2,190,507) | (1,766,445) |
| Unproved oil and gas properties | 160,468 | 120,966 |
| Wells in progress | 264,634 | 273,428 |
| Materials inventory, at lower of cost or market | 12,718 | 16,537 |
| Oil and gas properties held for sale net of accumulated depletion, depreciation and amortization of \$15,446 in 2012 and \$10,714 in 2011 | 19,503 | 246 |
| Other property and equipment, net of accumulated depreciation of \$22,075 in 2012 and \$23,985 in 2011 | 135,376 | 71,369 |
| Total property and equipment, net | <u>3,601,798</u> | <u>3,096,636</u> |
| Other noncurrent assets: | | |
| Derivative asset | 22,383 | 31,062 |
| Restricted cash | 93,771 | 124,703 |
| Other noncurrent assets | 80,062 | 83,375 |
| Total other noncurrent assets | <u>196,216</u> | <u>239,140</u> |
| Total Assets | <u>\$ 4,123,952</u> | <u>\$ 3,798,980</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 474,573 | \$ 456,999 |
| Derivative liability | 19,352 | 42,806 |
| Other current liabilities | 6,000 | 6,000 |
| Total current liabilities | <u>499,925</u> | <u>505,805</u> |
| Noncurrent liabilities: | | |
| Long-term credit facility | 228,000 | — |
| 3.50% Senior Convertible Notes, net of unamortized discount of \$2,431 in 2011 | — | 285,069 |
| 6.625% Senior Notes Due 2019 | 350,000 | 350,000 |
| 6.50% Senior Notes Due 2021 | 350,000 | 350,000 |
| 6.50% Senior Notes Due 2023 | 400,000 | — |
| Asset retirement obligation | 90,788 | 87,167 |
| Asset retirement obligation associated with oil and gas properties held for sale | 749 | 1,277 |
| Net Profits Plan liability | 90,389 | 107,731 |
| Deferred income taxes | 573,577 | 568,263 |
| Derivative liability | 8,802 | 12,875 |
| Other noncurrent liabilities | 57,680 | 67,853 |
| Total noncurrent liabilities | <u>2,149,985</u> | <u>1,830,235</u> |
| Stockholders' equity: | | |
| Common stock, \$0.01 par value - authorized: 200,000,000 shares; issued: 66,121,809 shares in 2012 and 64,145,482 shares in 2011; outstanding, net of treasury shares: 66,071,228 shares in 2012 and 64,064,415 shares in 2011 | 661 | 641 |
| Additional paid-in capital | 222,812 | 216,966 |
| Treasury stock, at cost: 50,581 shares in 2012 and 81,067 shares in 2011 | (1,221) | (1,544) |
| Retained earnings | 1,257,534 | 1,251,157 |
| Accumulated other comprehensive loss | (5,744) | (4,280) |
| Total stockholders' equity | <u>1,474,042</u> | <u>1,462,940</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 4,123,952</u> | <u>\$ 3,798,980</u> |

SM ENERGY COMPANY
FINANCIAL HIGHLIGHTS
September 30, 2012

Consolidated Statements of Cash Flows

(in thousands)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|------------------|--|------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Cash flows from operating activities: | | | | |
| Net income (loss) | \$ (38,336) | \$ 230,097 | \$ 12,889 | \$ 336,127 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| (Gain) loss on divestiture activity | 8,532 | (190,728) | 31,246 | (245,662) |
| Depletion, depreciation, amortization, and asset retirement obligation liability accretion | 192,432 | 123,067 | 523,610 | 343,805 |
| Exploratory dry hole expense | 10,353 | — | 18,551 | 49 |
| Impairment of proved properties | — | 48,525 | 38,523 | 48,525 |
| Abandonment and impairment of unproved properties | 447 | — | 11,296 | 4,316 |
| Stock-based compensation expense | 9,359 | 7,713 | 21,731 | 19,550 |
| Change in Net Profits Plan liability | 798 | (24,930) | (17,342) | (24,719) |
| Unrealized derivative (gain) loss | 66,777 | (132,180) | (7,237) | (108,020) |
| Amortization of debt discount and deferred financing costs | 1,076 | 3,404 | 5,692 | 14,698 |
| Deferred income taxes | (22,910) | 112,010 | 7,305 | 164,251 |
| Plugging and abandonment | (288) | (1,505) | (1,804) | (2,935) |
| Other | 1,773 | (64) | 906 | (5,952) |
| Changes in current assets and liabilities: | | | | |
| Accounts receivable | (19,417) | (10,417) | (18,682) | (20,787) |
| Refundable income taxes | (639) | 3,134 | 2,339 | 8,482 |
| Prepaid expenses and other | (1,444) | (960) | (6,203) | 14,732 |
| Accounts payable and accrued expenses | 34,785 | (39,028) | 30,766 | (41,558) |
| Excess income tax benefit from the exercise of stock awards | — | (8,364) | — | (15,155) |
| Net cash provided by operating activities | 243,298 | 119,774 | 653,586 | 489,747 |
| Cash flows from investing activities: | | | | |
| Net proceeds from sale of oil and gas properties | 33,253 | 227,101 | 48,663 | 325,053 |
| Capital expenditures | (421,389) | (419,245) | (1,126,755) | (1,081,617) |
| Acquisition of oil and gas properties | (292) | — | (5,604) | — |
| Other | (111) | 2,015 | — | (340) |
| Net cash used in investing activities | (388,539) | (190,129) | (1,083,696) | (756,904) |
| Cash flows from financing activities: | | | | |
| Proceeds from credit facility | 432,000 | 13,500 | 1,234,500 | 115,500 |
| Repayment of credit facility | (265,000) | (13,500) | (1,006,500) | (163,500) |
| Debt issuance costs related to credit facility | — | (194) | — | (8,719) |
| Net proceeds from Senior Notes due 2019 | — | (313) | — | 341,122 |
| Net proceeds from Senior Notes due 2023 | (113) | — | 392,223 | — |
| Repayment of Convertible Notes | — | — | (287,500) | — |
| Proceeds from sale of common stock | 533 | 664 | 3,421 | 5,593 |
| Dividends paid | — | — | (3,208) | (3,181) |
| Net share settlement from issuance of stock awards | (21,605) | (9,967) | (21,605) | (9,967) |
| Excess income tax benefit from the exercise of stock awards | — | 8,364 | — | 15,155 |
| Other | (574) | 644 | (231) | — |
| Net cash provided by (used in) financing activities | 145,241 | (802) | 311,100 | 292,003 |
| Net change in cash and cash equivalents | — | (71,157) | (119,010) | 24,846 |
| Cash and cash equivalents at beginning of period | 184 | 101,080 | 119,194 | 5,077 |
| Cash and cash equivalents at end of period | \$ 184 | \$ 29,923 | \$ 184 | \$ 29,923 |

SM ENERGY COMPANY
FINANCIAL HIGHLIGHTS
September 30, 2012

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, | |
|--|---|------------------|--|-------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Reported net income (loss) (GAAP) | \$ (38,336) | \$ 230,097 | \$ 12,889 | \$ 336,127 |
| Adjustments net of tax: ⁽¹⁾ | | | | |
| Change in Net Profits Plan liability | 500 | (15,631) | (10,873) | (15,499) |
| Unrealized derivative (gain) loss | 41,869 | (82,877) | (4,538) | (67,729) |
| (Gain) loss on divestiture activity | 5,350 | (119,586) | 19,591 | (154,030) |
| Impairment of proved properties | — | 30,425 | 24,154 | 30,425 |
| Abandonment and impairment of unproved properties | 280 | — | 7,082 | 2,706 |
| Adjusted net income (Non-GAAP) ⁽²⁾ | \$ 9,663 | \$ 42,428 | \$ 48,305 | \$ 132,000 |
| Adjusted net income per diluted common share: | <u>\$ 0.14</u> | <u>\$ 0.63</u> | <u>\$ 0.72</u> | <u>\$ 1.96</u> |
| Diluted weighted-average common shares outstanding: ⁽³⁾ | <u>66,973</u> | <u>67,386</u> | <u>67,343</u> | <u>67,390</u> |

(1) For the three and nine-month periods ended September 30, 2012 and September 30, 2011, adjustments are shown net of tax and are calculated using an effective tax rate of 37.3%, which approximates the Company's statutory tax rate, as adjusted for ordinary permanent differences.

(2) Adjusted net income excludes certain items that the Company believes affect the comparability of operating results. Items excluded generally are non-recurring 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, and loss (gain) on divestiture activity. 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.

(3) For periods where the Company reports a GAAP net loss, the diluted weighted average share count is calculated using potentially dilutive securities related to unvested Restricted Stock Units, in-the-money outstanding options to purchase the Company's common stock, contingent Performance Share Awards, and contingent Performance Stock Units. On a GAAP basis, these items are not treated as dilutive securities in periods where the Company reports a GAAP loss for the quarter.

EBITDAX

(in thousands)

Reconciliation of net income (loss) (GAAP) to EBITDAX (Non-GAAP)

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|--|---|-------------------|--|-------------------|
| | 2012 | 2011 | 2012 | 2011 |
| Reported net income (loss) (GAAP) | \$ (38,336) | \$ 230,097 | \$ 12,889 | \$ 336,127 |
| Adjustments: | | | | |
| Interest income | (126) | (27) | (201) | (382) |
| Interest expense | 18,362 | 9,372 | 45,352 | 33,636 |
| Income tax (benefit) expense | (22,736) | 133,346 | 7,740 | 195,142 |
| Depletion, depreciation, amortization, and asset retirement obligation liability accretion | 192,432 | 123,067 | 523,610 | 343,805 |
| Exploration | 25,417 | 11,272 | 66,031 | 33,587 |
| Impairment of proved properties | — | 48,525 | 38,523 | 48,525 |
| Abandonment and impairment of unproved properties | 447 | — | 11,296 | 4,316 |
| Stock-based compensation expense | 9,359 | 7,713 | 21,731 | 19,550 |
| Unrealized derivative (gain) loss | 66,777 | (132,180) | (7,237) | (108,020) |
| Change in Net Profits Plan liability | 798 | (24,930) | (17,342) | (24,719) |
| (Gain) loss on divestiture activity | 8,532 | (190,728) | 31,246 | (245,662) |
| EBITDAX (Non-GAAP) ⁽⁴⁾ | \$ 260,926 | \$ 215,527 | \$ 733,638 | \$ 635,905 |

(4) EBITDAX represents income or loss before interest expense, interest income, income taxes, depreciation, depletion, amortization and accretion, exploration expense, property impairments, non-cash stock compensation expense, unrealized derivative gains and losses, change in the Net Profit Plan liability, and gains and losses on divestitures. EBITDAX excludes certain items that the Company believes affect the comparability of operating results and can exclude items that are generally one-time or whose timing and/or amount cannot be reasonably estimated. EBITDAX is a non-GAAP measure that is presented because the Company believes that it provides useful additional information to investors, as a performance measure, for analysis of its ability to internally generate funds for exploration, development, acquisitions, and to service debt. The Company is also subject to financial covenants under its credit facility based on its debt to EBITDAX ratio. In addition, EBITDAX 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. EBITDAX should not be considered in isolation or as a substitute for net income, income from operations, net cash provided by operating activities, profitability, or liquidity measures prepared under GAAP. Since EBITDAX excludes some, but not all items that affect net income and may vary among companies, the EBITDAX amounts presented may not be comparable to similar metrics of other companies.