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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2010

Commission File Number 001-31539

SM ENERGY COMPANY
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**41-0518430** (I.R.S. Employer Identification No.)
1775 Sherman Street, Suite 1200, Denver, Colorado (Address of principal executive offices)	**80203** (Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of October 27, 2010 the registrant had 63,055,280 shares of common stock, $0.01 par value, outstanding.

SM ENERGY COMPANY
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SM ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)
(In thousands, except share amounts)

	September 30, 2010	December 31, 2009
ASSETS		
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	198,516	209,046
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 $14,550 in 2009	19,048	14,404
	2,274,232	2,127,598
Other noncurrent assets:		
Derivative asset	29,444	8,251
Other noncurrent assets	16,805	16,041
Total other noncurrent assets	46,249	24,292
Total Assets	**$ 2,518,997**	**$ 2,360,936**
LIABILITIES AND STOCKHOLDERS' EQUITY		
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	371,054	296,671
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	945,492	1,090,695
Commitments and contingencies (note 6)		
Stockholders' equity:		
Common stock, $0.01 par value - authorized: 200,000,000 shares; issued: 63,147,613 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	1,202,451	973,570
Total Liabilities and Stockholders' Equity	**$ 2,518,997**	**$ 2,360,936**

The accompanying notes are an integral part of these consolidated financial statements.

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SM ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)
(In thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months 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	226,884	185,787	798,716	590,205
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	195,832	185,330	523,124	731,074
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
Net income (loss)	**$ 15,452**	**$ (4,415)**	**$ 159,698**	**$ (100,360)**
Basic weighted-average common shares outstanding	63,031	62,505	62,914	62,420
Diluted weighted-average common shares outstanding	64,794	62,505	64,599	62,420
Basic net income (loss) per common share	**$ 0.25**	**$ (0.07)**	**$ 2.54**	**$ (1.61)**
Diluted net income (loss) per common share	**$ 0.24**	**$ (0.07)**	**$ 2.47**	**$ (1.61)**

The accompanying notes are an integral part of these consolidated financial statements.

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SM ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
(In thousands, except share amounts)

	Common Stock		Additional Paid-in	Treasury Stock		Retained	Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Shares	Amount	Earnings	Income (Loss)	Equity
Balances, December 31, 2009	**62,899,122**	**$ 629**	**$ 160,516**	**(126,893)**	**$ (1,204)**	**$ 851,583**	**$ (37,954)**	**$ 973,570**
Comprehensive income, net of tax:								
Net income	—	—	—	—	—	159,698	—	159,698
Change in derivative instrument fair value	—	—	—	—	—	—	50,136	50,136
Reclassification to earnings	—	—	—	—	—	—	1,903	1,903

Minimum pension liability adjustment	—	—	—	—	—	—	4	4
Total comprehensive income								211,741
Cash dividends, $ 0.10 per share	—	—	—	—	—	(6,297)	—	(6,297)
Issuance of common stock under Employee Stock Purchase Plan	27,456	—	799	—	—	—	—	799
Issuance of common stock upon settlement of RSUs following expiration of restriction period, net of shares used for tax withholdings, including income tax cost of RSUs	57,687	1	(909)	—	—	—	—	(908)
Sale of common stock, including income tax benefit of stock option exercises	163,348	1	3,692	—	—	—	—	3,693
Stock-based compensation expense	—	—	19,105	24,258	748	—	—	19,853
Balances, September 30, 2010	**63,147,613**	**$ 631**	**$ 183,203**	**(102,635)**	**$ (456)**	**$ 1,004,984**	**$ 14,089**	**$ 1,202,451**
Balances, December 31, 2008	**62,465,572**	**$ 625**	**$ 141,283**	**(176,987)**	**$ (1,892)**	**$ 957,200**	**$ 65,293**	**$ 1,162,509**
Comprehensive loss, net of tax:								
Net loss	—	—	—	—	—	(100,360)	—	(100,360)
Change in derivative instrument fair value	—	—	—	—	—	—	(12,810)	(12,810)
Reclassification to earnings	—	—	—	—	—	—	(57,979)	(57,979)
Minimum pension liability adjustment	—	—	—	—	—	—	4	4
Total comprehensive loss								(171,145)
Cash dividends, $ 0.10 per share	—	—	—	—	—	(6,247)	—	(6,247)
Issuance of common stock under Employee Stock Purchase Plan	49,767	—	858	—	—	—	—	858
Issuance of common stock upon settlement of RSUs following expiration of restriction period, net of shares used for tax withholdings, including income tax cost of RSUs	89,236	1	(3,157)	—	—	—	—	(3,156)
Sale of common stock, including income tax benefit of stock option exercises	33,014	—	320	—	—	—	—	320
Stock-based compensation expense	1,250	—	12,316	50,094	662	—	—	12,978
Balances, September 30, 2009	**62,638,839**	**$ 626**	**$ 151,620**	**(126,893)**	**$ (1,230)**	**$ 850,593**	**$ (5,492)**	**$ 996,117**

The accompanying notes are an integral part of these consolidated financial statements.

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SM ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
(In thousands)

	For the Nine Months Ended September 30,	
	2010	**2009**
Cash flows from operating activities:		
Net income (loss)	$ 159,698	$ (100,360)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
(Gain) loss on divestiture activity	(132,183)	10,632
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	241,335	229,061
Exploratory dry hole expense	289	4,849
Impairment of proved properties	—	153,183
Abandonment and impairment of unproved properties	4,998	20,294
Impairment of materials inventory	—	13,449
Stock-based compensation expense	19,853	12,978
Change in Net Profits Plan liability	(29,785)	(14,038)
Unrealized derivative (gain) loss	(4,095)	17,251
Loss related to hurricanes	—	8,273
Amortization of debt discount and deferred financing costs	10,022	8,922
Deferred income taxes	85,695	(69,082)
Plugging and abandonment	(7,106)	(12,110)
Other	(3,085)	1,432
Changes in current assets and liabilities:		
Accounts receivable	(4,937)	58,844
Refundable income taxes	31,402	10,340
Prepaid expenses and other	512	(8,660)
Accounts payable and accrued expenses	47,123	7,794
Excess income tax benefit from the exercise of stock options	(1,376)	—
Net cash provided by operating activities	**418,360**	**353,052**
Cash flows from investing activities:		
Net proceeds from sale of oil and gas properties	259,501	1,137
Proceeds from insurance settlement	—	15,336
Capital expenditures	(488,684)	(292,466)
Acquisition of oil and gas properties	(685)	(58)
Receipts from restricted cash	—	14,398
Receipts from short-term investments	—	1,002
Other	(6,492)	—
Net cash used in investing activities	**(236,360)**	**(260,651)**
Cash flows from financing activities:		

Proceeds from credit facility	315,059	1,898,500
Repayment of credit facility	(501,059)	(1,963,500)
Debt issuance costs related to credit facility	—	(11,074)
Proceeds from sale of common stock	3,116	1,179
Dividends paid	(3,144)	(3,120)
Excess income tax benefit from the exercise of stock options	1,376	—
Other	(908)	—
Net cash used in financing activities	**(185,560)**	**(78,015)**
Net change in cash and cash equivalents	(3,560)	14,386
Cash and cash equivalents at beginning of period	10,649	6,131
Cash and cash equivalents at end of period	**$ 7,089**	**$ 20,517**

The accompanying notes are an integral part of these consolidated financial statements.

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SM ENERGY COMPANY AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED) (Continued)

Supplemental schedule of additional cash flow information and noncash investing and financing activities:

	For the Nine Months Ended September 30,	
	2010	2009
	(In thousands)	
Cash paid for interest	$ 9,091	$ 11,150
Cash refunded for income taxes	$ (24,949)	$ (10,119)

As of September 30, 2010, and 2009, $133.3 million, and $59.8 million, respectively, are included asadditions to oil and gas properties and accounts payable and accrued expenses in the accompanying condensed consolidated balance sheets. These oil and gas additions are reflected as cash used ininvesting activities in the periods that the payables are settled.

Dividends of approximately $3.2 million have been declared by the Company's Board of Directors, but not paid, as of September 30, 2010.

The accompanying notes are an integral part of these consolidated financial statements.

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SM ENERGY COMPANY AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

September 30, 2010

Note 1 — The Company and Business

SM Energy Company ("SM Energy" or the "Company"), formerly named St. Mary Land & Exploration Company or referred to as St. Mary, is an independent energy company engaged in the exploration, exploitation, development, acquisition, and production of natural gas, natural gas liquids ("NGLs"), and crude oil. The Company's operations are conducted entirely in the continental United States.

Note 2 — Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of SM Energy have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and the instructions to Form 10-Q and Regulation S-X. They do not include all information and notes required by generally accepted accounting principles ("GAAP") for complete financial statements. However, except as disclosed herein, there has been no material change in the information disclosed in the notes to consolidated financial statements included in SM Energy's Annual Report on Form 10-K for the year ended December 31, 2009, (the "2009 Form 10-K"). In the opinion of management, all adjustments, consisting of normal recurring accruals that are considered necessary for a fair presentation of the interim financial information, have been included. Operating results for the periods presented are not necessarily indicative of expected results for the full year. In connection with the preparation of the condensed consolidated financial statements of SM Energy, the Company evaluated subsequent events after the balance sheet date of September 30, 2010, through the filing date of this report.

Other Significant Accounting Policies

The accounting policies followed by the Company are set forth in Note 1 to the Company's consolidated financial statements in the 2009 Form 10-K, and are supplemented throughout the notes to condensed consolidated financial statements in this report. It is suggested that these condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes included in the 2009 Form 10-K.

Note 3 —Divestitures and Assets Held for Sale

Southern Rockies Divestiture

In July 2010 the Company completed the divestiture related to the non-strategic assets that were classified as held for sale at June 30, 2010. The gain on sale related

to the divestiture is approximately $2.6 million. The final sale price is subject to normal post-closing adjustments and is expected to be finalized in the fourth quarter of 2010. The estimated gain on sale related to the divestiture may be impacted by the forthcoming post-closing adjustments mentioned above. The Company determined that the sale did not qualify for discontinued operations accounting under financial statement presentation authoritative guidance.

Legacy Divestiture

In February 2010 the Company completed the divestiture of certain non-strategic oil properties located in Wyoming to Legacy Reserves Operating LP, a wholly-owned subsidiary of Legacy Reserves LP

("Legacy"). The transaction had an effective date of November 1, 2009. Total cash received, before commission costs and Net Profits Interest Bonus Plan ("Net Profits Plan") payments, was $125.3 million, of which $6.5 million was received as a deposit in December 2009. The final gain on sale related to the divestiture is approximately $65.0 million. The Company determined that the sale did not qualify for discontinued operations accounting under financial statement presentation authoritative guidance. A portion of the transaction was structured to qualify as a like-kind exchange under Section 1031 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code").

Sequel Divestiture

In March 2010 the Company completed the divestiture of certain non-strategic oil properties located in North Dakota to Sequel Energy Partners, LP, Bakken Energy Partners, LLC, and Three Forks Energy Partners, LLC (collectively referred to as "Sequel"). The transaction had an effective date of November 1, 2009. Total cash received, before commission costs and Net Profits Plan payments, was $129.1 million. The final sale price is subject to normal post-closing adjustments and is expected to be finalized during the fourth quarter of 2010. The estimated gain on sale related to the divestiture is approximately $52.9 million and may be impacted by the forthcoming post-closing adjustments mentioned above. The Company determined that the sale did not qualify for discontinued operations accounting under financial statement presentation authoritative guidance. A portion of the transaction was structured to qualify as a like-kind exchange under Section 1031 of the Internal Revenue Code.

Assets Held for Sale

In accordance with property, plant, and equipment authoritative guidance, assets are classified as held for sale when the Company commits to a plan to sell the assets and there is reasonable certainty that the sale will take place within one year. Upon classification as held-for-sale, long-lived assets are no longer depreciated or depleted, and a measurement for impairment is performed to determine if there is any excess of carrying value over fair value less costs to sell. Subsequent changes to estimated fair value less the cost to sell will impact the measurement of assets held for sale if the fair value is determined to be less than the carrying value of the assets.

In August 2010 the Company engaged two outside firms to market for sale certain non-core oil and gas properties located in the Rocky Mountain, Mid-Continent, and Permian regions. The Mid-Continent properties being marketed include all of our Marcellus shale assets in North Central Pennsylvania. As of September 30, 2010, the accompanying condensed consolidated balance sheets ("accompanying balance sheets") present $114.9 million in book value of assets held for sale, net of accumulated depletion, depreciation, and amortization. Additionally, the corresponding asset retirement obligation liability of $3.1 million is separately presented. The Company determined that these planned asset sales do not qualify for discontinued operations accounting under financial statement presentation authoritative guidance.

Note 4 — Income Taxes

Income tax (expense) benefit for the nine-month periods ended September 30, 2010, and 2009, differs from the amounts that would be provided by applying the statutory U.S. federal income tax rate to income (loss) before income taxes as a result of the estimated effect of the domestic production activities deduction, percentage depletion, the effect of state income taxes, and other permanent differences.

The provision for income taxes consists of the following:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Current portion of income tax (expense):				
Federal	$ (2,194)	$ (2,881)	$ (10,410)	$ (6,129)
State	(277)	(451)	(588)	(1,337)
Deferred portion of income tax (expense) benefit	(6,875)	5,935	(85,695)	69,082
Total income tax (expense) benefit	$ (9,346)	$ 2,603	$ (96,693)	$ 61,616
Effective tax rate	37.7%	37.1%	37.7%	38.0%

A change in the Company's effective tax rate between reported periods will generally reflect differences in its estimated highest marginal state tax rate due to changes in the composition of income between state tax jurisdictions resulting from Company activities. Non-core asset sales through September 30, 2010, and the Company's anticipated drilling budget for the rest of 2010 applied against the Company's cumulative temporary timing differences caused an increase in tax rate for the third quarter of 2010 when compared to the same period of 2009. The rate is also impacted period to period by estimates for the domestic production activities deduction, percentage depletion, and for potential permanent state tax items which affect the presented periods differently due to oil and gas price variability and the impact of non-core asset sales.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction and in various states. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by these tax authorities for years before 2007. During the first quarter of 2010, the Internal Revenue Service initiated an audit of SM Energy for the 2006 tax year as a result of a net operating loss carryback from the Company's 2008 tax year. The audit was focused primarily on compensation related issues. The audit was successfully concluded in the second quarter of 2010 with no changes to Company reported amounts. As of September 30, 2010, the Company is awaiting approval from the Joint Committee on Taxation to receive a $5.5 million refund from its 2006 tax year net operating loss carryback claim, which is included in refundable income taxes on the accompanying balance sheets. On July 20, 2010, the Company received $22.9 million related to an initial claim for net operating loss carry back from its 2009 tax year to its 2005 tax year. The Company's remaining refundable income tax balance at September 30, 2010, reflects additional net operating loss carry back from filing a revised income tax return for the 2009 tax year prior to the extended return due date. At the end of the third quarter of 2010, the Company was advised that the Internal Revenue Service will begin a full audit of the Company's 2009 tax year in the fourth quarter of 2010.

The Company's 2005 federal income tax audit was concluded in the first quarter of 2009 with a refund to the Company of $278,000 plus interest of $41,000. There

was no change to the provision for income tax expense as a result of the 2005 examination.

Note 5 — Earnings per Share

Basic net income or loss per common share of stock is calculated by dividing net income or loss available to common stockholders by the basic weighted-average common shares outstanding for the respective period. The shares represented by vested restricted stock units ("RSUs") are included in the calculation of the basic weighted-average common shares outstanding. The earnings per share calculations reflect the impact of any repurchases of shares of common stock made by the Company.

Diluted net income or loss per common share of stock is calculated by dividing adjusted net income or loss by the diluted weighted-average common shares outstanding, which includes the effect of potentially dilutive securities. Potentially dilutive securities for this calculation consist of unvested RSUs, in-the-money outstanding options to purchase the Company's common stock, contingent Performance Share

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Awards ("PSAs"), and shares into which the 3.50% Senior Convertible Notes due 2027 (the "3.50% Senior Convertible Notes") are convertible.

The Company's 3.50% Senior Convertible Notes have a net-share settlement right whereby each $1,000 principal amount of notes may be surrendered for conversion to cash in an amount equal to the principal amount and, if applicable, shares of common stock or cash or any combination of common stock and cash for the amount of conversion value in excess of the principal amount. The treasury stock method is used to measure the potentially dilutive impact of shares associated with this conversion feature. The 3.50% Senior Convertible Notes have not been dilutive for any reporting period that they have been outstanding and therefore do not impact the diluted earnings per share calculation for the three-month or nine-month periods ended September 30, 2010, and 2009.

The PSAs represent the right to receive, upon settlement of the PSAs after the completion of the three-year performance period, a number of shares of the Company's common stock that may be from zero to two times the number of PSAs granted on the award date. The number of potentially dilutive shares related to PSAs is based on the number of shares, if any, which would be issuable at the end of the respective reporting period, assuming that date was the end of the contingency period. For additional discussion on PSAs, please refer to Note 7 — Compensation Plans under the heading *Performance Share Awards Under the Equity Incentive Compensation Plan.*

The treasury stock method is used to measure the dilutive impact of stock options, RSUs, 3.50% Senior Convertible Notes, and PSAs. When there is a loss from continuing operations, all potentially dilutive shares will be anti-dilutive. There were no dilutive shares for the three-month or nine-month periods ended September 30, 2009, because the Company recorded a loss for each of those periods. Unvested RSUs, contingent PSAs, and in-the-money options had a dilutive impact for the three-month and nine-month periods ended September 30, 2010, as calculated in the table below.

The following table sets forth the calculation of basic and diluted earnings per share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands, except per share amounts)			
Net income (loss)	$ 15,452	$ (4,415)	$ 159,698	$ (100,360)
Basic weighted-average common stock outstanding	63,031	62,505	62,914	62,420
Add: dilutive effect of stock options, unvested RSUs, and contingent PSAs	1,763	—	1,685	—
Add: dilutive effect of 3.50% senior convertible notes	—	—	—	—
Diluted weighted-average common shares outstanding	64,794	62,505	64,599	62,420
Basic net income (loss) per common share	$ 0.25	$ (0.07)	$ 2.54	$ (1.61)
Diluted net income (loss) per common share	$ 0.24	$ (0.07)	$ 2.47	$ (1.61)

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Note 6 — Commitments and Contingencies

During the first nine months of 2010, the Company entered into two natural gas gathering through-put commitments that as of September 30, 2010, require a minimum volume delivery of 574 Bcf by the end of 2021. The Company will be required to make periodic deficiency payments for any shortfalls in delivering the minimum volume commitments. If a shortfall in the minimum volume commitment is projected, the Company has certain rights to arrange for 3rd party gas to deliver into the gathering lines and such volume will be counted towards the minimum commitment. In the third quarter of 2010 the Company entered into several new long-term drilling rig contracts that extend through 2014. The table below shows the undiscounted cash flows associated with the deficiency payments related to the Company's through-put commitments, as well as commitments associated with the Company's new drilling rig contracts as of September 30, 2010.

Years Ending December 31,	Undiscounted Cash Outflows (In thousands)
2010	$ 7,775
2011	28,300
2012	36,068
2013	46,988
2014	33,147
Thereafter	119,873
Total	$ 272,151

The above amounts include commitments under a gas services agreement entered into by the Company effective as of July 1, 2010, for natural gas production from the Company's Eagle Ford shale assets. Under that agreement, the Company has committed Eagle Ford production up to a maximum level of 200,000 MMBTU per day over a ten-year term beginning in 2011, and in the event that no gas is delivered the aggregate deficiency payments will total $154.7 million.

Subsequent to September 30, 2010, the Company entered into a fracturing service agreement and an additional long-term drilling rig contract, which extends through 2013. The total commitment for both agreements is $79.8 million.

Note 7 — Compensation Plans

Cash Bonus Plan

During the first quarters of 2010 and 2009, the Company paid $7.7 million and $6.0 million for cash bonuses earned in the 2009 and 2008 performance years, respectively. Within the general and administrative expense and exploration expense line items in the accompanying condensed consolidated statements of operations ("accompanying statements of operations") was $3.1 million and $3.2 million of cash bonus expense related to the specific performance year for the three-month periods ended September 30, 2010, and 2009, and $9.2 million and $8.5 million for the nine-month periods ended September 30, 2010, and 2009, respectively.

Performance Share Awards Under the Equity Incentive Compensation Plan

PSAs represent the right to receive, upon the completion of a three-year performance period, a number of shares of the Company's common stock that may be from zero to two times the number of PSAs granted on the award date, depending on the extent to which the Company's performance criteria have been achieved and the extent to which the PSAs have vested. The performance criteria for the PSAs are based on a combination of the Company's total shareholder return ("TSR") for the performance period and the relative performance of the Company's TSR compared to an index of certain peer companies' TSR for the performance period.

Total stock-based compensation expense related to PSAs for the three-month periods ended September 30, 2010, and 2009, was $5.6 million and $3.2 million, respectively, and $13.0 million and $5.7

million for the nine-month periods ended September 30, 2010, and 2009, respectively. As of September 30, 2010, there was $29.0 million of total unrecognized compensation expense related to unvested PSAs that is being amortized through 2013.

A summary of the status and activity of PSAs for the nine-month period ended September 30, 2010, is presented in the following table:

	PSAs	Weighted-Average Grant-Date Fair Value
Non-vested, at January 1, 2010	1,069,090	$ 32.52
Granted	387,651	$ 52.35
Vested [1]	(210,801)	$ 31.17
Forfeited	(102,149)	$ 32.48
Non-vested and outstanding, at September 30, 2010	1,143,791	$ 39.49

(1) The numbers of shares vested assume a one multiplier. The final number of shares vested may vary depending on the ending three-year multiplier, which ranges from zero to two.

On July 1, 2010, the Company granted 387,651 PSAs with a performance period ending June 30, 2013, and a fair value of $20.3 million. This grant was part of the Company's regular annual compensation process. These PSAs will vest 1/7th on July 1, 2011, 2/7^{ths} on July 1, 2012, and 4/7^{ths} on July 1, 2013.

Restricted Stock Unit Incentive Program Under the Equity Incentive Compensation Plan

Total RSU compensation expense for both the three-month periods ended September 30, 2010, and 2009, was $2.1 million, and $5.7 million and $5.9 million for the nine-month periods ended September 30, 2010, and 2009, respectively. As of September 30, 2010, there was $8.2 million of total unrecognized compensation expense related to unvested RSU awards that is being amortized through 2013.

During the first nine months of 2010, the Company settled 83,008 RSUs that relate to awards granted in 2009, 2008 and 2007 through the issuance of shares of the Company's common stock in accordance with the terms of the RSU awards. As a result, the Company issued 57,687 shares of common stock associated with these grants. The remaining 25,321 shares were withheld to satisfy income and payroll tax withholding obligations that occurred upon the delivery of the shares underlying those RSUs.

A summary of the status and activity of RSUs for the nine-month period ended September 30, 2010, is presented in the following table:

	RSUs	Weighted-Average Grant-Date Fair Value
Non-vested, at January 1, 2010	407,123	$ 34.67
Granted	126,821	$ 40.17
Vested	(81,775)	$ 31.45
Forfeited	(31,358)	$ 36.46
Non-vested and outstanding, at September 30, 2010	420,811	$ 36.82

During the third quarter of 2010 the Company granted 126,821 RSUs with a fair value of $5.1 million, as part of its regular annual compensation process. Each RSU represents a right to receive one share of the Company's common stock to be delivered upon settlement of the vested RSU. These RSUs will vest 1/7th on July 1, 2011, 2/7^{ths} on July 1, 2012, and 4/7^{ths} on July 1, 2013.

Stock Option Grants Under Prior Stock Option Plans

The following table summarizes stock option activity for the nine months ended September 30, 2010:

	Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding, beginning of period	1,274,920	$ 13.31		
Exercised	(163,348)	$ 14.19		
Forfeited	—	$ —		
Outstanding, end of period	1,111,572	$ 13.18	2.4	$ 26,988
Vested at end of period	1,111,572	$ 13.18	2.4	$ 26,988
Exercisable, end of period	1,111,572	$ 13.18	2.4	$ 26,988

As of September 30, 2010, there was no unrecognized compensation expense related to stock option awards.

Director Shares

In May 2010 and 2009 the Company issued 24,258 and 50,094 shares, respectively, of the Company's common stock from treasury to the Company's non-employee directors. The shares were issued pursuant to the Company's Equity Incentive Compensation Plan. The Company recorded $33,000 and $26,000 of compensation expense for the three-month periods ended September 30, 2010, and 2009, respectively, and $748,000 and $662,000 for the nine-month periods ended September 30, 2010, and 2009, respectively.

Employee Stock Purchase Plan

Under the Company's Employee Stock Purchase Plan (the "ESPP"), eligible employees may purchase shares of the Company's common stock through payroll deductions of up to 15 percent of eligible compensation. The purchase price of the stock is 85 percent of the lower of the fair market value of the stock on the first or last day of the purchase period, and shares issued under the ESPP are restricted for a period of six months from the date issued. The ESPP is intended to qualify under Section 423 of the Internal Revenue Code. The Company has set aside 2,000,000 shares of its common stock to be available for issuance under the ESPP, of which 1,440,819 shares are available for issuance as of September 30, 2010. The fair value of ESPP grants is measured at the date of grant using the Black-Scholes option-pricing model. There were 27,456 and 49,767 shares issued under the ESPP during the first nine months of 2010 and 2009, respectively. The Company expensed $162,000 and $153,000 for the three-month periods ended September 30, 2010, and 2009, respectively, and $425,000 and $694,000 for the nine-month periods ended September 30, 2010, and 2009, respectively, based on the estimated fair values on the respective grant dates.

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Net Profits Plan

Prior to 2008, all oil and gas wells that were completed or acquired during each year were assigned to a specific pool for that respective year under the Company's legacy Net Profits Plan. Key employees become entitled to payments under the Net Profits Plan after the Company has received net cash flows returning 100 percent of all costs associated with a pool. Thereafter, ten percent of future net cash flows generated by the pool are allocated among the participants and distributed at least annually. The portion of net cash flows from the pool to be allocated among the participants increases to 20 percent after the Company has recovered both 200 percent of the total costs for the pool and 100 percent of pool payments made under the Net Profits Plan at the ten percent level. The 2007 Net Profits Plan pool was the last pool established by the Company.

Cash payments made or accrued under the Net Profits Plan that have been recorded as either general and administrative expense or exploration expense are detailed in the table below:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
General and administrative expense	$ 3,918	$ 5,168	$ 16,233	$ 12,942
Exploration expense	638	239	1,896	1,116
Total	$ 4,556	$ 5,407	$ 18,129	$ 14,058

Additionally, the Company made cash payments under the Net Profits Plan of $686,000 and $20.8 million for the three-month and nine-month periods ended September 30, 2010, respectively, as a result of sales proceeds mainly from the Legacy and Sequel divestitures. The cash payments are accounted for as a reduction of proceeds, which reduced the gain (loss) on divestiture activity in the accompanying statements of operations. There were no cash payments made under the Net Profits Plan as a result of divestitures that occurred during the first nine months of 2009.

The Company records changes in the present value of estimated future payments under the Net Profits Plan as a separate line item in the accompanying statements of operations. The change in the estimated liability is recorded as a non-cash expense or benefit in the current period. The amount recorded as an expense or benefit associated with the change in the estimated liability is not allocated to general and administrative expense or exploration expense because it is associated with the future net cash flows from oil and gas properties in the respective pools rather than results being realized through current period production. The table below presents the estimated allocation of the change in the liability if the Company did allocate the adjustment to these specific functional line items based on the current allocation of actual distributions made by the Company. As time progresses, less of the distributions relate to prospective exploration efforts as more of the distributions are made to participants that have terminated employment and do not provide ongoing exploration support to the Company.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
General and administrative expense (benefit)	$ 4,062	$ 5,807	$ (26,670)	$ (12,923)
Exploration expense (benefit)	24	997	(3,115)	(1,115)
Total	$ 4,086	$ 6,804	$ (29,785)	$ (14,038)

Note 8 — Pension Benefits

Pension Plans

The Company has a non-contributory pension plan covering substantially all employees who meet age and service requirements (the "Qualified Pension Plan"). The Company also has a supplemental non-contributory pension plan covering certain management employees (the "Nonqualified Pension Plan").

Components of Net Periodic Benefit Cost for Both Plans

The following table presents the total components of the net periodic cost for both the Qualified Pension Plan and the Nonqualified Pension Plan:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Service cost	$ 848	$ 625	$ 2,544	$ 1,875
Interest cost	280	234	840	701
Expected return on plan assets	(159)	(108)	(477)	(323)
Amortization of net actuarial loss	91	93	273	279
Net periodic benefit cost	$ 1,060	$ 844	$ 3,180	$ 2,532

Prior service costs are amortized on a straight-line basis over the average remaining service period of active participants. Gains and losses in excess of ten percent of the greater of the benefit obligation or the market-related value of assets are amortized over the average remaining service period of active participants.

Contributions

Under the Pension Protection Act of 2006, SM Energy is not required to make a minimum contribution to the pension plans in 2010. However, the Company contributed $1.7 million in September 2010 based upon the preliminary funding results analysis completed in April 2010 in order to maintain an adequate funding level to provide retirement benefits to current and future plan participants and to maintain an adequate funding level to provide lump sum payments if elected by participants.

Note 9 — Asset Retirement Obligations

The Company recognizes an estimated liability for future costs associated with the plugging and abandonment of its oil and gas properties. A liability for the fair value of an asset retirement obligation and a corresponding increase to the carrying value of the related long-lived asset are recorded at the time a well is completed or acquired. The increase in carrying value is included in proved oil and gas properties in the accompanying balance sheets. The Company depletes the amount added to proved oil and gas property costs and recognizes expense in connection with the accretion of the discounted liability over the remaining estimated economic lives of the respective oil and gas properties. Cash paid to settle asset retirement obligations is included in the operating section of the Company's accompanying condensed consolidated statements of cash flows.

The Company's estimated asset retirement obligation liability is based on estimated economic lives, historical experience in plugging and abandoning wells, estimated cost to plug and abandon the wells in the future, and federal and state regulatory requirements. The liability is discounted using a credit-adjusted risk-free rate estimated at the time the liability is incurred or revised. The credit-adjusted risk-free rates

used to discount the Company's abandonment liabilities range from 6.5 percent to 12.0 percent. Revisions to the liability could occur due to changes in estimated abandonment costs or well commerciality, or if federal or state regulators enact new requirements regarding the abandonment of wells. The asset retirement obligation is considered settled when the well has been plugged and abandoned or divested.

A reconciliation of the Company's asset retirement obligation liability is as follows:

	For the Nine Months Ended September 30, (In thousands)
Beginning asset retirement obligation	$ 102,080
Liabilities incurred	3,501
Liabilities settled	(26,962)
Accretion expense	4,237
Revision to estimated cash flow	(10)
Ending asset retirement obligation	$ 82,846

As of September 30, 2010, the Company had $3.1 million of asset retirement obligation associated with the oil and gas properties held for sale included in a separate line item on the Company's accompanying balance sheets. Additionally, as of September 30, 2010, accounts payable and accrued expenses contained $15.5 million related to the Company's current asset retirement obligation liability associated with the estimated retirement of some of the Company's offshore platforms.

Note 10 — Derivative Financial Instruments

Oil, Natural Gas, and NGL Commodity Hedges

To mitigate a portion of the exposure to potentially adverse market changes in oil, gas, and NGL prices and the associated impact on cash flows, the Company has entered into various derivative contracts. The Company's derivative contracts in place include swap and collar arrangements for oil, natural gas, and NGLs. As of September 30, 2010, the Company has hedge contracts in place through the second quarter of 2013 for a total of approximately 5 million Bbls of anticipated crude oil production, 42 million MMBtu of anticipated natural gas production, and 2 million Bbls of anticipated NGL production. As of October 27, 2010, the Company has hedge contracts in place through the third quarter of 2013 for a total of approximately 7 million Bbls of anticipated crude oil production, 42 million MMBtu of anticipated natural gas production, and 2 million Bbls of anticipated NGL production.

The Company attempts to qualify its oil, natural gas, and NGL derivative instruments as cash flow hedges for accounting purposes under derivative and hedging

authoritative guidance. The Company formally documents all relationships between the derivative instruments and the hedged production, as well as the Company's risk management objective and strategy for the particular derivative contracts. This process includes linking all derivatives that are designated as cash flow hedges to the specific forecasted sale of oil, natural gas or NGLs. The Company also formally assesses (both at the derivative's inception and on an ongoing basis) whether the derivatives being utilized have been highly effective in offsetting changes in the cash flows of hedged production and whether those derivatives may be expected to remain highly effective in future periods. If it is determined that a derivative has ceased to be highly effective as a hedge, the Company will discontinue hedge accounting for that derivative prospectively. If hedge accounting is discontinued and the derivative remains outstanding, the Company will recognize all subsequent changes in its fair value in the Company's consolidated statements of operations for the period in which the change occurs. As of September 30, 2010, all oil, natural gas, and NGL derivative instruments qualified as cash flow hedges for accounting purposes. The Company anticipates that all forecasted

transactions will occur by the end of their originally specified periods. All contracts are entered into for other-than-trading purposes.

The Company's oil, natural gas, and NGL hedges are measured at fair value and are included in the accompanying balance sheets as derivative assets and liabilities. The Company derives internal valuation estimates taking into consideration the counterparties' credit worthiness, the Company's credit worthiness, and the time value of money. Those internal valuations are then compared to the counterparties' mark-to-market statements. The consideration of the factors results in an estimated exit-price for each derivative asset or liability under a market place participant's view. Management believes that this approach provides a reasonable, non-biased, verifiable, and consistent methodology for valuing commodity derivative instruments. The derivative instruments utilized by the Company are not considered by management to be complex, structured, or illiquid. The oil, natural gas, and NGL derivative markets are highly active. The fair value of oil, natural gas, and NGL derivative contracts designated and qualifying as cash flow hedges was a net asset of $6.5 million and a net liability of $80.9 million at September 30, 2010, and December 31, 2009, respectively.

The following table details the fair value of derivatives recorded in the accompanying balance sheets, by category:

	Location on Consolidated Balance Sheets	Fair Value at September 30, 2010	Fair Value at December 31, 2009
		(In thousands)	
Derivative assets designated as cash flow hedges:			
Commodity contracts	Current assets — Derivative asset	$ 56,199	$ 30,295
Commodity contracts	Other noncurrent assets — Derivative asset	29,444	8,251
Total derivative assets designated as cash flow hedges		$ 85,643	$ 38,546
Derivative liabilities designated as cash flow hedges:			
Commodity contracts	Current liabilities — Derivative liability	$ (53,732)	$ (53,929)
Commodity contracts	Noncurrent liabilities — Derivative liability	(25,450)	(65,499)
Total derivative liabilities designated as cash flow hedges		$ (79,182)	$ (119,428)

Realized gains or losses from the settlement of oil, natural gas, and NGL derivative contracts are reported in the total operating revenues and other income section of the accompanying statements of operations. The Company realized a net gain of $8.8 million and $28.3 million from its oil, natural gas, and NGL derivative contracts for the three months ended September 30, 2010, and 2009, respectively, and realized a net gain of $20.8 million and $127.2 million from its oil, natural gas, and NGL derivative contracts for the nine months ended September 30, 2010, and 2009, respectively.

After-tax changes in the fair value of derivative instruments designated as cash flow hedges, to the extent they are effective in offsetting cash flows attributed to the hedged risk, are recorded in accumulated other comprehensive income in the accompanying balance sheets until the hedged item is realized in earnings upon the sale of the associated hedged production. As of September 30, 2010, the amount of unrealized gain, net of deferred income taxes, to be reclassified from accumulated other comprehensive

income to realized oil and gas hedge gain in the Company's accompanying statements of operations in the next twelve months is $10.2 million.

The Company seeks to minimize ineffectiveness by entering into oil derivative contracts indexed to the New York Mercantile Exchange West Texas Intermediate ("NYMEX WTI") index, natural gas derivative contracts indexed to regional index prices associated with pipelines in proximity to the Company's areas of production, and NGL derivative contracts indexed to Oil Price Information Service Mont Belvieu. The Company's derivative contracts utilize the same respective indices or pricing points as the Company's sales contracts. As a result, the derivative contracts used by the Company are highly correlated with prices received upon the sale of the underlying hedged production.

The following table details the effect of derivative instruments on other comprehensive income (loss) and the accompanying balance sheets (net of income tax):

	Derivatives Qualifying as Cash Flow Hedges	Location on Consolidated Balance Sheets	Balance as of September 30, 2010	Balance as of December 31, 2009
			(In thousands)	
Amount of (gain) loss on derivatives recognized in OCI during the period (effective portion)	Commodity contracts	Accumulated other comprehensive income (loss)	$ (50,136)	$ 35,977

The following table details the effect of derivative instruments on other comprehensive income (loss) and the accompanying statements of operations (net of income tax):

Derivatives Qualifying as Cash Flow Hedges	Location on Consolidated Statements of Operations	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2010	2009	2010	2009
		(In thousands)			

Amount of (gain) loss reclassified from AOCI to realized oil and gas hedge gain (loss) (effective portion)	Commodity Contracts	Realized oil and gas hedge gain	$ 2,685	$(12,485)	$ 1,903	$(57,979)

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Any changes in fair value resulting from hedge ineffectiveness is recognized currently in unrealized derivative (gain) loss in the accompanying statement of operations. The following table details the effect of derivative instruments on the accompanying statements of operations:

Derivatives Qualifying as Cash Flow Hedges	Location on Consolidated Statements of Operations	(Gain) Loss Recognized in Earnings (Ineffective Portion)			
		For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
		2010	2009	2010	2009
		(In thousands)			
Commodity contracts	Unrealized derivative (gain) loss	$ 5,727	$ 4,117	$ (4,095)	$ 17,251

Credit Related Contingent Features

As of September 30, 2010, only one of the Company's hedge counterparties was not a member of the Company's credit facility bank syndicate. Member banks are secured by the Company's oil and gas assets, and therefore do not require the Company to post collateral in instances where the Company is in a liability position. When the Company is in a liability position with the non-member bank, posting of collateral may be required if the Company's liability balance exceeds the limit set forth in the agreement with the non-member bank. With the one non-member bank, the amount of collateral, if any, that the Company is required to post depends on a number of financial metrics that are calculated quarterly. No collateral was posted as of September 30, 2010, or October 27, 2010.

Convertible Note Derivative Instruments

The contingent interest provision of the 3.50% Senior Convertible Notes is an embedded derivative instrument. As of September 30, 2010, and December 31, 2009, the value of this derivative was determined to be immaterial.

Note 11 — Fair Value Measurements

The Company follows fair value measurement authoritative guidance for all assets and liabilities measured at fair value. That guidance defines fair value as the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants at the measurement date. Market or observable inputs are the preferred sources of values, followed by assumptions based on hypothetical transactions in the absence of market inputs. The hierarchy for grouping these assets and liabilities is based on the significance level of the following inputs:

- Level 1 — Quoted prices in active markets for identical assets or liabilities
- Level 2 — Quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar instruments in markets that are not active, and model-derived valuations whose inputs are observable or whose significant value drivers are observable
- Level 3 — Significant inputs to the valuation model are unobservable

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The following is a listing of the Company's financial assets and liabilities that are measured at fair value on a recurring basis and where they are classified within the hierarchy as of September 30, 2010:

	Level 1	Level 2	Level 3
		(In thousands)	
Assets:			
Derivatives	$ —	$ 85,643	$ —
Liabilities:			
Derivatives	$ —	$ 79,182	$ —
Net Profits Plan	$ —	$ —	$ 140,506

There were no nonfinancial assets or liabilities measured at fair value on a nonrecurring basis at September 30, 2010.

The following is a listing of the Company's assets and liabilities that are measured at fair value and where they are classified within the hierarchy as of December 31, 2009:

	Level 1	Level 2	Level 3
		(In thousands)	
Assets:			
Derivatives[(a)]	$ —	$ 38,546	$ —
Proved oil and gas properties[(b)]	$ —	$ —	$ 11,740
Materials inventory[(b)]	$ —	$ 13,882	$ —
Liabilities:			
Derivatives[(a)]	$ —	$ 119,428	$ —
Net Profits Plan[(a)]	$ —	$ —	$ 170,291

(a) This represents a financial asset or liability that is measured at fair value on a recurring basis.
(b) This represents a nonfinancial asset or liability that is measured at fair value on a nonrecurring basis.

Both financial and non-financial assets and liabilities are categorized within the hierarchy based on the lowest level of input that is significant to the fair value

measurement. The following is a description of the valuation methodologies used by the Company as well as the general classification of such instruments pursuant to the hierarchy.

Derivatives

The Company uses Level 2 inputs to measure the fair value of oil, gas, and NGL hedges. Fair values are based upon interpolated data. The Company derives internal valuation estimates that take into account nonperformance risk by considering counterparties' credit ratings, the Company's credit rating, and the time value of money. The considered factors result in an estimated exit-price that management believes provides a reasonable and consistent methodology for valuing derivative instruments.

Generally, market quotes assume that all counterparties have near zero, or low, default rates and have equal credit quality. However, an adjustment may be necessary to reflect the credit quality and nonperformance risk of a specific counterparty to determine the fair value of the instrument. In order to mitigate the risk of nonperformance, the Company monitors the credit ratings of its counterparties and may ask counterparties to post collateral if their ratings deteriorate. In some instances the Company may attempt to novate trades with parties deemed to have more risk on a relative basis to a more stable and less risky counterparty.

Valuation adjustments are necessary to reflect the effect of the Company's credit quality on the fair value of any liability position with a counterparty. This adjustment takes into account any credit

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enhancements, such as collateral margin that the Company may have posted with a counterparty, as well as any letters of credit between the parties. The methodology to determine this adjustment is consistent with how the Company evaluates counterparty credit risk, taking into account the Company's credit rating, current credit facility margins, and any change in such margins since the last measurement date. The majority of the Company's derivative counterparties are members of SM Energy's credit facility bank syndicate.

The methods described above may result in a fair value estimate that may not be indicative of net realizable value or may not be reflective of future fair values and cash flows. While the Company believes that the valuation methods utilized are appropriate and consistent with GAAP and with other marketplace participants, the Company recognizes that third parties may use different methodologies or assumptions to determine the fair value of certain financial instruments that could result in a different estimate of fair value at the reporting date.

Net Profits Plan

The Net Profits Plan is a standalone liability for which there is no available market price, principal market, or market participants. The inputs available for this instrument are unobservable, and are therefore classified as Level 3 inputs. The Company employs the income approach, which converts expected future cash flow amounts to a single present value amount. This technique uses the estimate of future cash payments, expectations of possible variations in the amount and/or timing of cash flows, the risk premium, and nonperformance risk to calculate the fair value. There is a direct correlation between realized oil and gas commodity prices and their impact on net cash flows and the amount of the Net Profits Plan liability. Generally, higher commodity prices result in a larger Net Profits Plan liability and vice versa.

The Company records the estimated fair value of the long-term liability for estimated future payments under the Net Profits Plan based on the discounted value of estimated future payments associated with each individual pool. The calculation of this liability is a significant management estimate. For a predominate number of the pools, a discount rate of 12 percent is used to calculate this liability. This rate is intended to represent the best estimate of the present value of expected future payments under the Net Profits Plan.

The Company's estimate of its liability is highly dependent on commodity prices, cost assumptions, and the discount rates used in the calculations. The Company continually evaluates the assumptions used in this calculation in order to consider the current market environment for oil and gas prices, costs, discount rates, and overall market conditions. The Net Profits Plan liability was determined using price assumptions of five one-year strip prices with the fifth year's pricing then carried out indefinitely. The average price was adjusted to include the effects of hedging for the percentage of forecasted production hedged in the relevant periods. The non-cash expense associated with this significant management estimate is highly volatile from period to period due to fluctuations that occur in the crude oil, natural gas, and NGL commodity markets.

If the commodity prices used in the calculation changed by five percent, the liability recorded at September 30, 2010, would differ by approximately $11 million. A one percentage point increase in the discount rate would decrease the liability by approximately $6 million whereas a one percentage point decrease in the discount rate would increase the liability by $7 million. Actual cash payments to be made to participants in future periods are dependent on realized actual production, realized commodity prices, and costs associated with the properties in each individual pool of the Net Profits Plan. Consequently, actual cash payments are inherently different from the amounts estimated. No published market quotes exist on which to base the Company's estimate of fair value of the Net Profits Plan liability. As such, the recorded fair value is based entirely on management estimates that are described within this footnote. While some inputs to the Company's calculation of fair value on the Net Profits Plan's future payments are from published sources, others, such as the discount rate and the expected future cash flows, are derived from the Company's own calculations and estimates.

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The following table reflects the activity for the Net Profits Plan liability measured at fair value using Level 3 inputs:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands)			
Beginning balance	$ 136,420	$ 156,524	$ 170,291	$ 177,366
Net increase (decrease) in liability [(a)]	9,328	12,211	9,110	20
Net settlements [(a)(b)]	(5,242)	(5,407)	(38,895)	(14,058)
Transfers in (out) of Level 3	—	—	—	—
Ending balance	$ 140,506	$ 163,328	$ 140,506	$ 163,328

(a) Net changes in the Net Profits Plan liability are shown in the Change in Net Profits Plan liability line item of the accompanying statements of operations.

(b) Settlements represent cash payments made or accrued under the Net Profits Plan. Settlements for the three months and nine months ended September 30, 2010, include $686,000 and $20.8 million, respectively, of cash payments made related primarily to the Legacy and Sequel divestitures. There were no cash payments made under the Net Profits Plan as a result of divestitures for the three months or nine months ended September 30, 2009.

3.50% Senior Convertible Notes Due 2027

Based on the market price of the 3.50% Senior Convertible Notes, the estimated fair value of the notes was approximately $301 million and $290 million as of September 30, 2010, and December 31, 2009, respectively.

Proved Oil and Gas Properties

Proved oil and gas property costs are evaluated for impairment against undiscounted future cash flows and reduced to fair value (discounted future cash flows) if the sum of the expected undiscounted future cash flows is less than net book value. The Company uses Level 3 inputs and the income valuation technique, which converts future amounts to a single present value amount, to measure the fair value of proved properties through an application of discount rates and price forecasts selected by the Company's management. The discount rate is a rate that management believes is representative of current market conditions and includes the following factors: estimates of future cash payments, expectations of possible variations in the amount and/or timing of cash flows, the risk premium, and nonperformance risk. The price forecast is based on NYMEX strip pricing, adjusted for basis differentials, for the first five years. Future operating costs are also adjusted as deemed appropriate for these estimates.

Of the $2.1 billion of long-lived assets, excluding materials inventory, $11.7 million were measured at fair value at December 31, 2009. There were no long-lived assets measured at fair value within the accompanying balance sheets at September 30, 2010.

Materials Inventory

Materials inventory is valued at the lower of cost or market. The Company uses Level 2 inputs to measure the fair value of materials inventory, which is primarily comprised of tubular goods. The Company uses third party market quotes and compares the quotes to the book value of the materials inventory. If the book value exceeds the quoted market price, the Company reduces the book value to the market price. The considered factors result in an estimated exit-price that management believes provides a reasonable and consistent methodology for valuing materials inventory.

Of the $24.5 million of materials inventory, $13.9 million was measured at fair value at December 31, 2009. There was no materials inventory measured at fair value within the accompanying balance sheets at September 30, 2010.

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Asset Retirement Obligations

The Company estimates asset retirement obligations pursuant to asset retirement and environmental obligations authoritative guidance. The Company uses the income valuation technique to determine the fair value of the asset retirement obligation liability at the point of inception by applying a credit-adjusted risk-free rate, which takes into account the Company's credit risk, the time value of money, and the current economic state, to the undiscounted expected abandonment cash flows. Given the unobservable nature of the inputs, the initial measurement of the asset retirement obligation liability is deemed to use Level 3 inputs. There were no asset retirement obligations measured at fair value within the accompanying consolidated balance sheets at September 30, 2010, or December 31, 2009.

Refer to Note 10 — Derivative Financial Instruments and Note 9 — Asset Retirement Obligations for more information regarding the Company's hedging instruments and asset retirement obligations.

Note 12 — Recent Accounting Pronouncements

The Company partially adopted new fair value measurement authoritative guidance that requires additional disclosures surrounding transfers between Levels 1 and 2, inputs and valuation techniques used to value Level 2 and 3 measurements, and push down of previously prescribed fair value disclosures to each class of asset and liability for Levels 1, 2, and 3. These disclosures were effective for the Company for the quarter ended March 31, 2010. The partial adoption did not have a material impact on the Company's consolidated financial statements. Please refer to Note 11 — Fair Value Measurements.

The Company will apply new fair value measurement authoritative guidance requiring that purchases, sales, issuances, and settlements for Level 3 measurements be disclosed. These disclosures are effective for interim and annual reporting periods beginning after December 15, 2010. The Company will apply this new guidance in the Company's Quarterly Report on Form 10-Q for the period ended March 31, 2011. The adoption of this guidance is not expected to have a material impact on the Company's financial statements.

The Company adopted new subsequent events authoritative guidance that removes the requirement for SEC filers to disclose the date through which an entity has evaluated subsequent events. However, the date-disclosure exemption does not relieve management of an SEC filer from its responsibility to evaluate subsequent events through the date on which financial statements are issued. This authoritative guidance was effective upon issuance on February 24, 2010. The adoption of this pronouncement did not have a material impact on the Company's consolidated financial statements.

Note 13 — Carry and Earning Agreement

On April 29, 2010, the Company entered into a Carry and Earning Agreement (the "CEA"), which effectively provides for a third party to earn 95 percent of SM Energy's interest in approximately 8,400 net acres in a portion of the Company's East Texas Haynesville shale acreage, as well as an interest in several wells and five percent of SM Energy's interest in approximately 23,400 net acres in a separate portion of the Company's Haynesville acreage in East Texas. In exchange for these interests, the third party has agreed to invest $91.3 million to fund the drilling and completion costs of horizontal wells in the portion of the leases where the Company is retaining 95 percent of its interest. Of this, $86.7 million represents SM Energy's carried drilling and completion costs, which is 95 percent of the total well costs to be invested by the third party. The Company received an initial payment of $45.6 million on April 29, 2010, and the CEA provides that the Company will receive the balance of the committed funds less any adjustments allowed under the CEA for title defects within 30 days of the completion of the fourth commitment well. Once SM Energy has completed the expenditure of the total carry amount, the parties will share all costs of operations within the area of joint ownership in accordance with their respective ownership interests.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This discussion and analysis contains forward-looking statements. Refer to "Cautionary Information about Forward-Looking Statements" at the end of this item for an explanation of these types of statements.

Overview of the Company, Highlights, and Outlook

General Overview

We are an independent energy company focused on the development, exploration, exploitation, acquisition, and production of natural gas, NGLs, and crude oil in the continental United States. Generally, we generate nearly all our revenues and cash flows from the sale of produced natural gas and crude oil. In the first nine months of 2010 we have generated significant gains and cash proceeds from the sale of non-strategic oil and gas properties. Our oil and gas reserves and operations are concentrated primarily in the Eagle Ford shale in South Texas; the Williston Basin in North Dakota and Montana; the Mid-Continent Anadarko and Arkoma basins; the Permian Basin; North Central Pennsylvania; and the productive formations of East Texas and North Louisiana. We have developed a balanced and diverse portfolio of proved reserves, development drilling opportunities, and unconventional resource prospects. Please refer to *Marketing of non-core properties* for additional discussion related to our Marcellus assets in North Central Pennsylvania.

Our mission is to deliver outstanding net asset value per share growth to our investors via attractive oil and gas investments. Our strategy is to focus on early entrance into existing and emerging resource plays in North America. By entering these plays earlier, we believe that we can capture larger resource potential at lower cost. We believe this organic-centered model allows for more stable and predictable production and proved reserves growth.

Financial Standing and Liquidity

In the third quarter of 2010, the borrowing base on our credit facility was redetermined and was increased from $900.0 million to $1.1 billion. The commitment amount of the bank group remained unchanged at $678.0 million. At the end of the third quarter 2010, we had $2.0 million outstanding under the revolving credit facility. As of October 27, 2010, the outstanding balance was $38.0 million. We have no debt maturities until 2012, at which time our credit facility matures and our outstanding convertible notes can be put to us. Given our debt and asset levels, credit standing, and relationships with the participants in our bank group, we believe we will be able to extend our existing facility or obtain a replacement credit facility before our current credit facility matures in 2012. We also believe our convertible notes could be put to us in 2012, at which time we have the option of settling with some combination of cash and/or common stock. The condition of the capital markets has improved significantly since last year, and therefore we believe we could access capital through the public markets, if necessary, to redeem these notes.

We expect our cash flows from operations in 2010 plus proceeds from our divestitures of non-core assets to fund the majority of our capital budget for 2010. We plan to use our credit facility to fund the remaining portion of our capital program. Accordingly, we do not anticipate accessing the equity or public debt markets for the remainder of 2010. Given the size of our commitments associated with our existing inventory of potential drilling projects, our requirements for funding could increase significantly in 2011 and beyond. As a result, we may consider accessing the capital markets, and other alternatives, as we determine how to best fund our capital program. We continue to believe we have adequate liquidity available as discussed under the caption Overview of Liquidity and Capital Resources.

Oil and Gas Prices

Our financial condition and the results of our operations are significantly affected by the prices we receive for oil, natural gas, and NGLs, which can fluctuate dramatically. Please refer to *Comparison of Financial Results and Trends between the three months ended September 30, 2010, and 2009* and *Comparison of Financial Results and Trends between the nine months ended September 30, 2010, and 2009* for the realized price tables for the respective periods. We sell a majority of our natural gas under contracts that use first of the month index pricing, which means that gas produced in a given month is sold at the first of the month price regardless of the spot price on the day the gas is produced. We account for the majority of our natural gas sales as they occur at the wellhead and accordingly do not present a separate production stream for the NGLs processed from our natural gas production. We receive value for the NGL content in our natural gas stream, which can result in us realizing a higher per unit price for our reported gas production. Sales of processed NGLs are immaterial and are included with our natural gas production and sales. Our crude oil is sold using contracts that pay us either the average of the NYMEX WTI daily settlement price or the average of alternative posted prices for the periods in which the crude oil is produced, adjusted for quality, transportation, and location differentials.

The following table is a summary of commodity price data for the third quarters of 2010 and 2009 and the second quarter of 2010:

	For the Three Months Ended		
	September 30, 2010	**June 30, 2010**	**September 30, 2009**
Crude Oil (per Bbl):			
Average NYMEX price	$ 76.09	$ 77.88	$ 68.30
Realized price, before the effects of hedging	$ 68.56	$ 70.92	$ 61.93
Net realized price, including the effects of hedging	$ 64.28	$ 65.17	$ 62.65
Natural Gas (per Mcf):			
Average NYMEX price	$ 4.28	$ 4.33	$ 3.41
Realized price, before the effects of hedging	$ 4.93	$ 4.54	$ 3.37
Net realized price, including the effects of hedging	$ 5.81	$ 5.59	$ 4.95

We expect future prices for oil, NGLs, and natural gas to be volatile. In addition to supply and demand fundamentals, the relative strength of the U.S. Dollar will likely continue to impact crude oil prices. Historically, NGL prices have trended and correlated with the price for crude oil. The supply of NGLs is expected to grow in the near term as a result of a number of industry participants targeting projects that produce these products, which could increase supplies and negatively impact future pricing. Future natural gas prices are facing downward pressure as a result of a supply overhang resulting from high levels of drilling activity across the country, as well as tepid demand recovery due to the economic recession in the United States. The 12-month strip prices for NYMEX WTI crude oil and NYMEX Henry Hub natural gas as of September 30, 2010, were $83.42 per Bbl and $4.29 per MMBTU, respectively. Comparable prices as of October 27, 2010, were $84.52 per Bbl and $4.02 per MMBTU, respectively.

While changes in quoted NYMEX oil and natural gas prices are generally used as a basis for comparison within our industry, the price we receive for oil and natural gas is affected by quality, energy content, location, and transportation differentials for these products. We refer to this price as our realized price, which excludes the effects of hedging. Our realized price is further impacted by the results of our hedging arrangements that are settled in the respective periods. We refer to this price as our net realized price. For the three months ended September 30, 2010, our net natural gas price realization was positively

impacted by $15.6 million of realized hedge settlements and our net oil price realization was negatively impacted by $6.8 million of realized hedge settlements.

Hedging Activities

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was enacted into law. This financial reform legislation includes provisions that require over-the-counter derivative transactions to be executed through an exchange or centrally cleared. The Dodd-Frank Act requires the Commodities Futures Trading Commission (the "CFTC") and the Securities and Exchange Commission (the "SEC") to promulgate rules and regulations implementing the new legislation within 360 days from the date of enactment. On October 1, 2010, the CFTC introduced its first series of proposed rules coming out of the Dodd-Frank Act. The effect of the proposed rules and any additional regulations on our business is currently uncertain. Of particular concern, the Dodd-Frank Act does not explicitly exempt end users (such as us) from the requirements to post margin in connection with hedging activities. While several senators have indicated that it was not the intent of the Dodd-Frank Act to require margin from end users, the exemption is not explicit in the Dodd-Frank Act. Final rules on major provisions in the legislation, such as new margin requirements, will be established through rulemakings and will not take effect until 12 months after the date of enactment. Although we cannot predict the ultimate outcome of these rulemakings, new regulations in this area may result in increased costs and cash collateral requirements for the types of derivative instruments we use to hedge and otherwise manage our financial risks related to volatility in oil, gas, and NGL commodity prices.

Hedging is an important part of our financial risk management program. We have a Board-approved financial risk management policy governing our hedging practices. The amount of production we hedge is driven by the amount of debt on our consolidated balance sheet and the level of capital commitments and long-term obligations we have in place. In the case of a significant acquisition of producing properties, we will consider hedging a portion of the acquired production in order to protect the economics assumed in the acquisition. With the hedges we have in place, we believe we have established a base cash flow stream for our future operations. Our use of collars for a portion of the hedges allows us to participate in upward movements in oil and gas prices while also setting a price floor for a portion of our production. Please see Note 10 — Derivative Financial Instruments of Part I, Item 1 of this report for additional information regarding our oil and gas hedges, and see the caption, *Summary of Oil and Gas Production Hedges in Place,* later in this section.

We attempt to qualify our oil and gas derivative instruments as cash flow hedges for accounting purposes. Changes in the value of our hedge positions are primarily reflected in our consolidated balance sheets. A portion of the change in the value of our hedge positions is recognized in our consolidated statements of operations when hedges are partially ineffective at offsetting the fluctuations in cash flow due to changes in the spot price for oil, natural gas, and NGLs. We recognized $5.7 million in non-cash unrealized derivative loss in the third quarter of 2010. The value of our hedge portfolio stayed relatively static from June 30, 2010, through September 30, 2010. Our hedge position was $13.7 million net asset at the end of the second quarter of 2010 compare with a $6.5 million net asset at the end of the third quarter of 2010. Corresponding changes are reflected in accumulated other comprehensive income on the consolidated balance sheets and unrealized derivative (gain) loss on the statement of operations.

Third Quarter 2010 Highlights

Operational activities. During the third quarter, we had between ten and twelve operated drilling rigs running company-wide. The thrust of our operated drilling activities this year has been focused on oil and NGL-rich gas programs and selected projects of potential strategic importance to us. Additionally, our operating partners have increased their levels of activity in oil and NGL-rich gas plays.

In the Eagle Ford shale in South Texas, we continued to operate two drilling rigs on our acreage during the third quarter. Our focus was on drilling in areas with higher BTU gas content and higher

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condensate yields. We have continued to test different ways to complete these wells with the objective of optimizing our future development potential. We have been encouraged with the results in the operated portion of the play and has been working to increase the pace of development on our acreage. Securing infrastructure to transport and process production from the Eagle Ford has been an issue we have worked to address over the last year, particularly in recent months. During the third quarter we entered into a gas services agreement whereby we committed a significant amount of production from the Eagle Ford to a ten-year transportation and processing arrangement beginning in 2011. This agreement has shortfall penalties in the event we are unable to deliver the committed volumes of gas. We have also recently committed to two new-build drilling rigs and have extended the contracts on two additional rigs to support our activity levels for the next several years. We continue to explore other arrangements to address the required drilling, completion, and infrastructure necessary to accelerate this program. Please refer to Note 6 — Commitments and Contingencies under Part I, Item 1 of this report for additional discussion concerning our new agreements. On our outside-operated acreage in the Eagle Ford, our operating partner had six rigs running at quarter-end, which was consistent with the rig count at the end of the second quarter. This outside-operated acreage has limited infrastructure to support the development of the play. As a result we plan to participate in the construction of infrastructure with our partner. The increase in partner-operated rigs and the infrastructure build-out have resulted in higher capital expenditures in this program than we initially planned for at the beginning of the year.

We operated an average of two drilling rigs in the Williston Basin during the third quarter of the year, both of which were focused on Bakken and Three Forks drilling. Our results in this program continue to meet or exceed our expectations. Elsewhere in the Rocky Mountain region, we began drilling our second operated horizontal well targeting the Niobrara formation in southeastern Wyoming. Interest in the Niobrara formation increased significantly during the first nine months of 2010 based on positive field reports coming out of the play. Our early results from this exploratory program have been encouraging.

In our Mid-Continent region, we operated an average of two drilling rigs in our Granite Wash program in western Oklahoma. Our acreage position is held by production and we believe the potential from this emerging program could be significant. We also operated a rig in the Woodford shale in the Arkoma Basin during the third quarter, which focused primarily on drilling sections of our acreage with richer natural gas.

The Permian region ran two operated rigs in the third quarter, focusing on Wolfberry tight oil targets. In our operated Haynesville shale program, we had two drilling rigs operating in the play for most of the quarter and we are currently awaiting the completion of several wells.

Marketing of non-core properties. In the third quarter of 2010, we began marketing two divestiture packages that include non-core properties in our Rocky Mountain, Mid-Continent, and Permian regions. The non-core properties being marketed also include all of our Marcellus shale assets in North Central Pennsylvania. Please refer to Note 3 — Divestitures and Assets Held for Sale, in Part I, Item 1 of this report for additional information.

Equity Compensation. On July 1, 2010, we granted awards of performance shares and restricted stock units pursuant to our long term incentive program to our various employees eligible to participate in the LTIP. The fair value associated with this grant was $25.4 million. Please refer to Note 7 — Compensation Plans within Part I, Item 1 of this report for additional discussion.

Financial and production results. We recorded net income for the quarter ended September 30, 2010, of $15.5 million or $0.24 per diluted share compared to third quarter 2009 results of a net loss of $4.4 million or $(0.07) per diluted share.

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The table below details the regional breakdown of our third quarter 2010 production:

	Mid-Continent	ArkLaTex	South Texas & Gulf Coast	Permian	Rocky Mountain	Total [1]
Third Quarter 2010 Production:						
Oil (MBbl)	56.1	16.3	281.3	417.2	818.0	1,588.9
Gas (MMcf)	8,177.3	3,131.5	4,282.2	1,099.5	1,230.7	17,921.2
Equivalent (MMCFE)	8,514.2	3,229.0	5,970.0	3,602.7	6,138.9	27,454.8
Avg. Daily Equivalents (MMCFE/d)	92.5	35.1	64.9	39.2	66.7	298.4
Relative percentage	31%	12%	22%	13%	22%	100%

(1) Totals may not add due to rounding

For the third quarter of 2010 our production growth was led by our Eagle Ford shale program. Both our operated and partner-operated programs targeting the Eagle Ford have contributed more production than originally budgeted. Please refer to *Comparison of Financial Results and Trends between the three months ended September 30, 2010, and 2009,* for additional discussion on production.

First Nine Months 2010 Highlights

Legacy Divestiture. On February 17, 2010, we closed on a divestiture of non-core properties in Wyoming to Legacy Reserves Operating LP. Total cash received, before commission costs and Net Profits Plan payments, was $125.3 million. The final gain on divestiture activity related to the divestiture is approximately $65.0 million.

Sequel Divestiture. On March 12, 2010, we completed the divestiture of certain non-strategic properties located in North Dakota to Sequel Energy Partners, LP, Bakken Energy Partners, LLC, and Three Forks Energy Partners, LLC. Total cash received, before commission costs and Net Profits Plan payments, was $129.1 million. The final sale price is subject to normal post-closing adjustments and is expected to be finalized during the fourth quarter of 2010. The estimated gain on divestiture activity related to the divestiture is approximately $52.9 million and may be impacted by the forthcoming post-closing adjustments mentioned above.

Production results. The table below details the regional breakdown of our first nine months of 2010 production.

	Mid-Continent	ArkLaTex	South Texas & Gulf Coast	Permian	Rocky Mountain	Total [1]
First nine months of 2010 Production:						
Oil (MBbl)	163.3	56.4	599.1	1,301.2	2,406.6	4,526.6
Gas (MMcf)	24,424.4	9,406.7	10,077.6	3,122.9	4,133.5	51,165.1
Equivalent (MMCFE)	25,404.3	9,745.1	13,672.2	10,930.4	18,572.9	78,324.9
Avg. Daily Equivalents (MMCFE/d)	93.1	35.7	50.1	40.0	68.0	286.9
Relative percentage	32%	12%	18%	14%	24%	100%

(1) Totals may not add due to rounding

For the first nine months of 2010 our production has outperformed our expectations due to stronger than anticipated production results from our South Texas & Gulf Coast region. Please refer to the three months discussion under *Financial and production results* above and *A three-month and nine-month overview of selected production and financial information, including trends* and *Comparison of Financial Results and Trends between the nine months ended September 30, 2010, and 2009,* for additional discussion on production.

Net Profits Plan. In 2008, the Net Profits Plan was replaced with grants of performance shares and subsequently in 2009 grants of both performance shares and RSUs. Therefore, the 2007 Net Profits Plan pool was the last pool established by us. We will continue to make payments from the existing Net Profits Plan pools and will continue to make prospective adjustments to the long-term liability as necessary.

For the nine months ended September 30, 2010, the change in the value of this liability resulted in a non-cash benefit of $29.8 million compared with a $14.0 million benefit for the same period in 2009. Current year payments made or accrued as part of allocating the proceeds received from divestitures during the first nine months of 2010 have decreased the estimated liability for the future amounts to be paid to plan participants. This liability is a significant management estimate. Adjustments to the liability are subject to estimation and may change dramatically from period to period based on assumptions used for production rates, reserve quantities, commodity pricing, discount rates, tax rates, and production costs.

Payments made from the Net Profits Plan have been expensed as compensation costs in the amounts of $18.1 million and $14.1 million for the nine months ended September 30, 2010, and 2009, respectively. Additionally, the sales of oil and gas properties described above contained a number of properties included in profit pools and resulted in payments under the Net Profits Plan of $20.8 million during the first nine months of 2010. These cash payments are accounted for as a reduction of net sale proceeds and impact the gain on divestiture activity in the accompanying consolidated statements of operations. There were no significant cash payments made or accrued under the Net Profits Plan as a result of divestitures during the first nine months of 2009.

The recurring Net Profits Plan cash payments we make are dependent on actual production, realized prices, and operating and capital costs associated with the properties in each individual pool. Actual cash payments will be inherently different from the estimated liability amounts. More detailed discussion is included in Note 11 — Fair Value Measurements in Part I, Item 1 of this report. An increasing percentage of the costs associated with the payments under the Net Profits Plan are now being allocated to general and administrative expense rather than exploration expense. This is a function of the normal departure of employees who previously contributed to our exploration efforts.

The calculation of the estimated liability for the Net Profits Plan is highly sensitive to our price estimates and discount rate assumptions. For example, if we changed the commodity prices in our calculation by five percent, the liability recorded on the balance sheet at September 30, 2010, would differ by approximately $11 million. A one percentage point increase in the discount rate would decrease the liability by approximately $6 million whereas a one percentage point decrease in the discount rate would increase the liability by $7 million. We frequently re-evaluate the assumptions used in our calculations and consider the possible impacts stemming from the current market environment including current and future oil and gas prices, discount rates, and overall market conditions for oil and gas properties.

Outlook for the Remainder of 2010 and for 2011

Our development program entering 2010 was focused on the drilling of oil and rich-gas projects. This decision has been reinforced as natural gas prices have been

under downward pressure most of this year. We continue to shift capital away from natural gas drilling wherever possible, except for activities necessary to satisfy leasehold commitments or to test emerging resource plays. We continue to expect that our 2010 capital investment will be near $871 million, which is up from the $725 million capital investment budget that was set at the beginning of the year. We increased our forecast for capital expenditures due to

our decision to accelerate activity in plays where we have been successful this year. Additionally, inflation in the cost to drill and complete wells has put upward pressure on our capital budget. We currently anticipate increasing our level of capital investment to roughly $1.0 billion in 2011 with the majority targeted toward rich-gas projects in the Eagle Ford as well as oil projects in the Williston Basin.

We will continue to operate two rigs on our Eagle Ford acreage during the fourth quarter of 2010. To support our anticipated increase in operated activity in the Eagle Ford we have committed, or are in the process of committing, to additional drilling rigs, completion services, and infrastructure. We recently have extended the drilling contracts of two rigs operating for us in the Eagle Ford and have contracted for an additional two drilling rigs, which are scheduled to be available in mid-2011. Subsequent to quarter end, we entered into an agreement which secures a portion of the completion services needed to support the aforementioned drilling fleet. We continue to negotiate with other completion providers to secure additional services. In the Williston Basin we recently successfully completed the simultaneous fracturing of three wells in the Williston Basin that we believe will help us understand how to optimize the development of our Williston assets. We are also completing our second Niobrara well and monitoring the performance of our first well in this program. We will continue to operate two rigs in our horizontal Granite Wash program with four wells planned in the fourth quarter. We expect to operate two drilling rigs in the East Texas portion of our Haynesville shale position for the remainder of 2010. Our activity level in the Haynesville has not changed significantly from what we planned at the beginning of the year, although our amount of capital investment in this play was substantially reduced as a result of the Carry and Earning Agreement we entered into in the second quarter of 2010.

We have begun to market for sale several of our non-core oil and gas properties, including all of our Marcellus shale assets. We expect that proceeds from these divestitures will help fund a portion of our anticipated 2011 capital budget. Please refer to *Sources of Cash* and *Current Credit Facility* under the Overview of Liquidity and Capital Resources section for additional discussion regarding how we anticipate to generate cash flows to fund our 2011 capital program.

Financial Results of Operations and Additional Comparative Data

The table below provides information regarding selected production and financial information for the quarter ended September 30, 2010, and the immediately preceding three quarters. Additional details of per MCFE costs are presented later in this section.

	For the Three Months Ended			
	September 30, 2010	June 30, 2010	March 31, 2010	December 31, 2009
	(In millions, except production sales data)			
Production (BCFE)	27.5	25.2	25.7	26.1
Oil and gas production revenue, excluding the effects of hedging	$ 197.4	$ 175.9	$ 212.9	$ 187.6
Realized oil and gas hedge gain	$ 8.8	$ 9.3	$ 2.6	$ 13.4
Gain on divestiture activity	$ 4.2	$ 7.0	$ 121.0	$ 22.1
Lease operating expense	$ 29.0	$ 29.0	$ 30.0	$ 34.3
Transportation costs	$ 4.9	$ 5.1	$ 4.1	$ 5.2
Production taxes	$ 10.7	$ 11.1	$ 14.2	$ 13.3
DD&A	$ 83.8	$ 79.8	$ 77.8	$ 75.1
Exploration	$ 14.4	$ 14.5	$ 13.9	$ 13.4
Impairment of proved properties	$ —	$ —	$ —	$ 21.6
Abandonment and impairment of unproved properties	$ 1.7	$ 2.4	$ 0.9	$ 25.2
General and administrative	$ 26.2	$ 25.4	$ 23.5	$ 20.7
Change in Net Profits Plan liability	$ 4.1	$ (6.6)	$ (27.3)	$ 7.0
Unrealized derivative (gain) loss	$ 5.7	$ (2.1)	$ (7.7)	$ 3.2
Net income	$ 15.5	$ 18.1	$ 126.2	$ 1.0
Percentage change from previous quarter:				
Production (BCFE)	9%	(2)%	(2)%	(1)%
Oil and gas production revenue, excluding the effects of hedging	12%	(17)%	13%	23%
Realized oil and gas hedge gain	(5)%	258%	(81)%	(53)%
Gain on divestiture activity	(40)%	(94)%	448%	(296)%
Lease operating expense	—%	(3)%	(13)%	—%
Transportation costs	(4)%	24%	(21)%	(2)%
Production taxes	(4)%	(22)%	7%	48%
DD&A	5%	3%	4%	12%
Exploration	(1)%	4%	4%	(15)%
Impairment of proved properties	—%	—%	(100)%	N/M
Abandonment and impairment of unproved properties	(29)%	167%	(96)%	425%
General and administrative	3%	8%	14%	—%
Change in Net Profits Plan liability	(162)%	(76)%	(490)%	3%
Unrealized derivative (gain) loss	(371)%	(73)%	(341)%	(22)%
Net income	(14)%	(86)%	12,520%	(123)%

A three-month and nine-month overview of selected production and financial information, including trends:

Selected Operations Data (In thousands, except sales price, volume, and per MCFE amounts):

	For the Three Months Ended September 30,		Percent Change Between Periods	For the Nine Months Ended September 30,		Percent Change Between Periods
	2010	2009		2010	2009	
Net production volumes						
Oil (MBbl)	1,589	1,528	4%	4,527	4,816	(6)%
Natural gas (MMcf)	17,921	17,211	4%	51,165	54,055	(5)%
MMCFE (6:1)	27,455	26,377	4%	78,325	82,951	(6)%
Average daily production						
Oil (Bbl per day)	17,271	16,606	4%	16,581	17,640	(6)%
Natural gas (Mcf per day)	194,796	187,076	4%	187,418	198,005	(5)%
MCFE per day (6:1)	298,422	286,711	4%	286,904	303,848	(6)%
Oil & gas production revenue [1]						
Oil production revenue	$ 102,130	$ 95,715	7%	$ 296,313	$ 261,614	13%
Gas production revenue	104,071	85,267	22%	310,586	293,963	6%
Total	$ 206,201	$ 180,982	14%	$ 606,899	$ 555,577	9%
Oil & gas production expense						
Lease operating expense	$ 29,046	$ 34,266	(15)%	$ 88,031	$ 111,117	(21)%
Transportation costs	4,877	5,393	(10)%	14,069	15,420	(9)%
Production taxes	10,683	8,975	19%	36,014	27,391	31%
Total	$ 44,606	$ 48,634	(8)%	$ 138,114	$ 153,928	(10)%
Average net realized sales price [1]						
Oil (per Bbl)	$ 64.28	$ 62.65	3%	$ 65.46	$ 54.32	21%
Natural gas (per Mcf)	$ 5.81	$ 4.95	17%	$ 6.07	$ 5.44	12%
Per MCFE Data:						
Average net realized price [1]	$ 7.51	$ 6.86	9%	$ 7.75	$ 6.70	16%
Lease operating expenses	(1.06)	(1.30)	(18)%	(1.12)	(1.34)	(16)%
Transportation costs	(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 profit	$ 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%

(1) Includes the effects of hedging activities

We present per MCFE information because we use this information to evaluate our performance relative to our peers and to identify and measure trends we believe require analysis. Average daily production for the first nine months of 2010 decreased six percent to 286.9 MMCFE compared with 303.8 MMCFE for the same period in 2009, driven by reduced capital spending in 2009 and recent divestitures. Adjusting for divestitures, our average daily production from retained properties for the first nine months of 2010 increased five percent to 283.0 MMCFE compared with 270.2 MMCFE for the same period in 2009.

Changes in production volumes, oil and gas production revenues, and costs reflect the cyclical and highly volatile nature of our industry. Our average net realized price for the three months and nine months

ended September 30, 2010, was $7.51 per MCFE and $7.75 per MCFE, respectively, compared with $6.86 per MCFE and $6.70 per MCFE for the respective periods of 2009. The increase in our equivalent realized price for production corresponds with stronger commodity prices in the first nine months of 2010 when compared with the same period of 2009.

Our LOE for the three months and nine months ended September 30, 2010, decreased $0.24 per MCFE to $1.06 per MCFE and decreased $0.22 per MCFE to $1.12 per MCFE, respectively, compared to the respective periods in 2009. The divestiture of non-strategic properties with meaningfully higher operating costs is the primary reason for the decline in LOE in the comparisons above. We believe that the steady increase in industry activity that we have experienced will put upward pressure on lease operating costs that we have not experienced the last few quarters. Production taxes for the three months and nine months ended September 30, 2010, increased $0.05 per MCFE to $0.39 and increased $0.13 per MCFE to $0.46 per MCFE, respectively, compared to the respective periods in 2009. Production taxes are highly correlated to pre-hedge oil and gas revenues, and stronger commodity prices have impacted results for this expense item. Transportation costs for the three months and nine months ended September 30, 2010, decreased $0.02 per MCFE to $0.18 per MCFE and decreased $0.01 per MCFE to $0.18 per MCFE, from the corresponding periods in 2009. In late 2009 we divested of non-strategic properties within our Rocky Mountain region that had higher transportation costs. Our general and administrative expense for both the three months and nine months ended September 30, 2010, was $0.96 per MCFE, compared with $0.79 per MCFE and $0.67 per MCFE for the comparable respective periods of 2009. A portion of our general and administrative expense is linked to our profitability and cash flow, which are driven in large part by the realized commodity prices we receive for our production. The Net Profits Plan and a portion of our current short-term incentive compensation are tied to net revenues and therefore are subject to variability. Our operating profit for the three months and nine months ended September 30, 2010, was $4.92 per MCFE and $5.03 per MCFE, respectively, compared with $4.23 per MCFE and $4.17 per MCFE for the comparable periods of 2009, which was an increase of $0.69, or 16 percent, and $0.86, or 21 percent, respectively.

Our depletion, depreciation, and amortization, including asset retirement obligation accretion expense, for the three months and nine months ended September 30, 2010, was $3.05 per MCFE and $3.08 per MCFE, respectively, compared with $2.54 per MCFE and $2.76 per MCFE for the comparable respective periods of 2009. Depreciation, depletion, and amortization was impacted by our divestiture of lower cost basis properties in the first quarter of 2010. Additionally, we have been impacted by higher DD&A rates in the Eagle Ford and Haynesville shales. We are incurring capital for research wells and infrastructure that will benefit future development in these plays but are currently limited in the amount of reserves that we can record to carry the costs, which results in higher per unit DD&A costs early in the lives of these plays. Our DD&A rate can also fluctuate as a result of impairments, divestitures, and changes in the mix of our production and the underlying proved reserve volumes. Additionally, the accounting treatment for assets that are classified as assets held for sale can also impact our DD&A rate since properties held for sale are no longer depleted.

Please refer to *Comparison of Financial Results and Trends between the three months ended September 30, 2010, and 2009,* and *Comparison of Financial Results and Trends between the nine months ended September 30, 2010 and 2009* for additional discussion on oil and gas production expense, DD&A, and general and administrative expense.

We present the following table as a summary of information relating to key indicators of financial condition and operating performance that we believe are important.

Financial Information (In thousands, except per share amounts):

	September 30, 2010	December 31, 2009	Percent Change Between Periods
Working capital deficit	$ 172,538	$ 87,625	97 %
Long-term debt	$ 275,404	$ 454,902	(39)%
Stockholders' equity	$ 1,202,451	$ 973,570	24 %

	For the Three Months Ended September 30,		Percent Change Between Periods	For the Nine Months Ended September 30,		Percent Change Between Periods
	2010	2009		2010	2009	
Basic net income (loss) per common share	$ 0.25	$ (0.07)	(457)%	$ 2.54	$ (1.61)	(258)%
Diluted net income (loss) per common share	$ 0.24	$ (0.07)	(443)%	$ 2.47	$ (1.61)	(253)%
Basic weighted-average shares outstanding	63,031	62,505	1 %	62,914	62,420	1 %
Diluted weighted-average shares outstanding	64,794	62,505	4 %	64,599	62,420	3 %

We account for our 3.50% Senior Convertible Notes under the treasury stock method. There is no impact on the diluted share calculation for the periods presented since our average stock price for the relevant reporting periods has not exceeded the conversion price. The 3.50% Senior Convertible Notes were issued April 4, 2007, and have not been dilutive for any reporting period since their issuance. We have in-the-money stock options, unvested RSUs, and contingent PSAs that are potentially dilutive securities. Both basic and diluted earnings per share are presented in the table above. A detailed explanation is presented in Note 5 — Earnings per Share in Part I, Item 1 of this report.

Basic and diluted weighted-average common shares outstanding used in our September 30, 2010, and 2009, earnings per share calculations reflect increases in outstanding shares related to stock option exercises, ESPP shares issued, and the settlement of vested RSUs. We issued 163,348 and 33,014 shares of common stock during the nine-month periods ended September 30, 2010, and 2009, respectively, as a result of stock option exercises. The number of RSUs that vested and settled during the first nine months of 2010 and 2009 were 57,687 and 90,486, respectively.

Additional Comparative Data in Tabular Form:

	Change Between the Three Months Ended September 30, 2010, and 2009	Change Between the Nine Months Ended September 30, 2010, and 2009
Increase in oil and gas production revenues, net of hedging (In thousands)	$ 25,219	$ 51,322
Components of revenue increases (decreases):		
Oil		
Realized price change per Bbl, including the effects of hedging	$ 1.63	$ 11.14
Realized price percentage change	3%	21%
Production change (MBbl)	61	(289)
Production percentage change	4%	(6)%
Natural Gas		
Realized price change per Mcf, including the effects of hedging	$ 0.86	$ 0.63
Realized price percentage change	17%	12%
Production change (MMcf)	710	(2,890)
Production percentage change	4%	(5)%

Production mix as a percentage of total oil and gas revenue, including impact of hedging, and production:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Revenue				
Oil	50%	53%	49%	47%
Natural gas	50%	47%	51%	53%
Production				
Oil	35%	35%	35%	35%
Natural gas	65%	65%	65%	65%

Information regarding the effects of oil, natural gas, and NGL hedging activity:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Oil Hedging				
Percentage of oil production hedged	46%	59%	51%	51%
Oil volumes hedged (MBbl)	738	894	2,310	2,463

Increase (decrease) in oil revenue	$ (6.8) million	$ 1.1 million	$ (23.7) million	$ 21.6 million
Average realized oil price per Bbl before hedging	$ 68.56	$ 61.93	$ 70.70	$ 49.82
Average realized oil price per Bbl after hedging	$ 64.28	$ 62.65	$ 65.46	$ 54.32
Natural Gas Hedging				
Percentage of gas production hedged (includes NGLs)	41%	43%	46%	47%
Natural gas volumes hedged (in MMBtu, includes NGLs)	8.3 million	7.8 million	26.5 million	26.8 million
Increase in gas revenue (includes effects of NGL hedges)	$ 15.6 million	$ 27.2 million	$ 44.5 million	$ 105.6 million
Average realized gas price per Mcf before hedging (includes NGLs)	$ 4.93	$ 3.37	$ 5.20	$ 3.49
Average realized gas price per Mcf after hedging (includes NGLs)	$ 5.81	$ 4.95	$ 6.07	$ 5.44

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Information regarding the components of exploration expense:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In millions)			
Summary of Exploration Expense				
Geological and geophysical expenses	$ 4.9	$ 6.2	$ 13.7	$ 16.9
Exploratory dry hole expense	—	0.1	0.3	4.8
Overhead and other expenses	9.5	9.4	28.8	27.1
Total	$ 14.4	$ 15.7	$ 42.8	$ 48.8

Comparison of Financial Results and Trends between the three months ended September 30, 2010, and 2009

Oil and gas production revenue. Average daily production increased four percent to 298.4 MMCFE for the quarter ended September 30, 2010, compared with 286.7 MMCFE for the quarter ended September 30, 2009. The following table presents the regional changes in our production and oil and gas revenues and costs between the two quarters.

	Average Net Daily Production Added (Decreased) (MMCFE/d)	Pre-Hedge Oil and Gas Revenue Added (Decreased) (In millions)	Production Costs Increase (Decrease) (In millions)
Mid-Continent	(4.0)	8.6	1.0
ArkLaTex	(4.0)	1.4	(1.9)
South Texas & Gulf Coast	42.7	33.1	3.5
Permian	1.1	5.0	2.5
Rocky Mountain	(24.1)	(3.4)	(9.1)
Total	11.7	44.7	(4.0)

The largest regional production decrease occurred in the Rocky Mountain region as a result of our divestitures of non-strategic oil and gas assets that occurred in the fourth quarter of 2009 and first quarter of 2010. The largest production growth occurred in the South Texas & Gulf Coast region as a result of production from drilling activity in our Eagle Ford shale program. We anticipate sequential increases in production for the remainder of 2010.

The following table summarizes the average realized prices we received in the third quarters of 2010 and 2009, before the effects of hedging. Prices for oil and gas increased between the two periods.

	For the Three Months Ended September 30,	
	2010	2009
Realized oil price ($/Bbl)	$ 68.56	$ 61.93
Realized gas price ($/Mcf)	$ 4.93	$ 3.37
Realized equivalent price ($/MCFE)	$ 7.19	$ 5.79

The 24 percent increase in average realized prices per MCFE coupled with a four percent increase in production volumes between periods resulted in higher oil and gas revenue. We expect our realized price to trend with commodity prices.

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Realized oil and gas hedge gain. We recorded a net realized hedge gain of $8.8 million for the three-month period ended September 30, 2010, related to settlements on oil and gas hedges, compared with $28.3 million gain for the same period in 2009, as a result of an increase in commodity prices on a quarter-to-quarter basis. Our realized oil and gas hedge gains and losses are a function of commodity prices and the price at which production was hedged.

Gain (loss) on divestiture activity. We had a $4.2 million net gain on divestiture activity for the quarter ended September 30, 2010, related to a divestiture of non-core oil and gas properties located in our Rocky Mountain region. We recorded an $11.3 million net loss on divestiture activity for the comparable period of 2009, resulting primarily from the accounting treatment of certain assets that were classified as held for sale and were then subsequently reclassified as held and used. We are currently marketing other non-strategic oil & gas property packages, and we expect to continue to evaluate potential divestitures of non-strategic properties in future periods.

Marketed gas system revenue and expense. Marketed gas system revenue increased $1.9 million to $15.8 million for the quarter ended September 30, 2010, compared with $13.9 million for the comparable period of 2009. Concurrent with the increase in marketed gas system revenue, marketed gas system expense increased $300,000 to $14.7 million for the quarter ended September 30, 2010, compared with $14.4 million for the comparable period of 2009. The net margin has stayed relatively consistent with historical performance. We expect that marketed gas system revenue and expense will continue to coincide with increases and decreases in production and our net realized price for natural gas.

Oil and gas production expense. Total production costs for the third quarter of 2010 decreased $4.0 million, or eight percent, to $44.6 million compared with $48.6 million for the same period of 2009. Total oil and gas production costs per MCFE decreased $0.21 to $1.63 for the third quarter of 2010, compared with $1.84 for the same period in 2009. This decrease is comprised of the following:

- A $0.15 decrease in recurring LOE on a per MCFE basis reflects the sale of non-core properties in late 2009 and early 2010 of higher per unit LOE costs that resulted in lower LOE on a per unit basis quarter over quarter. We expect the various resources required to service our industry will become more sought after and harder to secure as a result of an increase in activity. We expect to see upward pressure on LOE throughout the remainder of the year.
- A $0.09 overall decrease in workover LOE on a per MCFE basis relating primarily to a decrease in workover activity in our Rocky Mountain region
- A $0.02 decrease in overall transportation cost on a per MCFE basis as a result of the divestiture of non-core properties in the Rocky Mountain region in the fourth quarter of 2009 and first quarter of 2010 that had higher transportation costs associated with them
- A $0.05 per MCFE increase in production taxes is due to the increase in pre-hedge oil and gas revenues between periods, particularly in the South Texas & Gulf Coast region.

Depletion, depreciation, amortization, and asset retirement obligation liability accretion. DD&A increased $16.8 million, or 25 percent, to $83.8 million for the three-month period ended September 30, 2010, compared with $67.0 million for the same period in 2009. The current year's DD&A per MCFE was higher when compared with the same period in 2009 due to the impact of our divestiture of lower cost basis properties in the first quarter of 2010 and production related to properties developed in a higher cost environment becoming a larger percentage of our production mix. Additionally, we have been impacted by higher DD&A rates in the Eagle Ford and Haynesville shales. We are incurring capital for research wells and infrastructure that will benefit future development in these plays but are currently limited during the early stages of these plays in the amount of reserves that we can book to carry the costs, which results in higher per unit DD&A costs early in the lives of these plays. Any future proved property

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impairments, divestitures, and changes in underlying proved reserve volumes will impact our DD&A expense.

Exploration. Exploration expense decreased $1.3 million, or eight percent, to $14.4 million for the three-month period ended September 30, 2010, compared with $15.7 million for the same period in 2009. Geological and geophysical expense decreased $1.3 million due to a decrease in the amount spent on seismic related to our current and emerging resource play projects. We continue to test our current resource plays and expect to maintain a modest exploratory program for new assets in future periods. Any exploratory well incapable of producing oil or natural gas in commercial quantities will be deemed an exploratory dry hole, which will impact the amount of exploration expense we record.

Abandonment and impairment of unproved properties. Abandonment and impairment of unproved properties decreased 64 percent to $1.7 million for the three months ended September 30, 2010, compared with $4.8 million for the comparable period in 2009. Fewer dollars were available in 2009 to extend lease or drill test wells as a result of the economic conditions early in the year. We generally expect abandonments and impairments of unproved properties to be more likely to occur in periods of low commodity prices, since fewer dollars will be available for exploratory and development efforts.

General and administrative. General and administrative expense increased $5.4 million or 26 percent to $26.2 million for the three months ended September 30, 2010, compared with $20.8 million for the comparable period of 2009. On a per unit basis, G&A expense increased $0.17 to $0.96 per MCFE for the third quarter of 2010 compared to $0.79 per MCFE for the same three-month period in 2009.

General and administrative expense increased due to a $3.4 million increase in base compensation, cash bonus, and long-term incentive compensation expense for the three months ended September 30, 2010, compared with the same period in 2009. The increase in cash bonus and long-term incentive compensation expense reflects compensation expense associated with the PSAs granted in the third quarter of 2010, as well as the improvement in our performance and the anticipated achievement of various performance criteria, established by our Compensation Committee.

Additionally, G&A expense increased as a result of a $2.9 million decrease in COPAS overhead reimbursements, caused by a decrease in our operated well count resulting from our recent divestiture efforts, and a $1.3 million decrease in cash payments accrued under the Net Profits Plan. Net Profits Plan payments to plan participants were lower in the third quarter as a result of properties that were in payout in 2009 being divested of during the first quarter of 2010. We expect payments made under the Net Profits Plan to trend with commodity prices.

Change in Net Profits Plan liability. For the quarter ended September 30, 2010, this non-cash item was an expense of $4.1 million compared to an expense of $6.8 million for the same period in 2009. This non-cash charge is directly related to the change in the estimated value of the liability over the reporting period. We broadly expect the change in this liability to trend with commodity prices.

Unrealized derivative (gain) loss. We recognized a loss of $5.7 million in the third quarter of 2010 compared to a loss of $4.1 million for the same period in 2009. This non-cash item is driven by the change in the value of our hedge position, as well as the portion of that position that is considered ineffective for accounting purposes. Please refer to our discussion under the heading *Hedging Activities* under Overview of the Company, Highlights, and Outlook.

Income tax expense. We recorded income tax expense of $9.3 million for the third quarter of 2010 compared to income tax benefit of $2.6 million for the third quarter of 2009 resulting in effective tax rates of 37.7 percent and 37.1 percent, respectively. The change in income tax expense is primarily the result of the differences in components of net income discussed above. The 2010 increase in effective tax rate from 2009 primarily reflects changes in the mix of the highest marginal state tax rates and the resulting effect on year-to-date net income as a result of divestiture and drilling activity in 2010, and to a lesser extent, changes

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in the effects of other permanent differences including the domestic production activities deduction. The current portion of our income tax expense is lower compared with the same period of 2009, as this item is being impacted by the 2010 drilling program and utilization of proceeds from 2010 non-core asset divestitures compared with a decreased drilling program in 2009 caused by lower commodity prices. These trends are expected to continue throughout the remainder of 2010 based upon our current projected capital expenditures program and commodity price outlook.

Comparison of Financial Results and Trends between the nine months ended September 30, 2010, and 2009

Oil and gas production revenue. Average daily production decreased six percent to 286.9 MMCFE for the nine months ended September 30, 2010, compared with 303.8 MMCFE for the same period in 2009. The following table presents the regional changes in our production and oil and gas revenues and costs between the two nine-month periods.

	Average Net Daily Production Added (Decreased)	Pre-Hedge Oil and Gas Revenue Added	Production Costs Increase (Decrease)
	(MMCFE/d)	(In millions)	(In millions)
Mid-Continent	(7.7)	30.5	3.0
ArkLaTex	(7.7)	4.1	(6.3)
South Texas & Gulf Coast	24.9	69.8	9.5
Permian	(2.5)	32.1	1.8
Rocky Mountain	(23.9)	21.3	(23.8)
Total	(16.9)	157.8	(15.8)

The largest regional production decrease occurred in the Rocky Mountain region and was completely offset by the regional increase in the South Texas & Gulf Coast region which is described in more detail above under *Comparison of Financial Results and Trends between the three months ended September 30, 2010, and 2009.*

The following table summarizes the average realized prices we received for the first nine months of 2010 compared to the same period in 2009, before the effects of hedging. Prices for oil and gas increased between the two periods.

	For the Nine Months Ended September 30,	
	2010	2009
Realized oil price ($/Bbl)	$ 70.70	$ 49.82
Realized gas price ($/Mcf)	$ 5.20	$ 3.49
Realized equivalent price ($/MCFE)	$ 7.48	$ 5.16

The combination of a 45 percent increase in average realized prices offset by a six percent decrease in production volumes between periods resulted in higher oil and gas revenue. Please refer to additional discussion under *Comparison of Financial Results and Trends between the three months ended September 30, 2010, and 2009.*

Realized oil and gas hedge gain. We recorded a net realized hedge gain of $20.8 million for the nine-month period ended September 30, 2010, related to settlements on oil and gas hedges, compared with $127.2 million gain for the same period in 2009. Our realized oil and gas hedge gains and losses are a function of commodity prices and the price at which production was hedged.

Gain (loss) on divestiture activity. We had a $132.2 million net gain on divestiture activity for the nine-month period ended September 30, 2010, compared with a $10.6 million net loss on sale for the comparable period of 2009, due primarily to the divestitures of non-core oil and gas properties located in our Rocky Mountain region that occurred in the first quarter of 2010. The final gain on divestiture activity related to the Sequel divestiture will be adjusted for normal post-closing adjustments and is expected to be finalized during the fourth quarter of 2010. Please refer to additional discussion under *Comparison of Financial Results and Trends between the three months ended September 30, 2010, and 2009.*

Marketed gas system revenue and expense. Marketed gas system revenue increased $12.5 million to $54.0 million for the nine-month period ended September 30, 2010, compared with $41.5 million for the comparable period of 2009. Concurrent with the increase in marketed gas system revenue, marketed gas system expense increased $11.2 million to $52.6 million for the nine-month period ended September 30, 2010, compared with $41.4 million for the comparable period in 2009.

Oil and gas production expense. Total production costs decreased $15.8 million, or ten percent, to $138.1 million for the first nine months of 2010 from $153.9 million in the comparable period of 2009. Total oil and gas production costs per MCFE decreased $0.10 to $1.76 for the first nine months of 2010, compared with $1.86 for the same period in 2009. This decrease is comprised of the following:

- A $0.21 decrease in recurring LOE on a per MCFE basis reflects the divestiture of higher cost non-core properties in 2010. Please refer to additional discussion under *Comparison of Financial Results and Trends between the three months ended September 30, 2010, and 2009.*

- A $0.01 decrease in overall transportation cost on a per MCFE basis was as a result of the divestiture of non-core properties in the Rocky Mountain region in late 2009 that had higher transportation costs associated with them

- A $0.01 overall decrease in workover LOE on a per MCFE basis relating to a decrease in workover activity in our Rocky Mountain region

- A $0.13 per MCFE increase in production taxes is due to the increase in pre-hedge oil and gas revenues between periods.

Depletion, depreciation, amortization, and asset retirement obligation liability accretion. DD&A increased five percent, to $241.3 million for the nine-month period ended September 30, 2010, compared with $229.1 million for the same period in 2009. DD&A expense per MCFE increased 12 percent to $3.08 for the nine-month period ended September 30, 2010, compared to $2.76 for the same period in 2009. Please refer to additional discussion under *Comparison of Financial Results and Trends between the three months ended September 30, 2010, and 2009.*

Exploration. Exploration expense decreased $6.0 million, or 12 percent, to $42.8 million for the nine-month period ended September 30, 2010, compared with $48.8 million for the same period in 2009. Exploratory dry hole expense was $4.8 million for the nine months ended September 30, 2009, compared with $289,000 for the same period in 2010. In 2009 several wells in the ArkLaTex were deemed to be dry. Please refer to additional discussion under *Comparison of Financial Results and Trends between the three months ended September 30, 2010, and 2009.*

Impairment of proved properties. There were no proved property impairments recorded for the nine-month period ended September 30, 2010. We recorded a $153.2 million impairment of proved oil and gas properties for the comparable period in 2009, which was driven by a significant decrease in realized gas prices in the first quarter of 2009, particularly in the Mid-Continent region, and for our coalbed methane project at Hanging Woman Basin, which was divested in late 2009. In the near-term, we expect that a continued decline in natural gas commodity prices would result in proved property impairments.

Abandonment and impairment of unproved properties. Abandonment and impairment of unproved properties decreased $15.3 million or 75 percent to $5.0 million for the nine months ended September 30, 2010, compared with $20.3 million for the comparable period in 2009. We experienced larger abandonments and impairments in

2009 as a result of our lower capital budget.

Impairment of materials inventory. There were no materials inventory impairments recorded for the nine-month period ended September 30, 2010. We recorded a $13.4 million impairment of materials inventory for the nine-month period ended September 30, 2009, which was caused by a decrease in the value of tubular goods and other raw materials. Impairment of materials inventory are impacted by fluctuations in materials costs environment and increases and decreases in development and exploration activity, which generally trend with commodity prices.

General and administrative. General and administrative expense increased $19.8 million or 36 percent to $75.1 million for the nine months ended September 30, 2010, compared with $55.3 million for the comparable period of 2009. On a per unit basis, G&A expense increased $0.29 to $0.96 per MCFE for the first nine months of 2010 compared to $0.67 per MCFE for the same nine-month period in 2009.

General and administrative expense increased due a $10.2 million increase in cash bonus, long-term incentive compensation, and base compensation, and a $4.1 million decrease in COPAS overhead reimbursements. Please refer to additional discussion under *Comparison of Financial Results and Trends between the three months ended September 30, 2010, and 2009.* The $3.3 million increase in Net Profits Plan payments to plan participants was the result of pools entering the higher 20 percent payout level as described further in Note 7 of Part 1, Item 1of this report, and the 2005 pool entering payout for the first time. As of the end of the third quarter of 2010, 18 of our 21 pools are in payout status. No additional pools are expected to reach payout in 2010.

Change in Net Profits Plan liability. Please refer to discussion under the heading *Net Profits Plan* under Overview of the Company, Highlights, and Outlook.

Unrealized derivative (gain) loss. We recognized a gain of $4.1 million for the nine months ended September 30, 2010, compared to a loss of $17.3 million for the same period in 2009. This non-cash item is driven by the change in the value of our hedge position, as well as the portion of that position that is considered ineffective for accounting purposes. Please refer to our discussion under the heading *Hedging Activities* under Overview of the Company, Highlights, and Outlook.

Other expense. Other expense decreased $10.3 million to $2.1 million for the nine months ended September 30, 2010, compared with $12.4 million for the same period in 2009. During the first nine months of 2009, we incurred $1.5 million of expense related to the assignment of a drilling rig contract in our Rocky Mountain region. We also incurred an additional loss related to hurricanes of $8.3 million for the nine months ended September 30, 2009, which related to an increase in our estimate of the remediation cost for the Vermilion 281 platform that was lost in Hurricane Ike.

Income tax expense. Income tax expense totaled $96.7 million for the nine-month period of 2010 compared to an income tax benefit of $61.6 million for the same period of 2009 resulting in effective tax rates of 37.7 percent and 38.0 percent, respectively. The change in income tax expense is the result of the gains from 2010 divestitures and our 2009 loss before income taxes. The 2010 decrease in effective tax rate from 2009 reflects changes in the impact of other permanent differences including the domestic production activities deduction partially offset by an increase related to the mix of the highest marginal state tax rates resulting from divestiture and drilling activity in 2010. The current portion of our tax expense is greater in 2010 compared to 2009 due to the impact of our non-core asset divestitures in 2010 and the estimated impact of our projected capital expenditures drilling program at September 30, 2010.

Overview of Liquidity and Capital Resources

We believe that we have sufficient liquidity and capital resources to execute our business plans for the foreseeable future.

Sources of Cash

Based on our current outlook, we expect our generated cash flow from operations in 2010, including the net cash proceeds from the Rocky Mountain oil and other non-core asset divestiture packages, to fund the majority of our exploration and development budget for 2010. We will rely on our credit facility to fund any remaining balance of our capital program for the year. Accordingly, we do not expect to access the capital markets in 2010. Given the size of our commitments associated with our existing inventory of potential drilling projects, our requirements for funding could increase significantly in 2011 and beyond. As a result, we may consider accessing the capital markets, and other alternatives, as we determine how to best fund our capital program. As noted we are continuing to evaluate our property base to identify and divest of properties we consider non-core to our strategic goals.

Our primary sources of liquidity are the cash flows provided by our operating activities, use of our credit facility, sales of non-core properties, and accessing the capital and debt markets. From time to time, we may be able to enter into carrying cost funding and sharing arrangements with third parties for particular exploration and development programs. All of these sources can be impacted by the general condition of the broad economy and by significant fluctuations in oil and gas prices, operating costs, and volumes produced, all of which affect us and our industry. We have no control over the market prices for oil, natural gas, and NGLs although we are able to influence the amount of our net realized revenues related to our oil and gas sales through the use of derivative contracts. The borrowing base on our credit facility could be reduced as a result of lower commodity prices or sales of non-core producing properties. Historically, decreases in commodity prices have limited our industry's access to the capital markets. We believe the public debt markets are currently accessible. Equity and convertible debt issuances are also available to us as alternative financing sources. We do not anticipate the need to raise public debt or equity financing in the near term, however these are options we would consider under the appropriate circumstances.

Current Credit Facility

On April 14, 2009, we entered into an amended $1.0 billion senior secured revolving credit facility with twelve participating banks. The initial borrowing base was set at $900 million. In September 2010 the lending group redetermined our reserve-backed borrowing base under the credit facility at $1.1 billion. We have been provided a $678 million commitment amount by the bank group. Our credit facility agreement has a maturity date of July 31, 2012. Management believes that the current commitment is sufficient for our current liquidity needs. To date, we have experienced no issues drawing upon our credit facility. No individual bank participating in the credit facility represents more than 17 percent of the lending commitments under the credit facility. We monitor the credit environment closely and have frequent discussions with the lending group.

As of October 27, 2010, we had $639.5 million of available borrowing capacity under this facility. We have a single letter of credit outstanding under our credit facility, in the amount of $483,000 as of October 27, 2010, which reduces the amount available under the commitment amount on a dollar-for-dollar basis. Borrowings under the facility are secured by mortgages on the majority of our oil and gas properties. Please refer to Note 5 — Long-term Debt in Part IV, Item 15 of our Annual Report on Form 10-K for the year ended December 31, 2009, for our borrowing base utilization grid.

The following table sets forth our weighted-average credit facility debt balance and weighted-average interest rates:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In millions)			
Weighted-average credit facility debt balance	$ 6.8	$ 257.7	$ 43.9	$ 289.0
Weighted-average interest rate*	9.2%	5.9%	8.4%	5.2%

* Includes the impact of our 3.50% Senior Convertible Notes.

Our weighted-average interest rates in the current and prior year include cash interest payments, cash fees paid on the unused portion of the credit facility's aggregate commitment amount, letter of credit fees, amortization of the convertible notes debt discount, and amortization of deferred financing costs. The increase in our weighted-average interest rate from the comparative quarter in 2009 is the result of commitment fees and non-cash charges being spread across a much lower average outstanding debt balance.

We are subject to customary financial and non-financial covenants under our credit facility, including limitations on dividend payments and requirements to maintain certain financial ratios, which include debt to earnings before interest, taxes, depreciation, and amortization of not more than 3.5 to 1.0 and a current ratio, as defined by our credit agreement, of not less than 1.0 to 1.0. The unused portion of our credit facility is factored in when calculating our current ratio. As of September 30, 2010, our debt to EBITDA ratio and current ratio as defined by our credit agreement were 0.61 and 2.58, respectively. We are in compliance with all financial and non-financial covenants under our credit facility.

Uses of Cash

We use cash for the acquisition, exploration, and development of oil and gas properties, and for the payment of debt obligations, trade payables, income taxes, common stock repurchases, and stockholder dividends. In the first nine months of 2010 we spent $488.7 million for exploration and development capital expenditures. These amounts differ from our costs incurred amounts based on the timing of cash payments associated with these activities as compared to the accrual based activity upon which costs incurred amounts are presented. These cash outflows were funded using cash inflows from operations, proceeds from the sale of assets, and available borrowing capacity under our revolving credit facility.

Expenditures for exploration and development of oil and gas properties and acquisitions are the primary use of our capital resources. We expect our capital and exploration expenditures in 2010 will exceed our operating cash flow, and we plan to fund this shortfall with the proceeds received from our non-core asset divestitures, and borrowings under our credit facility. The amount and allocation of future capital expenditures will depend upon a number of factors including the number and size of available economic acquisitions and drilling opportunities, our cash flows from operating, investing, and financing activities, and our ability to assimilate acquisitions. Also, the impact of oil and gas prices on investment opportunities, the availability of capital and borrowing facilities, and the success of our development and exploratory activities could lead to changes in funding requirements for future development. We regularly review our capital expenditure budget to assess changes in current and projected cash flows, acquisition and divestiture opportunities, debt requirements, and other factors.

As of the filing date of this report, we have Board authorization to repurchase up to 3,072,184 shares of our common stock under our stock repurchase program. Shares may be repurchased from time to time in open market transactions or privately negotiated transactions subject to market conditions and other factors including certain provisions of our existing bank credit facility agreement, compliance with securities laws, and the terms and provisions of our stock repurchase program. There have been no share repurchases to date in 2010, and we do not plan to repurchase shares for the remainder of 2010.

Current proposals to fund the federal government budget include eliminating or reducing current tax deductions for intangible drilling costs, the domestic production activities deduction, and percentage depletion. Legislation modifying or eliminating these deductions would have the immediate effect of reducing operating cash flows thereby reducing funding available for our exploration and development capital programs and those of our peers in the industry. These potential funding reductions could have a significant adverse effect on drilling in the United States for a number of years.

The following table presents amount and percentage changes in cash flows between the nine-month periods ended September 30, 2010, and 2009. The analysis following the table should be read in conjunction with our condensed consolidated statements of cash flows in Part I, Item 1 of this report.

	For the Nine Months Ended September 30,			Percent
	2010	2009	Change	Change
	(In thousands)			
Net cash provided by operating activities	$ 418,360	$ 353,052	$ 65,308	18 %
Net cash used in investing activities	$ 236,360	$ 260,651	$ (24,291)	(9)%
Net cash used in financing activities	$ 185,560	$ 78,015	$ 107,545	138 %

Analysis of Cash Flow Changes Between the Nine Months Ended September 30, 2010, and September 30, 2009

Operating activities. Cash received from oil and gas production revenue, net of the realized effects of hedging, increased $30.9 million to $602.9 million for the first nine months of 2010, compared with $572.0 million for the first nine months of 2009. Additionally, cash paid for lease operating expenses decreased $33.1 million to $88.9 million for the first nine months of 2010, compared with $122.0 million for the first nine months of 2009.

Investing activities. Cash used in investing activities for the nine months ended September 30, 2010, was $236.4 million compared with $260.7 million for the same period of 2009. We received proceeds of $259.5 million from the sale of non-core properties located primarily in the Rocky Mountain region for the nine months ended September 30, 2010. There were no major divestitures for the same period in 2009. Cash outflows for capital expenditures increased by $196.2 million for the nine months ended September 30, 2010, compared with the same period in 2009. This is due to increased drilling activity as a result of more favorable commodity prices and an improved overall macro-economic environment.

Financing activities. Net repayments on our credit facility increased by $121.0 million for the nine months ended September 30, 2010, compared with the same period in 2009. We have significantly reduced our credit facility balance throughout the first nine months of 2010, but we expect borrowings to increase during the rest of 2010.

Capital Expenditures

The following table sets forth certain historical information regarding the costs incurred by us in our oil and gas activities.

	For the Nine Months Ended September 30, 2010	2009
	(In thousands)	
Development costs [1]	$ 196,768	$ 154,978
Exploration costs	329,909	91,549
Acquisitions		
Proved properties	663	55
Unproved properties - other	35,131	20,642
Total, including asset retirement obligations [2]	$ 562,471	$ 267,224

(1) Includes capitalized interest of $1.6 million in 2010 and $1.4 million in 2009.
(2) Includes amounts relating to estimated asset retirement obligations of $3.3 million in 2010 and $672,000 in 2009.

Costs incurred for development and exploration activities during the first nine months of 2010 increased $280.2 million or 114 percent compared to the same period in 2009. This increase in capital and exploration activities reflects a stable and improving economic environment and higher cash flows available for investment provided by operating activities and divestiture proceeds.

We believe our operating cash flows together with the full availability of our credit facility and proceeds from divestitures will be sufficient to fund our planned operating, drilling, and acquisition expenditures for the foreseeable future. The amount and allocation of future capital and exploration expenditures will depend upon a number of factors, including the number and size of available economic acquisition and drilling opportunities, our cash flows from operating and financing activities, and our ability to assimilate leasehold and producing property acquisitions. In addition, the impact of oil and natural gas prices on investment opportunities, the availability of capital and borrowing facilities, and the success of our development and exploratory activities may lead to changes in funding requirements for future development.

Commodity Price Risk and Interest Rate Risk

We are exposed to market risk, including the effects of changes in oil and gas commodity prices and changes in interest rates as discussed below under the caption *Summary of Interest Rate Risk.* Changes in interest rates can affect the amount of interest we earn on our cash, cash equivalents, and the amount of interest we pay on borrowings under our revolving credit facility. Changes in interest rates do not affect the amount of interest we pay on our fixed-rate 3.50% Senior Convertible Notes, but do affect their fair market value.

There has been no material change to the natural gas and crude oil price sensitivity analysis previously disclosed. Refer to the corresponding section under Part II, Item 7 of our Form 10-K for the year ended December 31, 2009.

Summary of Oil, Gas, and NGL Production Hedges in Place

Our oil, natural gas, and NGL derivative contracts include costless swaps and costless collar arrangements. All contracts are entered into for other-than-trading purposes. Please refer to Note 10 — Derivative Financial Instruments in Part I, Item 1 of this report for additional information regarding accounting for our derivative transactions.

Our net realized oil and gas prices are impacted by hedges we have placed on forecasted production. Hedging is an important part of our financial risk management program. The amount of production we hedge is driven by the amount of debt on our consolidated balance sheet and the level of capital and long-term commitments we have made. In the case of a significant acquisition of producing properties, we will consider hedging a portion of the anticipated production in order to protect the economics assumed at the time of the acquisition. As of September 30, 2010, our hedged positions of anticipated production through the second quarter of 2013 totaled approximately 5 million Bbls of oil, 42 million MMBtu of natural gas, and 2 million Bbls of NGLs. As of October 27, 2010, we have hedge contracts in place through the third quarter of 2013 for a total of approximately 7 million Bbls of anticipated crude oil production, 42 million MMBtu of anticipated natural gas production, and 2 million Bbls of anticipated NGL production.

In a typical commodity swap agreement, if the agreed upon published third-party index price is lower than the swap fixed price, we receive the difference between the index price and the agreed upon swap fixed price. If the index price is higher than the swap fixed price, we pay the difference. For collar agreements, we receive the difference between an agreed upon index and the floor price if the index price is below the floor price. We pay the difference between the agreed upon contracted ceiling price and the index price if the index price is above the contracted ceiling price. No amounts are paid or received if the index price is between the contracted floor and ceiling prices.

The following tables describe the volumes, average contract prices, and fair values of contracts we have in place as of September 30, 2010, and October 27, 2010. We seek to minimize ineffectiveness by entering into oil derivative contracts indexed to NYMEX WTI, natural gas derivative contracts indexed to regional index prices associated with pipelines in proximity to our areas of production, and NGL derivative contracts indexed to Oil Price Information Service Mont Belvieu. As our derivative contracts contain the same index as our sales contracts, our derivative contracts are highly correlated with the underlying hedged item.

Oil Contracts

Oil Swaps

Contract Period	NYMEX WTI Volumes	Weighted-Average Contract Price	Fair Value at September 30, 2010 (Liability)
	(Bbls)	(per Bbl)	(in thousands)

Fourth quarter 2010	309,000	$ 66.06	$ (4,666)
2011	1,164,000	$ 67.06	(20,325)
2012	1,514,200	$ 82.62	(6,808)
2013	294,600	$ 84.30	(1,079)
All oil swaps	3,281,800		$ (32,878)

Oil Collars

Contract Period	NYMEX WTI Volumes (Bbls)	Weighted-Average Floor Price (per Bbl)	Weighted-Average Ceiling Price (per Bbl)	Fair Value at September 30, 2010 Asset (Liability) (in thousands)
Fourth quarter 2010	344,500	$ 50.00	$ 64.91	$ (5,669)
2011	1,236,000	$ 50.00	$ 63.70	(27,813)
2012	163,700	$ 80.00	$ 100.85	316
2013	282,600	$ 80.00	$ 100.85	296
All oil collars	2,026,800			$ (32,870)

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Gas Contracts

Gas Swaps

Contract Period	Volumes (MMBtu)	Weighted-Average Contract Price (per MMBtu)	Fair Value at September 30, 2010 Asset (in thousands)
Fourth quarter 2010			
IF ANR OK	140,000	$ 5.97	$ 321
IF CIG	270,000	$ 5.87	620
IF El Paso	370,000	$ 6.43	1,006
IF HSC	590,000	$ 8.61	2,785
IF NGPL	430,000	$ 5.61	821
IF NNG Ventura	360,000	$ 6.34	855
IF PEPL	520,000	$ 5.92	1,175
IF Reliant	1,350,000	$ 5.71	2,693
IF TETCO STX	180,000	$ 6.23	444
NYMEX Henry Hub	840,000	$ 7.52	3,001

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Gas Swaps (continued)

Contract Period	Volumes (MMBtu)	Weighted-Average Contract Price (per MMBtu)	Fair Value at September 30, 2010 Asset (in thousands)
2011			
IF ANR OK	500,000	$ 6.10	957
IF CIG	1,030,000	$ 5.96	1,992
IF El Paso	1,780,000	$ 6.35	3,963
IF HSC	360,000	$ 9.01	1,732
IF NGPL	1,040,000	$ 6.09	1,992
IF NNG Ventura	1,200,000	$ 6.36	2,409
IF PEPL	1,830,000	$ 6.04	3,539
IF Reliant	4,510,000	$ 6.13	8,795
IF TETCO STX	1,420,000	$ 6.51	3,202
NYMEX Henry Hub	2,130,000	$ 6.72	4,903
2012			
IF ANR OK	360,000	$ 6.18	524
IF CIG	1,020,000	$ 5.77	1,110
IF El Paso	850,000	$ 6.04	1,049
IF NGPL	660,000	$ 6.34	1,047
IF NNG Ventura	620,000	$ 6.51	910

IF PEPL	2,730,000	$	6.25	4,205
IF Reliant	3,540,000	$	5.97	3,950
IF TETCO STX	660,000	$	6.30	896
2013				
IF PEPL	1,250,000	$	5.65	479
IF Reliant	1,290,000	$	5.64	452
All gas swap contracts	33,830,000			$ 61,827

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Gas Collars

Contract Period	Volumes (MMBtu)	Weighted-Average Floor Price (per MMBtu)	Weighted-Average Ceiling Price (per MMBtu)	Fair Value at September 30, 2010 Asset (in thousands)
Fourth quarter 2010				
IF CIG	510,000	$ 4.85	$ 7.08	$ 664
IF HSC	150,000	$ 5.57	$ 7.88	253
IF PEPL	1,240,000	$ 5.31	$ 7.61	2,032
NYMEX Henry	60,000	$ 6.00	$ 8.38	124
2011				
IF CIG	1,800,000	$ 5.00	$ 6.32	2,031
IF HSC	480,000	$ 5.57	$ 6.77	634
IF PEPL	4,225,000	$ 5.31	$ 6.51	5,418
NYMEX Henry	120,000	$ 6.00	$ 7.25	195
All gas collars	8,585,000			$ 11,351

Natural Gas Liquid Contracts

Natural Gas Liquid Swaps

	Volumes (approx. Bbls)	Weighted-Average Contract Price (per Bbl)	Fair Value at September 30, 2010 Asset (Liability) (in thousands)
Fourth quarter 2010	285,000	$ 42.67	$ (545)
2011	907,000	$ 40.32	(617)
2012	492,000	$ 43.92	166
2013	84,000	$ 44.63	27
All natural gas liquid swaps*	1,768,000		$ (969)

*Natural gas liquid swaps are comprised of OPIS Mont. Belvieu LDH Propane (31%), OPIS Mont. Belvieu Purity Ethane (41%), OPIS Mont. Belvieu NON-LDH Isobutane (4%), OPIS Mont. Belvieu NON-LDH Natural Gasoline (13%), and OPIS Mont. Belvieu NON-LDH Normal Butane (11%).

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Hedge Contracts Entered into After September 30, 2010

The following table includes all hedges entered into subsequent to September 30, 2010 through October 27, 2010.

Oil Swaps

Contract Period	NYMEX WTI Volumes (Bbl)	Weighted-Average Contract Price (Per Bbl)
Fourth quarter 2010	35,100	$ 82.70
2011	275,000	$ 84.82
All oil swaps	310,100	

Oil Collars

Contract Period	NYMEX WTI Volumes (Bbls)	Weighted-Average Floor Price (per Bbl)	Weighted-Average Ceiling Price (per Bbl)

2012	503,800	$	70.00	$	104.25
2013	893,700	$	70.00	$	104.64
All oil collars	1,397,500				

Natural Gas Liquid Swaps

Contract Period	Volumes (Bbls)	Weighted-Average Contract Price (per Bbl)
Fourth Quarter 2010	27,000	$ 40.28
2011	265,000	$ 40.10
2012	150,000	$ 19.53
All natual gas liquid swaps*	442,000	

*Natural gas liquid swaps are comprised of OPIS Mont. Belvieu LDH Propane (19%), OPIS Mont. Belvieu Purity Ethane (65%), OPIS Mont. Belvieu NON-LDH Isobutane (2%), OPIS Mont. Belvieu NON-LDH Natural Gasoline (8%), and OPIS Mont. Belvieu NON-LDH Normal Butane (6%).

Refer to Note 10 — Derivative Financial Instruments in Part I, Item 1 of this report for additional information regarding our oil and gas hedges.

Summary of Interest Rate Risk

Market risk is estimated as the potential change in fair value resulting from an immediate hypothetical one percentage point parallel shift in the yield curve. For fixed-rate debt, interest changes affect the fair market value but do not impact results of operations or cash flows. Conversely, interest rate

changes for floating-rate debt generally do not affect the fair market value but do impact future results of operations and cash flows, assuming other factors are held constant. The carrying amount of our floating-rate debt typically approximates its fair value. We had $2.0 million of floating-rate debt outstanding as of September 30, 2010. Our fixed-rate debt outstanding, net of debt discount, at this same date was $273.4 million.

Contractual Obligations

Please see Note 6 — Commitments and Contingencies under Part I, Item 1 of this report for information pertaining to new operating lease obligations and through-put commitments.

Off-Balance Sheet Arrangements

As part of our ongoing business, we have not participated in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance entities or special purpose entities, which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of September 30, 2010, we have not been involved in any unconsolidated SPE transactions.

We evaluate our transactions to determine if any variable interest entities exist. If it is determined that we are the primary beneficiary of a variable interest entity, that entity is consolidated into our consolidated financial statements.

Critical Accounting Policies and Estimates

We refer you to the corresponding section in Part II, Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2009, and to the footnote disclosures included in Part I, Item 1 of this report.

New Accounting Pronouncements

Please see Note 12 — Recent Accounting Pronouncements under Part I, Item 1 of this report for new accounting matters.

Environmental

SM Energy's compliance with applicable environmental regulations has to date not resulted in significant capital expenditures or material adverse effects on our liquidity or results of operations. We believe we are in substantial compliance with environmental regulations and do not currently anticipate that material future expenditures will be required under the existing regulatory framework. However, we are unable to predict the impact that compliance with future laws or regulations, such as those currently being considered as discussed below, may have on future capital expenditures, liquidity, and results of operations.

The U.S. Congress is currently considering legislation that would amend the Safe Drinking Water Act to eliminate an existing exemption from federal regulation of hydraulic fracturing activities. Hydraulic fracturing is a common and reliable process in our industry of creating artificial cracks, or fractures, in deep underground rock formations through the pressurized injection of water, sand and other additives to enable oil or natural gas to move more easily through the rock pores to a production well. This process is often necessary to produce commercial quantities of oil and natural gas from many reservoirs, especially shale rock formations. We routinely utilize hydraulic fracturing in many of our reservoirs, and our Eagle Ford, Bakken/Three Forks, Haynesville, Marcellus, Woodford, and other shale programs utilize or contemplate the utilization of hydraulic fracturing. Currently, regulation of hydraulic fracturing is primarily conducted at the state level through permitting and other compliance requirements. If adopted, the proposed amendment to the Safe Drinking Water Act could result in additional regulations and permitting

requirements at the federal level. On March 18, 2010, the Environmental Protection Agency ("EPA") announced that it has allocated $1.9 million in 2010 and has requested

funding in fiscal year 2011 for conducting a comprehensive research study on the potential adverse impacts that hydraulic fracturing may have on water quality and public health. In addition, various state and local governments are considering increased regulatory oversight of hydraulic fracturing through additional permit requirements, operational restrictions, and temporary or permanent bans on hydraulic fracturing in certain environmentally sensitive areas, such as watersheds. Additional regulations and permitting requirements could lead to significant operational delays and increased operating costs, could make it more difficult to perform hydraulic fracturing, and could impair our ability to produce commercial quantities of oil and natural gas from certain reservoirs.

In December 2009, the EPA published its findings that emissions of carbon dioxide, which is a byproduct of the burning of refined oil products and natural gas, methane, which is a primary component of natural gas, and other "greenhouse gases" present an endangerment to human health and the environment because emissions of such gases are, according to the EPA, contributing to warming of the Earth's atmosphere and other climatic changes. These findings by the EPA allow the agency to proceed with the adoption and implementation of regulations that would restrict emissions of greenhouse gases under existing provisions of the federal Clean Air Act. Accordingly, the EPA had proposed regulations that would require a reduction in emissions of greenhouse gases from motor vehicles and that could also lead to the imposition of greenhouse gas emission limitations in Clean Air Act permits for certain stationary sources. In addition, on October 30, 2009, the EPA published a final rule requiring the reporting of greenhouse gas emissions from specified large greenhouse gas emission sources in the United States beginning in 2011 for emissions occurring in 2010. On March 23, 2010, the EPA announced a proposed rulemaking that would expand its final rule on reporting of greenhouse gas emissions to include owners and operators of onshore oil and natural gas production. If the proposed rule is finalized in its current form, monitoring of those newly covered sources would commence on January 1, 2011. On May 13, 2010, the EPA issued rules to regulate greenhouse gas emissions from large stationary sources such as power plants and oil refineries. The adoption and implementation of any regulations imposing reporting obligations on, or limiting emissions of greenhouse gases from, our equipment and operations could require us to incur increased costs to reduce emissions of greenhouse gases associated with our operations and could adversely affect demand for the oil and natural gas that we produce.

In addition, in June 2009, the U.S. House of Representatives passed the American Clean Energy and Security Act of 2009 ("ACESA"), which would establish an economy-wide cap-and-trade program to reduce U.S. emissions of greenhouse gases, including carbon dioxide and methane. ACESA would require a 17 percent reduction in greenhouse gas emissions from 2005 levels by 2020, and just over an 80 percent reduction of such emissions by 2050. Under this legislation, the EPA would issue a capped and steadily declining number of tradable emissions allowances to certain major sources of greenhouse gas emissions so that such sources could continue to emit greenhouse gases into the atmosphere. The cost of these allowances would be expected to escalate significantly over time. The net effect of ACESA would be to impose increasing costs on the combustion of carbon-based fuels such as oil, refined petroleum products, and natural gas. The U.S. Senate has begun work on its own legislation for restricting domestic greenhouse gas emissions, and the Obama administration has indicated its support of legislation to reduce greenhouse gas emissions through an emission allowance system. In addition, several states have considered initiatives to regulate emissions of greenhouse gases, primarily through the planned development of greenhouse gas emissions inventories and/or regional greenhouse gas cap and trade programs. Although it is not possible at this time to predict when the U.S. Senate may act on climate change legislation or how any bill passed by the Senate would be reconciled with ACESA, any future federal or state laws or regulations that may be adopted to address greenhouse gas emissions could require us to incur increased operating costs and could adversely affect the demand for the oil and natural gas that we produce. Additional information about the potential effect of climate change issues on our business is presented under the "Climate Change" caption in the Management's Discussion and Analysis of Financial Condition and Results of Operations section of our Annual Report on Form 10-K for the year ended December 31, 2009.

In response to the widely reported recent oil spill in the Gulf of Mexico resulting from a deepwater drilling rig explosion in April 2010, the U.S. Congress is considering a number of legislative proposals relating to the upstream oil and gas industry both onshore and offshore that could result in significant additional laws, regulations or taxes affecting our operations, including a proposal to raise or eliminate the cap on liability for oil spill cleanups under the Oil Pollution Act of 1990.

Although it is not possible at this time to predict whether proposed legislation or regulations will be adopted as initially written, if at all, or how legislation or new regulations that may be adopted would impact our business, any such future laws and regulations could result in increased compliance costs or additional operating restrictions. Additional costs or operating restrictions associated with legislation or regulations could have a material adverse effect on our operating results and cash flows, in addition to the demand for the crude oil, natural gas, and other hydrocarbon products that we produce.

Cautionary Information about Forward-Looking Statements

This Quarterly Report on Form 10-Q contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements, other than statements of historical facts, included in this Form 10-Q that address activities, events, or developments with respect to our financial condition, results of operations, or economic performance that we expect, believe, or anticipate will or may occur in the future, or that address plans and objectives of management for future operations, are forward-looking statements. The words "anticipate," "assume," "believe," "budget," "estimate," "expect," "forecast," "intend," "plan," "project," "will," and similar expressions are intended to identify forward-looking statements. Forward-looking statements appear in a number of places in this Form 10-Q, and include statements about such matters as:

- *The amount and nature of future capital expenditures and the availability of liquidity and capital resources to fund capital expenditures*
- *The drilling of wells and other exploration and development activities and plans, as well as possible future acquisitions*
- *Proved reserve estimates and the estimates of both future net revenues and the present value of future net revenues that are included in their calculation*
- *Future oil and natural gas production estimates*
- *Our outlook on future oil and natural gas prices and service costs*
- *Cash flows, anticipated liquidity, and the future repayment of debt*
- *Business strategies and other plans and objectives for future operations, including plans for expansion and growth of operations or to defer capital investment, and our outlook on our future financial condition or results of operations*
- *Other similar matters such as those discussed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of this Form 10-Q.*

Our forward-looking statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions, expected future developments, and other factors that we believe are appropriate under the circumstances. These statements are subject to a number of known and unknown risks and uncertainties which may cause our actual results and performance to be materially different from any future results or performance expressed or implied by the forward-looking statements. These risks are described in the "Risk Factors" section of our 2009 Annual Report on Form 10-K and include such factors as:

- *The volatility and level of realized oil and natural gas prices*
- *A contraction in demand for oil and natural gas as a result of adverse general economic conditions or climate change initiatives*
- *The availability of economically attractive exploration, development, and property acquisition opportunities and any necessary financing, including constraints on the availability of opportunities and financing due to distressed capital and credit market conditions*
- *Our ability to replace reserves and sustain production*
- *Unexpected drilling conditions and results*
- *Unsuccessful exploration and development drilling*
- *The risks of hedging strategies, including the possibility of realizing lower prices on oil and natural gas sales as a result of commodity price risk management activities*
- *The pending nature of reported divestiture plans for certain non-core oil and gas properties as well as the ability to complete divestiture transactions*
- *The uncertain nature of the expected benefits from acquisitions and divestitures of oil and natural gas properties, including uncertainties in evaluating oil and natural gas reserves of acquired properties and associated potential liabilities, and uncertainties with respect to the amount of proceeds that may be received from divestitures*
- *The imprecise nature of oil and natural gas reserve estimates*
- *Uncertainties inherent in projecting future rates of production from drilling activities and acquisitions*
- *Declines in the values of our oil and natural gas properties resulting in impairment charges and write-downs*
- *The ability of purchasers of production to pay for amounts purchased*
- *Drilling and operating service availability*
- *Uncertainties in cash flow*
- *The financial strength of hedge contract counterparties and credit facility participants, and the risk that one or more of these parties may not satisfy their contractual commitments*
- *The negative impact that lower oil and natural gas prices could have on our ability to borrow and fund capital expenditures*
- *The potential effects of increased levels of debt financing*
- *Our ability to compete effectively against other independent and major oil and natural gas companies and*
- *Litigation, environmental matters, the potential impact of government regulations, and the use of management estimates.*

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We caution you that forward-looking statements are not guarantees of future performance and that actual results or performance may be materially different from those expressed or implied in the forward-looking statements. Although we may from time to time voluntarily update our prior forward-looking statements, we disclaim any commitment to do so except as required by securities laws.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The information required by this item is provided under the captions *Commodity Price Risk and Interest Rate Risk*, *Summary of Oil and Gas Production Hedges in Place*, and *Summary of Interest Rate Risk* in Item 2 above and is incorporated herein by reference.

ITEM 4. CONTROLS AND PROCEDURES

We maintain a system of disclosure controls and procedures that is designed to ensure that information required to be disclosed in our SEC reports is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and to ensure that such information is accumulated and communicated to our management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

We carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by the Quarterly Report on Form 10-Q. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer, concluded that our disclosure controls and procedures are effective for the purposes discussed above as of the end of the period covered by this Quarterly Report on Form 10-Q. There was no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the effectiveness of our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors as previously disclosed in our Form 10-K for the year ended December 31, 2009, in response to Item 1A of Part I of such Form 10-K.

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ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(c) The following table provides information about purchases by the Company or any "affiliated purchaser" (as defined in Rule 10b-18(a)(3) under the Exchange Act) during the fiscal quarter ended September 30, 2010, of shares of the Company's common stock, which is the sole class of equity securities registered by the Company pursuant to Section 12 of the Exchange Act.

PURCHASES OF EQUITY SECURITIES BY ISSUER AND AFFILIATED PURCHASERS

Period	(a) Total Number of Shares Purchased (1)	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Program	(d) Maximum Number of Shares that May Yet Be Purchased Under the Program (2)
07/01/10 — 07/31/10	86	$ 41.14	—	3,072,184
08/01/10 — 08/31/10	8,708	$ 41.42	—	3,072,184
09/01/10 — 09/30/10	—	$ —	—	3,072,184
Total:	8,794	$ 41.42	—	3,072,184

(1) Includes 8,794 shares withheld (under the terms of grants under the Equity Incentive Compensation Plan) to offset tax withholding obligations that occur upon the delivery of outstanding shares underlying restricted stock units.

(2) In July 2006 the Company's Board of Directors approved an increase in the number of shares that may be repurchased under the original August 1998 authorization to 6,000,000 as of the effective date of the resolution. Accordingly, as of the date of this filing, the Company has Board authorization to repurchase 3,072,184 shares of common stock on a prospective basis. The shares may be repurchased from time to time in open market transactions or privately negotiated transactions, subject to market conditions and other factors, including certain provisions of SM Energy's existing bank credit facility agreement and compliance with securities laws. Stock repurchases may be funded with existing cash balances, internal cash flow, and borrowings under SM Energy's bank credit facility. The stock repurchase program may be suspended or discontinued at any time.

The payment of dividends and stock repurchases are subject to covenants in our bank credit facility, including the requirement that we maintain certain levels of stockholders' equity and the limitation that does not allow our annual dividend rate to exceed $0.25 per share.

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ITEM 6. EXHIBITS

The following exhibits are filed or furnished with or incorporated by reference into this report:

Exhibit	Description
10.1†	SM Energy Company Form of Performance Share and Restricted Stock Unit Award Agreement as of July 1, 2010 (filed as Exhibit 10.3 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, and incorporated herein by reference)
10.2†	SM Energy Company Form of Performance Share and Restricted Stock Unit Award Notice as of July 1, 2010 (filed as Exhibit 10.4 to the registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, and incorporated herein by reference)
10.3****	Gas Services Agreement effective as of July 1, 2010 between SM Energy Company and Eagle Ford Gathering LLC
10.4*†	SM Energy Company Employee Stock Purchase Plan, As Amended and Restated as of July 30, 2010
10.5*†	SM Energy Company Cash Bonus Plan, As Amended on July 30, 2010
10.6*†	Net Profits Interest Bonus Plan, As Amended by the Board of Directors on July 30, 2010
10.7*†	SM Energy Company Equity Incentive Compensation Plan, As Amended as of July 30, 2010
10.8*†	SM Energy Company Non-Qualified Unfunded Supplemental Retirement Plan, As Amended as of July 30, 2010
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes — Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes — Oxley Act of 2002
32.1**	Certification pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes — Oxley Act of 2002
99.1*	Audit Committee Pre-Approval of Non-Audit Services
101.INS***	XBRL Instance Document
101.SCH***	XBRL Schema Document
101.CAL***	XBRL Calculation Linkbase Document
101.LAB***	XBRL Label Linkbase Document
101.PRE***	XBRL Presentation Linkbase Document

* Filed with this report.

** Furnished with this report.

*** Furnished, not filed. Users of this data submitted electronically herewith are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, and otherwise is not subject to liability under these sections.

**** Filed with this report. Certain portions of this exhibit have been redacted and are subject to a confidential treatment request filed with the Securities and Exchange Commission pursuant to Rule 24b-2 under the Securities Exchange Act of 1934.

† Exhibit constitutes a management contract or compensatory plan or agreement. This document was amended on July 30, 2010 primarily to reflect the recent change in the name of the registrant from St. Mary Land & Exploration Company to SM Energy Company. There no material changes to the substantive terms and conditions in this document.

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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

November 3, 2010	By:	/s/ ANTHONY J. BEST Anthony J. Best President and Chief Executive Officer
November 3, 2010	By:	/s/ A. WADE PURSELL A. Wade Pursell Executive Vice President and Chief Financial Officer
November 3, 2010	By:	/s/ MARK T. SOLOMON Mark T. Solomon Controller

Exhibit 10.3

CERTAIN PORTIONS OF THIS EXHIBIT HAVE BEEN REDACTED AND ARE THE SUBJECT OF A CONFIDENTIAL TREATMENT REQUEST PURSUANT TO RULE 24b-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934. REDACTED PORTIONS ARE MARKED WITH [*****] AND HAVE BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

EXECUTION

GAS SERVICES AGREEMENT

BETWEEN

SM ENERGY COMPANY ("Customer")

AND

EAGLE FORD GATHERING LLC ("Eagle Ford")

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Exhibit "A" Points of Delivery and Redelivery
Exhibit "B" Joint Venture Line
Exhibit "C1" Bolt Ranch Point of Delivery
Exhibit "C2" La Salle Area Point of Delivery
Exhibit "D" Nomination Form

GAS SERVICES AGREEMENT

THIS GAS SERVICES AGREEMENT (the "Agreement") is made and entered into effective as of July 1, 2010, by and between **SM ENERGY COMPANY** ("Customer") and **EAGLE FORD GATHERING LLC,** a Delaware limited liability company ("Eagle Ford"). Customer and Eagle Ford are sometimes referred to collectively as "Parties" or singularly as a "Party."

W I T N E S S E T H:

WHEREAS, Customer owns and/or controls Gas to be produced from wells located in Webb, Dimmit, and La Salle Counties, Texas, and desires Eagle Ford, on a firm non-interruptible basis, subject to the terms and conditions hereof, to gather, transport, and process such Gas, and to purchase the liquefiable hydrocarbons as calculated herein, and to redeliver Customer's Residue Gas all as provided herein; and

WHEREAS, Eagle Ford has firm transportation capacity on the Laredo-to-Katy pipeline system of Kinder Morgan Texas Pipeline LLC ("KMTP") and firm processing capacity at the Houston Central Plant ("Plant") owned and operated by Copano Processing, L.P. ("Copano Processing") in Colorado County, Texas, and is willing to provide for the services desired by Customer under the terms and conditions hereof; and

WHEREAS, Eagle Ford will construct a new gathering pipeline (as generally depicted on Exhibit "B", labeled "Joint Venture Line"), at its sole cost and expense, from the KMTP Laredo-to-Katy pipeline to the Points of Delivery, which is sufficient to gather Customer's Gas as provided herein.

NOW, THEREFORE, for and in consideration of the premises and the mutual benefits and covenants herein contained, the Parties hereby agree as follows:

ARTICLE I – DEFINITIONS

1.1 Defined Words and Terms. Except where the context otherwise indicates another or different meaning or intent, the following words and terms as used herein shall be construed to have the meaning indicated:

(a) "Btu" shall mean British thermal unit, which is the quantity of heat required to raise the temperature of one pound avoirdupois of pure water from 58.5 degrees Fahrenheit ("°F") to 59.5°F. MMBtu shall mean 1,000,000 Btu.

(b) "Conventional Lease Separation" shall mean the separation of equilibrium liquids from the effluent produced by wells delivering Gas to the Points of Delivery hereunder without using adsorption, absorption, external refrigeration, or other cooling processes.

(c) "Cubic Foot of Gas" shall mean the volume of Gas contained in one cubic foot of space at a standard pressure base and at a standard temperature base. The standard pressure base shall be 14.73 psia, and the standard temperature base shall be 60°F. The terms "Mcf" and "MMcf" shall mean, respectively, 1,000 cubic feet and 1,000,000 cubic feet.

(d) "CPI-U" means the "All Items Consumer Price Index for All Urban Consumers, U.S. City Average," as compiled monthly by the U.S. Department of Labor, Bureau of Labor Statistics utilizing a standard reference base period of 1982-84 equals 100, unadjusted for seasonal variation.

(e) "Day" or "Daily" shall mean a 24-hour period beginning at 9:00 a.m. (central time) on a calendar day and ending at 9:00 a.m. (central time) on the next succeeding calendar day. Any Day other than Saturday, Sunday, or legal holiday for commercial banks under either the laws applicable to national banking associations or those applicable to Texas state chartered banks, shall mean "Business Day." The date of a day shall be that of its beginning.

(f) "Gas" shall mean natural Gas produced in its original state from Gas and/or oil wells, but shall not include such iso-butane and heavier hydrocarbons as are removed, prior to the delivery hereunder, by Conventional Lease Separation. The classification by the Railroad Commission of Texas shall control hereunder as to whether a well is a Gas well or an oil well.

(g) "Gathering System" shall mean the Joint Venture Line and other facilities owned and operated by Eagle Ford and utilized to gather Customer's Gas.

(h) "GPM" shall mean gallons per Mcf as determined at the Points of Delivery. This term refers to the content of components in natural Gas that are recoverable or recovered as liquid products.

(i) "Gross Heating Value" shall mean the gross number of Btu that would be contained in a volume of one (1) cubic foot of Gas at a temperature of sixty (60) degrees Fahrenheit, and under a pressure of fourteen and seventy-three hundredths (14.73) psia and adjusted to reflect the actual water vapor content of the Gas delivered. If the Gas contains less than seven (7) pounds of water vapor per million cubic feet then the Gas shall be deemed dry.

(j) "Gas Daily Index" shall mean the midpoint average price published in the *Platts Gas Daily Price Guide* for the Month in which an Imbalance occurs under the heading Midpoint Averages, subheading "East-Houston-Katy," Houston Ship Channel.

(k) "HSC Index" shall mean the price published by Platts, a Division of the McGraw-Hill Companies, in the first issue of Inside F.E.R.C.'s Gas Market Report in the Month of production under the heading *Market Center Spot-Gas Prices*, subheading East Texas, Houston Ship Channel Index.

(l) "Hydrocarbon Shrinkage" shall mean the amount, in MMBtu, by which Customer's Gas delivered at the Points of Delivery is reduced as a result of calculating the Plant Products as set forth in Section 6.2 below.

(m) "Imbalance" shall mean the positive or negative difference each Month between Customer's Residue Gas delivered by Eagle Ford at the Points of Redelivery and Customer's nominations to its downstream pipeline(s) at the Points of Redelivery during such Month.

(n) "Month" shall mean a period beginning at 9:00 a.m. (central time) on the first Day of a calendar month and ending at 9:00 a.m. (central time) on the first Day of the next succeeding calendar month.

(o) "Plant Fuel, Flare and Losses" shall be fixed based at the amount set forth in Section 6.2 below and applied to Customer's Gas delivered at the Points of Delivery.

(p) "Plant Products" shall mean the liquefiable hydrocarbon calculated using the fixed recoveries of each component (as set forth in Section 6.2 below) and applied to Customer's Gas delivered at the Points of Delivery.

(q) "Plant Thermal Reduction" ("PTR") shall mean the sum of the Hydrocarbon Shrinkage and Plant Fuel, Flare and Losses.

(r) "Points of Delivery" shall mean the meter facilities described on Exhibit "A".

(s) "Points of Redelivery" shall mean the inlet flange of the meters at the tailgate of the Plant that measure the Residue Gas delivered into the pipelines or pooling points named on Exhibit "A."

(t) "Psia" or "psia" shall mean pounds per square inch absolute.

(u) "Psig" or "psig" shall mean pounds per square inch gauge.

(v) "Residue Gas" shall mean the total quantity of Customer's Gas received at the Points of Delivery each Month, less Customer's PTR calculated hereunder.

ARTICLE II – QUANTITIES

2.1 Commitment. Subject to all of the terms, conditions, and limitations herein set forth, Customer hereby commits to the performance of this Agreement and agrees to deliver or cause to be delivered to Eagle Ford, and Eagle Ford agrees to receive from Customer, and transport, and process, as provided herein, during the term hereof at the Points of Delivery, Gas owned and/or controlled by Customer (excluding any Gas originating from third parties during the first two Contract Periods described below in this Section 2.1, however this exclusion does not apply to royalty owners' Gas or overriding royalty owners' Gas or other working interest owners' Gas produced from a well in which Customer owns a working interest) which is received at the Points of Delivery described in Exhibit "A," up to a Maximum Daily Quantity (the "Firm MDQ") for each such Delivery Period as follows:

Delivery Period	Firm MDQ MMBtu/Day
1.) In-Service Date of the Gathering System through 12/31/2011*	[*****]

2.) 1/1/2012 -12/31/2012	[*****]
3.) 1/1/2013 -12/31/2014	200,000
4.) 1/1/2015 -12/31/2021	[*****]

*In the event that during this Delivery Period, Eagle Ford notifies Customer in writing that Copano Processing has completed the necessary expansion of its fractionation capacity at the Plant, the Firm MDQ for the remainder of this Delivery Period shall be **[*****]**MMBtu/Day.

Eagle Ford shall redeliver to Customer at the Points of Redelivery, on a firm basis subject to all the provisions of this Agreement, the Residue Gas attributable to the Firm MDQ. The "In-Service Date" shall be the date that the Gathering System is operational and ready to receive and gather Customer's Gas, as determined by Eagle Ford and specified in a written notice to Customer.

2.2 Interruptible Quantities. Customer may deliver and Eagle Ford may receive at the Points of Delivery mutually agreeable quantities of Gas each Day in excess of the Firm MDQ, on an interruptible basis, under the same terms and conditions provided for in this Agreement, up to a quantity of Gas that Eagle Ford agrees to receive from time to time. Eagle Ford shall redeliver to Customer at the Points of Redelivery, on an interruptible basis, the Residue Gas attributable to the Gas in excess of the Firm MDQ. For the purpose of clarity, it is understood and agreed by the Parties that all Gas delivered at the Points of Delivery in excess of the Firm MDQ on an interruptible basis will be counted towards the Customer's Period Quantity Commitment as described in Section 5.3 herein.

ARTICLE III – POINTS OF DELIVERY

3.1 Points of Delivery. Shall mean the Eagle Ford owned meter facilities described on Exhibit "A."

ARTICLE IV – NOMINATIONS AND IMBALANCES

4.1 Daily Nominations. Customer shall nominate by 10:30 a.m. on a Business Day prior to the Day of flow, in accordance with Eagle Ford's nomination procedures, the quantity of Gas per Day ("Daily Nominated Quantity") that Customer will deliver to Eagle Ford at each Point of Delivery and receive at each Point of Redelivery. Intra-day nominations will be made in accordance with Eagle Ford's nomination procedures. The quantities to be transported shall be as agreed to by the Parties (the "Confirmed Nominations") and described in a Nomination Form, substantially in the form of the attached Exhibit "D." Customer shall make all necessary arrangements to receive Customer's Residue Gas at the Points of Redelivery. Eagle Ford shall have no obligation to gather Customer's Gas on any Day for which Customer does not have a Confirmed Nomination.

4.2 Right to Balance. The Parties agree that during the term hereof Eagle Ford shall have the right to operate its Gathering System and to accept and deliver Gas hereunder in such a manner as to maintain balance between receipts and deliveries of Gas subject to this Agreement as closely as possible. Eagle Ford will have the right and option (i) to refuse to accept Customer's Gas in excess of its Confirmed Nominations at the Points of Delivery, and (ii) to refuse to accept Residue Gas delivery nominations at the Points of Redelivery if such nominations exceed the quantity of Customer's Residue Gas available at the Points of Redelivery.

4.3 Cash-Out. Each Month Eagle Ford shall value Customer's Imbalance, if any, at the Gas Daily Index. Over-deliveries of Residue Gas by Customer at the Points of Redelivery will be sold to Eagle Ford at the Gas Daily Index. Under-deliveries of Residue Gas by Customer at the Points of Redelivery will be purchased by Customer from Eagle Ford at the Gas Daily Index.

ARTICLE V – FEES

5.1 Service Fee. For each MMBtu of Customer's Gas delivered to the Points of Delivery with a GPM content equal to or greater than **[*****]** (the GPM for this purpose will be calculated Daily based upon the weighted average GPM at the Points of Delivery, provided that the GPM at any Points of Delivery shall not be less than **[*****]**), Customer will pay Eagle Ford a Service Fee equal to the sum of $[*****] plus [*****]% of the HSC Index ("Service Fee"). The Service Fee applicable to Customer's Gas containing less than **[*****]** GPM (the GPM for this purpose will be calculated Daily based upon the weighted average GPM at the Points of Delivery) will be subject to the negotiation of mutually agreeable terms. The Service Fee will be reduced by $[*****] per MMBtu at the time the Total Quantity Commitment is met by delivery of Gas, including the quantity for which payment of a Deficiency Fee is made pursuant to Section 5.3, prior to the expiration of the Primary Term.

5.2 Inflation Adjustment. Commencing on January 1, 2017, and continuing for the Term of this Agreement, Customer and Eagle Ford agree that the Service Fee and the $[*****] portion of the T&F Fee shall be adjusted annually (effective on each January 1) by the percentage increase or decrease in the CPI-U for the preceding twelve-Month period determined by comparing the CPI-U for the November immediately preceding the applicable January 1 to the CPI-U for the prior November ("Inflation Adjustment"). The Parties agree that the adjusted Service Fee shall never decrease as a result of the Inflation Adjustment below the original amount set forth in Sections 5.1 and 6.3. In the event the CPI-U is no longer published, the Parties shall mutually agree to a replacement inflationary index.

5.3 Quantity Commitment. Commencing on the effective date of this Agreement, as determined under ARTICLE XX -TERM, Customer hereby commits to deliver a minimum quantity of Gas during each Contract Period specified below in this Section 5.3 ("Period Quantity Commitment") as set forth below. If Customer fails to deliver the Period Quantity Commitment at the end of each Contract Period, then Customer shall pay Eagle Ford, at the conclusion of each Contract Period, an amount equal to $[*****] per MMBtu ("Deficiency Fee") times the deficient quantity in MMBtu. Gas delivered in excess of the Period Quantity Commitment in a Contract Period will be credited to the Period Quantity Commitment for subsequent Contract Periods.

Contract Periods	Period Quantity Commitment MMBtu
1. In-Service Date of the Gathering System through 6/30/2012	Equals the number of days between the In-Service Date through 6/30/2012 times [*****]
2. 7/1/2012 -12/31/2012	[*****]
3. 1/1/2013 -12/31/2013	[*****]
4. 1/1/2014 -12/31/2014	[*****]
5. 1/1/2015 -12/31/2015	[*****]
6. 1/1/2016 -12/31/2016	[*****]
7. 1/1/2017 -12/31/2017	[*****]
8. 1/1/2018 -12/31/2018	[*****]
9. 1/1/2019 -12/31/2019	[*****]
10. 1/1/2020 -12/31/2020	[*****]
11. 1/1/2021 -12/31/2021	[*****]

TOTAL QUANTITY COMMITMENT	Equals the summation of all Period Quantity Commitments

5.4 MDQ Change. If Customer delivers the Total Quantity Commitment through December 31, 2021, and Customer's average Daily deliveries are less than **[*****]**% of Customer's then-existing Daily Firm MDQ for a period of four consecutive months, then Eagle Ford shall have the right to reduce the then-existing Firm MDQ. Any such reduction shall not result in a Firm MDQ that is less than **[*****]**% of the total average quantity of Gas delivered by Customer over the above 4-Month period. Following a reduction as contemplated in the foregoing, Customer shall have the right, subject to available firm capacity as determined in Eagle Ford's sole discretion, reasonably exercised, to an increase of the then-existing Firm MDQ; provided, however, that Customer's new Firm MDQ following any such increase shall not exceed the Firm MDQ specified in Section 2.1 for the applicable Contract Period.

5.5 Quantity Commitment Reduction. Beginning on January 1, 2017, and for each calendar year thereafter, Customer shall have the right to reduce its Period Quantity Commitment (as defined in Section 5.3 above) by **[*****]**%. The Firm MDQ shall be adjusted to reflect any reduction in Period Quantity Commitment. For example: If Customer elects to reduce the Period Quantity Commitment on January 1, 2017, then the Firm MDQ for such Calendar year shall become **[*****]** MMBtu/Day, or **[*****]**MMBtu annually. If Customer elects to reduce its Period Quantity Commitment, the Deficiency Fee (as defined in Section 5.3 above) for Customer's remaining Period Quantity Commitment shall increase to $[*****] per MMBtu.

5.6 Failure To Receive Gas. If, at any time during the term of this Agreement, Eagle Ford is unable to take all of Customer's available Gas up to the Firm MDQ on any Day for any reason, including Force Majeure, then Customer shall receive credit against the Period Quantity Commitment for delivering the greater of the previous Month's average Daily deliveries in aggregate or the Daily equivalent Period Quantity Commitment for such Day(s). In the event Eagle Ford is unable to take Customer's Gas delivered under the terms and conditions hereof up to the Firm MDQ for a total of 45 Days in any one calendar year, but not to exceed 60 Days in any two consecutive calendar years, excluding periods of Force Majeure ("Reduced Flow Period"), then Customer shall have the right to terminate this Agreement by providing 30 Days prior written notice to Eagle Ford within 15 Days following the Reduced Flow Period. The right of termination provided for in the preceding sentence shall also apply in the event a period of Force Majeure exceeds 270 consecutive days wherein Eagle Ford cannot take the Firm MDQ in effect at such time. Upon such termination there will be no further obligation on the part of either Party (except obligations incurred before the effective date of termination, including to pay for Gas delivered and not yet paid for) and any accumulated obligation related to the Period Quantity Commitment, if any, will be waived.

ARTICLE VI – PROCESSING SETTLEMENT

6.1 Plant Products. Customer agrees to sell to Eagle Ford, and Eagle Ford agrees to purchase from Customer, under the provisions hereof, all Plant Products attributable to Customer's Gas. As consideration for the purchase of the Plant Products by Eagle Ford from Customer hereunder, Eagle Ford shall pay Customer the value of the Plant Products as determined in Section 6.3 below. Eagle Ford shall take title to the Plant Products at the Points of Delivery.

6.2 Plant Recoveries. The Plant recoveries and FF&L will be fixed as shown below:

Product	Initial Recoveries
Ethane	[*****]
Propane	[*****]
Butanes	[*****]
Pentanes+	[*****]
Plant FF&L	[*****]

Product	Recoveries after 200 MMcf/d Proposed Expansion
Ethane	[*****]
Propane	[*****]
Butanes	[*****]
Pentanes+	[*****]
Plant FF&L	[*****]

Product	Recoveries after Full Replacement of Lean Oil Plant
Ethane	[*****]
Propane	[*****]
Butanes	[*****]
Pentanes+	[*****]
Plant FF&L	[*****]

Recoveries after the full replacement of the lean oil plant are further described in Section 6.5 below.

6.3 Value. The value for the Plant Products shall be (i) one hundred percent (100%) of the OPIS Mont Belvieu Index monthly average of the daily average of the high and of the low prices for purity ethane, and (ii) one hundred percent (100%) of the OPIS Mont Belvieu Index Non-TET monthly average of the daily average of the high and of the low prices for propane, isobutane, normal butane, and natural gasoline, both less the transportation and fractionation fee (the "T & F" Fee) defined below. The T & F Fee shall mean the greater of (i) $**[*****]** per gallon, or (ii) the fee calculated and determined in cents per gallon on a Monthly basis using the following formula:

T & F = **[*****]** + **[*****]** + (**[*****]** x (HSC Index/3.50)) cents per gallon

6.4 Residue Gas. Eagle Ford shall deliver Customer's Residue Gas to Customer, or its designee, at the Points of Redelivery. Subject to availability, Customer shall have access to the pipeline interconnections shown on Exhibit "A." Eagle Ford shall deliver Customer's Residue Gas to Customer, or its designee, in condition and at pressures sufficient to allow the Gas to enter the Points of Redelivery up to the MAOP of the respective Points of Redelivery.

6.5 Replacement of Lean Oil Plant. In the event substantially all of the lean oil processing equipment at the Plant is replaced with cryogenic equipment having a capacity of approximately 450,000 MMBtu per Day, then commencing on the first day of the Month following the Month the new cryogenic equipment is placed in service, the ethane recovery factor shall be fixed at **[*****]**% and shall remain fixed for **[*****]** (**[*****]**) calendar years. After such time, the ethane recovery factor shall be **[*****]**%. Eagle Ford shall notify Customer in writing that Copano Processing has replaced the lean oil plant at the Plant.

6.6 Ethane Rejection. Customer will have the right to reject ethane each Month by providing Eagle Ford with five (5) Business Days' notice prior to the first Day of such month. Customer's ethane recovery for any Month during which Customer has elected to reject ethane will be fixed at **[*****]**% of the theoretical gallons of ethane contained in Customer's Gas. All other fixed recoveries as set forth in Section 6.2 will remain the same during ethane rejection.

ARTICLE VII - TAXES AND COMPLIANCE COSTS

7.1 General. Subject to the provisions of Section 7.2 below, Eagle Ford shall pay or cause to be paid all taxes and assessments imposed on Eagle Ford, and Customer shall pay or cause to be paid all taxes and assessments imposed upon Customer. In the event any new or additional taxes are imposed on Customer's Gas or Residue Gas during the term of this Agreement, Customer shall be responsible for and pay such taxes, or shall reimburse Eagle Ford therefore if Eagle Ford has paid or reimbursed others for such taxes.

7.2 Reimbursement. Notwithstanding anything contained in this Agreement to the contrary, if there is a change in any applicable law or regulation after the effective date of this Agreement which results in a governmental authority imposing, in Eagle Ford's sole determination, reasonably exercised, an additional direct or indirect, actual or pro rata cost or expense on Eagle Ford in connection with or related to the quality of Customer's Gas, including but not limited to: (i) any tax, assessment or emission credit, allowance or offset expense, (ii) any requirements to modify facilities or operations, (iii) any requirement to prevent, reduce, control, or monitor emissions, or (iv) other cost or expense based upon or related to greenhouse gas content or emissions (collectively, "Compliance Costs"), Customer will be fully responsible for its share of the Compliance Costs. Customer's share of the Compliance Costs will be based on the ratio of the mole percent of carbon dioxide per Mcf in Customer's Gas at the Points of Delivery times the total Mcf delivered by Customer at such points bears to the mole percent of carbon dioxide per Mcf in all Gas delivered at the inlet of the Plant times the total Mcf delivered at the Plant, or other mutually agreeable method. If Eagle Ford recovers a portion of the Compliance Costs paid by Customer at a future date from third parties, Eagle Ford shall reimburse Customer for its proportionate share of such recovery. Eagle Ford shall have the right to deduct all Compliance Costs for which Customer has a reimbursement obligation from the amounts otherwise owed by Eagle Ford to Customer hereunder.

ARTICLE VIII - CUSTODY TRANSFER AND RESPONSIBILITY

8.1 Custody and Risk of Loss. Custody and risk of loss of Customer's Gas (including all components of the Gas stream) delivered hereunder shall pass from Customer to Eagle Ford at the Points of Delivery. Custody and risk of loss of Customer's Residue Gas shall pass from Eagle Ford to Customer at the Points of Redelivery.

8.2 Responsibility. Customer shall be in control and possession of Gas and liquid

hydrocarbons and responsible for any injuries, claims, liabilities, or damages caused thereby until the same shall have been delivered to Eagle Ford at the Points of Delivery. After such delivery, as between Eagle Ford and Customer, Eagle Ford shall be in possession and control thereof and responsible for any injuries, claims, liabilities, or damages caused thereby until redelivery of Residue Gas to Customer or its designee at the Points of Redelivery.

ARTICLE IX – LIQUEFIABLE HYDROCARBON CONTENT TESTS

9.1 Frequency. Eagle Ford or Eagle Ford's designee shall use an online gas chromatograph at each Point of Delivery described on Exhibit "A" to determine liquefiable hydrocarbon content, and other pertinent properties of Customer's Gas at the Points of Delivery by standard test methods then in use in the industry and approved by the Parties hereto.

ARTICLE X – MEASUREMENT

10.1 Assumed Atmospheric Pressure. The average atmospheric pressure shall be assumed to be fourteen and seven tenths pounds per square inch (14.7 psi) at the Points of Delivery.

10.2 Unit of Volume. The unit of volume for measurement of Gas for all purposes shall be one (1) cubic foot of Gas at a base temperature of sixty degrees Fahrenheit (60º F.) and at a base pressure of fourteen and seventy-three hundredths pounds per square inch absolute (14.73 psia). Where measurement is by orifice meter, all fundamental constants, observations, records and procedures involved in the determination and/or verification of the quantity and other characteristics of Gas delivered hereunder shall be made according to the latest revision of ANSI/API 2530-92 Chapter 14.3, Part 1-4 (AGA Report No. 3), with any revisions, amendments or supplements, unless otherwise specified herein.

10.3 Adjustment for Supercompressibility. Adjustment to measured Gas volumes for the effects of supercompressibility shall be made according to the latest revision of AGA report No. 8 "Compressibility and Super Compressibility for natural gas and Other Hydrocarbon gases," as amended from time to time. The measuring Party shall use an onsite gas chromatograph at each delivery point described Exhibit "A" to obtain representative relative density, gas composition, and heating values of the Gas delivered or received as may be required to compute such adjustments. The supercompressibility will be calculated using the latest Gas analysis, flowing temperature and pressure. When electronic flow measurement is used, the Daily flow data will be calculated using the method set forth in AGA Report No. 8 Detailed Method.

10.4 Determination of Heating Value. The heating value of the Gas may be determined by the use of a chromatograph. The arithmetical average of the hourly heating value recorded by a recording instrument during periods of flow each day shall be considered as the heating value of the Gas delivered hereunder during such day. The samples shall be analyzed on the measuring Party's chromatograph. The result of a sample shall be applied to Gas deliveries during the month. All heating value determinations made with a chromatograph shall use physical Gas constants for Gas compounds as outlined in the latest revision of GPA 2145 or revisions to related reports to which the Parties may mutually agree. Heating value shall be determined to the nearest whole Btu.

10.5 Determination of Flowing Temperature. The temperature of the Gas flowing through the meter or meters shall be determined by the continuous use of a recording thermometer installed so that it will properly record the temperature of the Gas flowing through the

meter. The average of the temperature recorded each day shall be used in computing the volumes of Gas for that Day. Temperature shall be determined to the nearest whole degree in Fahrenheit.

10.6 Determination of Specific Gravity. The specific gravity of the Gas flowing through the meter or meters shall be determined by the use of a chromatograph so that it will properly record the specific gravity of the Gas flowing through the meter or meters. The average of specific gravity recorded each Day shall be used in computing the volume of Gas for that Day. All specific gravity determinations made with a chromatograph shall use physical constants for Gas compounds as outlined in the

latest revision of GPA 2145 or revisions to related Reports to which the Parties may mutually agree. Specific gravity shall be determined to the nearest one thousandth (0.001).

ARTICLE XI – MEASURING EQUIPMENT AND TESTING

11.1 Equipment. At or near each Point of Delivery and Point of Redelivery, Eagle Ford, or its designee, shall, at its expense, install, operate and maintain in accurate working order, the meters, electronic flow measurement computers, instruments and equipment of standard type necessary to measure the Gas to be delivered and redelivered hereunder. The Gas meters shall conform to the latest edition of the applicable AGA/API standards. The metering and other equipment installed, together with any buildings erected for such equipment, shall be and remain the property of Eagle Ford or its designee.

As specified by Eagle Ford, all measuring stations provided hereunder shall be equipped with orifice meter runs, electronic flow computer, recording gauges or other types of meter or meters of standard make and design commonly accepted in the natural gas industry in order to accurately measure the Gas delivered hereunder. A computer, transducers and other associated sensing devices will be installed to accurately measure the Gas delivered hereunder in accordance with A.G.A. Report Nos. 3, 5, 6, and 7, as appropriate. The values for gross heating value, specific gravity and Gas composition shall be real time data from an onsite gas chromatograph.

11.2 Calibration and Tests of Meters. The measuring Party shall calibrate chromatographs at least once each month against a standard Gas sample. All other measuring equipment shall be calibrated and adjusted as necessary by the measuring Party or as frequently as deemed necessary, but not less frequently than once each month. Customer may, at its option, be present for such calibration and adjustment. Eagle Ford shall give Customer notice of the time of all tests sufficiently in advance of conducting same so that the Parties may conveniently have their representatives present. Following any test, any measuring equipment found to be inaccurate to any degree shall be adjusted immediately to measure accurately. Each Party shall have the right, at any time, to challenge the accuracy of any measuring equipment used hereunder and may request additional tests. If, upon testing, the challenged equipment is found to be in error, then it shall be repaired and calibrated. The cost of any such special testing, repair and calibration shall be borne by the Party requiring the special test if the percentage of inaccuracy is found to be two percent (2%) or less, or one percent (1%) if electronic flow measurement equipment is utilized. Otherwise, the cost shall be borne by the Party operating the challenged measuring equipment.

11.3 Access to Meters and Records. The other Party shall have access at all reasonable times to the measuring equipment and all other instruments used by the measuring Party in determining the measurement and quality of the Gas delivered hereunder, but the reading, calibrating, and adjusting thereof shall be done only by employees, agents or representatives of the measuring Party. The measuring Party shall keep on file copies of original

records for a period of three (3) years for mutual use of Eagle Ford and Customer. Upon request, the measuring Party shall submit to the other Party copies of original records from such equipment, subject to return by the Party within sixty (60) Days after receipt thereof.

11.4 Correction of Metering Errors. If, upon any test, the measuring equipment, in the aggregate for any measurement facility, is found to be inaccurate by more than one percent (1%), registration thereof and any payments based upon such registration shall be corrected at the rate of such inaccuracy for any period of inaccuracy which is definitely known or agreed upon; provided, however, if such period is not definitely known or agreed upon, then such registration and payment shall be corrected for a period extending back one-half (1/2) of the time elapsed since the last Day of calibration.

11.5 Failure of Meters. If, for any reason, the measuring equipment is out of service or out of repair so that the quantity of Gas delivered hereunder through such measuring equipment cannot be ascertained or computed from the readings thereof, the quantity of Gas so delivered during the period such equipment is out of service or out of repair shall be estimated and agreed upon by Eagle Ford and Customer upon the basis of the best available data, using the first of the following methods which is feasible:

(a) By using the registration of any duplicate measuring equipment installed by the measuring Party, if installed and registering correctly;

(b) By using the registration of any check measuring equipment of the other Party, if installed and registered accurately;

(c) By correcting the error if the percentage of error is ascertainable by calibration, test or mathematical calculation;

(d) By estimating the quantity of deliveries by using the volumes delivered under similar conditions during preceding periods when the measuring equipment was registering accurately.

11.6 Check Measuring Equipment. Customer may install, maintain and operate at its own expense, at or near the Points of Delivery, such check measuring equipment as desired; provided, however, that such equipment shall be installed so as not to interfere with the operation of any other measuring equipment. Eagle Ford shall have access to such check measuring equipment at all reasonable times, but the reading, calibration and adjusting thereof and the changing of charts shall be done only by Customer. Customer will have access to a separate set of taps for check measurement purposes.

11.7 New Measurement Techniques. If, at any time during the term hereof, a new method or technique is developed with respect to Gas measurement or liquids measurement or to the determination of the factors used in such measurements, such new method or technique may be substituted for the method set forth in this Article XI when the Party employing such new method or technique receives consent from the other Party.

11.8 Liquid Measurement. Eagle Ford, or its designee, shall measure Plant Products by utilizing meters operated and maintained in accordance with recognized industry standards. Measurement procedures and calculations will be in accordance with the API Manual of Petroleum Measurement. Meter tests and calibration will be conducted as determined by Eagle Ford, but at least once each Month. Procedures used in testing and calibration will be in accordance with the aforementioned API Manual of Petroleum Measurement to ensure measurement accuracy to within one-half of one percent. Consecutive meter factors differing by more than 50/10,000 will result in an adjustment to recorded volumes. The readings, calibrations

and adjustments of the measuring equipment shall be done by employees or agents of Eagle Ford. Eagle Ford shall notify Customer in advance of the performance of tests and calibrations so that Customer may have its representative present as a witness at the Points of Delivery.

ARTICLE XII – ALLOCATIONS

12.1 Allocation of Plant Products. From the results of the liquefiable hydrocarbon content tests and the quantity of Gas delivered to the Points of Delivery for each Month, there shall be determined the total theoretical gallons of each Plant Product contained in Customer's Gas. The total amount of each Plant Product assumed to be recovered and saved in the Plant during each Month shall be fixed at recoveries as set forth in Section 6.2 (subject to Sections 6.5 and 6.6) and multiplied by Customer's total theoretical gallons of each Plant Product.

12.2 Allocation of Plant Fuel, Flare and Losses. The quantity of the Gas that is assumed to be consumed as Plant Fuel, Flare and Losses stated in MMBtu, shall be deemed to be the percentage of the quantity of Gas in MMBtu delivered at the Points of Delivery as set forth in Section 6.2.

12.3 Hydrocarbon Shrinkage. Hydrocarbon Shrinkage shall be calculated by Eagle Ford each Month by multiplying the number of gallons of each component of Plant Products attributable to Customer's Gas by the Btu equivalent of each such component as set forth in the *GPA Technical Standards Publication No. 2145-09,* as revised from time to time and so adjusted to 60°F and 14.73 psia pressure base. The aggregate Btu of all such components shall constitute the Hydrocarbon Shrinkage hereunder.

ARTICLE XIII – GAS QUALITY

13.1 Specifications. Customer shall deliver at the Points of Delivery merchantable pipeline quality Gas that conforms to the following quality specifications:

(a) The Gas shall be free of water and other objectionable liquids at the temperature and pressure at which the Gas is delivered to Eagle Ford and shall in no event contain water vapor in excess of seven (7) pounds per one million (1,000,000) cubic feet, measured at fourteen and seventy-three hundredths pounds per square inch absolute (14.73 psia) at a standard temperature of sixty degrees Fahrenheit (60° F.).

(b) The Gas shall not contain more than twenty-five hundredths (.25) of one grain of hydrogen sulfide per one hundred (100) cubic feet as determined by quantitative methods in general use within the natural gas industry and as mutually acceptable to the Parties hereto.

(c) The Gas shall not contain more than one half (.50) of one grain of total sulfur per one hundred (100) cubic feet as determined by quantitative methods in general use within the natural gas industry and as mutually acceptable to the Parties hereto.

(d) The Gas shall not contain more than three tenths (.3) of one grain of mercaptans per one hundred (100) cubic feet as determined by quantitative methods in general use within the natural gas industry and as mutually acceptable to the Parties hereto.

(e) The Gas shall not contain in excess of:

i. **[*****]** percent (**[*****]**%) by volume of carbon dioxide (CO_2);

ii. Ten parts per million (10 ppm) by volume of oxygen (O_2);

iii. Three percent (3%) by volume of nitrogen (N_2);

iv. In the aggregate, four percent (4%) by volume of non-hydrocarbons.

(f) The Gas shall contain no carbon monoxide, halogens, unsaturated hydrocarbons, and not more than four hundred parts per million (400 ppm) of hydrogen.

(g) The Gas shall have a temperature of not more than one hundred and twenty degrees Fahrenheit (120° F.) and not less than forty degrees Fahrenheit (40° F).

(h) The Gas shall be commercially free from gum, gum-forming constituents, or other objectionable liquid or solid matter which might become separated from the Gas in the course of transmission through pipelines.

(i) Subject to the provisions of this Section 13.1 and the constituents allowed herein, the Gas shall be free of any and all corrosive materials that may, in Eagle Ford's determination, be harmful to any of its or its designees' facilities.

(j) The Gas shall have a minimum weighted average GPM of **[*****]** at the Points of Delivery; however the minimum GPM at any Point of Delivery is **[*****]**.

13.2 Failure to Meet Specifications. If any Gas subject hereto fails to meet an applicable quality specification, Eagle Ford shall have the right to waive such failure and to continue to receive such Gas. If Eagle Ford refuses to receive such Gas and if Customer does not elect to treat the Gas so as to cause the same to meet such quality specification, then Customer shall stop the delivery of the Gas that fails to meet such quality specification. Customer's failure to conform to such gas qualities (and Eagle's refusal to take out of spec Gas) does not relieve Customer of any obligations hereunder.

ARTICLE XIV – PRESSURES

14.1 Customer's Delivery Pressure. Customer shall deliver Gas to Eagle Ford at the Points of Delivery at pressures sufficient to allow the Gas to enter the Gathering System, but not at pressures in excess of 1200 psig or the maximum allowable operating pressure of the Gathering System ("MAOP") whichever is lower, as it may exist from time to time, at the Points of Delivery. Eagle Ford is under no obligation to modify its line pressures to permit the entry of Customer's Gas into the Gathering System. Customer may install compression at its own cost and expense. Customer shall equip its compression and production equipment, if any, (i) with overpressure relief or shut-off devices to prevent delivery to Eagle Ford in excess of the MAOP, (ii) with Gas cooling equipment to prevent discharge temperatures above 120° F. into the Gathering System, and (iii) with pulsation dampening equipment acceptable to Eagle Ford to minimize pulsation induced measurement errors.

ARTICLE XV – ACCOUNTING

15.1 Payment. On or before the 25th Day of each Month, Eagle Ford shall pay Customer by wire transfer and provide a net settlement statement setting forth the amount due to Customer for Gas received hereunder during the prior Month. Eagle Ford shall make payment to Customer for the value of the Plant Products less all fees and other charges applicable hereunder. Such payment and net settlement statement shall include, by each Point of Delivery, the calculation of Hydrocarbon Shrinkage, Imbalance, Plant Products, PTR, Residue Gas, and any applicable cash-out as provided in Section 4.3 hereof. In addition, the net settlement statement shall include a calculation of the cumulative amount of Gas delivered (subject to volume credited in accordance with Section 5.6, if any) during the applicable Contract Period. Any cash-out amounts due Customer shall be included in Eagle Ford's payment to Customer and any cash-out amounts due Eagle Ford shall be deducted from Eagle Ford's payment to Customer.

If any amount is due Eagle Ford at the end of each Contract Period under Section 5.3, then Eagle Ford shall, within forty-five (45) Days after the end of such Contract Period, furnish Customer a detailed accounting of and invoice for such payment due Eagle Ford, based on the calculations provided in Section 5.3. Customer shall make payment to Eagle Ford by wire transfer within fifteen (15) Days from receipt of such invoice.

15.2 Information. Upon receipt of a written request by Eagle Ford, Customer will furnish to Eagle Ford copies of any and all forms filed by Customer and/or its operators with any state or federal regulatory agency covering Gas subject to this Agreement. Additionally, Eagle Ford and Customer shall each preserve all records

applicable to this Agreement, including all test and measurement data and charts, for a period of at least 24 Months following the end of each calendar year, or such longer periods as shall be required under law or regulation. Notwithstanding anything in this Agreement to the contrary, the Parties' respective rights and obligations under this Section 15.2 shall survive termination of this Agreement.

15.3 Audits. Either Party, upon notice in writing to the other Party and upon execution of a mutually acceptable confidentiality agreement which is typical of this type of audit, shall have the right at reasonable hours to audit the accounts and records relating to any invoice under this Agreement within the 24 Month period following the end of the calendar year in which an invoice was rendered; provided, however, that the auditing Party must make a claim in writing upon the other Party for all discrepancies disclosed by said audit within said 24 Months. Any audit shall be conducted by the auditing Party or its representative at the auditing Party's expense. Any invoices shall be final as to all Parties unless questioned within said 24 Months. Notwithstanding anything in this Agreement to the contrary, the Parties' respective rights and obligations under this Section 15.3 shall survive termination of this Agreement.

ARTICLE XVI – FORCE MAJEURE

16.1 Definition. Subject to the other provisions of this Agreement, if either Party is rendered unable, wholly or in part, by Force Majeure to carry out its obligations under this Agreement, other than to make payments when due hereunder, it is agreed that, on such Party's giving notice and reasonably full particulars of such Force Majeure in writing or by facsimile to the other Party within a reasonable time after the occurrence of the cause relied on, the obligations of the Party giving such notice, so far as they are affected by Force Majeure, shall be suspended during the continuance of any inability so caused, but for no longer period, and such cause shall so far as possible be remedied with all reasonable dispatch, if economically justifiable. The term

"Force Majeure," as employed herein, shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, wars, blockades, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, storms, hurricanes, floods, high water washouts, arrests and restraints of government and people, civil disturbances, explosions, breakage or accident to machinery or lines of pipe, unscheduled maintenance to machinery and equipment, freezing of wells or lines of pipe, partial or entire failure of wells, the failure of third parties to transport, process, deliver, and receive Gas subject hereto as a documented consequence of an event of Force Majeure, and any other causes, whether of the kind herein enumerated or otherwise, not reasonably within the control of the Party claiming suspension.

Such term shall likewise include (a) in those instances where either Party is required to obtain servitudes, rights-of-way grants, permits or licenses to enable such Party to perform hereunder, the inability of such Party to acquire, or the delays on the part of such Party in acquiring, at reasonable cost and after the exercise of reasonable diligence, such servitudes, rights-of-way grants, permits or licenses, and (b) in those instances where either Party hereto is required to furnish materials and supplies for the purpose of constructing or maintaining facilities or is required to secure permits or permissions from any governmental agency to enable such Party to perform hereunder, the inability of such Party to acquire, or the delays on the part of such Party in acquiring, at reasonable costs and after the exercise of reasonable diligence, such materials and supplies, permits and permissions.

16.2 Strikes and Lockouts. It is understood and agreed that the settlement of strikes or lockouts shall be entirely within the discretion of the Party having the difficulty, and that the above requirement that any Force Majeure shall be remedied with all reasonable dispatch shall not require the settlement of strikes or lockouts by acceding to the demands of an opposing Party when such course is inadvisable in the discretion of the Party having the difficulty.

16.3 Facilities Loss. In the event of loss of or damage to all or a substantial part of the Gathering System, the KMTP pipeline, or the Plant for any cause, then neither Eagle Ford nor KMTP nor Copano Processing shall have any obligation to repair, rebuild, or replace same. The requirement in Section 16.1 above that any Force Majeure shall be remedied with all reasonable dispatch shall not apply in such event. If such event occurs and it is determined that such facilities will not be repaired, rebuilt, or replaced, then this Agreement shall terminate with no further obligation on the part of either Party (with the exception of obligations incurred before the effective date of termination, including amounts due for Gas delivered at the Points of Delivery prior to such event) and any accumulated obligation related to the Period Quantity Commitment, if any, will be waived.

ARTICLE XVII – NOTICES

17.1 Addresses. All notices provided for herein shall be in writing at the addresses listed below or to such other address either Party shall designate by written notice. Such notices shall be sent by certified U.S. mail, return receipt requested, postage prepaid, by facsimile, or by courier. Notices sent by certified mail or courier shall be deemed provided upon delivery as evidenced by the receipt of delivery. Notices sent by facsimile shall be deemed to have been provided upon the sending Party's receipt of its facsimile machine's confirmation of successful transmission; however, if the Day on which such facsimile is received is not a Business Day or is after five p.m. on a Business Day, then such facsimile shall be deemed to have been provided on

the next following Business Day.

To Customer:

Gas Scheduling
Attn: Gas Control
Street Address or P.O. Box 1775 Sherman Street, Suite 1200
City, State Zip Denver, CO 80203
Telephone: 303-861-8140
Facsimile: 303-830-2216
E-mail: gascontrol@sm-energy.com

Contractual Matters
Attn: Contract Administration
1775 Sherman Street, Suite 1200
Denver, CO 80203

Wiring Instructions:

SM Energy Company
Wells Fargo Bank West, NA
1740 Broadway, Denver, CO 80274
Acct: **[*****]**
ABA for ACH: **[*****]**
ABA for Wire Transfer: **[*****]**

To Eagle Ford:

Attn: Contract Services
2727 Allen Parkway, Suite 1200
Houston, Texas 77019
Telephone: (713) 621-9547
Facsimile: (713) 737-9047
E-mail: cseawright@copanoenergy.com

Wiring Instructions:

Bank: Comerica Bank
ABA: **[*****]**
Account Name: **[*****]**
Account: **[*****]**

17.2 Dispatching Notices. Eagle Ford may notify Customer in writing, by facsimile, by electronic means, or orally by telephone followed within a reasonable time with a written confirmation of changes in Eagle Ford's Gas dispatching requirements.

ARTICLE XVIII – WARRANTY AND INDEMNIFICATION

18.1 WARRANTY OF TITLE. CUSTOMER HEREBY WARRANTS TO EAGLE FORD THAT IT OR THE OWNER FOR WHOM IT IS ACTING HAS GOOD, MERCHANTIBLE TITLE TO THE GAS DELIVERED HEREUNDER AND THE PLANT PRODUCTS CONTAINED THEREIN, THE RIGHT TO DELIVER AND SELL SAME, AND THAT SUCH GAS AND PLANT PRODUCTS ARE FREE FROM ALL LIENS AND ADVERSE CLAIMS, AND CUSTOMER AGREES TO INDEMNIFY EAGLE FORD AND ITS MEMBERS FROM AND AGAINST ANY AND ALL LIABILITIES, SUITS, ACTIONS, DEBTS, ACCOUNTS, DAMAGES, COSTS (INCLUDING REASONABLE ATTORNEYS' FEES), LOSSES AND EXPENSES ARISING

FROM OR OUT OF ANY ADVERSE CLAIMS OF ANY AND ALL PERSONS MADE AGAINST EAGLE FORD OR ITS MEMBERS REGARDING TITLE TO OR OWNERSHIP OF THE GAS AND PLANT PRODUCTS.

18.2 ADVERSE CLAIMS. IN THE EVENT ANY ADVERSE CLAIM IS ASSERTED WITH RESPECT TO ANY OF CUSTOMER'S GAS OR PLANT PRODUCTS, EAGLE FORD MAY WITHHOLD ANY PAYMENT DUE CUSTOMER HEREUNDER THAT RELATES TO THE SPECIFIC VOLUME OF CUSTOMER'S GAS OR PLANT PRODUCTS AGAINST WHICH THE CLAIM IS MADE WITHOUT INTEREST UNTIL SUCH CLAIM HAS BEEN FINALLY DETERMINED OR UNTIL CUSTOMER FURNISHES EAGLE FORD A BOND, IN FORM AND WITH SURETIES REASONABLY ACCEPTABLE TO EAGLE FORD, CONDITIONED TO HOLD EAGLE FORD AND ITS MEMBERS HARMLESS FROM ANY SUCH CLAIMS.

18.3 OWNERSHIP PAYMENTS. CUSTOMER AGREES TO PAY OR CAUSE TO BE PAID TO THE PARTIES ENTITLED THERETO ALL WORKING INTEREST, ROYALTIES, OVERRIDING ROYALTIES, PAYMENTS OUT OF PRODUCTION, AND OTHER LIKE CHARGES APPLICABLE TO THE GAS AND PLANT PRODUCTS.

18.4 COMPLIANCE WITH REGULATIONS. CUSTOMER WARRANTS THAT ANY GAS TRANSPORTED UNDER THIS AGREEMENT THAT IS SUBSEQUENTLY DELIVERED INTO INTERSTATE COMMERCE SHALL BE TRANSPORTED (i) BY THE RECEIVING INTERSTATE PIPELINE ON BEHALF OF AN INTRASTATE PIPELINE OR A LOCAL DISTRIBUTION COMPANY PURSUANT TO THE PROVISIONS OF SECTION 311(A)(1) OF THE NATURAL GAS POLICY ACT OF 1978 AND SUBPART B OF SECTION 284 OF THE REGULATIONS OF THE FEDERAL ENERGY REGULATORY COMMISSION (THE "TRANSPORTATION REGULATIONS") OR ANY SUCCESSOR AUTHORITY AND (ii) IN COMPLIANCE WITH THE TRANSPORTATION REGULATIONS. CUSTOMER AGREES TO INDEMNIFY EAGLE FORD AND ITS MEMBERS FROM AND AGAINST ANY AND ALL LIABILITIES, SUITS, ACTIONS, DEBTS, ACCOUNTS, DAMAGES, COSTS (INCLUDING REASONABLE ATTORNEYS' FEES), LOSSES, EXPENSES, FINES AND PENALTIES ARISING FROM OR OUT OF CUSTOMER'S BREACH OF THIS WARRANTY.

18.5 INDEMNIFICATION. SUBJECT TO THE OTHER PROVISIONS HEREOF, EACH OF EAGLE FORD AND CUSTOMER SHALL INDEMNIFY, DEFEND, AND HOLD THE OTHER AND THEIR RESPECTIVE MEMBERS, OFFICERS, DIRECTORS, AND EMPLOYEES HARMLESS FROM CLAIMS, DEMANDS, AND CAUSES OF ACTION OF EVERY TYPE AND CHARACTER ARISING OUT OF ITS PERFORMANCE OR NON-PERFORMANCE UNDER THIS AGREEMENT (INCLUDING EXPENSES AND REASONABLE ATTORNEY'S FEES RELATED THERETO) WHICH ARE ASSERTED AGAINST THE INDEMNITEE BY ANY PERSON (INCLUDING, WITHOUT LIMITATION, CUSTOMER'S AND EAGLE FORD'S EMPLOYEES) FOR PERSONAL INJURY, DEATH, OR LOSS OF OR DAMAGE TO PROPERTY WHICH IS THE RESULT OF THE SOLE NEGLIGENCE OR THE SOLE WILLFUL MISCONDUCT OF THE INDEMNITOR. WHERE PERSONAL INJURY, DEATH, OR LOSS OF OR DAMAGE TO PROPERTY IS THE RESULT OF JOINT NEGLIGENCE OR JOINT WILLFUL MISCONDUCT OF CUSTOMER AND EAGLE FORD, OR EITHER OF THESE TWO PARTIES, OR EITHER OF THEM AND ONE OR MORE THIRD PARTIES, THE INDEMNITOR'S DUTY OF INDEMNIFICATION SHALL BE IN THE SAME PROPORTION THAT THE INDEMNITOR'S NEGLIGENT ACTS OR OMISSIONS CONTRIBUTED THERETO. IF CUSTOMER OR EAGLE FORD IS STRICTLY LIABLE UNDER LAW OR STATUTE, THE INDEMNITOR'S DUTY OF INDEMNIFICATION SHALL BE IN THE SAME PROPORTION THAT THE INDEMNITOR'S NEGLIGENT ACTS OR OMISSIONS CONTRIBUTED TO THE PERSONAL INJURY, ILLNESS, DEATH OR LOSS OF OR DAMAGE TO PROPERTY FOR WHICH THE INDEMNITEE IS

STRICTLY LIABLE.

18.6 LIMITATION OF CLAIMS; SURVIVAL. EACH PARTY WAIVES ALL RIGHTS, EXCEPT SUCH RIGHTS AS ARE OTHERWISE EXPLICITLY RETAINED HEREIN, TO CLAIM INCIDENTAL, CONSEQUENTIAL, OR PUNITIVE DAMAGES WHICH IN ANY WAY RELATE TO A CLAIM UNDER OR A BREACH OF THIS AGREEMENT. NOTWITHSTANDING ANYTHING IN THIS AGREEMENT TO THE CONTRARY, THE PARTIES' RESPECTIVE RIGHTS AND OBLIGATIONS UNDER THIS ARTICLE XVIII SHALL SURVIVE TERMINATION OF THIS AGREEMENT FOR THE APPLICABLE PERIODS OF LIMITATIONS.

ARTICLE XIX – SUCCESSORS AND ASSIGNS

19.1 Binding of Terms. All the terms and conditions of this Agreement shall extend to and be binding upon the respective successors and assigns of the Parties hereto.

19.2 Assignments. The Parties have entered into this Agreement in anticipation of continued performance hereunder, and, accordingly, the rights and obligations of either Party hereunder shall not be assigned without the prior written consent of the other Party, which shall not be unreasonably withheld or delayed. Assignments of this Agreement may be made in whole or in part. Without the consent of the other Party hereto, either Party hereto may assign its rights hereunder to an affiliate which directly or indirectly owns or is owned by or is under common control of another affiliate or affiliates of the Party making the assignment.

19.3 Pledged Rights. Nothing contained in this Article shall in any way prevent either Party from pledging or mortgaging its rights hereunder for security of indebtedness.

ARTICLE XX – TERM

20.1 Term. This Agreement shall become binding on each Party as of July 1, 2010, when executed by such Party, but shall become operative and effective on the In-Service Date and shall continue and remain in full force and effect until January 1, 2022 ("Primary Term") and year to year thereafter, unless terminated by either Party upon at least ninety (90) Days' written notice given to the other Party prior to the end of the Primary Term or any annual extensions thereafter. However, such termination shall not discharge any obligations incurred before the effective date of termination by the Parties hereunder, including payment for services rendered.

20.2 Early Termination**.** If the In-Service Date does not occur by December 31, 2011, for any reason including Force Majeure events, Customer may terminate this Agreement by written notice to Eagle Ford by 3:00 p.m. CST January 12, 2012.

ARTICLE XXI – MISCELLANEOUS

21.1 Waiver. No waiver by Eagle Ford or Customer of any default of the other Party under this Agreement shall operate as a waiver of any subsequent default, whether of a like or a different character.

21.2 Performance. Any provision herein, which requires action by either Party where a performance date is not specified, shall require performance of such action within a reasonable time.

21.3 Confidentiality. The terms of this Agreement, including but not limited to quantity and price, shall not be disclosed to any third party (excluding the affiliates and/or working interest and royalty interest owners of the Parties) without the prior written consent of the other Party, which consent shall not be unreasonably withheld, except to the extent disclosure is required by laws, rules, regulations, or orders of governmental authority or the rules and regulations of any applicable stock exchange. Notwithstanding anything in this Agreement to the contrary, the Parties' respective rights and obligations under this Section 21.3 shall survive termination of this Agreement. **A CONFIDENTIALITY PROVISION CAN NOT BE UNILATERALLY REQUIRED IN A GAS SALE, TRANSPORTATION OR GATHERING AGREEMENT TO WHICH A CUSTOMER IS A PARTY AND THIS SECTION 21.3 WILL NOT BECOME A PART OF THIS AGREEMENT UNLESS CUSTOMER'S AUTHORIZED REPRESENTATIVE HAS INITIALED THE LINE MARKED "YES, SECTION 21.3, CONFIDENTIALITY, IS INCLUDED IN THIS AGREEMENT," PROVIDED UNDER CUSTOMER'S SIGNATURE BLOCK.**

21.4 Drafting. As between the Parties hereto, it shall be conclusively presumed that each and every provision of this Agreement was drafted jointly by Customer and Eagle Ford.

21.5 Headings. The headings contained in this Agreement are used solely for convenience and do not constitute part of the agreement between the Parties, and they should not be used to aid in any manner in construing this Agreement.

21.6 APPLICABLE LAW. THE INTERPRETATION AND PERFORMANCE OF THIS AGREEMENT SHALL BE IN ACCORDANCE WITH THE LAWS OF THE STATE OF TEXAS, EXCEPT AS TO ANY PROVISION OF SUCH LAWS THAT MAY REFER THE INTERPRETATION OF THIS AGREEMENT TO ANOTHER JURISDICTION. Notwithstanding anything in this Agreement to the contrary, this Section 21.6 shall survive termination of this Agreement.

21.7 Governmental Prohibition. If any governmental authority prohibits or otherwise conditions performance of an obligation in a manner that is unacceptable in the sole judgment of the Party affected thereby, then the Party so affected or prohibited may terminate this Agreement by giving written notice to the other Party with the effective date of the termination occurring on the first Day of the Month immediately following the Month in which the notice of termination is given, provided that any governmental prohibition or condition which renders this Agreement or any part hereof illegal shall result in the immediate termination of this Agreement without regard to notice (with the exception of obligations incurred before the effective date of termination, including to pay for Gas delivered and not yet paid for; any accumulated obligation related to the then-current Period Quantity Commitment will not be waived).

21.8 Creditworthiness. If either Party has reasonable grounds for insecurity regarding the performance of any obligation under this Agreement, whether or not then due, (including, without limitation, the occurrence of a material change in either Parties' creditworthiness), either Party may demand Adequate Assurance of Performance. "Adequate Assurance of Performance" shall mean sufficient security in the form, amount, and for the term reasonably acceptable to the requesting Party, including, but not limited to, a standby irrevocable letter of credit, a prepayment, or a guaranty. In the event such assurance is not provided or mutually agreed upon (both Parties acting reasonably), then the requesting Party shall have the right, as applicable, to suspend services or suspend delivery of Gas, or to terminate this Agreement, without prior notice, in addition to any and all other remedies available to it. If Eagle Ford elects to suspend services or Customer elects to suspend delivery of Gas in accordance with this Section 21.8, the obligation imposed by Section 5.3 shall be tolled during such suspension. Upon termination in accordance with this Section 21.8, (a) there will be no further obligation on the part of either Party (except

obligations incurred before the effective date of termination, including to pay for Gas delivered and not yet paid for and (b) any accumulated obligation related to the Period Quantity Commitment, to the extent not tolled, will not be waived if termination is by Eagle Ford, but will be waived if termination is by Customer.

ARTICLE XXII – SIGNATURES

IN WITNESS WHEREOF, this Agreement is executed in multiple originals as of the date first written above.

SM ENERGY COMPANY	**EAGLE FORD GATHERING LLC**
/S/ DAVID J. WHITCOMB	/S/ BRIAN D. ECKHART
David J. Whitcomb	Brian D. Eckhart

Vice President – Marketing | Senior Vice President, Transportation and Supply

IF CUSTOMER AGREES THAT SECTION 21.3, CONFIDENTIALITY SHALL BE INCLUDED IN THIS AGREEMENT FOR THE PRIMARY TERM AND ANY EXTENSION THEREOF, PLEASE INITIAL IN THE SPACE PROVIDED BELOW MARKED "YES", OTHERWISE INITIAL THE SPACE MARKED "NO".

☒ **YES, SECTION 21.3, CONFIDENTIALITY, IS INCLUDED IN THIS AGREEMENT**

☐ **NO, SECTION 21.3 IS NOT INCLUDED IN THIS AGREEMENT**

[SIGNATURE PAGE TO GAS SERVICES AGREEMENT DATED EFFECTIVE JULY 1, 2010, BETWEEN EAGLE FORD GATHERING LLC AND SM ENERGY COMPANY]

THIS EXHIBIT HAS BEEN REDACTED AND IS THE SUBJECT OF A CONFIDENTIAL TREATMENT REQUEST. REDACTED MATERIAL IS MARKED WITH [*****] AND HAS BEEN FILED SEPARATELY WITH THE SECURITIES AND EXCHANGE COMMISSION.

EXHIBIT "A"
to Gas Services Agreement dated effective July 1, 2010, between
Eagle Ford Gathering LLC and SM Energy Company
(the "Agreement")

POINTS OF DELIVERY

Eagle Ford, at its own cost and expense, shall install two (2) separate mutually agreeable Points of Delivery as follows:

Bolt Ranch Point of Delivery, Webb County, TX as reflected in Exhibits "C1"

La Salle Area Point of Delivery, La Salle County, TX as reflected in Exhibit "C2".

Any additional points of delivery that Customer requests during the term of this Agreement shall be installed only with Eagle Ford's consent and at Customer's sole cost and expense.

Customer will be provided internet accounts and access to their volumes and other available data associated with the Points of Delivery.

POINTS OF REDELIVERY

1. Kinder Morgan Texas Pipeline	Meter #HC5-20996
2. Houston Pipe Line Company	Meter #HC5-20903
3. Tennessee Gas Pipeline Company	Meter #HC5-20904 or Zone 0 Pool
4. Texas Eastern Transmission Company	TETCO So TX Pool 79501

The above referenced Points of Redelivery are inclusive of any header delivery fees as part of the Service Fee. Should additional Redelivery Points be added in the future, Customer shall have the right to add such points at a fee to be negotiated on a case by case basis.

EXHIBIT "B"
To Gas Services Agreement dated effective July 1, 2010, between
Eagle Ford Gathering LLC and SM Energy Company
(the "Agreement")

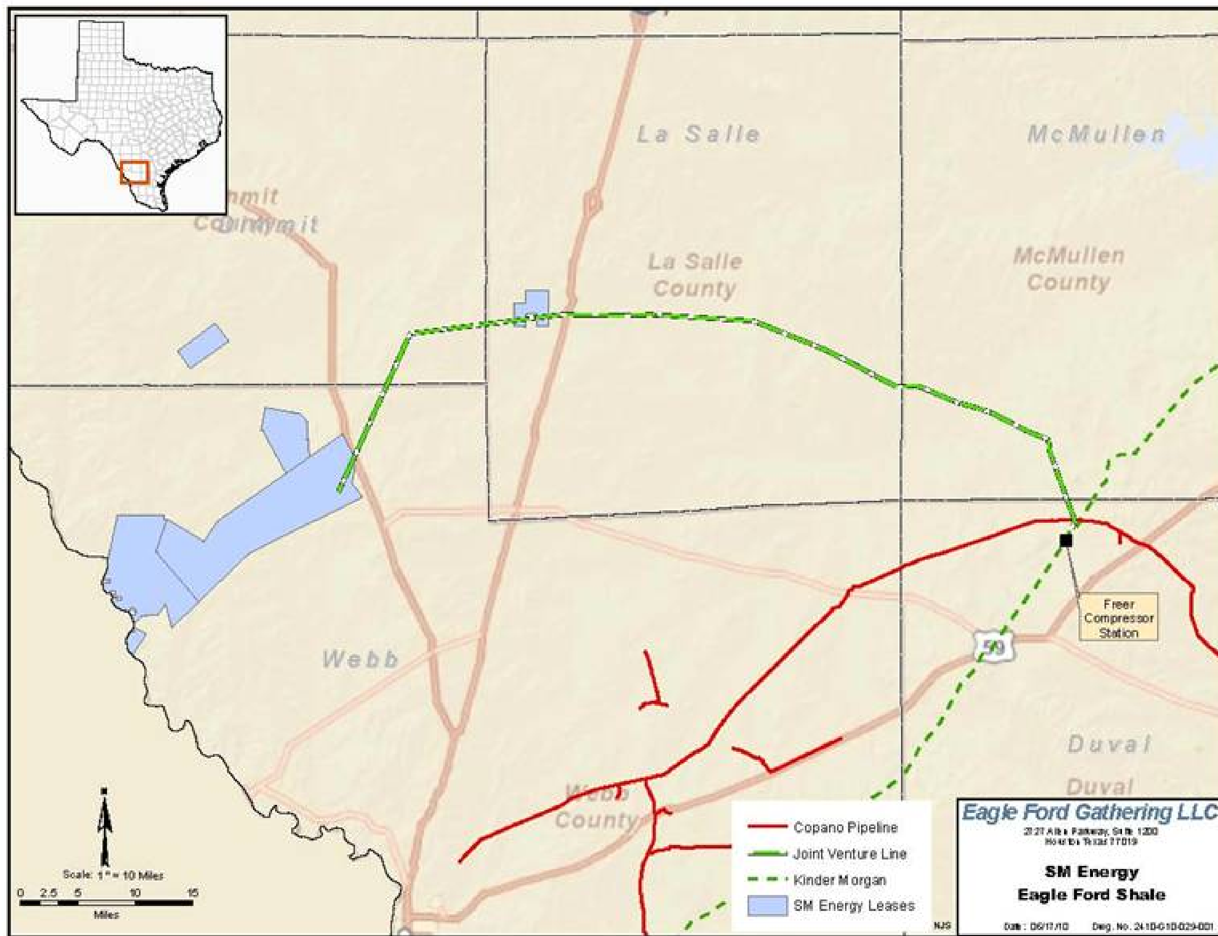

EXHIBIT "C1"
To Gas Services Agreement dated effective July 1, 2010, between
Eagle Ford Gathering LLC and SM Energy Company
(the "Agreement")

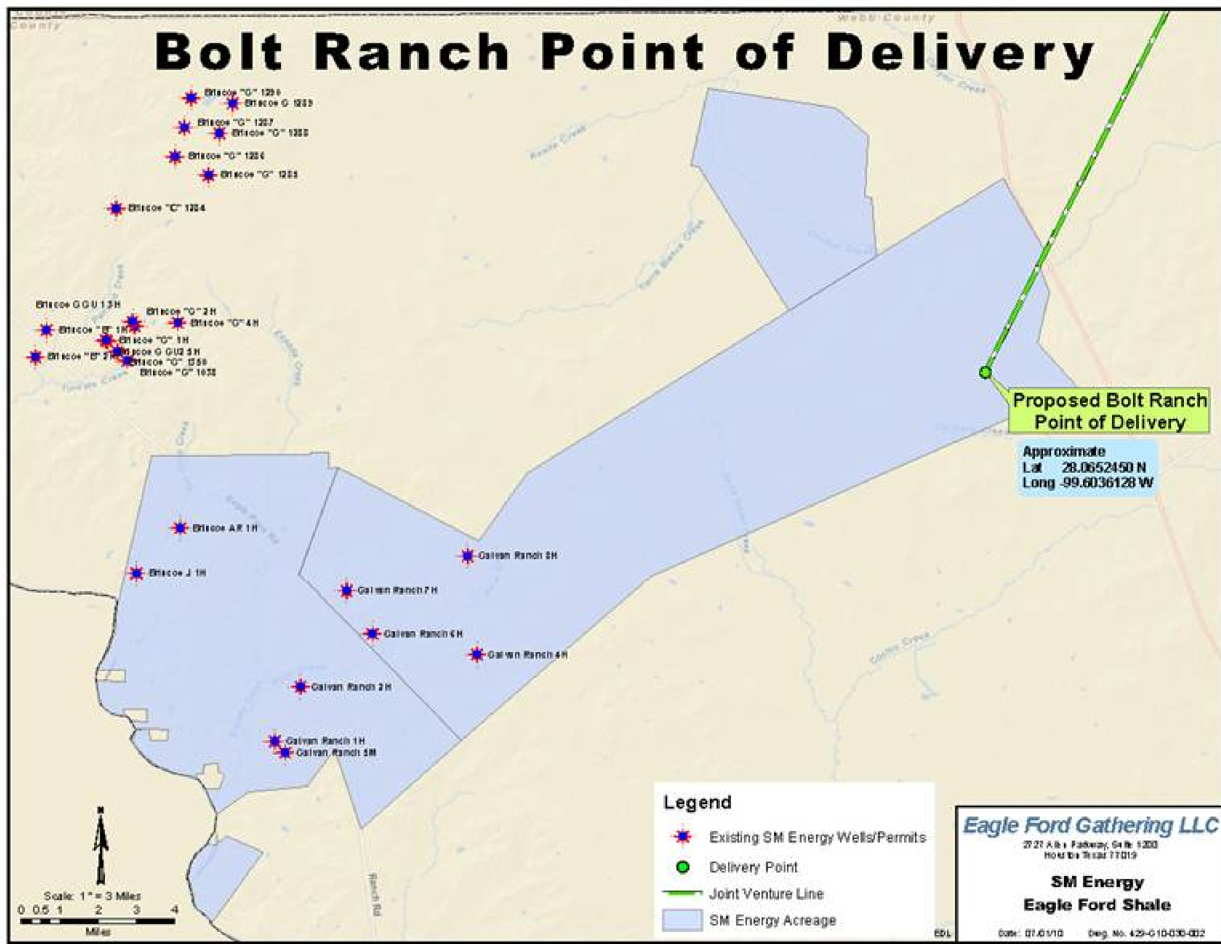

EXHIBIT "C2"
To Gas Services Agreement dated effective July 1, 2010, between
Eagle Ford Gathering LLC and SM Energy Company
(the "Agreement")

EXHIBIT "D"
Nomination Form

Eagle Ford Gathering LLC

1. First of the Month
2. Nomination Change
3. Same Day Change

Attn: Energy Services

Please send Nomination Request to:
Copano Processing, L.P.
david.velen@copanoenergy.com
glenn.cook@copanoenergy.com
nominations@copanoenergy.com

Transportation Nomination Request

Eagle Ford Contract # | Start Date: **1, 2011** | Stop Date **EOM** | Page 1 of 1

Shipper:	On Behalf of/Agent For	Nominator	Telephone Number	Telecopy Number
SM Energy Company				

Please indicate: RP-Redelivery Pt, MP-Measure Pt, IM-Imbalance Makeup			Meter Number	Meter Name	Volume MMBTU/D (DRY)	Upstream/Downstream Confirmation Contact Name/Number	Contract Number	MMBTU
MP	RP	IM						
☒	☐	☐		KMTP I#44666				
☐	☐	☐		PTR				
☐	☐	☐		Total Residue				
☐	☐	☐						
☐	☐	☐						
☐	☒	☐	HC5-20996	KMTP @ HCP Tailgate				
☐	☒	☐	HC5-20904	Tenn @ HCP Tailgate				
☐	☒	☐	HC5-20900	TETCO @ HCP Tailgate				
☐	☒	☐	HC5—20903	HPL @ HCP Tailgate				
					Total Receipts			Total Deliveries

SM ENERGY COMPANY

EMPLOYEE STOCK PURCHASE PLAN

As Amended and Restated as of July 30, 2010

ARTICLE I
ESTABLISHMENT AND PURPOSE

1.1 Establishment. SM Energy Company, a Delaware corporation (the "Company"), has established this employee stock purchase plan for employees of the Company or of a subsidiary of the Company, providing material services to the Company, which shall be known as the SM ENERGY COMPANY EMPLOYEE STOCK PURCHASE PLAN (the "Plan").

1.2 Purpose. The purpose of the Plan is to enhance stockholder value by attracting, retaining and motivating employees of the Company and of a subsidiary of the Company by providing them with a means to acquire a proprietary interest in the Company's success.

ARTICLE II
DEFINITIONS

2.1 Account. "Account" shall mean the account maintained by the Plan Administrator consisting of payroll deductions with respect to such Participant as adjusted for amounts used to purchase Stock and distributions to the Participant.

2.2 Base Pay. "Base Pay" shall mean regular straight-time earnings excluding payments for overtime, shift premium, bonuses and other special payments, commissions and other incentive payments and as further defined in Section 8.1.

2.3 Board. "Board" shall mean the Board of Directors of the Company.

2.4 Employee. "Employee" means any person who is customarily employed on a full-time or part-time basis by the Company or a Subsidiary Corporation and is regularly scheduled to work more than 20 hours per week.

2.5 Offering. "Offering" shall mean a semi-annual offering of the Company's Stock as further described in Section 6.1.

2.6 Offering Commencement Date and Offering Termination Date. "Offering Commencement Date" and "Offering Termination Date" are defined in Section 6.1.

2.7 Option. "Option" shall mean a Participant's right to purchase Stock of the Company as of each Offering Termination Date for each Offering with the accumulated payroll deductions in the Participant's Account.

2.8 Participant. "Participant" shall mean an Employee who becomes a Participant by completing an authorization for payroll deduction under Section 3.4.

2.9 Plan Administrator. "Plan Administrator" shall mean the Vice President — Human Resources or such other person as may be designated from time to time by the Board of the Company.

2.10 Stock. "Stock" shall mean shares of the Company's common stock subject to this Plan, except that the sale of any shares purchased pursuant to this Plan shall be generally subject to the condition that such shares have been held for a period of time prior to their sale or other disposition as provided in Section 5.3.

2.11 Subsidiary Corporation. "Subsidiary Corporation" shall mean any present or future corporation which (i) would be a "subsidiary corporation" of SM Energy Company as that term is defined in Section 424 of the Internal Revenue Code and (ii) is designated as a Participant in the Plan by the Committee.

ARTICLE III
ELIGIBILITY AND PARTICIPATION

3.1 Initial Eligibility. Any Employee shall be eligible to participate in Offerings under the Plan which commence on or after the first Offering Commencement Date occurring after the Employee's commencement of employment with the Company or a Subsidiary Corporation.

3.2 Leave of Absence. For purposes of participation in the Plan, a person on leave of absence shall be deemed to be an Employee until his employment with the Company otherwise terminates.

3.3 Restrictions on Participation. Notwithstanding any provisions of the Plan to the contrary, no Employee shall be granted an Option

(a) if, immediately after the grant, such Employee would own Stock or hold outstanding Options to purchase Stock possessing 5% or more of the total combined voting power or value of all classes of stock of the Company (for purposes of this paragraph, the rules of Section 424(d) of the Internal Revenue Code shall apply in determining stock ownership of any Employee),

(b) which permits his rights to purchase Stock under all employee stock purchase plans of the Company to accrue at a rate which exceeds $25,000 in fair market value of the Stock (determined at the time such option is granted) for each calendar year in which such Option is outstanding, or

(c) which permits an Employee to purchase in excess of 2,500 shares in such Offering.

3.4 Commencement of Participation. An Employee who meets the requirements of Section 3.1 may become a Participant by completing an authorization for a payroll deduction on the form provided by the Company and filing it with the Plan Administrator on or before the date set for such purpose by the Plan Administrator, which date shall be prior to the Offering Commencement Date for the Offering (as such terms are defined below). Payroll deductions for a Participant shall commence on the applicable Offering Commencement Date when his authorization for a payroll deduction becomes effective and shall end on the Offering Termination Date of the Offering to which such authorization is applicable unless sooner terminated by the Participant as provided in Article X.

ARTICLE IV
ADMINISTRATION

Administration. The Board shall be responsible for administering the Plan and appointing the Plan Administrator.

(a) The Board is authorized to interpret the Plan; to prescribe, amend, and rescind rules and regulations relating to the Plan; to provide for conditions and assurances deemed necessary or advisable to protect the interests of the Company with respect to the Plan; and to make all other determinations necessary or advisable for the administration of the Plan. Determinations, interpretations, or other actions made or taken by the Board with respect to the Plan and Options granted under the Plan shall be final and binding and conclusive for all purposes and upon all persons.

(b) At the discretion of the Board the Plan may be administered by a Committee of two or more non-employee Directors appointed by the Board (the "Committee"). The Committee shall have full power and authority, subject to the limitations of the Plan and any limitations imposed by the Board, to construe, interpret and administer the Plan and to make determinations which shall be final, conclusive and binding upon all persons, including any persons having any interests in any Options which may be granted under the Plan, or Stock purchased under the Plan.

(c) Where a Committee has been created by the Board pursuant to this Article IV, references in the Plan to actions to be taken by the Board shall be deemed to refer to the Committee as well, except where limited by the Plan or by the Board.

(d) No member of the Board or the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Option granted under it.

ARTICLE V
STOCK SUBJECT TO THE PLAN

5.1 Number. The maximum number of shares of Stock which shall be issued under the Plan, subject to adjustment upon changes in capitalization of the Company as provided in Section 5.2, shall be an aggregate of 2,000,000 shares, which number of shares reflects the 500,000 shares originally authorized under the Plan as adjusted pursuant to Section 5.2 to reflect the two shares-for-one share forward stock split effected in the form of a stock dividend to stockholders of record on August 21, 2000 and the two shares-for-one share forward stock split effected in the form of a stock dividend to stockholders of record on March 21, 2005. If the total number of shares of Stock for which Options are exercised on any Offering Termination Date in accordance with Article V exceeds the maximum number of shares of Stock remaining in the Plan, the Company shall make a pro rata allocation of the shares available for delivery and distribution in as nearly a uniform manner as shall be practicable and as it shall determine to be equitable, and the balance of payroll deductions credited to the Account of each Participant under the Plan shall be returned to him as promptly as possible.

5.2 Adjustment in Capitalization. In the event of any change in the outstanding shares of Stock of the Company by reason of a stock dividend or split, recapitalization, reclassification, or other similar capital change, the aggregate number of shares of Stock set forth in Section 5.1 and the number of shares of Stock set forth in Section 3.3(c) shall be appropriately adjusted by the Board, whose determination shall be conclusive. In any such case, the number and kind of shares of Stock that are subject to any Option and the Option price per share shall be proportionately and appropriately adjusted without any change in the aggregate Option price to be paid therefor upon exercise of the Option.

5.3 Restricted Shares. No shares of Stock issued under the Plan may be disposed of by sale, pledge, or any other transfer for (i) with respect to all Offerings under the Plan commencing on or after January 1, 2010, a period of six months following the Offering Termination Date upon which such shares are deemed to have been acquired pursuant to Section 9.1, and (ii) with respect to Offerings under the Plan commencing prior to January 1, 2010 and on or after July 1, 2001, a period of eighteen months following the Offering Termination Date upon which such shares are deemed to have been acquired pursuant to Section 9.1, except that in any case such shares of Stock may be sold at any time following the death of the Participant or upon the disability of the Participant. For this purpose, a Participant shall be considered disabled if he or she is unable to perform any substantial portion of the duties for which he or she is employed by the Company for a period of 90 days. The Company may require that an employee furnish reasonable medical evidence establishing the disability of such employee. Notwithstanding the foregoing, shares of Stock may be transferred, without consideration, pursuant to the laws of descent and distribution and for customary estate planning purposes and such shares of Stock shall, in the hands of the transferee, continue to be bound by the restrictions set forth in this Section 5.3.

5.4 Legend. The Company may take any steps to restrict the sale of shares of Stock issued to a Participant under this Plan as it determines, including, without limitation, affixing a legend restricting the sale of the Stock on any certificate therefor.

ARTICLE VI
OFFERINGS

6.1 Semi-Annual Offerings. The Plan will be implemented by semi-annual offerings of the Company's Stock (the "Offerings") commencing on January 1 and July 1 of such year and terminating on June 30 and December 31 of such year, respectively. The first Offering shall commence on January 1, 1998 and, unless all

shares of Stock in the Plan shall have been purchased prior thereto, the last Offering shall commence on July 1, 2017.

As used in the Plan, "Offering Commencement Date" means the January 1 or July 1, as the case may be, on which the particular Offering begins and "Offering Termination Date" means the June 30 or December 31, as the case may be, on which the particular Offering terminates.

ARTICLE VII
PAYROLL DEDUCTIONS

7.1 Amount of Deduction. At the time a Participant files his authorization for payroll deduction, deductions shall be made from his Base Pay in accordance with such authorization on each payday which falls on or after the Offering Commencement Date and on or before the Offering Termination Date during the time he is a Participant at the rate of not less than 1% and not more than 15% of his Base Pay during the Offering. In the case of a part-time hourly Employee, such Employee's Base Pay during an Offering shall be determined by multiplying such Employee's hourly rate of Base Pay during the Offering by the number of regularly scheduled hours of work for such Employee during such Offering.

7.2 Participant's Account. All payroll deductions made for a Participant shall be credited to his Account under the Plan. A Participant may not make any separate cash payment into such Account.

7.3 Changes in Payroll Deductions. A Participant may discontinue his participation in the Plan as provided in Article X or on one occasion only during the Offering period may elect to decrease the percentage of Base Pay of his contributions to his Account by filing with the Plan Administrator a new payroll deduction authorization, but no other change can be made during an Offering.

7.4 Leave of Absence. If a Participant goes on a leave of absence, such Participant shall have the right to elect either: (a) to withdraw the balance in his or her Account pursuant to Section 9.2 or (b) to remain a Participant in the Plan authorizing deductions to be made from payments by the Company to the Participant during such

leave of absence, if any.

ARTICLE VIII
GRANTING OF OPTION

8.1 Number of Option Shares. On the Commencement Date of each Offering, a Participant shall be deemed to have been granted an Option to purchase shares of the Stock of the Company equal to (i) that percentage of the Employee's Base Pay which he has elected to have withheld (but not in any case less than 1% or more than 15%) multiplied by (ii) the Employee's Base Pay during the period of the Offering (iii) divided by the lesser of 85% of the market value of Stock on the applicable Offering Commencement Date or 85% of the market value of each share of Stock on the applicable Offering Termination Date. The market value of the Stock shall be determined as provided in paragraphs (a) and (b) of Section 8.2 below. An Employee's Base Pay during the six-month period of an Offering shall be determined by multiplying his normal weekly Base Pay rate (as adjusted during the Offering period) by 26 or the hourly rate by 1,040; provided that, in the case of a part-time hourly Employee, the Employee's Base Pay during the period of an Offering shall be determined by multiplying such Employee's hourly Base Pay rate by the number of regularly scheduled hours of work for such Employee during such Offering.

8.2 Option Price. The option price of each share of Stock purchased with payroll deductions made during such semi-annual Offering for a Participant therein shall be the lower of:

(a) 85% of the closing price of the Stock on the Offering Commencement Date or the nearest prior business day on which trading occurred on the New York Stock Exchange; or

(b) 85% of the closing price of the Stock on the Offering Termination Date or the nearest prior business day on which trading occurred on the New York Stock Exchange. If the Stock of the Company is not listed for trading on the New York Stock Exchange on any of the aforesaid dates for which closing prices of the

Stock are to be determined, then reference shall be made to the fair market value of the Stock on that date, as determined on such basis as shall be established or specified for such purpose by the Board.

ARTICLE IX
EXERCISE OF OPTION

9.1 Automatic Exercise. A Participant's Option for the purchase of Stock with payroll deductions made during any Offering will be deemed to have been exercised automatically on the Offering Termination Date applicable to such Offering for the purchase of the number of full shares of Stock which the accumulated payroll deductions in his Account at that time will purchase at the applicable option price (but not in excess of the number of shares of Stock for which Options have been granted to the Participant pursuant to Section 8.1).

9.2 Withdrawal of Account. By written notice to the Plan Administrator, at any time prior to the Offering Termination Date applicable to any Offering, a Participant may elect to withdraw all the accumulated payroll deductions in his Account at such time.

9.3 Fractional Shares. Fractional shares will not be issued under the Plan and any accumulated payroll deductions which would have been used to purchase fractional shares will be returned to any Participant promptly following the Offering Termination Date, without interest, unless the Participant has elected to participate in the next following Offering, in which case such deductions shall be retained in the Participant's Account and applied to the purchase of shares of Stock in such Offering.

9.4 Transferability of Option. During a Participant's lifetime, Options held by such Participant shall be exercisable only by that Participant.

9.5 Delivery of Stock. As promptly as practicable after the Offering Termination Date of each Offering, the Company will deliver to each Participant, as appropriate, the Stock purchased upon exercise of his Option.

ARTICLE X
WITHDRAWAL

10.1 In General. As indicated in Section 9.2, a Participant may withdraw payroll deductions credited to his Account under the Plan at any time by giving written notice to the Plan Administrator of the Company. All of the Participant's payroll deductions credited to his Account will be paid to him promptly after receipt of his notice of withdrawal, and no further payroll deductions will be made from his pay during such Offering. The Company may, at its option, treat any attempt to borrow by an Employee on the security of his accumulated payroll deductions as an election, under Section 9.2, to withdraw such deductions.

10.2 Effect on Subsequent Participation. A Participant's withdrawal from any Offering will not have any effect upon his eligibility to participate in any succeeding Offering or in any similar plan which may hereafter be adopted by the Company.

10.3 Termination of Employment. Upon termination of the Participant's employment for any reason, including retirement (but excluding death while in the employ of the Company) prior to the Offering Termination Date, the payroll deductions credited to his Account will be returned to him or in the case of his death to the person or persons entitled thereto under Section 19.1.

10.4 Termination of Employment Due to Death. Upon termination of the Participant's employment because of his death, his beneficiary as defined in Section 19.1, or if none is designated, his estate shall have the right to elect by written notice given to the Plan Administrator of the Company prior to the earlier of the Offering Termination Date or the expiration of a period of 60 days commencing with the date of the death of the Participant either:

(a) to withdraw all of the payroll deductions credited to the Participant's Account under the Plan, or

(b) to exercise the Participant's Option for the purchase of Stock on the Offering Termination Date next following the date of the Participant's death for the purchase of the number of full shares of Stock which the accumulated payroll deductions in the Participant's Account at the date of the Participant's death will purchase at the applicable option price, and any excess in such Account will be returned to said beneficiary, without interest.

In the event that no such written notice of election shall be duly received by the office of the Plan Administrator of the Company, the beneficiary shall automatically be deemed to have elected, pursuant to paragraph (b), to exercise the Participant's Option.

10.5 Leave of Absence. A Participant on leave of absence shall, subject to the election made by such Participant pursuant to Section 7.4, continue to be a Participant in the Plan so long as such Participant remains an Employee.

ARTICLE XI
INTEREST

11.1 Payment of Interest. No interest will be paid or allowed on any money paid into the Plan or credited to the Account of any Participant, including money which is distributed to an Employee or his beneficiary pursuant to any provision of this Plan.

ARTICLE XII
NO RIGHT TO EMPLOYMENT

Nothing in the Plan shall interfere with or limit in any way the right of the Company or a Subsidiary Corporation to terminate any Employee's employment at any time, nor confer upon any Employee any right to continue in the employ of the Company or a Subsidiary Corporation.

ARTICLE XIII
AMENDMENT, MODIFICATION, AND
TERMINATION OF THE PLAN

The Board may at any time terminate and from time to time may amend or modify the Plan. Any amendment or modification of the Plan by the Board may be accomplished without approval of the stockholders of the Company, except in the event that stockholder approval of such amendment or modification is required by any law or regulation governing the Company.

No amendment, modification, or termination of the Plan shall in any manner adversely affect any outstanding Option under the Plan without the consent of the Participant holding the Option.

ARTICLE XIV
ACQUISITION, MERGER OR LIQUIDATION

14.1 Acquisition.

(a) In the event that an acquisition occurs with respect to the Company, the Company may, but shall not be required to, cancel an Offering and all Options outstanding as of the effective date of such acquisition, whether or not such Options are then exercisable. In that event, the payroll deductions credited to the Account of each Participant shall be returned to him. If the Company does not elect to cancel the Offering, such Offering shall terminate on the day immediately prior to the effective date of the acquisition and such date shall be considered the Offering Termination Date for the Offering.

(b) For purposes of this section, an "acquisition" shall mean any transaction in which substantially all of the Company's assets are acquired or in which a controlling amount of the Company's outstanding shares are acquired, in each case by a single person or entity or an affiliated group of persons and

entities. For purposes of this section, a controlling amount shall mean more than fifty percent of the issued and outstanding shares of Stock of the Company. The Company shall have the above option to cancel an Offering and all Options regardless of how the acquisition is effectuated, whether by direct purchase, through a merger or similar corporate transaction, or otherwise.

(c) Where the Company does not exercise its option under this Section 14.1 the remaining provisions of this Article XIV shall apply, to the extent applicable.

14.2 Merger or Consolidation. If the Company shall be the surviving corporation in any merger or consolidation, any Offering shall pertain to and apply to the securities to which a holder of the number of shares of Stock subject to the Option would have been entitled in such merger or consolidation, provided that the Company shall not be considered the surviving corporation for purposes hereof if the Company is the survivor of a reverse triangular merger.

14.3 Other Transactions. A dissolution or a liquidation of the Company or a merger or consolidation in which the Company is not the surviving corporation (the Company shall not be considered the surviving corporation for purposes hereof if the Company is the survivor of a reverse triangular merger) shall cause every Offering outstanding hereunder to terminate as of the effective date of such dissolution, liquidation, merger or consolidation. In that event, the payroll deductions credited to the Account of each Participant shall be returned to him.

ARTICLE XV
SECURITIES REGISTRATION

15.1 Securities Registration. In the event that the Company shall deem it necessary or desirable to register under the Securities Act of 1933, as amended, or any other applicable statute, any Options or any Stock with respect to which an Option may be or shall have been granted or exercised, or to qualify any such Options or Stock under the Securities Act of 1933, as amended, or any other statute, then the Participant shall cooperate with the Company and take such action as is necessary to permit registration or qualification of such Options or Stock.

15.2 Representations. Unless the Company has determined that the following representation is unnecessary, each person participating in an Offering may be required by the Company, as a condition to the issuance of the shares of Stock pursuant to such Offering to make a representation in writing (i) that he is acquiring such shares for his own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof within the meaning of the Securities Act of 1933, and (ii) that before any transfer in connection with the resale of such shares, he will obtain the written opinion of counsel for the Company, or other counsel acceptable to the Company, that such shares may be transferred without registration thereof. The Company may also require that the certificates representing such shares contain legends reflecting the foregoing. To the extent permitted by law, including the Securities Act of 1933, nothing herein, except for Section 5.3, shall restrict the right of a Participant to sell the shares received in an open market transaction.

ARTICLE XVI
TAX WITHHOLDING

Whenever shares of Stock are to be issued pursuant to an Offering, the Company shall have the power to require the recipient of the Stock to remit to the Company an amount sufficient to satisfy federal, state, and local withholding tax requirements, if any.

ARTICLE XVII

INDEMNIFICATION

To the extent permitted by law, each person who is or shall have been a member of the Board or the Committee and the Plan Administrator shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him in connection with or resulting from any claim, action, suit, or proceeding to which he may be a party or in which he may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him in settlement thereof, with the Company's approval, or paid by him in satisfaction of judgment in any such action, suit, or proceeding against him, provided he shall give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's certificate of incorporation or by-laws, as a matter of law, or otherwise, or any power that the Company or a Subsidiary Corporation may have to indemnify them or hold them harmless.

ARTICLE XVIII
REQUIREMENTS OF LAW

18.1 Requirements of Law. The granting of Options pursuant to an Offering and the issuance of shares of Stock upon the exercise of an Option shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

18.2 Governing Law. The Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Colorado.

ARTICLE XIX
MISCELLANEOUS

19.1 Designation of Beneficiary. A Participant may file a written designation of a beneficiary who is to receive any Stock or cash. Such designation of beneficiary may be changed by the Participant at any time by written notice to the Plan Administrator of the Company. Upon the death of a Participant and upon receipt by the Company of proof of identity and existence at the Participant's death of a beneficiary validly designated by him under the Plan, the Company shall deliver such Stock or cash to such beneficiary. In the event of the death of a Participant and in the absence of a beneficiary validly designated under the Plan who is living at the time of such Participant's death, the Company shall deliver such Stock or cash to the executor or administrator of the estate of the Participant, or if no such executor or administrator has been appointed (to the knowledge of the Company), the Company, in its discretion, may deliver such Stock or cash to the spouse or to any one or more dependents of the Participant as the Company may designate. No beneficiary shall, prior to the death of the Participant by whom he has been designated, acquire any interest in the Stock or cash credited to the Participant under the Plan.

19.2 Transferability. Neither payroll deductions credited to a Participant's Account nor any rights with regard to the exercise of an Option or to receive Stock under the Plan may be assigned, transferred, pledged, or otherwise disposed of in any way by the Participant other than by will or the laws of descent and distribution or as provided in Section 19.1. Any such attempted assignment, transfer, pledge or other disposition shall be without effect, except that the Company may treat such act as an election to withdraw funds in accordance with Section 9.2.

19.3 Use of Funds. All payroll deductions received or held by the Company under this Plan may be used by the Company for any corporate purpose and the Company shall not be obligated to segregate such payroll deductions.

19.4 Effect of Plan. The provisions of the Plan shall, in accordance with its terms, be binding upon, and inure to the benefit of, all successors of each Employee in the Plan, including, without limitation, such Employee's estate and the executors, administrators or trustees thereof, heirs and legatees, and any receiver, trustee in bankruptcy or representative of creditors of such Employee.

ARTICLE XX
EFFECTIVE DATE OF PLAN

The Plan shall be effective on January 1, 1998.

* * * * *

THIS EMPLOYEE STOCK PURCHASE PLAN was adopted on September 18, 1997 by the Board of Directors of SM Energy Company, then named St. Mary Land & Exploration Company, to be effective upon adoption, and has been subsequently amended by the Board of Directors of the Company on February 27, 2001, February 18, 2005, September 25, 2009, December 30, 2009, and July 30, 2010. The Plan was approved by the Company's stockholders at the Company's 1998 annual meeting of stockholders.

SM ENERGY COMPANY

By: /s/ ANTHONY J. BEST

Title: Chief Executive Officer and President

SM ENERGY COMPANY

CASH BONUS PLAN

As Amended on July 30, 2010

The Cash Bonus Plan (the “Plan”) of SM Energy Company, a Delaware corporation (the “Company”), shall function as follows:

1. On or before March 15 of each year the Compensation Committee of the Board of Directors of the Company (the “Committee”), each member of which shall be an “outside director” within the meaning of the regulations under Section 162(m) of the Internal Revenue Code of 1986, as amended (the “Code”), shall designate the key employees, if any, of the Company (and of any of the Company’s majority owned subsidiaries) who are eligible to participate in the Plan with respect to the prior calendar year.

2. No participant shall receive a bonus under the Plan with respect to a calendar year in excess of two hundred percent of his or her base salary received for such year. Unless and until the Committee determines that a bonus under the Plan to an employee who is, or who the Committee expects to become, a “covered employee” within the meaning of Section 162(m) of the Code (a “Covered Employee”), shall not be designed to qualify as compensation solely on account of the attainment of one or more performance goals under circumstances that satisfy the requirements of Section 162(m) of the Code (“Performance Based Compensation”), the maximum aggregate amount paid as a bonus under the Plan to any one Covered Employee in any one calendar year shall not exceed $2,000,000.

3. Payments under the Plan shall be made in full to each participant at the time such payment is first determined, provided that the participant is employed by the Company or a qualifying subsidiary at that time. The timing of payments under the Plan shall comply in all respects with the provisions of Section 409A of the Code and the regulations thereunder.

4. Payments under the Plan shall not be deemed to constitute compensation of any nature for purposes of any other compensation, retirement or other benefit plan of the Company.

To the extent that any such other plan contains provisions contrary to the foregoing sentence, such other plan shall be deemed to be amended to conform to the foregoing sentence.

5. All matters with respect to the interpretation and application of the Plan shall be conclusively determined by the Committee.

6. The Plan may be terminated or modified prospectively at any time by the Board of Directors. Nothing contained in the Plan shall constitute a contract, express or implied, or any other type of obligation with respect to the employment or the continued employment by the Company of any person.

7. Notwithstanding any other terms of the Plan, the payability (as determined by the Committee) of a bonus under the Plan that the Committee intends to be Performance Based Compensation to a Covered Employee, shall be determined by the attainment of one or more performance goals as determined by the Committee in conformity with Section 162(m) of the Code. The Committee shall specify in writing, by resolution or otherwise, the participants eligible to receive such a bonus (which may be expressed in terms of a class of individuals) and the performance goal(s) applicable to such bonus within 90 days after the commencement of the period to which the performance goal(s) relate(s), or such earlier time as required to comply with Section 162(m) of the Code. No such bonus shall be payable unless the Committee certifies in writing, by resolution or otherwise, that the performance goal(s) applicable to the bonus were satisfied. In no case may the Committee increase the value of a bonus intended to qualify as Performance Based Compensation above the maximum value determined under the performance formula by the attainment of the applicable performance goal(s), but the Committee retains the discretion to reduce the value below such maximum.

Unless and until the Committee proposes for stockholder vote and the stockholders approve a change in the general performance measures set forth herein, the performance goal(s) upon which the payment of a bonus to a Covered Employee that is intended to qualify as Performance Based Compensation shall be limited to the following performance measures:

(a) Increases in, or levels of, net asset value; net asset value per share; pretax earnings; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; net income and/or earnings per share;

(b) Return on equity, return on assets or net assets, return on capital (including return on total capital or return on invested capital);

(c) Share price or stockholder return performance (including, but not limited to, growth measures and total stockholder return, which may be measured in absolute terms and/or in comparison to a group of peer companies or an index);

(d) Oil and gas reserve replacement, reserve growth and finding and development cost targets;

(e) Oil and gas production targets;

(f) Performance of investments in oil and gas properties;

(g) Cash flow measures (including, but not limited to, cash flows from operating activities, discretionary cash flows, and cash flow return on investment, assets, equity, or capital); and

(h) Increases in, or levels of, operating and/or nonoperating expenses.

Any performance measure(s) may be used to measure the performance of the Company as a whole and/or any one or more regional operations and/or subsidiaries of the Company or any combination thereof, as the Committee may deem appropriate, and any performance measure(s) may be used in comparison to the performance of a group of peer companies, or a published or special index that the Committee, in its sole discretion, deems appropriate.

The Committee may provide that any evaluation of attainment of a performance goal may include or exclude any of the following events that occurs during the relevant period: (a) asset write downs; (b) litigation judgments or settlements; (c) the effect of changes in tax laws, accounting principles, or other laws or regulations affecting reported results; (d) any reorganization or restructuring transactions; (e) extraordinary nonrecurring items as described in

Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's Annual Report on Form 10-K for the applicable year; and (f) significant acquisitions or divestitures. To the extent such inclusions or exclusions affect bonuses to Covered Employees, they shall be prescribed in a form that meets the requirements of Section 162(m) of the Code for deductibility.

In the event that applicable tax and/or securities laws change to permit discretion by the Committee to alter the governing performance measures without obtaining stockholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining stockholder approval. In addition, in the event that the Committee determines that it is advisable to make bonus payments to Covered Employees that shall not qualify as Performance Based Compensation, the Committee may make such payments without satisfying the requirements of Section 162(m) of the Code.

* * * * *

This Cash Bonus Plan, as amended, was adopted by the Board of Directors of SM Energy Company on July 30, 2010.

SM ENERGY COMPANY

By: /s/ ANTHONY J. BEST
President and Chief Executive Officer

EXHIBIT 10.6

NET PROFITS INTEREST BONUS PLAN

As Amended by the Board of Directors on July 30, 2010

The Net Profits Interest Bonus Plan (the "Plan") of SM Energy Company shall function as follows:

1. Annual Designation of Participation. Each year the Board of Directors of the Company shall designate the key employees of the Company eligible to participate in the Plan with respect to that calendar year. It is anticipated that such participants shall be more senior employees and fewer in number than the designated participants in the Company's Cash Bonus Plan.

2. Determination of Aggregate Net Profits Interest Benefit. Participants in the Plan shall receive a net profits interest in the Company's interest in oil and gas wells completed, plugged or abandoned or acquired by the Company (a "Pool") during the calendar year (the "Plan Year"). The aggregate amount of such net profits interest of all participants for such Plan Year shall be ten percent which interest shall apply after recovery by the Company from such wells of one hundred percent of all costs and expenses incurred by it with respect thereto, including but not limited to land, geological and geophysical costs but excluding (except as described in paragraph 5 below) interest, and such net profits interest shall increase to an aggregate of twenty percent from and after such time as the Company has recovered two hundred percent of all such costs and expenses incurred by it with respect to such wells, including prior compensation expenses resulting from application of the Plan at the preceding ten percent interest level. For purposes of the foregoing calculations, such wells shall be accounted for as a single pool (effective January 1, 1999 except as described in paragraph 5 below). In determining net profits, any recompletion, workover or similar expenditures for wells shall be charged against the revenues of such wells, as well as direct lease operating expenses, production taxes and overhead as determined solely by COPAS charges in the relative areas.

3. Allocation of Net Profits Interest Among Participants. Each key employee participating in the Plan with respect to a Plan Year shall be allocated a portion of the net profits interest for such Plan Year in proportion to his or her weighted base salary received during such Year relative to the weighted base salary received by all participants during such Plan Year, adjusted for a performance factor. The weighted base salary of the President and of the Executive Vice Presidents of the Company shall be one hundred percent of their base salaries received during such Plan Year and of all other participants shall be two-thirds thereof; provided, however, that a reduced participation rate may be established by the Board of Directors for certain key employees whose duties involve them in only a portion of the Company's activities.

4. Payout Limit. The total amount payable to an employee participating in the Plan attributable to a Pool established with respect to the Plan Year 2006 and any subsequent Plan Year shall not exceed three times such participant's base salary for the Plan Year for which the Pool was established, proportionately reduced to the extent the factor used in calculating the weighted base salary is less than two-thirds (with such limitation referred to herein as the "Payout Limitation"). For example, if the factor used for calculating a participant's weighted base salary is one-third, then the limitation would be 50% of the participant's salary (i.e. one-third divided by two-thirds). With respect to each Multi-Year Pool established in the Plan Year 2006 or a later Plan Year, the Board of Directors shall specify appropriate limitations so that, taking into account the Pool for the Plan Year and that portion of a Multi-Year Pool allocated to such Plan Year, the aggregate amount payable to any employee for such Plan Year is limited to three times such participant's weighted base salary. Once a participant's payments with respect to a Pool have reached the limit, any additional amounts that would otherwise be payable to such participant shall be retained by the Company.

5. Multi-Year Projects; Separate Pool. The Board of Directors, in its discretion, may consider a significant acquisition or a multi-year project to be accounted for as a separate pool (a "Multi-Year Pool") with respect to the Plan as follows:

(a) If the total costs incurred is greater than 75% of the average annual aggregate cost during the current year and the preceding two calendar years, the net profits interest of the participants with respect to such large acquisition or multi-year

project shall be a portion of the ten percent and twenty percent amounts set forth in paragraph 2 above equal to such percentages multiplied by a fraction of which the numerator is 75 percent and the denominator is the percentage which the cost of such acquisition or multi-year project is of the average annual aggregate costs expended by the Company for all other oil and gas wells during such year and during the preceding two calendar years (but exclusive of the foregoing and any other projects designated as separate pools); and

(b) Recovery of the Company's costs of such large acquisition or multi-year project shall include interest thereon calculated at the prime rate in effect from time to time;

(c) Notwithstanding the provisions of paragraph 3 above, participants in the Plan with respect to such Multi-Year Pool shall be allocated a portion of the net profits interest with respect thereto based upon their weighted base salaries for the calendar year such significant acquisition or multi-year project was completed or closed. The net profits interest in a multi-year project shall be allocated among the participants in the Plan for the calendar years in which the costs for such project are incurred until the project is deemed to be substantially complete on the basis of their weighted base salaries during such years;

(d) A transaction in which the Company acquires another company, or is acquired or merges, or otherwise acquires what is considered by the Compensation Committee of the Board of Directors of the Company another oil and gas business (in which event the Compensation Committee shall determine what other incentive compensation is appropriate, if any), as contrasted with what is considered a more customary acquisition of oil and gas properties, shall not constitute the acquisition of an oil and gas well project subject to the Plan.

6. Vesting. For all Pools with respect to Plan Years prior to 2006, the right to a portion of a net profits interest of a participant in the Pool shall vest in full in such participant on December 31 of the calendar year for which his or her participation is designated, provided that

the participant's employment by the Company did not terminate prior to that date for reasons other than disability (as defined below), retirement on or after attaining age 65 or death. Termination of a participant's employment subsequent to that date shall not affect his or her right to such net profits interest. Commencing with Pools (including Multi-Year Pools) for the 2006 Plan Year and for Pools for all subsequent Plan Years, the right to a portion of a net profits interest of a participant in the Pool for a Plan Year shall vest one-third (33 1/3%) in such participant on December 31 of the calendar year for which his or her participation is designated for such Pool; two-thirds (66 2/3%) on the next following December 31 and shall be fully vested on the second following December 31 (each such date is referred to herein as a "Vesting Date") provided that the participant's employment by the Company does not terminate prior to each Vesting Date for reasons other than disability, retirement on or after attaining age 65 or death. If the participant's employment with the Company terminates prior to a Vesting Date other than for reasons of disability, retirement on or after attaining age 65 or death, the participant shall forfeit any portion of such participant's interest in a Pool that is not vested and the Payout Limitation shall be reduced in proportion to the portion of the

participant's interest that is forfeited. If a participant's employment with the Company terminates as a result of disability, retirement on or after attaining age 65 or death, and on such date the participant is not fully vested, the participant (or the participant's successor in interest) shall vest in accordance with the foregoing vesting schedule. Termination of a participant's employment for any reason subsequent to a Vesting Date shall not affect his or her right to the vested portion of the net profits interests. If a payment to a participant under this Plan with respect to any Pool would occur prior to the time the participant is 100% vested in the particular Pool (but before the participant has incurred a forfeiture of any portion of the participant's interest in such pool), the Company shall make only that percentage of a payment with respect to the Pool for which the participant is vested. Unless the participant terminates employment other than as a result of disability, retirement on or after attaining age 65 or death and prior to full vesting (in which case, upon termination any unvested amounts retained by the Company shall be forfeited), the Company shall pay the balance of any amount held by the Company for which the participant was not vested when payment was made no later than 2 ½ months following the close of the Plan Year in which such participant becomes fully vested in such Pool, and, for all Pools with respect to Plan Years after 2006, no later than 2 ½ months following the close of the Plan Year in which such participant becomes vested in an

additional amount in such Pool. For purposes of this section, disability shall mean a physical or mental infirmity which impairs the employee's ability to substantially perform his employment duties with the Company on a full-time basis for a period of 120 consecutive business days, and the employee has not returned to full-time performance of his employment duties within 30 days after notice by the Company of its intention to terminate employment of the employee as a result thereof.

7. Pool Payments Not Compensation for Other Purposes. Allocations or payments to participants under the Plan shall not be deemed to constitute compensation of any nature for purposes of any other compensation, retirement or other benefit plan of the Company. To the extent that any such other plan contains provisions contrary to the foregoing sentence, such other plan shall be deemed to be amended to conform to the foregoing sentence.

8. No Ownership of Underlying Assets. Net profits interests allocated under the Plan shall not constitute for the participants therein the ownership of real property interests in the mineral properties of the Company. Rather such net profits interests shall constitute solely a right to receive payments from the Company, or from a fund or trust established by the Company for that purpose, the amount of which shall be determined by such net profits interests and the Plan.

9. Timing of Payments. Payments to participants under the Plan shall be made annually, or more frequently as determined by the Board of Directors. Pursuant to the transition provisions for Section 409A of the Internal Revenue Code of 1986 (the "Code") under Internal Revenue Service Notice 2006-79, the Company, in its discretion, may allow a participant in the Plan to elect, on or before December 31, 2007, to change the time and form of payments due to such participant under the Plan with respect to Pools for Plan Years after 2004, provided that such election may not (i) change payments that would otherwise be payable under the Plan to such participant during 2007, or (ii) cause an amount to be paid to such participant in 2007 that otherwise would not be payable under the Plan to such participant in 2007.

The right to payments under the Plan shall not be subject to voluntary or involuntary assignment by any participant thereunder other than as follows:

(a) upon death pursuant to:

(i) a will;

(ii) the laws of descent and distribution; or

(iii) a beneficiary designation form approved by the Company and executed by the participant which designates the persons or entities to receive, upon the participant's death, the right to payments under the Plan which the participant had upon the participant's death; or

(b) pursuant to a qualified domestic relations order, as defined under Section 414(p) of the Code, relating to the provision of child support, alimony payments, or marital property rights to a spouse, former spouse, child or other dependent of the participant.

The Company shall have the right to require that any recipient of payments under the Plan who is not an employee of the Company at the time of payment shall be responsible for the payment of all amounts required to satisfy all federal, state and local withholding taxes applicable to such recipient with respect to such payments under the Plan.

10. Termination Rights. With respect to Plan Years ending on or before December 31, 2004, the Company shall have the right, as provided under the terms of the Plan as in effect on October 3, 2004 and therefore subject to the grandfather provisions of Section 409A of the Code pursuant to Internal Revenue Service Notice 2005-1, at any time or from time to time to acquire the rights of all participants in any Plan Year if the participants holding no less than two-thirds of that Plan Year's interests have agreed in writing to the terms and conditions of a buy-out of that Plan Year.

Pursuant to the limited cashout provisions of Section 1.409A-3(j)(4)(v) of the Treasury Regulations,the Company shall have the discretion to require a mandatory lump sum payment to a participant of amounts due under the Plan that do not exceed the then applicable dollar amount under Section 402(g)(1)(B) of the Code, provided that:

(a) any required exercise of discretion by the Company is evidenced in writing no later than the date of such payment; and

(b) The payment results in the termination and liquidation of the entirety of the participant's interest under the Plan, including all agreements, methods, programs, or other arrangements with respect to which deferrals of compensation are treated as having been deferred under a single nonqualified deferred compensation plan under Section 1.409A-1(c)(2) of the Treasury Regulations.

The Company shall have the right at any time or from time to time to terminate and liquidate the Plan and acquire the rights of all participants in the Plan for their fair market values (reflecting the discounted present values of the payment of such purchase price) if the participants holding no less than two-thirds of the aggregate values of the interests in the Plan have agreed in writing to the terms and conditions of a buy-out and if:

(a) the termination and liquidation of the Plan does not occur proximate to a downturn in the financial health of the Company;

(b) the Company terminates and liquidates all arrangements sponsored by the Company that would be aggregated with this Plan under Section 409A of the Code;

(c) no payments in liquidation of the Plan are made within 12 months of the date the Company takes all necessary actions to irrevocably terminate and

liquidate the Plan, other than payments that would be payable under the terms of the Plan if the action to terminate and liquidate the Plan had not occurred;

(d) all termination and liquidation payments are made within 24 months of the date the Company takes all necessary action to irrevocably terminate and liquidate the Plan; and

(e) the Company does not adopt any new plan or arrangement that would be aggregated with this Plan if any participant in this Plan would participate in such other

plan or arrangement at any time within 3 years following the date the Company takes all necessary action to irrevocably terminate and liquidate the Plan.

11. Change of Control Provision. Pursuant to the provisions of Section 409A(a)(2)(A)(v) of the Code and Section 1.409A-3(i)(5) of the Treasury Regulations and the following provisions of this Section 11, upon the occurrence of an objectively determinable change in the ownership of the Company, change in effective control of the Company, or change in the ownership of a substantial portion of the assets of the Company (as such events are defined in Section 1.409A-3(i)(5)(v) - (vii) of the Treasury Regulations), the Company shall be permitted to purchase the net profits interests of all of the participants in the Plan with respect to (i) all Plan Years from and after the Plan Year 2006, and (ii) the Plan Year 2005, subject to the consent of the participants in such Plan Year since such Plan Year was not subject to a change of control purchase provision when the Pool for such Plan Year was originally established. Any such purchase of interests shall be made by the Company pursuant to an irrevocable action taken by the Company within the 30 days preceding or the 12 months following the change of control event, payments for any such purchase shall be made within 12 months of the date of such irrevocable action, and in the event of any such purchase all agreements, methods, programs, and other arrangements sponsored by the Company immediately after the time of the change of control event with respect to which deferrals of compensation are treated as having been deferred under a single plan under Section 1.409A-1(c)(2) of the Treasury Regulations shall be terminated and liquidated.

The purchase prices of such net profits interests shall be their fair market values (reflecting the discounted present values of the payment of such purchase price) determined by good faith negotiations between the Company and representatives of the Plan, and such purchase prices shall be payable in cash promptly following their determination. Such representatives shall be (i) with respect to the Plan Years from and after the Plan Year 2006, the three participants who hold the three aggregate largest interests by total value in all affected Plan Years from and after the Plan Year 2006, as determined by the Company, and who are willing and able to serve in such capacity, and (ii) with respect to the Plan Year 2005, the three participants who hold the three largest interests by value in such Plan Year, as determined by the Company, and who are willing and able to serve in such capacity. The Company and such

representatives may, at the expense of the Company, engage such consultants to assist with such determination as they may select. In the event that following a reasonable period of time the Company and such representatives are unable to reach agreement on such fair market values or any portion thereof, the determination of such fair market values shall be made by an independent party of recognized national stature with competence and experience with respect to the sale and purchase of interests in oil and gas properties and the valuation thereof. The above described determination shall be final, conclusive and binding on all participants in the Plan.

In making such determination of the purchase prices of the net profits interests set forth above, the Company and the representatives of the Plan, and the above described independent party if applicable, shall consider all facts and circumstances they deem to be reasonably relevant, including but not limited to the terms of the transaction constituting the applicable change of control event. The Company and the representatives of the Plan shall have no liability with respect to the above described determination except for gross negligence or willful neglect and such representatives shall be indemnified by the Company with respect to any claim arising out of such determination, and any expense associated therewith, including reasonable attorney's fees, in the absence of gross negligence and willful neglect.

12. Interpretation of Plan. All matters with respect to the interpretation and application of the Plan shall be conclusively determined by the Compensation Committee of the Board of Directors of the Company.

13. Reservation of Right to Terminate or Amend. The Plan may be terminated or modified prospectively at any time by the Board of Directors, subject to the requirements of Section 10. Notwithstanding the foregoing, no payment of benefits shall be made to participants except to the extent otherwise provided herein. Nothing contained in the Plan shall constitute a contract, express or implied, or any other type of obligation with respect to the employment or the continued employment by the Company of any person.

14. Section 409A Compliance. This Plan is intended in all respects to comply with the provisions of Section 409A of the Code and the Company shall interpret and administer the Plan in all respects in a manner consistent with such provisions. Amounts that were deferred and

vested prior to January 1, 2005 are intended to be grandfathered and exempt from Section 409A pursuant to the terms of Internal Revenue Service Notice 2005-1. In accordance with Section 1.409A-3(j)(4)(vii) of the Treasury Regulations (or any subsequent corresponding provision of law), should there be a final determination that this Plan fails to meet the requirements of Section 409A and the regulations thereunder with respect to any participant, the Company may distribute to the participant an amount not to exceed the amount required to be included in income as a result of the failure to comply with the requirements of Section 409A and the regulations. Notwithstanding anything herein to the contrary, in the event of any payment to a "specified employee" as defined by Section 409A(a)(2)(B)(i) of the Code, any payment that would otherwise be made on account of such employee's separation from service before the expiration of six months following the date of such separation shall be made on the first day following the expiration of six months from the date of separation of service.

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This amended Net Profits Interest Bonus Plan was approved by the Board of Directors of SM Energy Company on July 30, 2010.

SM ENERGY COMPANY

By: **/s/ ANTHONY J. BEST**
Chief Executive Officer and President

SM ENERGY COMPANY

EQUITY INCENTIVE COMPENSATION PLAN

As Amended as of July 30, 2010

ARTICLE I
ESTABLISHMENT, PURPOSE AND DURATION

1.1 *Establishment.* SM Energy Company, a Delaware corporation (the "Company"), has established an equity incentive compensation plan formerly known as the 2006 Equity Incentive Compensation Plan (the "Plan"). On March 26, 2009, the Plan was renamed as the Equity Incentive Compensation Plan. The Plan permits the grant of Restricted Stock, Restricted Stock Units, Nonqualified Stock Options, Incentive Stock Options, Stock Appreciation Rights, Performance Shares, Performance Units and Stock Based Awards. The Plan became effective upon its approval by the Company's stockholders on May 17, 2006 (the "Effective Date") and shall remain in effect as provided in Section 1.3 hereof.

1.2 *Purpose.* The purpose of the Plan is to promote the success and enhance the value of the Company by linking the personal interests of the Participants to those of the Company's stockholders, and by providing Participants with an incentive for outstanding performance. The Plan is further intended to provide flexibility to the Company in its ability to attract, motivate, and retain the services of Participants upon whose judgment, interest, and special effort the success of the Company is substantially dependent.

1.3 *Duration.* The Plan commenced as of the Effective Date, as set forth in Section 1.1 hereof, and shall remain in effect, subject to the right of the Committee or the Board to amend or terminate the Plan at any time pursuant to Article XIV hereof, until the earlier of (i) the tenth anniversary of the Effective Date, or (ii) when all Shares subject to the Plan have been purchased or acquired according to the Plan's provisions. Any previously granted Awards under this Plan which remain outstanding as of the date of expiration or other termination of the Plan shall not be affected by such expiration or other termination and shall continue in effect in accordance with their respective terms.

1.4 *Successor Plan.* This Plan shall serve as the successor to the St. Mary Land & Exploration Company Stock Option Plan, the St. Mary Land & Exploration Company Incentive Stock Option Plan, the St. Mary Land & Exploration Company Restricted Stock Plan, and the St. Mary Land & Exploration Company Non-Employee Director Stock Compensation Plan (collectively, the "Predecessor Plans"), and no further grants or awards shall be made under the Predecessor Plans from and after the Effective Date of this Plan. Each outstanding grant or award under a Predecessor Plan immediately prior to the Effective Date of this Plan shall continue to be governed solely by the terms and conditions of the applicable Predecessor Plan and the instruments evidencing such grant or award, and, except as otherwise expressly provided herein or by the Committee, no provision of this Plan shall affect or otherwise modify the rights or obligations of holders of such outstanding grants or awards under the Predecessor Plans. Any Shares reserved for issuance under the Predecessor Plans in excess of the number of Shares as to which grants or awards have been made thereunder shall be transferred into this Plan upon the Effective Date and shall become available for Awards under this Plan. Any Shares related to grants or awards made under the Predecessor Plans that after the Effective Date may lapse, expire, terminate, or are cancelled, are settled in cash in lieu of common stock, are tendered (either by actual delivery or attestation) to pay the option price, or are used to satisfy any tax withholding requirements shall be deemed to be available for issuance or reissuance under Section 4.1 of this Plan; provided, however, that any Shares that from and after May 21, 2008 are tendered (either by actual delivery or attestation) to pay the option price or are used to satisfy any tax withholding requirements shall not be deemed available for issuance or reissuance under Section 4.1 of this Plan.

ARTICLE II
DEFINITIONS AND CONSTRUCTION

2.1 *Definitions.* Whenever used herein, the following terms shall have the respective meanings set forth below, unless the context clearly requires otherwise, and when such meaning is intended the term shall be capitalized.

(a) "*Affiliate*" shall have the meaning given to such term in Rule 12b-2 under the Exchange Act, with reference to the Company, and shall also include any corporation, partnership, joint venture, limited liability company or other entity in which the Company owns, directly or indirectly, at least 50 percent of the total combined voting power of such corporation or of the capital interest or profits interest of such partnership or other entity.

(b) "*Award*" means, individually or collectively, a grant or award under this Plan of Restricted Stock, Restricted Stock Units, NQSOs, ISOs, SARs, Performance Shares, Performance Units or Stock Based Awards, in each case subject to the terms of this Plan.

(c) "*Award Agreement*" means either (i) a written agreement entered into by the Company and a Participant setting forth the terms and provisions applicable to Awards granted under this Plan; or (ii) a written statement issued by the Company to a Participant describing the terms and provisions of such Award. All Award Agreements shall be deemed to incorporate the provisions of the Plan. An Award Agreement need not be identical to other Award Agreements either in form or substance.

(d) "*Board*" or "*Board of Directors*" means the Board of Directors of the Company.

(e) "*Change of Control*" shall mean any of the following events:

(i) (A) The acquisition by any individual or entity (a "Person") or Persons acting as a group of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 50 percent of either (1) the then value of the outstanding shares of common stock of the Company, or (2) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors.

(B) For purposes of paragraph (A), Persons will not be considered to be acting as a group solely because they purchase or own stock of the same corporation at the same time, or as a result of the same public offering. However, Persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, or similar business transaction with the Company. If a Person, including an entity, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation. For purposes of determining stock ownership, see (e)(iv) below.

(ii) A majority of members of the Board is replaced during any 12 month period by Directors whose appointment or election is not endorsed by a majority of the members of the Board prior to the date of the appointment or election; or

(iii) (A) Any one Person, or more than one Person acting as a group (as determined in (e)(iii)(C) below), acquires (or has acquired during the 12 month period ending on the date of the most recent acquisition by such Person or Persons) assets from the Company that have a total gross fair market value equal to or more than 50 percent of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions. For this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with

such assets.

(B) A transfer of assets by the Company is not treated as a change in the ownership of such assets if the assets are transferred to—

(1) A stockholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock;

(2) An entity, 50 percent or more of the total value or voting power of which is owned, directly or indirectly, by the Company;

(3) A Person, or more than one Person acting as a group, that owns, directly or indirectly, 50 percent or more of the total value or voting power of all the outstanding stock of the Company; or

(4) An entity, at least 50 percent of the total value or voting power of which is owned, directly or indirectly, by a Person described in (e)(iii)(B)(3). For purposes of this paragraph (e)(iii)(B) and except as otherwise provided, a Person's status is determined immediately after the transfer of the assets. For example, a transfer to a corporation in which the Company has no ownership interest before the transaction, but which is a majority owned subsidiary of the Company after the transaction, is not treated as a change in the ownership of the assets of the Company.

(C) Persons will not be considered to be acting as a group for purposes of this paragraph (e)(iii) solely because they purchase assets of the Company at the same time. However, Persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of assets, or similar business transaction with the Company. If a Person, including an entity shareholder, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only to the extent of the ownership in that corporation prior to the transaction giving rise to the change and not with respect to the ownership interest in the other corporation.

(D) For purposes of determining stock ownership, see (e)(iv) below.

(iv) For purposes of determining whether there has been a Change of Control, Section 318(a) of the Code applies to determine stock ownership. Stock underlying a vested option is considered owned by the individual who holds the vested option (and the stock underlying an unvested option is not considered owned by the individual who holds the unvested option). For purposes of the preceding sentence, however, if a vested option is exercisable for stock that is not substantially vested (as defined by §§1.83-3(b) and (j) of the income tax regulations promulgated by the Internal Revenue Service), the stock underlying the option is not treated as owned by the individual who holds the option.

(f) "*Change of Control Price*" means the highest per share price for Shares offered in conjunction with any transaction resulting in a Change of Control (as determined in good faith by the Committee if any part of the offered price is payable other than in cash) or, in the case of a Change of Control occurring solely by reason of a change in the composition of the Board, the highest Fair Market Value of the Shares on any of the 30 trading days immediately preceding the date on which a Change of Control occurs.

(g) "*Change of Control Termination*" has the meaning set forth in Section 13.2 hereof.

(h) "*Code*" means the Internal Revenue Code of 1986, as amended.

(i) "*Committee*" means the Compensation Committee of the Board of Directors, or any other duly authorized committee of the Board appointed by the Board to administer the Plan. The Committee shall be comprised of two or more directors, and each member of the Committee shall be a Non-Employee Director, an "outside director" within the meaning of the regulations under Section 162(m) of the Code, and an "independent director" for purposes of the rules and regulations of the New York Stock Exchange ("NYSE") (or such other principal securities market on which the Shares are traded).

(j) "*Company*" means SM Energy Company, a Delaware corporation, and any successor thereto as provided in Article XVII hereof.

(k) "*Covered Employee*" means an Employee who is, or who the Committee expects to become, a "covered employee" within the meaning of Section 162(m) of the Code.

(l) "*Director*" means any individual who is a member of the Board of Directors of the Company.

(m) "*Dividend Equivalent*" means a right with respect to an Award to receive cash, Shares or other property equal in value and form to dividends declared by the Board and paid with respect to outstanding Shares. Dividend Equivalents shall not apply to Options or Stock Appreciation Rights, and shall not apply to any other type of Award unless specifically provided for in the Award Agreement, and if specifically provided for in the Award Agreement shall be subject to such terms and conditions set forth in the Award Agreement as the Committee shall determine.

(n) "*Employee*" means any employee of the Company or an Affiliate. Directors who are not otherwise employed by the Company or an Affiliate shall not be considered Employees under this Plan.

(o) "*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

(p) "*Fair Market Value*" or "*FMV*" means a value or price that is based on the opening, closing, actual, high, low or average selling prices per Share on the NYSE or other established stock exchange (or exchanges) on the applicable date, the preceding trading day, the next succeeding trading day, or an average of trading days, as determined by the Committee in its discretion. Such definition(s) of FMV may differ depending on whether FMV is in reference to the grant, exercise, vesting, settlement or payout of an Award. If Shares are not traded on an established stock exchange, FMV shall be determined by the Committee based on objective criteria.

(q) "*Fiscal Year*" means the year commencing on January 1 and ending on December 31, or such other fiscal year period as approved by the Board.

(r) "*Freestanding SAR*" means a SAR that is not a Tandem SAR, as described in Article VIII herein.

(s) "*Grant Price*" means the price against which the amount payable is determined upon exercise of a SAR.

(t) "*Incentive Stock Option*" or "*ISO*" means an Option to purchase Shares granted under Article VII herein and that is designated as an Incentive Stock Option and is intended to meet the requirements of Section 422 of the Code, or any successor provision.

(u) "*Non-Employee Director*" means a Director who meets the definition of a "Non-Employee Director" set forth in Rule 16b-3(b)(3) under the Exchange Act, or any successor definition adopted by the Securities and Exchange Commission.

(v) "*Nonqualified Stock Option*" or "*NQSO*" means an Option to purchase Shares granted under Article VII herein, which is not intended to be an Incentive Stock Option or which otherwise does not meet the requirements for an ISO.

(w) "*Option*" means the conditional right to purchase Shares at a stated Option Price for a specified period of time in the form of an Incentive Stock Option or a Nonqualified Stock Option subject to the terms of this Plan.

(x) "*Option Price*" means the price at which a Share may be purchased by a Participant pursuant to an Option, as determined by the Committee.

(y) "*Participant*" means a participant holding an outstanding Award granted under the Plan.

(z) "*Performance Based Compensation*" means compensation under an Award that is granted in order to provide remuneration solely on account of the attainment of one or more Performance Goals under circumstances that satisfy the requirements of Section 162(m) of the Code.

(aa) "*Performance Goal*" means a performance criterion selected by the Committee for a particular Award for purposes of Article XI based on one or more Performance Measures.

(bb) "*Performance Measures*" mean measures as described in Article XI, the attainment of one or more of which shall, as determined by the Committee, determine the vesting, monetization, or value of an Award to a Covered Employee that is designated to qualify as Performance Based Compensation.

(cc) "*Performance Period*" means the period of time, which shall not be shorter than 12 months, during which the assigned performance criteria must be met in order to determine the degree of payout and/or vesting with respect to an Award of Performance Shares or Performance Units.

(dd) "*Performance Share*" means an Award granted under Article IX herein, denominated in Shares, the value of which at the time it is payable is determined as a function of the extent to which corresponding performance criteria have been achieved.

(ee) "*Performance Unit*" means an Award granted under Article IX herein, denominated in units, which may be valued by reference to a designated amount of property other than Shares, the value of which at the time it is payable is determined as a function of the extent to which corresponding performance criteria have been achieved.

(ff) "*Plan*" means this Equity Incentive Compensation Plan, as it may be amended from time to time.

(gg) "*Restricted Stock*" means an Award under Article VI of Shares that may be subject to certain restrictions and to a risk of forfeiture as set forth in the Award Agreement.

(hh) "*Restricted Stock Unit*" means an Award under Article VI that is valued by reference to a Share, which value may be paid by delivery of Shares or cash or a combination thereof upon settlement of the Award, subject to the specific terms and conditions of the Award as set forth in the Award Agreement.

(ii) "*Securities Act*" means the Securities Act of 1933, as amended.

(jj) "*Shares*" means shares of common stock of the Company, $0.01 par value per share.

(kk) "*Stock Appreciation Right*" or "*SAR*" means the conditional right to receive the difference between the FMV of a Share on the date of exercise over the Grant Price, pursuant to the terms of Article VIII herein.

(ll) "*Stock Based Award*" means an equity based or equity related Award granted pursuant to the terms of Article X herein.

(mm) "*Tandem SAR*" means a SAR that the Committee specifies pursuant to Article VIII herein is granted in connection with a related Option, the exercise of which SAR shall require forfeiture of the right to purchase a Share under the related Option (and when a Share is purchased under the Option, the Tandem SAR shall similarly be cancelled), or a SAR that is granted in tandem with an Option but the exercise of such Option does not cancel the SAR, but rather results in the exercise of the related SAR. Regardless of whether an Option is granted coincident with a SAR, a SAR is not a Tandem SAR unless so specified by the Committee at the time of grant.

2.2 *Construction.* Captions and titles contained herein are for convenience of reference only and shall not affect the meaning or interpretation of any provision of the Plan. Except when otherwise indicated by the context, any definition of any term herein in the singular also shall include the plural.

ARTICLE III
ADMINISTRATION

3.1 *General.* The Committee shall be responsible for administering the Plan. The Committee may employ attorneys, consultants, accountants, agents, and other individuals, any of whom may be an Employee, and the Committee, the Company, and the Company's officers and Directors shall be entitled to rely upon the advice, opinions or valuations of any such persons. All actions taken and all interpretations and determinations made by the Committee shall be final, conclusive, and binding upon the Participants, the Company, and all other interested

parties. No member of the Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Award granted under the Plan.

3.2 *Authority of the Committee.* The Committee shall have full and exclusive discretionary power to (i) interpret the terms and the intent of the Plan, any Award and any Award Agreement or other agreement ancillary to or in connection with the Plan, (ii) determine eligibility for Awards and select those who will become Participants in the Plan, (iii) adopt such rules, regulations, and guidelines for administering the Plan as the Committee may deem necessary or proper, (iv) provide for conditions and assurances deemed necessary or advisable to protect the interests of the Company with respect to the Plan and (v) make all other determinations necessary or advisable for the administration of the Plan. Such authority shall include, but not be limited to, selecting Award recipients, establishing all Award terms and conditions and, subject to Article XIV, adopting modifications, amendments or subplans to the Plan or any Award Agreement. Subject to the terms and provisions of the Plan, the Committee shall have complete discretion in determining the nature, terms, conditions and amount of each Award. In making such determinations, the Committee may take into account the nature of services rendered by the recipient of the Award, such person's present and potential contributions to the Company and such other factors as the Committee in its discretion shall deem relevant.

3.3 *Delegation.* The Committee may delegate to one or more of its members any of the Committee's administrative duties or powers as it may deem advisable; provided, however, that any such delegation shall not be inconsistent with the provisions of Rule 16b-3 under the Exchange Act or Section 162(m) of the Code as to actions to be taken by the Committee in connection therewith.

ARTICLE IV
SHARES SUBJECT TO THE PLAN AND MAXIMUM AWARDS

4.1 *Total Number of Shares Available for Awards.* Subject to adjustment as provided in Section 4.2 herein, the total number of Shares hereby made available and reserved for issuance to Participants pursuant to Awards granted under the Plan shall be 7,600,000, plus any remaining Shares available for issuance under the Predecessor Plans as set forth in Section 1.4 (with such total number of Shares, including such adjustment and remaining Shares, to be referred to as the "Total Share Authorization"). Any Shares issued in connection with an Option or SAR shall be counted against the Total Share Authorization limit as one Share for every one Share issued. Any Shares issued pursuant to Awards granted on or before May 20, 2009 in connection with an Award other than an Option or SAR shall be counted against the Total Share Authorization limit as two Shares for every one Share issued. Any Shares issued pursuant to Awards granted after May 20, 2009 in connection with an Award other than an Option or SAR shall be counted against the Total Share Authorization limit as 1.43 Shares for every one Share issued. The maximum aggregate number of Shares that may be issued through Nonqualified Stock Options shall be equal to the Total Share Authorization. The maximum aggregate number of Shares that may be issued through Incentive Stock Options shall be 7,600,000.

Any Awards that are not settled in Shares shall not be counted against the Total Share Authorization limit. Any Shares related to Awards (or after the Effective Date, awards granted or issued under the Predecessor Plans) which (i) terminate by expiration, forfeiture, cancellation or otherwise without the issuance of such Shares, (ii) are settled in cash either in lieu of Shares or otherwise, or (iii) are exchanged with the Committee's approval for Awards not involving Shares, shall be available again for issuance under the Plan. In addition, if the Option Price of any Option granted under the Plan or the tax withholding requirement with respect to any Award granted under the Plan is satisfied by tendering Shares to the Company (by either actual delivery or by attestation), or if a SAR is exercised, only the number of Shares issued, net of the Shares tendered, if any, will be deemed delivered for purposes of determining the maximum number of Shares available for issuance under the Plan; provided, however, that from and after May 21, 2008, Shares tendered as full or partial payment to the Company of the Option Price upon exercise of Options granted under this Plan, Shares reserved for issuance upon grant of SARs, to the extent the number of reserved Shares exceeds the number of Shares actually issued upon exercise of the SARs, and Shares withheld by, or otherwise remitted to, the Company to satisfy a Participant's tax withholding obligations with respect to any Award granted under this Plan, shall not become available again for issuance under this Plan. The maximum number of Shares available for issuance under the Plan shall be reduced to reflect any dividends or Dividend Equivalents that are reinvested into additional Shares under this Plan or credited as additional Restricted Stock, Restricted Stock Units, Performance Shares, Performance Units or Stock Based Awards. The Shares available for issuance under the

Plan may be authorized and unissued Shares or treasury Shares. Unless and until the Committee determines that an Award to a Covered Employee shall not be designed to qualify as Performance Based Compensation, the following limits ("Award Limits") shall apply to grants of Awards to Covered Employees under the Plan:

(a) *Restricted Stock/Restricted Units.* The maximum aggregate number of Shares that may be granted in the form of Restricted Stock/Restricted Stock Units in any one Fiscal Year to any one Participant shall be 100,000.

(b) *Options and SARS.* The maximum aggregate number of Shares that may be granted in the form of Options or SARs in any one Fiscal Year to any one Participant shall be 200,000.

(c) *Performance Shares/Performance Units.* The maximum aggregate Award of Performance Shares or Performance Units that a Participant may receive in any one Fiscal Year shall be 200,000 Shares, and the maximum value of Performance Units that a Participant may receive with respect to Awards in any one Fiscal Year shall be a value of $5,000,000 determined as of the date of vesting or payout, as applicable.

(d) *Stock Based Awards.* The maximum aggregate grant with respect to Stock Based Awards in any one Fiscal Year to any one Participant shall be 200,000.

4.2 *Adjustments in Authorized Shares.* In the event of any corporate event or transaction (including, but not limited to, a change in the Shares of the Company or the capitalization of the Company) such as a merger, consolidation, reorganization, recapitalization, separation, stock dividend, extraordinary or special dividend, stock split, reverse stock split, split up, spin off, other distribution of stock or property of the Company, combination of securities, exchange of securities, dividend in kind, or other like change in capital structure or distribution (other than normal cash dividends) to the stockholders of the Company, or any similar corporate event or transaction, the Committee, in order to prevent dilution or enlargement of Participants' rights under the Plan, shall make or provide for appropriate proportionate substitutions or adjustments, as applicable, to the number and kind of Shares that may be issued under the Plan, the number and kind of Shares subject to outstanding Awards, the Option Price or Grant Price applicable to outstanding Awards, the application and computation of any Dividend Equivalents that may be provided for in Award Agreements, the Award Limits, the limit on issuing Awards other than Options granted with an Option Price equal to at least the FMV of a Share on the date of grant or Stock Appreciation Rights with a Grant Price equal to at least the FMV of a Share on the date of grant, and any other value determinations applicable to outstanding Awards or to this Plan. Such adjustments shall be made automatically, without the necessity of Committee action, on the customary and appropriate arithmetical basis, in the case of any stock split, including a stock split effected by means of a stock dividend, and in the case of any other dividend paid in Shares, and shall be made in the discretion of the Committee with respect to other corporate events or transactions. The Committee, in its sole discretion, may also make other appropriate adjustments in the terms of any Awards under the Plan to reflect, or related to, such changes or distributions and may modify any other terms of outstanding Awards, including modifications of performance criteria and changes in the length of Performance Periods, as are equitably necessary to prevent dilution or enlargement of Participant's rights under the Plan that otherwise would result from such corporate event or transaction. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on Participants under the Plan. Subject to the provisions of Article XIII and any applicable law or regulatory requirement, without affecting the number of Shares reserved or available hereunder, the Committee may authorize the issuance, assumption, substitution or conversion of Awards under this Plan in connection with any such corporate event or transaction upon such terms and conditions as it may deem appropriate. In addition, the Committee may amend the Plan, or adopt supplements to the Plan, in such manner as it deems appropriate to provide for such issuance, assumption, substitution or conversion as provided in the previous sentence.

ARTICLE V
ELIGIBILITY AND PARTICIPATION

5.1 *Eligibility.* All Employees, consultants who are natural persons, and members of the Board of the Company and of any Affiliate of the Company shall be eligible to participate in the Plan and be granted Awards under the Plan.

5.2 *Actual Participation.* Subject to the provisions of the Plan, the Committee may from time to time, in its sole discretion, select from among persons eligible to participate in the Plan those to whom Awards shall be granted under the Plan, and shall determine in its discretion the nature, terms, conditions, and amount of each Award.

ARTICLE VI
RESTRICTED STOCK AND RESTRICTED STOCK UNITS

6.1 *Grant of Restricted Stock or Restricted Stock Units.* Subject to the terms and conditions of the Plan, the Committee, at any time and from time to time, in its discretion may grant Shares of Restricted Stock and/or Restricted Stock Units to Participants in such amounts and upon such terms as the Committee shall determine.

(a) Restricted Stock.

(i) Nature of Restricted Stock. Restricted Stock may be issued for services rendered with any or no additional purchase price as shall be determined by the Committee in its discretion, and may be subject to certain restrictions and to a risk of forfeiture as set forth in the Award Agreement. A Participant to whom Shares of Restricted Stock are issued shall have all of the rights of ownership with respect to the Shares subject to such Restricted Stock Award, including the right to vote the same and receive any dividends paid thereon; subject, however, to the terms, conditions and restrictions contained in this Plan and in the applicable Award Agreement.

(ii) Forfeiture and Vesting. A Restricted Stock Award Agreement may provide for forfeiture of the Restricted Stock upon termination of the Participant's employment or other relationship with the Company or nonperformance of specified performance goals or measures established by the Committee. A Restricted Stock Award Agreement may also provide for (i) vesting periods which require the passage of time and/or the occurrence of events in order for the Restricted Stock to vest and become no longer subject to forfeiture and (ii) holding periods during which the Restricted Stock may not be sold or otherwise transferred.

(iii) Delivery of Shares and Settlement. Upon an Award of Restricted Stock, the Company shall deliver to the Participant the Shares subject to the Award (which Shares may be delivered in book-entry or certificated form), and such Shares shall be evidenced with an appropriate legend referring to or setting forth the applicable restrictions to which such Shares are subject (by means of appropriate stop-transfer orders on Shares credited to book-entry accounts or by means of appropriate legends on Shares that have been certificated). After the Shares are no longer subject to such restrictions, the Company shall, in accordance with the terms and conditions of the Award Agreement and upon the request of the Participant and the surrender by the Participant of any certificated Shares, settle the completed Restricted Stock Award by providing the Participant with Shares with such restrictions removed.

(b) Restricted Stock Units.

(i) Nature of Restricted Stock Units; Accounts. Each Restricted Stock Unit awarded shall represent a right for one Share to be delivered upon settlement of the Award, which right shall be subject to a risk of forfeiture and cancellation and to the other terms and conditions set forth in the Plan and the Award Agreement. The Company shall establish and maintain a Participant account to record Restricted Stock Units and transactions and events affecting such units. Restricted Stock Units and other items reflected in the account will represent only bookkeeping entries by the Company to evidence unfunded obligations of the Company.

(ii) Deferral Period and Settlement Date. Restricted Stock Units (if not previously cancelled or forfeited) shall be settled on the date or dates set forth in the Award Agreement. In addition, unless otherwise determined by the Committee, if the Committee reasonably determines

that any settlement of Restricted Stock Units would result in payment of compensation to a Participant which is not deductible by the Company under Section 162(m) of the Code, such settlement shall be deferred, subject to compliance with Section 409A of the Code as referred to in Article XX herein, to the extent necessary to avoid payment of such nondeductible compensation, with such deferral continuing only until such date as settlement can be effected without loss of deductibility by the Company under Section 162(m) of the Code.

(iii) Cancellation and Vesting. A Restricted Stock Unit Award Agreement may provide for cancellation of the Restricted Stock Units upon termination of the Participant's employment or other relationship with the Company or nonperformance of specified performance goals or measures established by the Committee. A Restricted Stock Unit Award Agreement may also provide for vesting periods which require the passage of time and/or the occurrence of events in order for the Restricted Stock Units to vest and become no longer subject to cancellation.

(iv) Dividend Equivalents. Restricted Stock Units shall not be credited with Dividend Equivalents unless specifically provided for in the Award Agreement, and then only upon such terms and conditions as set forth in the Award Agreement.

(v) Settlement and Delivery of Shares. Settlement of a Restricted Stock Unit Award shall be made in accordance with the terms and conditions of the applicable Award Agreement. A Restricted Stock Unit Award Agreement may provide that settlement may be made (A) solely through the issuance of Shares or (B) at the mutual election of the Participant and the Company, in a combination of Shares and cash. Upon the settlement of a Restricted Stock Unit Award, the Company shall deliver to the Participant the number of Shares issued to the Participant in settlement of the Award (which Shares may be delivered in book-entry or certificated form).

6.2 *Restricted Stock and Restricted Stock Unit Award Agreements.* Each Restricted Stock and Restricted Stock Unit Award shall be evidenced by an Award Agreement which shall set forth the terms and conditions of such Award, including the number of Shares to which the Award relates, the date or dates upon which such Award shall vest and the circumstances (including termination of employment or failure to satisfy one or more restrictive covenants or other ongoing obligations) under which the Award shall not vest, the time and manner of settlement of the Award, such transfer restrictions which the Committee may impose, and any other terms or conditions which the Committee may impose.

(a) If not otherwise specified by the Committee, the following terms and conditions shall apply to Restricted Stock and Restricted Stock Units awarded under the Plan:

(i) Vesting. An Award of Restricted Stock or Restricted Stock Units shall vest pursuant to a vesting schedule as determined by the Committee, which vesting schedule may provide that (A) an Award held by a Participant who retires from employment with the Company after having both reached the age of sixty and completed twelve years of service with the Company shall continue to vest in accordance with the vesting schedule set forth in the applicable Award Agreement notwithstanding the termination of the Participant's employment with the Company, provided that prior to full vesting of the Award such Participant does not after such retirement become employed on a full time basis by a competitor of the Company prior to reaching age sixty-five, and (B) an Award held by a Non-Employee Director of the Company who resigns from the Board after completing at least five years of service to the Company as a Non-Employee Director shall become fully vested.

(ii) Termination. An outstanding Award of Restricted Stock that has not vested or an outstanding Award of Restricted Stock Units that has not been settled shall be cancelled upon the Company's termination of the employment of the Participant for cause.

(iii) Acceleration. An outstanding Award of Restricted Stock or Restricted Stock Units shall become fully vested and settled irrespective of its other provisions upon termination of the Participant's employment with the Company or Affiliate because of death, disability or normal retirement upon reaching the age of sixty-five.

(iv) Transferability. An outstanding Award of Restricted Stock or Restricted Stock Units that has not vested and been settled or is otherwise restricted by the terms of the Award Agreement as to transferability shall not be transferable by the Participant, and the Participant shall not be permitted to sell, transfer, pledge or otherwise encumber such Award or the Shares issuable in settlement thereof, other than (A) to the person or persons to whom the Participant's rights under such Award pass by will or the laws of descent and distribution, (B) to the spouse or the descendants of the Participant or to trusts for such persons to whom or which the Participant may transfer such Award, (C) to the legal representative of any of the foregoing, or (D) pursuant to a qualified domestic relations order as defined under Section 414(p) of the Code or similar order or agreement relating to the provision of child support, alimony payments or marital property rights to a spouse, former spouse, child or other dependent of the Participant. If an Award is transferred to any person to whom a transfer of the Award is permitted, the transferee shall remain subject to all of the vesting conditions to which the Award is subject. Any such transfer shall be made only in compliance with the Securities Act and the requirements therefor as set forth by the Company.

(b) The Committee shall be free to specify terms and conditions other than and in addition to those set forth above, in its discretion.

ARTICLE VII

STOCK OPTIONS

7.1 *Grant of Options.* Subject to the terms and conditions of the Plan, Options may be granted to Participants in such number, and upon such terms, and at any time and from time to time, as shall be determined by the Committee in its discretion. ISOs may be granted only to Employees of the Company or a parent or subsidiary corporation of the Company within the meaning of Section 424 of the Code, and no ISOs may be granted more than 10 years after the adoption of the Plan by the Board.

7.2 *Award Agreement.* Each Option grant shall be evidenced by an Award Agreement that shall specify the Option Price, the duration of the Option, the number of Shares to which the Option relates, the conditions upon which an Option shall become vested and exercisable, and any other terms and conditions as the Committee shall determine. The Award Agreement shall also specify whether the Option is intended to be an ISO or a NQSO.

7.3 *Option Price.* The Option Price for each grant of an Option under this Plan shall be determined by the Committee and shall be specified in the Award Agreement. The Option Price for an Option, whether issued as an ISO or an NQSO, shall be not less than 100 percent of the FMV of the underlying Shares on the date of grant; provided, however, that the Option Price for an ISO granted to a person who at the time of grant owns (or is deemed to own pursuant to Section 424(d) of the Code) stock possessing more than ten percent of the total combined voting power of all classes of stock of the Company or of any of its Affiliates (a "Significant Stockholder") shall be not less than 110 percent of the Fair Market Value of the underlying Shares as of the date of grant.

7.4 *Duration of Options.* Each Option granted to a Participant shall expire at such time as the Committee shall determine at the time of grant; provided however, that no Option shall be exercisable later than the tenth anniversary date of its grant, and provided further that no ISO granted to a Significant Stockholder shall be exercisable after the expiration of five years from the date of grant.

7.5 *Exercise of Options.* Options shall be exercisable at such times and on the occurrence of such events, and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant. Options shall be exercised by the delivery of a notice of exercise to the Company or an agent designated by the Company in a form specified by or acceptable to the Committee, or by complying with any alternative procedures which may be authorized by the Committee, setting

forth the number of Shares with respect to which the Option is to be exercised, and accompanied by full payment for the Shares. Upon exercise of any Option, the Option Price shall be payable to the Company in full either: (a) in cash or its equivalent; (b) by tendering (either by actual delivery or attestation) previously acquired Shares having an aggregate FMV at the time of exercise equal to the total Option Price; (c) by a combination of (a) and (b); or (d) by any other method approved or accepted by the Committee in its sole discretion and subject to such rules and regulations as the Committee may establish. Subject to Section 7.6 and any governing rules or regulations, as soon as practicable after receipt of a notification of exercise and full payment for the Shares, the Company shall cause to be delivered to the Participant Share certificates or evidence of book entry Shares in an appropriate amount based upon the number of Shares purchased under the Option(s).

7.6 *Restrictions on Share Transferability.* The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option granted under the Plan as it may deem advisable, including, without limitation, requiring the Participant to hold the Shares acquired pursuant to exercise for a specified period of time, or restrictions under applicable laws or under the requirements of any stock exchange or market upon which such Shares are listed and/or traded.

7.7 *Termination of Employment.* Each Participant's Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the Option following the termination of the Participant's employment or other relationship with the Company or Affiliates. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Options granted under the Plan, and may reflect distinctions based on the reasons for termination.

7.8 *Nontransferability of Options.*

(a) *Incentive Stock Options.* No ISO granted under the Plan may be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. In addition, all ISOs granted to a Participant under the Plan shall be exercisable during such Participant's lifetime only by such Participant.

(b) *Nonqualified Stock Options.* Except as otherwise provided in a Participant's Award Agreement at the time of grant or thereafter by the Committee, a NQSO granted under the Plan may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. In addition, except as otherwise provided in a Participant's Award Agreement at the time of grant or thereafter by the Committee, all NQSOs granted to a Participant under the Plan shall be exercisable during such Participant's lifetime only by such Participant.

(c) *Notification of Disqualifying Disposition.* The Participant to whom an ISO is granted shall notify the Company upon the disposition of Shares issued pursuant to the exercise of an ISO or Shares received as a dividend on ISO stock. The Company shall use such information to determine whether a disqualifying disposition as described in Section 421(b) of the Code has occurred.

7.9 *$100,000 Annual ISO Limitation.* To the extent that the aggregate Fair Market Value of Shares (determined as of the time the ISOs with respect to such Shares are granted) with respect to which ISOs are exercisable for the first time by any Participant during any calendar year (under this Plan and all other plans of the Company and any Affiliate) exceeds $100,000, such ISOs shall be treated as NQSOs. The foregoing provisions shall be applied by taking ISOs into account in the order in which they were granted.

ARTICLE VIII
STOCK APPRECIATION RIGHTS

8.1 *Grant of SARs.* Subject to the terms and conditions of the Plan, SARs may be granted to Participants at any time and from time to time and upon such terms as shall be determined by the Committee in its discretion. The Committee may grant Freestanding SARs, Tandem SARs, or any combination of these forms of SARs. The SAR Grant Price for each grant of a Freestanding SAR shall be determined by the Committee and shall be specified in the Award Agreement. The SAR Grant Price may include a Grant Price based on 100 percent of the FMV of the underlying Share on the date of grant or a Grant Price that is set at a premium to the FMV of the underlying Share on the date of grant. The SAR Grant Price shall not be less than FMV of the underlying Share on the date of grant. The Grant Price of Tandem SARs shall be equal to the Option Price of the related Option.

8.2 *SAR Agreement.* Each SAR Award shall be evidenced by an Award Agreement that shall specify the Grant Price, the term of the SAR, and any such other provisions as the Committee shall determine.

8.3 *Term of SAR.* The term of a SAR granted under the Plan shall be determined by the Committee in its sole discretion, and except as determined otherwise by the Committee and specified in the SAR Award Agreement, no SAR shall be exercisable later than the tenth anniversary date of its grant.

8.4 *Exercise of Freestanding SARs.* Freestanding SARs may be exercised upon whatever terms and conditions that the Committee in its sole discretion imposes.

8.5 *Exercise of Tandem SARs.* Tandem SARs may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable. Notwithstanding any other provision of this Plan to the contrary, with respect to a Tandem SAR granted in connection with an ISO: (a) the Tandem SAR will expire no later than the expiration of the underlying ISO; (b) the value of the payout with respect to the Tandem SAR may be for no more than 100 percent of the difference between the Option Price of the underlying ISO and the FMV of the Shares subject to the underlying ISO at the time the Tandem SAR is exercised; and (c) the Tandem SAR may be exercised only when the FMV of the Shares subject to the ISO exceeds the Option Price of the ISO.

8.6 *Payment of SAR Amount.* Upon the exercise of a SAR, a Participant shall be entitled to receive payment from the Company in an amount representing the difference between the FMV of the underlying Share on the date of exercise over the Grant Price. At the discretion of the Committee, the payment upon SAR exercise may be in cash, Shares of equivalent value (based on the FMV on the date of exercise of the SAR, as defined in the Award Agreement or otherwise defined by the Committee thereafter), in some combination thereof, or in any other form approved by the Committee in its sole discretion. The Committee's determination regarding the form of SAR payout shall be set forth or reserved for later determination in the Award Agreement for the grant of the SAR.

8.7 *Termination of Employment.* Each Award Agreement shall set forth the extent to which the Participant shall have the right to exercise the SAR following the termination of the Participant's employment or other relationship with the Company or Affiliates. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all SARs issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

8.8 *Nontransferability of SARs.* Except as otherwise provided in a Participant's Award Agreement at the time of grant or thereafter by the Committee, a SAR granted under the Plan may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. In addition, except as otherwise provided in a Participant's Award Agreement at the time of grant or thereafter by the Committee, all SARs granted to a Participant under the Plan shall be exercisable during such Participant's lifetime only by such Participant.

8.9 *Other Restrictions.* Without limiting the generality of any other provision of this Plan, the Committee may impose such other conditions and/or restrictions on any Shares received upon exercise of a SAR granted pursuant to the Plan as it may deem advisable. This includes, but is not limited to, requiring the Participant to hold the Shares received upon exercise of a SAR for a specified period of time.

ARTICLE IX
PERFORMANCE SHARES AND PERFORMANCE UNITS

9.1 *Grant of Performance Shares and Performance Units.* Subject to the terms and conditions of the Plan, the Committee, at any time and from time to time, may grant Performance Shares and/or Performance Units to Participants in such amounts and upon such terms as the Committee shall determine.

9.2 *Value of Performance Shares and Performance Units.* Each Performance Share and Performance Unit shall have an initial value that is established by the Committee at the time of grant. The Committee shall in its

discretion set performance criteria for a Performance Period which, depending on the extent to which the performance criteria are met, will determine, in the manner established by the Committee and set forth in the Award Agreement, the value and/or amount of each Performance Share or Performance Unit that will be paid to the Participant.

9.3 *Earnings of Performance Shares and Performance Units.* Subject to the terms of this Plan and the applicable Award Agreement, after the applicable Performance Period has ended, the holder of Performance Shares and/or Performance Units shall be entitled to receive, to the extent that the Performance Shares or Performance Units have vested, if applicable, a payout of the value and/or amount of Performance Shares and/or Performance Units, determined as a function of the extent to which the corresponding performance criteria have been achieved. The Committee may in its discretion require the Participant to hold the Shares or other property received pursuant to such Award for a specified period of time.

9.4 *Form and Timing of Payment of Performance Shares and Performance Units.* Payment of earned Performance Shares and Performance Units shall be made in accordance with the terms and conditions of the applicable Award Agreement. A Performance Share or Performance Unit Award Agreement may provide that payment may be made, to the extent that the Performance Share or Performance Unit has vested and the performance criteria are met, solely through the issuance of Shares earned upon the expiration of the applicable Performance Period, and that the Participant may elect to satisfy the Participant's tax withholding obligation with respect to the Award by having the Company withhold Shares or other property or by the Participant surrendering Shares or other property to the Company with a FMV on or near the tax withholding date equal to the tax withholding obligation. Upon the payment in the form of Shares of a Performance Share or Performance Unit Award, the Company shall deliver to the Participant the number of Shares issued to the Participant in payment of the Award (which Shares may be delivered in book-entry or certificated form).

9.5 *Dividends and Other Distributions.* Dividends and other distributions declared by the Board and paid with respect to outstanding Shares shall only be paid with respect to Performance Share and Performance Unit Awards for Shares that have been issued by the Company in payment of such Awards to the extent that the Awards have vested and upon the expiration of the applicable Performance Periods for the Awards. Performance Shares and Performance Units shall not be credited with Dividend Equivalents unless specifically provided for in the Award Agreement, and then only upon such terms and conditions as set forth in the Award Agreement.

9.6 *Vesting and Termination of Employment.* Each Award Agreement shall set forth the extent to which the Award shall vest, which may be pursuant to a vesting schedule as determined by the Committee, and the extent to which the Participant shall have the right to retain Performance Shares and/or Performance Units following the termination of the Participant's employment or other relationship with the Company or an Affiliate. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Performance Shares and Performance Units issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

9.7 *Nontransferability of Performance Shares and Performance Units.* Except as otherwise provided in a Participant's Award Agreement at the time of grant or thereafter by the Committee, Performance Shares and Performance Units may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. In addition, except as otherwise provided in a Participant's Award Agreement at the time of grant or thereafter by the Committee, a Participant's rights with respect to Performance Shares and Performance Units shall inure during such Participant's lifetime only to such Participant.

ARTICLE X
STOCK BASED AWARDS

10.1 *Stock Based Awards.* Subject to the terms and conditions of the Plan, the Committee, at any time and from time to time, may grant other types of equity based or equity related Awards not described by the other terms of the Plan (including the grant or offer for sale of unrestricted Shares) in such amounts and subject to such terms and conditions, including, but not limited to, conditions based on the satisfaction of performance criteria or the satisfaction of such obligations as the Committee shall determine. Such Awards may involve the transfer of actual Shares to Participants, or payment in cash or otherwise of amounts based on the value of Shares.

10.2 *Termination of Employment.* Each Award Agreement shall set forth the extent to which the Participant shall have the right to receive Stock Based Awards following the termination of the Participant's employment or other relationship with the Company or Affiliates. Such provisions shall be determined in the sole discretion of the Committee, need not be uniform among all Stock Based Awards issued pursuant to the Plan, and may reflect distinctions based on the reasons for termination.

10.3 *Nontransferability of Stock Based Awards.* Except as otherwise provided in a Participant's Award Agreement at the time of grant or thereafter by the Committee, Stock Based Awards may not be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. In addition, except as otherwise provided in a Participant's Award Agreement at the time of grant or thereafter by the Committee, a Participant's rights with respect to Stock Based Awards shall inure during such Participant's lifetime only to such Participant.

ARTICLE XI
PERFORMANCE MEASURES

Notwithstanding any other terms of this Plan, the vesting, payability or value (as determined by the Committee) of each Award other than an Option or SAR that, at the time of grant, the Committee intends to be Performance Based Compensation to a Covered Employee, shall be determined by the attainment of one or more Performance Goals as determined by the Committee in conformity with Section 162(m) of the Code. The Committee shall specify in writing, by resolution or otherwise, the Participants eligible to receive such an Award (which may be expressed in terms of a class of individuals) and the Performance Goal(s) applicable to such Awards within 90 days after the commencement of the period to which the Performance Goal(s) relate(s), or such earlier time as required to comply with Section 162(m) of the Code. No such Award shall be payable unless the Committee certifies in writing, by resolution or otherwise, that the Performance Goal(s) applicable to the Award were satisfied. In no case may the Committee increase the value of an Award of Performance Based Compensation above the maximum value determined under the performance formula by the attainment of the applicable Performance Goal(s), but the Committee retains the discretion to reduce the value below such maximum.

Unless and until the Committee proposes for stockholder vote and the stockholders approve a change in the general Performance Measures set forth in this Article XI, the Performance Goal(s) upon which the payment or vesting of an Award to a Covered Employee that is intended to qualify as Performance Based Compensation shall be limited to the following Performance Measures:

(a) Increases in, or levels of, net asset value; net asset value per share; pretax earnings; earnings before interest and taxes; earnings before interest, taxes, depreciation and amortization; net income and/or earnings per share;

(b) Return on equity, return on assets or net assets, return on capital (including return on total capital or return on invested capital);

(c) Share price or stockholder return performance (including, but not limited to, growth measures and total stockholder return, which may be measured in absolute terms and/or in comparison to a group of peer companies or an index);

(d) Oil and gas reserve replacement, reserve growth and finding and development cost targets;

(e) Oil and gas production targets;

(f) Performance of investments in oil and gas properties;

(g) Cash flow measures (including, but not limited to, cash flows from operating activities, discretionary cash flows, and cash flow return on investment, assets, equity or capital); and

(h) Increases in, or levels of, operating and/or nonoperating expenses.

Any Performance Measure(s) may be used to measure the performance of the Company as a whole and/or any one or more regional operations and/or Affiliates of the Company or any combination thereof, as the Committee may deem appropriate, and any Performance Measure(s) may be used in comparison to the performance of a group of peer companies, or a published or special index that the Committee, in its sole discretion, deems appropriate. The Committee shall also have the authority to provide in Award Agreements for accelerated vesting of an Award based on the achievement of Performance Goal(s).

The Committee may provide in any Award Agreement that any evaluation of attainment of a Performance Goal may include or exclude any of the following events that occurs during the relevant period: (a) asset write downs; (b) litigation judgments or settlements; (c) the effect of changes in tax laws, accounting principles, or other laws or regulations affecting reported results; (d) any reorganization or restructuring transactions; (e) extraordinary nonrecurring items as described in Accounting Principles Board Opinion No. 30 and/or in management's discussion and analysis of financial condition and results of operations appearing in the Company's Annual Report on Form 10-K for the applicable year; and (f) significant acquisitions or divestitures. To the extent such inclusions or exclusions affect Awards to Covered Employees, they shall be prescribed in a form that meets the requirements of Section 162(m) of the Code for deductibility.

In the event that applicable tax and/or securities laws change to permit discretion by the Committee to alter the governing Performance Measures without obtaining stockholder approval of such changes, the Committee shall have sole discretion to make such changes without obtaining stockholder approval. In addition, in the event that the Committee determines that it is advisable to grant Awards to Covered Employees that shall not qualify as Performance Based Compensation, the Committee may make such grants without satisfying the requirements of Section 162(m) of the Code.

ARTICLE XII
RIGHTS OF PERSONS ELIGIBLE TO PARTICIPATE

12.1 *Employment.* Nothing in the Plan or an Award Agreement shall interfere with or limit in any way the right of the Company or an Affiliate to terminate any Participant's employment, consulting or other service relationship with the Company or an Affiliate at any time, nor confer upon any Participant any right to continue in the capacity in which he or she is employed or otherwise serves the Company or an Affiliate. Neither an Award nor any benefits arising under this Plan shall constitute part of an employment or service contract between a Participant and the Company or an Affiliate, and, accordingly, subject to the terms of this Plan, this Plan may be terminated, amended or modified at any time in the sole and exclusive discretion of the Committee without giving rise to liability on the part of the Company or an Affiliate for severance payments or otherwise, except as provided in this Plan.

For purposes of the Plan, unless otherwise provided by the Committee, transfer of employment of a Participant between the Company and an Affiliate or among Affiliates, shall not be deemed a termination of employment. The Committee may provide in a Participant's Award Agreement or otherwise the conditions under which a transfer of employment to an entity that is spun off from the Company or an Affiliate shall not be deemed a termination of employment for purposes of an Award.

12.2 *Participation.* No Employee or other person eligible to participate in the Plan shall have the right to be selected to receive an Award. No person selected to receive an Award shall have the right to be selected to receive a future Award or, if selected to receive a future Award, the right to receive such future Award on terms and conditions identical or in proportion in any way to any prior Award.

12.3 *Rights as a Stockholder.* A Participant shall have none of the rights of a stockholder with respect to Shares covered by any Award until the Participant becomes the record holder of such Shares.

ARTICLE XIII
CHANGE OF CONTROL

13.1 *Accelerated Vesting and Payment Applicable to Awards Granted prior to May 21, 2008.* Subject to the provisions of Section 13.3 or as otherwise provided in the Award Agreement, for Awards granted prior to May 21, 2008, in the event of a Change of Control, unless otherwise specifically prohibited by law or the rules and regulations of a national securities exchange on which Shares are listed or traded:

(a) Any vesting period requirements and other restrictions imposed on Restricted Stock or Restricted Stock Units shall lapse, and Restricted Stock Units shall be immediately payable;

(b) Any and all Options and SARs granted hereunder shall become immediately exercisable;

(c) The target payout opportunities attainable under all outstanding Awards of performance based Restricted Stock and performance based Restricted Stock Units, Performance Shares and Performance Units (including but not limited to Awards intended to be Performance Based Compensation) shall be deemed to have been fully earned based on targeted performance being attained as of the effective date of the Change of Control, and:

(i) The vesting of all Awards denominated in Shares shall be accelerated as of the effective date of the Change of Control, and shall be paid out to Participants within 30 days following the effective date of the Change of Control; and

(ii) Awards denominated in cash shall be paid to Participants in cash within 30 days following the effective date of the Change of Control;

(d) Upon a Change of Control, unless otherwise specifically provided in a written agreement entered into between the Participant and the Company or an Affiliate, the Committee shall immediately cause all other Stock Based Awards to vest and be paid out as determined by the Committee; and

(e) The Committee shall have the discretion to unilaterally determine that all outstanding Awards shall be cancelled upon a Change of Control, and that the value of such Awards, as determined by the Committee in accordance with the terms of the Plan and the Award Agreements, shall be paid out in cash in an amount based on the Change of Control Price within a reasonable time subsequent to the Change of Control; provided, however, that no such payment shall be made on account of an ISO using a value higher than the FMV of the underlying Shares on the date of settlement.

13.2 *Accelerated Vesting and Payment Applicable to Awards Granted on or after May 21, 2008.* Subject to the provisions of Section 13.3 or as otherwise provided in the Award Agreement, for Awards granted on or after May 21, 2008 and prior to a Change of Control, in the event that a Change of Control occurs and a Participant's employment with the Company is subsequently terminated without Cause (as defined in such Participant's Award Agreement) or the Participant terminates his or her employment with the Company for Good Reason (as defined in such Participant's Award Agreement) within 30 months of the Change of Control (a "Change of Control Termination"), unless otherwise specifically prohibited by law or the rules and regulations of a national securities exchange on which Shares are listed or traded, with respect to such Awards granted to such Participant:

(a) Any vesting period requirements and other restrictions imposed on Restricted Stock or Restricted Stock Units shall lapse, and Restricted Stock Units shall be immediately payable;

(b) Any and all Options and SARs granted hereunder shall become immediately exercisable;

(c) The target payout opportunities attainable under all outstanding Awards of performance based Restricted Stock and performance based Restricted Stock Units, Performance Shares and Performance Units (including but not limited to Awards intended to be Performance Based Compensation) shall be deemed to have been fully earned based on measured performance as of the effective date of the Change of Control, and:

(i) The vesting of all Awards denominated in Shares shall be accelerated as of the effective date of the Change of Control Termination, and shall be paid out to such Participant within 30 days following the effective date of the Change of Control Termination; and

(ii) Awards denominated in cash shall be paid to Participants in cash within 30 days following the effective date of the Change of Control Termination;

(d) Upon a Change of Control Termination, unless otherwise specifically provided in a written agreement entered into between the Participant and the Company or an Affiliate, the Committee shall immediately cause all other Stock Based Awards to vest and be paid out as determined by the Committee; and

(e) The Committee shall have the discretion to unilaterally determine that all outstanding Awards shall be cancelled upon a Change of Control Termination, and that the value of such Awards, as determined by the Committee in accordance with the terms of the Plan and the Award Agreements, shall be paid out in cash in an amount determined by the Committee, in accordance with the terms of the Plan and the Award Agreements, within a reasonable time subsequent to the Change of Control Termination; provided, however, that no such payment shall be made on account of an ISO using a value higher than the FMV of the underlying Shares on the date of settlement.

In the event that the existence of the foregoing provisions, even if a Change of Control and a Change of Control Termination do not occur, would result in an Award to a Covered Employee designed to qualify as Performance Based Compensation to not so qualify, the Committee shall have the discretion to adopt for such Award such provisions as shall satisfy the requirements of Section 162(m) of the Code.

13.3 *Alternative Awards.* Notwithstanding Sections 13.1 and 13.2, no cancellation, acceleration of vesting, lapsing of restrictions, payment of an Award, cash settlement, or other payment shall occur with respect to any Award if the Committee reasonably determines in good faith prior to the occurrence of a Change of Control, that such Award shall be honored or assumed, or new rights substituted therefor (with such honored, assumed or substituted Award hereinafter referred to as an "Alternative Award") by any successor to the Company or an Affiliate as described in Article XVII; provided, however, that any such Alternative Award must:

(a) Be based on stock which is traded on an established U.S. securities market, or that the Committee reasonably believes will be so traded within 60 days after the Change of Control;

(b) Provide such Participant with rights and entitlements substantially equivalent to or more favorable than the rights, terms, and conditions applicable under such Award, including, but not limited to, an identical or more favorable exercise or vesting schedule and identical or more favorable timing and methods of payment; and

(c) Have substantially equivalent economic value to such Award (determined at the time of the Change of Control).

ARTICLE XIV
AMENDMENT AND TERMINATION OF THE PLAN

14.1 *Amendment, Modification, Suspension, and Termination.* The Committee or the Board may, at any time and from time to time, alter, amend, modify, suspend or terminate the Plan in whole or in part; provided, however, that:

(a) Consistent with the provisions of Section 4.2 and except in connection with a corporate transaction involving the Company (including, without limitation, any stock dividend, stock split, extraordinary cash dividend, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination, or exchange of shares), the terms of outstanding Awards may not be amended to reduce the Option Price of outstanding Options or the Grant Price of outstanding SARs or cancel outstanding Options

or SARs in exchange for cash, other Awards or Options or SARs with an Option Price or Grant Price that is less than the Option Price or Grant Price of the original Options or SARs without stockholder approval.

(b) No amendment or modification which would increase the total number of Shares available for issuance under the Plan or the total number of shares available for ISOs under the Plan shall be effective unless approved by the stockholders of the Company.

(c) To the extent necessary under any applicable law, regulation, or securities exchange or market requirement, no amendment or modification shall be effective unless approved by the stockholders of the Company in accordance with the applicable law, regulation, or securities exchange or market requirement.

14.2 *Adjustment of Awards Upon the Occurrence of Certain Unusual or Nonrecurring Events.* The Committee may make adjustments in the terms and conditions of, and the criteria provided in, Awards in recognition of unusual or nonrecurring events (including, without limitation, the events described in Section 4.2 hereof) affecting the Company or the financial statements of the Company, or in recognition of changes in applicable laws, regulations or accounting principles, whenever the Committee determines that such adjustments are appropriate in order to prevent unintended dilution or enlargement of the benefits or potential benefits intended to be made available under the Awards and the Plan. The determination of the Committee as to the foregoing adjustments, if any, shall be conclusive and binding on all Participants under the Plan. To the extent such adjustments affect Awards to Covered Employees intended to be Performance Based Compensation, they shall be prescribed in a form that meets the requirements of Section 162(m) of the Code for deductibility.

14.3 *No Impairment of Outstanding Awards.* Notwithstanding any other provision of the Plan to the contrary, no amendment, modification, suspension or termination of the Plan shall in any manner adversely affect in any material way any outstanding Award previously granted under the Plan without the written consent of the Participant holding such Award.

ARTICLE XV
SECURITIES REGISTRATION

15.1 *Securities Registration.* In the event that the Company shall deem it necessary or desirable to register under the Securities Act, or any other applicable statute, any Awards or any Shares with respect to which an Award may be or shall have been granted, or to qualify any such Awards or Shares under the Securities Act or any other statute, then the affected Participants shall cooperate with the Company and take such action as is necessary to permit registration or qualification of such Awards or Shares.

15.2 *Representations.* Unless the Company determines that the following representation is unnecessary, each person receiving an Award under the Plan may be required by the Company, as a condition to the issuance of Shares pursuant to the Award, to make a representation in writing that (i) he or she is acquiring such Shares for his or her own account for investment and not with a view to, or for sale in connection with, the distribution of any part thereof within the meaning of the Securities Act, and (ii) before any transfer in connection with the resale of such Shares, an exemption from registration of such transaction under the Securities Act shall be established to the satisfaction of the Company. The Company may also require that any certificates or book-entry accounts for such Shares contain restrictive legends or stop-transfer orders reflecting the foregoing.

ARTICLE XVI
TAX WITHHOLDING

In connection with Awards granted under the Plan, the Company and any Affiliate shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company or any Affiliate, amounts sufficient to satisfy any federal, state and local withholding tax requirements with respect to any taxable event as a result of

the Plan and Awards granted under the Plan. The Committee may provide for Participants to satisfy withholding requirements by having the Company withhold Shares or the Participant making other arrangements, in either case on such conditions as the Committee specifies. The Company may in its discretion make loans to

Participants of funds sufficient to satisfy any such withholding tax requirements, provided that any such loan shall comply with all applicable laws, rules and regulations and no such loan shall be made to a Director or executive officer of the Company in violation of Section 13(k) of the Exchange Act, as adopted pursuant to Section 402 of the Sarbanes-Oxley Act of 2002. The Company and any Affiliate shall have the right to require that any recipient or permitted transferee of an Award under the Plan who is not an Employee shall be responsible for the payment of all amounts required to satisfy all federal, state, and local withholding taxes applicable to such persons with respect to such Award.

ARTICLE XVII
SUCCESSORS

Any obligations of the Company or an Affiliate under the Plan with respect to Awards granted hereunder, shall be binding on any successor to the Company or Affiliate, respectively, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation or otherwise, of all or substantially all of the business and/or assets of the Company or Affiliate, as applicable.

ARTICLE XVIII
INDEMNIFICATION

To the extent permitted by law, each person who is or shall have been a member of the Board or the Committee, or an officer or employee who assists in administering the Plan, shall be indemnified and held harmless by the Company against and from any loss, cost, liability or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of judgment in any such action, suit or proceeding against him or her, provided that he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's certificate of incorporation or bylaws, as a matter of law or otherwise, or any power that the Company or an Affiliate may have to indemnify them or hold them harmless.

ARTICLE XIX
GENERAL PROVISIONS

19.1 *Forfeiture Events.* Without limiting in any way the generality of the Committee's power to specify any terms and conditions of an Award consistent with law, the Committee may specify in an Award Agreement that the Participant's rights, payments, and benefits with respect to an Award shall be subject to reduction, cancellation, forfeiture or recoupment upon the occurrence of certain specified events, in addition to any otherwise applicable vesting or performance conditions of an Award. Such events may include, but not be limited to, failure to accept the terms of the Award Agreement, termination of employment under certain or all circumstances, violation of material Company and Affiliate policies, breach of noncompetition, confidentiality, nonsolicitation, noninterference, corporate property protection or other agreements that may apply to the Participant, or other conduct by the Participant that is detrimental to the business or reputation of the Company or Affiliates.

19.2 *Evidence of Restrictions.* The certificates or book-entry accounts for Shares issued under the Plan may include or be subject to any legend or stop-transfer order that the Committee deems appropriate to reflect any restrictions on transfer of such Shares.

19.3 *Delivery of Title.* The Company shall have no obligation to issue or deliver evidence of title for Shares issued under the Plan prior to:

(a) Obtaining any approvals from governmental agencies that the Company determines are necessary or advisable; and

(b) Completion of any registration or other qualification of the Shares under any applicable federal or state law or ruling of any governmental body that the Company determines to be necessary or advisable, and the listing or approval for trading of such Shares on any applicable securities exchange or market.

19.4 *Uncertificated Shares.* Where the Plan provides for the issuance of stock certificates to evidence the issuance or transfer of Shares, such Shares may be evidenced on an uncertificated basis to the extent not prohibited by applicable law or stock exchange rules.

19.5 *Unfunded Plan.* Participants shall have no right, title or interest whatsoever in or to any investments that the Company or an Affiliate may make to aid it in meeting its obligations under the Plan. Nothing contained in the Plan, and no action taken pursuant to its provisions, shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company or an Affiliate and any Participant, beneficiary, legal representative or any other person. Awards shall be general unsecured obligations of the Company, except that if an Affiliate executes an Award Agreement instead of the Company, the Award shall be a general unsecured obligation of the Affiliate and not an obligation of the Company. To the extent that any individual acquires a right to receive payments from the Company or an Affiliate, such right shall be no greater than the right of an unsecured general creditor of the Company or Affiliate, as applicable. All payments to be made hereunder shall be paid from the general funds of the Company or Affiliate, as applicable, and no special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts except as expressly set forth in the Plan. The Plan is not intended to be subject to the Employee Retirement Income Security Act of 1974.

19.6 *No Fractional Shares.* No fractional Shares shall be issued or delivered pursuant to the Plan or any Award Agreement. In the event that any fractional Shares would otherwise result from the application of the terms of an Award, the Company shall instead pay cash in lieu of fractional Shares on such basis as the Committee may determine in its discretion.

19.7 *Other Compensation and Benefit Plans.* Nothing in this Plan shall be construed to limit the right of the Company or an Affiliate to establish other compensation or benefit plans, programs, policies or arrangements. Except as may be otherwise specifically stated in any other benefit plan, policy, program or arrangement, no Award shall be treated as compensation for purposes of calculating a Participant's rights under any such other plan, policy, program or arrangement.

19.8 *No Constraint on Corporate Action.* Nothing in this Plan shall be construed to (i) limit, impair or otherwise affect the Company's or an Affiliate's right or power to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell or transfer all or any part of its business or assets, or (ii) limit the right or power of the Company or an Affiliate to take any action which such entity deems to be necessary or appropriate.

19.9 *Severability.* In the event that any provision of the Plan shall be held to be illegal or invalid for any reason, the illegality or invalidity thereof shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

19.10 *Requirements of Law.* The granting of Awards and the issuance of Shares pursuant to an Award shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or securities exchanges or markets as may be required. The Company or an Affiliate shall receive the consideration required by law for the issuance of Awards under the Plan. The inability of the Company or an Affiliate to obtain authority from any regulatory body having jurisdiction, which authority is necessary for the lawful issuance and sale of any Shares hereunder, shall relieve the Company or Affiliate of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

19.11 *Governing Law.* The Plan and all Award Agreements hereunder shall be construed in accordance with and governed by the laws of the State of Colorado, excluding any conflicts or choice of law principles which might otherwise result in construction or interpretation of the Plan or an Award Agreement under the substantive law of another jurisdiction.

ARTICLE XX
SECTION 409A OF THE CODE

This Plan is intended in all respects to comply with the provisions of Section 409A of the Code and the Company shall interpret and administer the Plan in a manner consistent with Section 409A of the Code. In accordance with Prop. Reg. §1.409A-3(h)(2)(vi) (or any subsequent corresponding provision of law), should there be a final determination that this Plan fails to meet the requirements of Section 409A and the regulations thereunder with respect to any Participant, the Company may distribute to the Participant an amount not to exceed the amount required to be included in income as a result of the failure to comply with the requirements of Section 409A and the regulations.

Notwithstanding any other provision of this Plan to the contrary, in the event that any compensation pursuant to the other provisions of this Plan would result in the imposition on a Participant of any additional taxes or interest pursuant to the provisions of Section 409A of the Code and any temporary or final Treasury Regulations or Internal Revenue Service guidance thereunder, the timing of the payment or settlement of such compensation shall be appropriately and equitably adjusted, together with any appropriate and equitable adjustments to reflect the time value of money, in order that such Participant may receive substantially the same economic benefits as provided under this Plan and in compliance with Section 409A of the Code and without the imposition on such Participant of any additional taxes or interest thereunder.

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This Equity Incentive Compensation Plan, as amended, was adopted by the Board of Directors of SM Energy Company on July 30, 2010.

SM ENERGY COMPANY

By: **/s/ ANTHONY J. BEST**
Chief Executive Officer and President

EXHIBIT 10.8

SM ENERGY COMPANY

NON-QUALIFIED UNFUNDED SUPPLEMENTAL RETIREMENT PLAN

As Amended as of July 30, 2010

As approved by the Board of Directors, the following constitutes a non-qualified supplemental retirement benefit plan for the employees of SM Energy Company (the "Company"), as amended as of July 30, 2010.

WHEREAS:

A. The Company maintains a defined benefit retirement plan (the "DBP") qualifying under Internal Revenue Code Section 401(a) for the benefit of all eligible employees designed to pay retirement and death (survivor annuity) benefits in amounts as determined by the duly adopted and approved plan.

B. The DBP complies in all respects with the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended, which establishes limits on the level of benefits which may be paid, by the DBP, including limits set forth in Section 415 of the Internal Revenue Code.

C. The Company wishes to provide to its Employees the full amount of benefits that would be payable under the benefit formula of such DBP but for the Section 415 limits, and other reductions to the benefit formula necessitated from time to time by changes to applicable law, recognizing that it cannot do so within the DBP itself and therefore the Company adopts this non-qualified retirement benefit plan (the "non-qualified plan") to supplement the DBP.

THEREFORE,

In partial consideration of the employment relationship between the Company and each of its employees, the Company agrees as follows:

1. By this non-qualified plan, no Employee shall gain any property rights in any assets of the Company. Benefits payable hereunder shall be general, unsecured liabilities of the Company, and shall be nonassignable and not subject to anticipation by Employee or Employee's beneficiary.

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2. The benefits payable under this non-qualified plan shall be computed in accordance with subparagraph (i) below for employees hired by the Company after September 30, 1994, and in accordance with subparagraph (ii) below for employees hired by the Company before October 1, 1994.

(i) The benefits payable under the DBP to or for the benefit of any eligible employee hired by the Company after September 30, 1994 (a) shall be calculated without any limitation imposed by Section 415, as such Section from time to time may be amended, and (b) such benefits then shall be reduced by the benefits payable to such eligible employee under the DBP as limited by Section 415, as such Section from time to time may be amended.

(ii) The benefits payable under the DBP to or for the benefit of any eligible employee hired by the Company before October 1, 1994 (a) shall be calculated under the benefit formula of the DBP in effect on December 31, 1988, without any limitation imposed by Section 415, as such Section may from time to time be amended, and (b) such benefits then shall be reduced by the benefits payable to such eligible employee under the benefit formula of the DBP in effect beginning January 1, 1989, after amendment of the DBP in accordance with the requirements of the Tax Reform Act of 1986.

Notwithstanding the foregoing, the benefits payable under this non-qualified plan shall be reduced by the amount of benefits payable under that certain St. Mary Land & Exploration Company Non-Qualified Supplemental Trust Agreement, dated December 23, 1986, as amended from time to time.

3. The time and manner of payment of benefits is as follows:

(i) Benefits under this non-qualified plan shall be payable upon the Employee's separation from service. Notwithstanding the foregoing, benefits under this non-qualified plan shall be payable upon the death or disability (as defined below) of the Employee. For this purpose, the Employer shall make payment of the benefit following the occurrence of the event for which payment is to be made at any time during the calendar year in which the event occurs or by the fifteenth day of the third month of the following year.

(ii) Benefits under this non-qualified plan shall be paid in the form of a lump-sum payment in an amount actuarially equivalent to the accrued benefit provided in Paragraph 2.

(iii) With respect to an Employee who is a "Specified Employee" as defined in Section 409A of the Internal Revenue Code and the regulations issued thereunder (referred to herein as "Section 409A"), any benefit accrued after December 31, 2004 that becomes payable by reason of such Employee's separation from service as defined in Section 409A shall be paid no earlier than the first day after the expiration of six months following the date of such Employee's separation from service. If, by reason of this provision, payment of the Specified Employee's benefit is delayed beyond the fifteenth day of the third month of the year following the year in which the Specified Employee separated from service, simple interest shall be added to the amount of the benefit from such fifteenth day of the third month until payment is made based on the short-term applicable federal rate in effect on the date of separation from service. The amount of compensation deferred after December 31, 2004 shall be determined in accordance with Section 409A, and unless otherwise provided by Section 409A, shall be the total benefit under this non-qualified plan minus the benefit under this non-qualified plan deferred before January 1, 2005. The benefit deferred before January 1, 2005 under this non-qualified plan is the present value, as of December 31, 2004, of the amount to which the Specified Employee would be entitled under this non-qualified plan if the Specified Employee voluntarily terminated service without cause on December 31, 2004, and received a payment of all of the benefits to which such Specified Employee would be entitled, as a lump sum, on that date. The Company may attach to this non-qualified plan a schedule setting forth the amount of benefit deferred before January 1, 2005.

(iv) For purposes of this provision, an Employee is considered to be disabled if the Employee meets either of the following requirements:

(a) The Employee is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months.

(b) The Employee is, by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident and health plan covering other employees of the Company.

In any case, an Employee will be considered disabled if determined to be disabled by the Social Security Administration.

4. For purposes of this non-qualified plan, the beneficiary designated by an Employee shall be the same as is designated for the DBP by the Employer, or in the absence of such designation, by the terms of the DBP.

5. Nothing contained in this non-qualified plan and no action taken pursuant to the provisions of this non-qualified plan shall create or be construed to create a trust of any kind, or a fiduciary relationship between the Company and the Employee, his designated beneficiary or any other person. Any funds utilized or to be utilized to provide benefits under the provisions of this non-qualified plan shall until distribution continue for all purposes to be a part of the general funds of the Company and no person other than the Company shall by virtue of the provisions of this non-qualified plan have any interest in such funds. To the extent that any person acquires a right to receive payments from the Company under this non-qualified plan, such right shall be no greater than the right of any unsecured general creditor of the Company.

6. Notwithstanding anything herein contained to the contrary, no payment of any then unpaid retirement or survivor benefit shall be made and all rights under the non-qualified plan of the Employee, his designated beneficiary, executors or administrators, or any other person, to receive payments thereof shall be forfeited if either or both of the following events shall occur:

(i) The Employee shall engage in any activity or conduct which in the opinion of the Board of Directors of the Company is inimical to the best interests of the Company.

(ii) After the Employee ceases to be employed by the Company he shall fail or refuse to provide advice and counsel to the Company when reasonably requested to do so.

7. If the Board of Directors of the Company shall find that any person to whom any payment is payable under this non-qualified plan is unable to care for his affairs because of illness or accident, or is a minor, any payment due (unless a prior claim therefor shall have been made by a duly appointed guardian, or other legal representative) may be paid to the spouse, a child, a parent, or a brother or sister, or to any person deemed by the Board of Directors to have incurred expense for such person otherwise entitled to payment, in such

manner and proportions as the Board may determine. Any such payment shall be a complete discharge of the liabilities of the Company under this non-qualified plan.

8. Nothing contained herein shall be construed as conferring upon the Employee the right to continue in the employ of the Company as an executive or in any other capacity.

9. Benefits payable under this non-qualified plan shall not be deemed salary or other compensation to the Employee for the purpose of computing benefits to which he may be entitled under any pension plan or other arrangement of the Company for the benefit of its employees.

10. The Board of Directors of the Company shall have full power and authority to interpret, construe, amend, terminate and administer this non-qualified plan (except that any amendment or termination shall not diminish the actuarial value of the vested accrued benefit as of the date of the amendment or termination) and the Board’s interpretations and construction thereof, and actions thereunder, or the amount or recipient of the payment to be made therefrom, shall be binding and conclusive on all persons for all purposes. No member of the Board shall be liable to any person for any action taken or omitted in connection with the interpretation and administration of this non-qualified plan unless attributable to his own willful misconduct or lack of good faith.

11. This non-qualified plan shall be construed in accordance with and governed by the laws of the State of Colorado.

12. Notwithstanding any other provision of this non-qualified plan, any reference herein to “eligible employee,” “Employee” or “Employees” shall mean an employee who is in that select group of management employees of the Company identified by the title at least as senior in Company management hierarchy as that of “Vice President.”

13. Claims for benefits shall be governed by the following provisions:

(i) Any claim for benefits under the plan shall be made in writing to the plan administrator. If a claim is denied, the plan administrator shall so notify the Employee within ninety (90) days after receipt of the claim. The notice of denial shall state (a) the specific reason for the denial of the claim: (b) specific references to the pertinent plan provisions upon which the denial is based, (c) a description of any additional material or information necessary to

perfect the claim together with an explanation of why such material or information is necessary, and (d) an explanation of the claims review procedure.

(ii) Within sixty (60) days after the Employee’s receipt of notice of denial of a claim, the Employee may (a) file a request with the plan administrator that it conduct a full and fair review of the denial of the claim, (b) review pertinent documents, and (c) submit questions and comments to the administrator in writing.

(iii) The decision by the plan administrator with respect to the review must be given within sixty (60) days after receipt of the request, unless special circumstances require an extension. In no event shall the decision be delayed beyond 120 days after receipt of the request for review. The decision shall be written in a manner calculated to be understood by the Employee and shall contain specific reasons for the decision and a specific reference to the plan provisions upon which the decision is based.

14. If the Company makes a good faith determination that any compensation or benefits provided under this plan is likely to be subject to the additional tax imposed by Section 409A, the Company shall, in consultation with the Employee, use its commercially reasonable efforts to modify this non-qualified plan to reduce the risk that such additional tax will apply, in a manner designed to preserve the material economic benefits intended to be provided to the Employee under this non-qualified plan. There remains uncertainty regarding the interpretation of Section 409A. Employees, by acceptance of any benefits under this non-qualified plan, agree that the Company may rely on existing Section 409A guidance as it, in good faith, determines to be appropriate in implementing the foregoing and each Employee shall be solely responsible for the payment of any tax liability arising under Section 409A that may result from any compensation or benefits received pursuant to this non-qualified plan. Nothing in this Section shall otherwise affect the allocation of tax liabilities between the Company and a participating Employee that otherwise arise under applicable law.

IN WITNESS WHEREOF, the Company has caused this Non-Qualified Unfunded Supplemental Retirement Plan, as amended, to be executed by its duly authorized officers, effective as of July 30, 2010.

SM ENERGY COMPANY

By: /s/ ANTHONY J. BEST
Anthony J. Best
Chief Executive Officer and President

/s/ C. MARK BRANNUM
C. Mark Brannum
Secretary

EXHIBIT 31.1

CERTIFICATION

I, Anthony J. Best, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SM Energy Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2010

/s/ ANTHONY J. BEST
Anthony J. Best
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION

I, A. Wade Pursell, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SM Energy Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 3, 2010

/s/ A. WADE PURSELL
A. Wade Pursell
Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of SM Energy Company (the “Company”) for the quarterly period ended September 30, 2010 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Anthony J. Best, as President and Chief Executive Officer of the Company, and A. Wade Pursell, as Executive Vice President and Chief Financial Officer of the Company, each hereby certifies, pursuant to and solely for the purpose of 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of his knowledge and belief, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934 (15 U.S.C. 78m or 78o(d)); and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ ANTHONY J. BEST
Anthony J. Best
President and Chief Executive Officer
November 3, 2010

/s/ A. WADE PURSELL
A. Wade Pursell
Executive Vice President and Chief Financial Officer
November 3, 2010

EXHIBIT 99.1

Audit Committee Pre-Approval of Non-Audit Services

On July 29, 2010, the Audit Committee of the Board of Directors of SM Energy Company approved in advance certain non-audit services to be performed by Deloitte & Touche LLP, SM Energy Company's independent auditor. These non-audit services were corporate income tax compliance services in the third quarter of 2010.