

SM Energy Co
Form 10-Q
August 03, 2016

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 June 30, 2016
Commission File Number 001-31539
SM ENERGY COMPANY
(Exact name of registrant as specified in its charter)

Delaware 41-0518430
(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification No.)

1775 Sherman Street, Suite 1200, Denver, Colorado 80203
(Address of principal executive offices) (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 Smaller reporting company
(Do not check if a 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

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

As of July 27, 2016, the registrant had 68,466,823 shares of common stock, \$0.01 par value, outstanding.

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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)

	June 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$18	\$ 18
Accounts receivable	143,979	134,124
Derivative asset	145,576	367,710
Prepaid expenses and other	14,901	17,137
Total current assets	304,474	518,989
Property and equipment (successful efforts method):		
Proved oil and gas properties	7,249,808	7,606,405
Less - accumulated depletion, depreciation, and amortization	(3,606,829)	(3,481,836)
Unproved oil and gas properties	222,967	284,538
Wells in progress	415,973	387,432
Oil and gas properties held for sale, net	173,001	641
Other property and equipment, net of accumulated depreciation of \$38,175 and \$32,956, respectively	146,412	153,100
Total property and equipment, net	4,601,332	4,950,280
Noncurrent assets:		
Derivative asset	113,119	120,701
Other noncurrent assets	25,550	31,673
Total other noncurrent assets	138,669	152,374
Total Assets	\$5,044,475	\$5,621,643
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued expenses	\$257,349	\$ 302,517
Derivative liability	63,492	8
Total current liabilities	320,841	302,525
Noncurrent liabilities:		
Revolving credit facility	330,500	202,000
Senior Notes, net of unamortized deferred financing costs (note 5)	2,272,580	2,315,970
Asset retirement obligation	108,331	137,284
Asset retirement obligation associated with oil and gas properties held for sale	32,055	241
Net Profits Plan liability	9,476	7,611
Deferred income taxes	472,355	758,279
Derivative liability	104,660	—
Other noncurrent liabilities	44,841	45,332
Total noncurrent liabilities	3,374,798	3,466,717
Commitments and contingencies (note 6)		

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Stockholders' equity:

Common stock, \$0.01 par value - authorized: 200,000,000 shares; issued and outstanding: 68,274,551 and 68,075,700, respectively	683	681
Additional paid-in capital	321,841	305,607
Retained earnings	1,040,219	1,559,515
Accumulated other comprehensive loss	(13,907)	(13,402)
Total stockholders' equity	1,348,836	1,852,401
Total Liabilities and Stockholders' Equity	\$5,044,475	\$ 5,621,643

The accompanying notes are an integral part of these condensed 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 June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
Operating revenues:				
Oil, gas, and NGL production revenue	\$291,142	\$441,256	\$502,965	\$834,571
Net gain (loss) on divestiture activity (note 3)	50,046	71,884	(18,975)	36,082
Other operating revenues	626	3,006	900	11,427
Total operating revenues and other income	341,814	516,146	484,890	882,080
Operating expenses:				
Oil, gas, and NGL production expense	148,591	173,685	293,134	369,836
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	211,020	219,704	425,227	437,105
Exploration	13,187	25,541	28,460	62,948
Impairment of proved properties	—	12,914	269,785	68,440
Abandonment and impairment of unproved properties	38	5,819	2,349	17,446
General and administrative	28,200	42,605	60,438	86,244
Change in Net Profits Plan liability	3,125	(4,476)	1,865	(8,810)
Derivative (gain) loss	163,351	80,929	149,123	(73,238)
Other operating expenses	4,851	10,304	11,783	27,423
Total operating expenses	572,363	567,025	1,242,164	987,394
Loss from operations	(230,549)	(50,879)	(757,274)	(105,314)
Non-operating income (expense):				
Interest income	5	25	11	596
Interest expense	(34,035)	(30,779)	(65,123)	(63,426)
Gain (loss) on extinguishment of debt	—	(16,578)	15,722	(16,578)
Loss before income taxes	(264,579)	(98,211)	(806,664)	(184,722)
Income tax benefit	95,898	40,703	290,773	74,156
Net loss	\$(168,681)	\$(57,508)	\$(515,891)	\$(110,566)
Basic weighted-average common shares outstanding	68,102	67,483	68,090	67,473
Diluted weighted-average common shares outstanding	68,102	67,483	68,090	67,473
Basic net loss per common share	\$(2.48)	\$(0.85)	\$(7.58)	\$(1.64)
Diluted net loss per common share	\$(2.48)	\$(0.85)	\$(7.58)	\$(1.64)
Dividends per common share	\$—	\$—	\$0.05	\$0.05

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

SM ENERGY COMPANY AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (UNAUDITED)
 (in thousands)

	For the Three Months		For the Six Months	
	Ended June 30,		Ended June 30,	
	2016	2015	2016	2015
Net loss	\$(168,681)	\$(57,508)	\$(515,891)	\$(110,566)
Other comprehensive loss, net of tax:				
Pension liability adjustment	(269)	(576)	(505)	(752)
Total other comprehensive loss, net of tax	(269)	(576)	(505)	(752)
Total comprehensive loss	\$(168,950)	\$(58,084)	\$(516,396)	\$(111,318)

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

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

	For the Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$(515,891)	\$(110,566)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Net (gain) loss on divestiture activity	18,975	(36,082)
Depletion, depreciation, amortization, and asset retirement obligation liability accretion	425,227	437,105
Exploratory dry hole expense	(24)	22,896
Impairment of proved properties	269,785	68,440
Abandonment and impairment of unproved properties	2,349	17,446
Stock-based compensation expense	13,915	13,215
Change in Net Profits Plan liability	1,865	(8,810)
Derivative (gain) loss	149,123	(73,238)
Derivative settlement gain	248,738	274,024
Amortization of deferred financing costs	1,930	3,892
Non-cash (gain) loss on extinguishment of debt, net	(15,722)	4,123
Deferred income taxes	(291,014)	(84,556)
Plugging and abandonment	(2,716)	(3,386)
Other, net	676	(434)
Changes in current assets and liabilities:		
Accounts receivable	(11,220)	38,951
Prepaid expenses and other	8,487	2,933
Accounts payable and accrued expenses	(61,727)	(34,040)
Accrued derivative settlements	14,117	17,595
Net cash provided by operating activities	256,873	549,508
Cash flows from investing activities:		
Net proceeds from the sale of oil and gas properties	12,967	334,988
Capital expenditures	(345,570)	(974,130)
Acquisition of proved and unproved oil and gas properties	(17,751)	(6,588)
Other, net	(900)	(996)
Net cash used in investing activities	(351,254)	(646,726)
Cash flows from financing activities:		
Proceeds from credit facility	585,000	1,230,500
Repayment of credit facility	(456,500)	(1,274,500)
Debt issuance costs related to credit facility	(3,132)	—
Net proceeds from Senior Notes	—	491,557
Cash paid to repurchase Senior Notes	(29,904)	(350,000)
Proceeds from sale of common stock	2,354	3,157
Dividends paid	(3,404)	(3,373)
Other, net	(33)	(161)
Net cash provided by financing activities	94,381	97,180
Net change in cash and cash equivalents	—	(38)

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Cash and cash equivalents at beginning of period	18	120
Cash and cash equivalents at end of period	\$18	\$82

The accompanying notes are an integral part of these condensed 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 non-cash activities:

	For the Six Months Ended June 30,	
	2016	2015
	(in thousands)	
Cash paid for interest, net of capitalized interest	\$63,590	\$64,899
Net cash (refunded) paid for income taxes	\$(4,564)	\$380

As of June 30, 2016, and 2015, \$106.7 million and \$164.9 million, respectively, of accrued capital expenditures were included in accounts payable and accrued expenses in the Company's condensed consolidated balance sheets. These oil and gas property additions are reflected in net cash used in investing activities in the periods during which the payables are settled.

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

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

Note 1 - The Company and Business

SM Energy Company (“SM Energy” or the “Company”) is an independent energy company engaged in the acquisition, exploration, development, and production of crude oil and condensate, natural gas, and natural gas liquids (also respectively referred to as “oil,” “gas,” and “NGLs” throughout this report) in onshore North America.

Note 2 - Basis of Presentation, Significant Accounting Policies, and Recently Issued Accounting Standards

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements include the accounts of SM Energy and its wholly-owned subsidiaries and have been prepared in accordance with accounting principles generally accepted in the United States (“GAAP”) for interim financial information and the instructions to Quarterly Report on Form 10-Q and Regulation S-X. These financial statements do not include all information and notes required by GAAP for annual 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, 2015 (the “2015 Form 10-K”). In the opinion of management, all adjustments, consisting of normal recurring adjustments considered necessary for a fair presentation of 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 Company’s unaudited condensed consolidated financial statements, the Company evaluated events subsequent to the balance sheet date of June 30, 2016, through the filing date of this report. Certain prior period amounts have been reclassified to conform to the current period presentation on the accompanying condensed consolidated financial statements.

Significant Accounting Policies

The significant accounting policies followed by the Company are set forth in Note 1 to the Company’s consolidated financial statements in its 2015 Form 10-K, and are supplemented by the notes to the unaudited condensed consolidated financial statements in this report. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the 2015 Form 10-K.

Recently Issued Accounting Standards

Effective January 1, 2016, the Company adopted, on a retrospective basis, Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis. This ASU clarifies the consolidation reporting guidance in GAAP. There was no impact to the Company’s financial statements or disclosures from the adoption of this standard.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which changes the accounting for leases. This guidance is to be applied using a modified retrospective method and is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company’s financial statements and disclosures.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) (“ASU 2014-09”) for the recognition of revenue from contracts with customers. Subsequent to the issuance of this ASU, the

FASB has issued additional related ASUs as follows:

In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date. This ASU deferred the effective date of ASU 2014-09 by one year.

In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). This ASU amends the principal versus agent guidance in ASU No. 2014-09.

In April 2016, the FASB issued ASU No. 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This ASU amends the identification of performance obligations and accounting for licenses in ASU 2014-09.

In May 2016, the FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients. This ASU amends certain issues in ASU 2014-09 on transition, collectibility, noncash consideration, and the presentation of sales taxes and other similar taxes.

ASU 2014-09 and each update have the same effective date and transition requirements. That is, the guidance under these standards is to be applied using a full retrospective method or a modified retrospective method, as outlined in ASU 2014-09, and is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted only for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. The Company is currently evaluating the level of effort needed to implement the standards, evaluating the provisions of each of these standards, and assessing their impact on the Company's financial statements and disclosures, as well as determining whether to use the full retrospective method or the modified retrospective method.

In March 2016, the FASB issued ASU No. 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This ASU makes targeted amendments to the accounting for employee share-based payments. This guidance is to be applied using various transition methods, such as full retrospective, modified retrospective, and prospective, based on the criteria for the specific amendments as outlined in the guidance. The guidance is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2016. Early adoption is permitted, as long as all of the amendments are adopted in the same period. The Company is currently evaluating the provisions of this guidance and assessing its impact on the Company's financial statements and disclosures.

Other than as disclosed above or in the 2015 Form 10-K, there are no other accounting standards applicable to the Company that would have a material effect on the Company's financial statements and related disclosures that have been issued but not yet adopted by the Company as of June 30, 2016, and through the filing date of this report.

Note 3 – Assets Held for Sale and Divestitures Assets Held for Sale

Assets are classified as held for sale when the Company commits to a plan to sell the assets and there is reasonable certainty 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 identify and expense any excess of carrying value over fair value less estimated costs to sell. Any subsequent changes to the fair value less estimated costs to sell impact the measurement of assets held for sale with any gain or loss reflected in the net gain (loss) on divestiture activity line item in the accompanying condensed consolidated statements of operations (“accompanying statements of operations”).

As of June 30, 2016, the accompanying condensed consolidated balance sheets (“accompanying balance sheets”) present \$173.0 million of assets held for sale, net of accumulated depletion, depreciation, and amortization expense, which consists of certain non-core assets in each of the Company's operating regions. A corresponding aggregate asset retirement obligation liability of \$32.1 million is separately presented. Certain of these assets were written down by \$68.3 million to reflect fair value less estimated costs to sell upon reclassification to assets held for sale, as of March 31, 2016. During the second quarter of 2016, the Company estimated an increase in the fair value of certain previously impaired assets held for sale due to an increase in estimated selling prices, as evidenced by recent bid prices received from third parties, resulting in a \$49.5 million gain recorded for the three months ended June 30, 2016. The Company expects to close the asset sale transactions prior to December 31, 2016. There were no material assets held for sale as of December 31, 2015.

Subsequent to June 30, 2016, the Company entered into separate purchase and sale agreements for the sale of certain of its Permian and Rocky Mountain assets that were classified as held for sale as of June 30, 2016. The Company

expects to close these transactions prior to December 31, 2016. The closings of these transactions are subject to the satisfaction of customary closing conditions, and there can be no assurance that these transactions will close on the expected closing dates or at all.

Divestitures

During the second quarter of 2015, the Company divested its Mid-Continent assets in separate packages for total cash proceeds received at closing of \$316.5 million and recorded an estimated net gain of \$107.8 million for the six months ended June 30, 2015. These assets were classified as held for sale as of March 31, 2015, and certain of these assets were written down by \$30.0 million during the three months ended March 31, 2015, to reflect their fair value less estimated costs to sell. This write-down is reflected in the total net gain of \$107.8 million discussed above. In conjunction with this divestiture, the Company closed its Tulsa, Oklahoma office in 2015 and incurred \$5.0 million and \$8.5 million of exit and disposal costs for the three and six months ended

June 30, 2015, respectively. Offsetting the net gain recorded on the divestiture of the Company's Mid-Continent assets were write-downs recorded during the three months ended June 30, 2015, on certain other assets held for sale totaling \$66.0 million.

The Company determined that neither these planned nor executed asset sales qualified for discontinued operations accounting under financial statement presentation authoritative guidance.

Note 4 - Income Taxes

The income tax benefit recorded for the three and six months ended June 30, 2016, and 2015, differs from the amounts that would be provided by applying the statutory United States federal income tax rate to income or loss before income taxes primarily due to the effect of state income taxes, changes in valuation allowances, research and development ("R&D") credits, and other permanent differences. The quarterly rate can also be affected by the proportional effects of forecasted net income or loss as of each period end presented.

The provision for income taxes consists of the following:

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Current portion of income tax expense (benefit):				
Federal	\$—	\$—	\$—	\$—
State	77	10,126	241	10,400
Deferred portion of income tax benefit	(95,975)	(50,829)	(291,014)	(84,556)
Total income tax benefit	\$(95,898)	\$(40,703)	\$(290,773)	\$(74,156)
Effective tax rate	36.2	% 41.4	% 36.0	% 40.1

On a year-to-date basis, 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 or loss from various state tax jurisdictions. Cumulative effects of state rate changes are reflected in the period legislation is enacted.

The Company is generally no longer subject to United States federal or state income tax examinations by tax authorities for years before 2012. During the first quarter of 2016, the Company received an expected \$4.9 million refund of tax and interest after the Company and the Internal Revenue Service ("IRS") reached a final agreement on the examination of the Company's 2007 - 2011 tax years. There were no material adjustments to previously reported amounts. During the quarter ended September 30, 2015, the IRS initiated an audit of the tax partnership between the Company and Mitsui E&P Texas LP for the 2013 tax year. The Company has a significant investment in the underlying assets of this tax partnership. The Company received notice during the first quarter of 2016 that the IRS concluded the audit with no adjustments.

Note 5 - Long-Term Debt

Revolving Credit Facility

On April 8, 2016, the Company entered into a Sixth Amendment to the Fifth Amended and Restated Credit Agreement (the "Credit Agreement" and as amended, the "Amended Credit Agreement") with its lenders. The Company incurred approximately \$3.1 million in deferred financing costs associated with the amendment of this credit facility. The Amended Credit Agreement provides for a maximum loan amount of \$2.5 billion and has a maturity date of

December 10, 2019. Pursuant to the amendment, and as part of the regular, semi-annual borrowing base redetermination process, the Company's borrowing base was reduced to \$1.25 billion. This expected reduction was primarily due to the decline in commodity prices, which had resulted in a decrease in the Company's proved reserves as of December 31, 2015. The next scheduled redetermination date is October 1, 2016. The borrowing base redetermination process considers the value of both the Company's (a) proved oil and gas properties reflected in the Company's most recent reserve report and (b) commodity derivative contracts, each as determined by the Company's lender group. The amendment also reduced the aggregate lender commitments to \$1.25 billion, and changed the required percentage of oil and gas properties subject to a mortgage to at least 90 percent of the total PV-9 of the Company's proved oil and gas properties evaluated in the most recent reserve report. Further, the amendment revised certain of the Company's covenants under the Credit Agreement and modified the borrowing base utilization grid, as discussed below.

The Company must comply with certain financial and non-financial covenants under the terms of the Amended Credit Agreement, including covenants limiting dividend payments and requiring the Company to maintain certain financial ratios, as defined by the Amended Credit Agreement. Financial covenants under the Amended Credit Agreement require, as of the last day of each of the Company's fiscal quarters, the Company's (a) ratio of senior secured debt to 12-month trailing adjusted EBITDAX to be not more than 2.75 to 1.0; (b) adjusted current ratio to be not less than 1.0 to 1.0; and (c) ratio of 12-month trailing adjusted EBITDAX to interest expense to be not less than 2.0 to 1.0. The Company was in compliance with all financial and non-financial covenants under the Amended Credit Agreement as of June 30, 2016, and through the filing date of this report.

Interest and commitment fees are accrued based on a borrowing base utilization grid set forth in the Amended Credit Agreement. Eurodollar loans accrue interest at the London Interbank Offered Rate plus the applicable margin from the utilization table below, and Alternate Base Rate ("ABR") and swingline loans accrue interest at prime plus the applicable margin from the utilization table below. Commitment fees are accrued on the unused portion of the aggregate commitment amount and are included in interest expense in the accompanying statements of operations. Effective as of April 8, 2016, the revised borrowing base utilization grid under the Amended Credit Agreement is as follows:

Borrowing Base Utilization Grid

Borrowing Base Utilization Percentage	<25%	≥25% <50%	≥50% <75%	≥75% <90%	≥90%
Eurodollar Loans	1.750%	2.000%	2.250%	2.500%	2.750%
ABR Loans or Swingline Loans	0.750%	1.000%	1.250%	1.500%	1.750%
Commitment Fee Rate	0.300%	0.300%	0.350%	0.375%	0.375%

The following table presents the outstanding balance, total amount of letters of credit outstanding, and available borrowing capacity under the Amended Credit Agreement as of July 27, 2016, and June 30, 2016, and under the Credit Agreement as of December 31, 2015:

	As of July 27, 2016	As of June 30, 2016	As of December 31, 2015
	(in thousands)		
Credit facility balance ⁽¹⁾	\$330,000	\$330,500	\$202,000
Letters of credit ⁽²⁾	\$200	\$200	\$200
Available borrowing capacity	\$919,800	\$919,300	\$1,297,800

⁽¹⁾ Deferred financing costs attributable to the credit facility are presented as a component of other noncurrent assets on the accompanying balance sheets and thus are not deducted from the credit facility balance.

⁽²⁾ Letters of credit outstanding reduce the amount available under the credit facility on a dollar-for-dollar basis.

Senior Notes

The Company's Senior Notes consist of 6.50% Senior Notes due 2021, 6.125% Senior Notes due 2022, 6.50% Senior Notes due 2023, 5.0% Senior Notes due 2024, and 5.625% Senior Notes due 2025 (collectively referred to as "Senior Notes"). The Senior Notes, net of unamortized deferred financing costs line on the accompanying balance sheets as of June 30, 2016, and December 31, 2015, consisted of the following:

	As of June 30, 2016			As of December 31, 2015		
	Senior Notes	Unamortized Deferred Financing Costs	Senior Notes, Net of Unamortized Deferred Financing Costs	Senior Notes	Unamortized Deferred Financing Costs	Senior Notes, Net of Unamortized Deferred Financing Costs
	(in thousands)					
6.50% Senior Notes due 2021	\$346,955	\$ 3,721	\$ 343,234	\$350,000	\$ 4,106	\$ 345,894
6.125% Senior Notes due 2022	561,796	7,569	554,227	600,000	8,714	591,286
6.50% Senior Notes due 2023	394,985	4,801	390,184	400,000	5,231	394,769
5.0% Senior Notes due 2024	500,000	6,994	493,006	500,000	7,455	492,545
5.625% Senior Notes due 2025	500,000	8,071	491,929	500,000	8,524	491,476
Total	\$2,303,736	\$ 31,156	\$ 2,272,580	\$2,350,000	\$ 34,030	\$ 2,315,970

The Senior Notes are unsecured senior obligations and rank equal in right of payment with all of the Company's existing and any future unsecured senior debt, and are senior in right of payment to any future subordinated debt. There are no subsidiary guarantors of the Senior Notes. The Company is subject to certain covenants under the indentures governing the Senior Notes that limit the Company's ability to incur additional indebtedness, issue preferred stock, and make restricted payments, including dividends; however, the first \$6.5 million of dividends paid each year are not restricted by the restricted payment covenant. The Company was in compliance with all covenants under its Senior Notes as of June 30, 2016, and through the filing date of this report. The Company may redeem some or all of its Senior Notes prior to their maturity at redemption prices based on a premium plus accrued and unpaid interest as described in the indentures governing the Senior Notes.

During the first quarter of 2016, the Company repurchased in open market transactions a total of \$46.3 million in aggregate principal amount of its 6.50% Senior Notes due 2021, 6.125% Senior Notes due 2022, and 6.50% Senior Notes due 2023 for a settlement amount of \$29.9 million, excluding interest. Of the \$29.9 million settlement amount, \$10.0 million related to purchases during the first quarter of 2016, in which the related cash settlement occurred during the three months ended June 30, 2016. The Company recorded a net gain on extinguishment of debt of approximately \$15.7 million for the six months ended June 30, 2016. This amount includes a gain of \$16.4 million associated with the discount realized upon repurchase, which was partially offset by approximately \$700,000 related to the acceleration of unamortized deferred financing costs. The Company accounted for the repurchases under the extinguishment method of accounting. The Company canceled all repurchased notes upon cash settlement.

Note 6 - Commitments and Contingencies

Commitments

There were no material changes in commitments during the first half of 2016, except as discussed below. Please refer to Note 6 - Commitments and Contingencies in the Company's 2015 Form 10-K for additional discussion.

During the second quarter of 2016, the Company entered into a water disposal agreement. Under the agreement, the Company is committed to deliver 25.4 MMBbl of water for treatment through 2026. In the event that the Company

does not deliver any volumes under this agreement, the Company's aggregate undiscounted deficiency payments would be approximately \$23.0 million. This commitment will not be effective until the counterparty constructs and places the associated pipeline into operation, which is expected to be by the end of 2016.

During the first half of 2016, the Company renegotiated the terms of certain drilling rig contracts to provide flexibility concerning the timing of activity and payment. For the three and six months ended June 30, 2016, the Company incurred \$2.6 million and \$7.6 million, respectively, of expense related to the early termination of drilling rig contracts or fees incurred for rigs placed on standby, which are recorded in the other operating expenses line item in the accompanying statements of operations. For the three and six months ended June 30, 2015, the Company incurred drilling rig termination fees of \$2.7 million and \$5.9 million, respectively.

During the first quarter of 2016, the Company entered into amendments to certain oil gathering and gas gathering agreements related to its outside-operated Eagle Ford shale assets, neither of which previously had a minimum volume commitment, in order to obtain more favorable rates and terms. Under these amended agreements, as of June 30, 2016, the Company is now committed to deliver 296 Bcf of natural gas and 39 MMBbl of oil through 2034. In the event that the Company delivers no product under these amended agreements, the Company's aggregate undiscounted deficiency payments would be approximately \$342.0 million at June 30, 2016; however, because of the Company's partial ownership interest in the gathering systems used to provide the services under these agreements, the Company is entitled to receive its share of operating income generated by the systems, and thus would expect to receive approximately \$241.4 million if the \$342.0 million shortfall payment was required.

During the first quarter of 2016, the Company entered into an amendment to a gas gathering agreement related to its operated Eagle Ford shale assets, which reduced the Company's volume commitment amount as of December 31, 2015, by 829 Bcf, and reduced the aggregate undiscounted deficiency payments, in the event no product is delivered, by \$118.2 million through 2021.

As of June 30, 2016, the Company had total gas, oil, and NGL gathering, processing, and transportation throughput commitments with various third parties that require delivery of a minimum amount of 1,590 Bcf of natural gas, 72 MMBbl of crude oil, and 14 MMBbl of natural gas liquids through 2034. If the Company delivers no product, the aggregate undiscounted deficiency payments total approximately \$1.0 billion through 2034, prior to considering the \$241.4 million of operating income the Company would expect to receive if certain payments were required as discussed above.

As of the filing date of this report, the Company does not expect to incur any material shortfalls with regard to its gas, oil, and NGL gathering, processing, and transportation throughput commitments.

Contingencies

The Company is subject to litigation and claims arising in the ordinary course of business. The Company accrues for such items when a liability is both probable and the amount can be reasonably estimated. In the opinion of management, the expected results of any pending litigation and claims will not have a material effect on the results of operations, the financial position, or the cash flows of the Company.

The Company is subject to routine severance, royalty and joint interest audits from regulatory authorities, non-operators and others, as the case may be, and records accruals for estimated exposure when a claim is deemed probable and the amount can be reasonably estimated. Additionally, the Company is subject to various possible contingencies that arise from third party interpretations of the Company's contracts or otherwise affecting the oil and natural gas industry. Such contingencies include differing interpretations as to the prices at which oil and natural gas sales may be made, the prices that royalty owners are paid for production from their leases, allowable costs under joint interest arrangements, and other matters. As of June 30, 2016, the Company had \$4.4 million accrued for estimated exposure related to potential claims for payment of royalties on certain Federal and Indian oil and gas leases. Although the Company believes that it has properly estimated its potential exposure with respect to these claims based on various contracts, laws and regulations, administrative rulings, and interpretations thereof, adjustments could be required as new interpretations and regulations arise.

Note 7 - Compensation Plans

Equity Incentive Compensation Plan

As of June 30, 2016, 6.2 million shares of common stock remained available for grant under the Equity Incentive Compensation Plan.

Performance Share Units Under the Equity Incentive Compensation Plan

The Company grants performance share units (“PSUs”) to eligible employees as part of its long-term equity compensation program. The number of shares of the Company’s common stock issued to settle PSUs ranges from 0% to 200% of the number of PSUs awarded and is determined based on certain performance criteria over a three-year measurement period. The performance criteria for the PSUs are based on a combination of the Company’s annualized Total Shareholder Return (“TSR”) for the performance period and the relative performance of the Company’s TSR compared with the annualized TSR of certain peer companies for the performance period. Compensation expense for PSUs is recognized within general and administrative and exploration expense over the vesting periods of the respective awards.

Total compensation expense recorded for PSUs for the three months ended June 30, 2016, and 2015, was \$3.0 million and \$2.7 million, respectively, and \$5.9 million and \$5.0 million for the six months ended June 30, 2016, and 2015, respectively. As of June 30, 2016, there was \$12.3 million of total unrecognized compensation expense related to unvested PSU awards, which is being amortized through 2018. There were no material changes to the outstanding and non-vested PSUs during the six months ended June 30, 2016.

Subsequent to June 30, 2016, as part of its regular annual long-term equity compensation program, the Company granted 447,971 PSUs with a fair value of \$11.9 million. These PSUs will fully vest on the third anniversary of the date of the grant. Also, subsequent to June 30, 2016, the Company settled PSUs that were granted in 2013, which earned a 0.2 times multiplier, by issuing a net 30,061 shares of the Company’s common stock in accordance with the terms of the respective PSU awards. The Company and the majority of grant participants mutually agreed to net share settle a portion of the awards to cover income and payroll tax withholdings as provided for in the plan document and award agreements. As a result, 14,809 shares were withheld to satisfy income and payroll tax withholding obligations that occurred upon delivery of the shares underlying those PSUs.

Restricted Stock Units Under the Equity Incentive Compensation Plan

The Company grants restricted stock units (“RSUs”) as part of its long-term equity compensation program. Each RSU represents a right to receive one share of the Company’s common stock upon settlement of the award at the end of the specified vesting period. Compensation expense for RSUs is recognized within general and administrative expense and exploration expense over the vesting periods of the award.

Total compensation expense recorded for RSUs was \$3.3 million and \$2.9 million for the three months ended June 30, 2016, and 2015, respectively, and \$6.5 million and \$5.8 million for the six months ended June 30, 2016, and 2015, respectively. As of June 30, 2016, there was \$12.0 million of total unrecognized compensation expense related to unvested RSU awards, which is being amortized through 2018. There were no material changes to the outstanding and non-vested RSUs during the six months ended June 30, 2016.

Subsequent to June 30, 2016, as part of its regular annual long-term equity compensation program, the Company granted 417,065 RSUs with a fair value of \$11.7 million. These RSUs will vest one-third of the total grant on each of the next three anniversary dates of the grant. Also, subsequent to June 30, 2016, the Company settled 232,258 RSUs that related to awards granted in previous years. The Company and the majority of grant participants mutually agreed

to net share settle a portion of the awards to cover income and payroll tax withholdings as provided for in the plan document and award agreements. As a result, the Company issued 162,211 net shares of common stock. The remaining 70,047 shares were withheld to satisfy income and payroll tax withholding obligations that occurred upon delivery of the shares underlying those RSUs.

Director Shares

During the first half of 2016 and 2015, the Company issued 53,473 and 37,950 shares, respectively, of its common stock to its non-employee directors, under the Company's Equity Incentive Compensation Plan and recorded \$517,000 and \$1.2 million, respectively, of compensation expense.

Beginning with 2016, all shares issued to non-employee directors fully vest on December 31st of the year granted.

Employee Stock Purchase Plan

Under the Company's Employee Stock Purchase Plan ("ESPP"), eligible employees may purchase shares of the Company's common stock through payroll deductions of up to 15 percent of eligible compensation, without accruing in excess of \$25,000 in value from purchases for each calendar year. 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 have no restriction period. The ESPP is intended to qualify under Section 423 of the Internal Revenue Code ("IRC"). The Company had 808,854 shares available for issuance under the ESPP as of June 30, 2016. There were 140,853 and 96,285 shares issued under the ESPP during the second quarters of 2016, and 2015, respectively. The fair value of ESPP grants is measured at the date of grant using the Black-Scholes option-pricing model.

Note 8 - Pension Benefits

Pension Plans

The Company has a non-contributory defined benefit pension plan covering substantially all of its employees who joined the Company prior to January 1, 2015, and 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" and together with the Qualified Pension Plan, the "Pension Plans"). The Company froze the Pension Plans to new participants, effective as of December 31, 2015. Employees participating in the Pension Plans as of December 31, 2015, will continue to earn benefits.

Components of Net Periodic Benefit Cost for the Pension Plans

The following table presents the components of the net periodic benefit cost for the Pension Plans:

	For the Three Months Ended June 30, 2016		For the Six Months Ended June 30, 2015	
	2016	2015	2016	2015
	(in thousands)			
Service cost	\$2,113	\$2,390	\$4,100	\$3,974
Interest cost	830	700	1,454	1,248
Expected return on plan assets that reduces periodic pension cost	(573)	(597)	(1,118)	(1,091)
Amortization of prior service cost	5	5	9	9
Amortization of net actuarial loss	419	571	791	743
Net periodic benefit cost	\$2,794	\$3,069	\$5,236	\$4,883

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 10 percent of the greater of the benefit obligation and the market-related value of assets are amortized over the average remaining service period of active participants.

Contributions

The Company contributed \$6.0 million to the Pension Plans during the six months ended June 30, 2016.

Note 9 - Earnings Per Share

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Basic net income or loss per common share 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 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 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 and contingent PSUs. The treasury stock method is used to measure the dilutive impact of these stock awards.

PSUs represent the right to receive, upon settlement of the PSUs after the completion of the three-year performance period, a number of shares of the Company's common stock that may range from zero to two times the number of PSUs granted on the award date. The number of potentially dilutive shares related to PSUs is based on the number of shares, if any, that would be issuable at the end of the respective reporting period, assuming that date was the end of the contingency period applicable to such PSUs.

Please refer to Note 7 - Compensation Plans for additional discussion of the RSUs and PSUs granted subsequent to June 30, 2016, as part of the Company's regular annual long-term equity compensation program, in addition to the net RSUs and PSUs settled.

When the Company recognizes a loss from continuing operations, as was the case for the three and six months ended June 30, 2016, and 2015, all potentially dilutive shares are anti-dilutive and are consequently excluded from the calculation of diluted net loss per common share. The following table details the weighted-average anti-dilutive securities related to RSUs and PSUs for the periods presented:

	For the Three Months Ended June 30, 2016	For the Six Months Ended June 30, 2015
Anti-dilutive	155,590	70,490

(in thousands)

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

	For the Three Months Ended June 30, 2016	For the Six Months Ended June 30, 2015
Net loss	\$(168,681)	

(in thousands, except per share amounts)