

Non-GAAP Financial Measures

Adjusted EBITDA is a supplemental non-GAAP financial measure that is used by management and external users of the Company's consolidated financial statements, such as industry analysts, investors, lenders and rating agencies. The Company defines Adjusted EBITDA as earnings before interest expense, income taxes, depreciation, depletion, amortization, exploration expenses and other similar non-cash or non-recurring charges. Adjusted EBITDA is not a measure of net income or cash flows as determined by United States generally accepted accounting principles, or GAAP.

The following table presents reconciliations of the GAAP financial measures of net income and net cash provided by operating activities to the non-GAAP financial measure of Adjusted EBITDA for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	<i>(In thousands)</i>			
Net income (loss)	\$ (53,230)	\$ 38,833	\$ (71,271)	\$ 208,786
Gain on sale of properties	—	(3,640)	—	(187,033)
Net (gain) loss on derivative instruments	39,424	65,570	(7,648)	83,173
Derivative settlements ⁽¹⁾	104,077	(11,405)	213,336	(13,644)
Interest expense, net of capitalized interest	37,405	38,990	76,189	79,148
Depreciation, depletion and amortization	119,218	97,276	237,696	188,548
Impairment of oil and gas properties	19,516	42	24,837	804
Rig termination	2,815	—	3,895	—
Exploration expenses	1,082	475	1,925	855
Stock-based compensation expenses	6,057	5,173	13,663	9,678
Income tax (benefit) expense	(30,845)	23,287	(38,221)	124,806
Other non-cash adjustments	(97)	118	(101)	(628)
Adjusted EBITDA	\$ 245,422	\$ 254,719	\$ 454,300	\$ 494,493
Net cash provided by operating activities	\$ 141,525	\$ 277,987	\$ 229,886	\$ 486,254
Derivative settlements ⁽¹⁾	104,077	(11,405)	213,336	(13,644)
Interest expense, net of capitalized interest	37,405	38,990	76,189	79,148
Rig termination	2,815	—	3,895	—
Exploration expenses	1,082	475	1,925	855
Deferred financing costs amortization and other	(3,404)	(1,733)	(5,059)	(3,220)
Current tax expense	—	3,345	—	6,111
Changes in working capital	(37,981)	(53,058)	(65,771)	(60,383)
Other non-cash adjustments	(97)	118	(101)	(628)
Adjusted EBITDA	\$ 245,422	\$ 254,719	\$ 454,300	\$ 494,493

- (1) Cash settlements represent the cumulative gains and losses on the Company's derivative instruments for the periods presented and do not include a recovery of costs that were paid to acquire or modify the derivative instruments that were settled.

The following tables present reconciliations of the GAAP financial measure of income before income taxes to the non-GAAP financial measure of Adjusted EBITDA for the Company's three reportable business segments on a gross basis for the periods presented:

Exploration and Production

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	<i>(In thousands)</i>			
Income (loss) before income taxes	\$ (99,164)	\$ 49,221	\$ (133,172)	\$ 314,507
Gain on sale of properties	—	(3,640)	—	(187,033)
Net (gain) loss on derivative instruments	39,424	65,570	(7,648)	83,173
Derivative settlements ⁽¹⁾	104,077	(11,405)	213,336	(13,644)
Interest expense, net of capitalized interest	37,405	38,990	76,189	79,148
Depreciation, depletion and amortization	118,049	96,477	235,589	186,705
Impairment of oil and gas properties	19,516	42	24,837	804
Rig termination	2,815	—	3,895	—
Exploration expenses	1,082	475	1,925	855
Stock-based compensation expenses	5,973	5,094	13,515	9,522
Other non-cash adjustments	(97)	118	(101)	(628)
Adjusted EBITDA	\$ 229,080	\$ 240,942	\$ 428,365	\$ 473,409

- (1) Cash settlements represent the cumulative gains and losses on the Company's derivative instruments for the periods presented and do not include a recovery of costs that were paid to acquire or modify the derivative instruments that were settled.

Well Services

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	<i>(In thousands)</i>			
Income before income taxes	\$ 9,030	\$ 16,318	\$ 18,638	\$ 29,822
Depreciation, depletion and amortization	5,008	3,124	9,526	5,759
Stock-based compensation expenses	443	406	986	659
Adjusted EBITDA	\$ 14,481	\$ 19,848	\$ 29,150	\$ 36,240

Midstream Services

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	<i>(In thousands)</i>			
Income before income taxes	\$ 15,922	\$ 6,096	\$ 25,211	\$ 10,728
Depreciation, depletion and amortization	1,375	883	2,561	1,734
Stock-based compensation expenses	119	—	323	—
Adjusted EBITDA	\$ 17,416	\$ 6,979	\$ 28,095	\$ 12,462

Adjusted Net Income and Adjusted Diluted Earnings Per Share are supplemental non-GAAP financial measures that are used by management and external users of the Company's consolidated financial statements, such as industry analysts, investors, lenders and rating agencies. The Company defines Adjusted Net Income as net income after adjusting first for (1) the impact of certain non-cash and non-recurring items, including non-cash changes in the fair value of derivative instruments, impairment of oil and gas properties, and other similar non-cash and non-recurring charges, and then (2) the non-cash and non-recurring items' impact on taxes based on the Company's effective tax rate in the same period. Adjusted Net Income is not a measure of

net income as determined by GAAP. The Company defines Adjusted Diluted Earnings Per Share as Adjusted Net Income divided by diluted weighted average shares outstanding.

The following table presents reconciliations of the GAAP financial measure of net income to the non-GAAP financial measure of Adjusted Net Income and the GAAP financial measure of diluted earnings per share to the non-GAAP financial measure of Adjusted Diluted Earnings Per Share for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	<i>(In thousands, except per share data)</i>			
Net income (loss)	\$ (53,230)	\$ 38,833	\$ (71,271)	\$ 208,786
Gain on sale of properties	—	(3,640)	—	(187,033)
Net (gain) loss on derivative instruments	39,424	65,570	(7,648)	83,173
Derivative settlements ⁽¹⁾	104,077	(11,405)	213,336	(13,644)
Impairment of oil and gas properties	19,516	42	24,837	804
Rig termination	2,815	—	3,895	—
Other non-cash adjustments	(97)	118	(101)	(628)
Tax impact ⁽²⁾	(60,804)	(19,000)	(81,795)	43,896
Adjusted Net Income	\$ 51,701	\$ 70,518	\$ 81,253	\$ 135,354
Diluted earnings per share	\$ (0.39)	\$ 0.39	\$ (0.58)	\$ 2.08
Gain on sale of properties	—	(0.04)	—	(1.86)
Net (gain) loss on derivative instruments	0.29	0.65	(0.06)	0.83
Derivative settlements ⁽¹⁾	0.76	(0.11)	1.73	(0.14)
Impairment of oil and gas properties	0.14	—	0.20	0.01
Rig termination	0.02	—	0.03	—
Other non-cash adjustments	—	—	—	(0.01)
Tax impact ⁽²⁾	(0.44)	(0.19)	(0.66)	0.44
Adjusted Diluted Earnings Per Share	\$ 0.38	\$ 0.70	\$ 0.66	\$ 1.35
Diluted weighted average shares outstanding	136,859	100,260	123,157	100,328
Effective tax rate	36.7%	37.5%	34.9%	37.4%

(1) Cash settlements represent the cumulative gains and losses on the Company's derivative instruments for the periods presented and do not include a recovery of costs that were paid to acquire or modify the derivative instruments that were settled.

(2) The tax impact is computed utilizing the Company's effective tax rate on the adjustments for certain non-cash and non-recurring items.