

Non-GAAP Financial Measures

Cash Interest

Cash Interest is a supplemental non-GAAP financial measure that is used by management and external users of the Company's financial statements, such as industry analysts, investors, lenders and rating agencies. The Company defines Cash Interest as interest expense plus capitalized interest less amortization and write-offs of deferred financing costs and debt discounts included in interest expense. Cash Interest is not a measure of interest expense as determined by United States generally accepted accounting principles, or GAAP.

The following table presents a reconciliation of the GAAP financial measure of interest expense to the non-GAAP financial measure of Cash Interest for the periods presented:

	Three Months Ended March 31,	
	2017	2016
	(In thousands)	
Interest expense	\$ 36,321	\$ 38,739
Capitalized interest	2,820	4,468
Amortization of deferred financing costs	(1,690)	(3,917)
Amortization of debt discount	(2,355)	—
Cash Interest	\$ 35,096	\$ 39,290

Adjusted EBITDA Reconciliations

Adjusted EBITDA and Free Cash Flow are supplemental non-GAAP financial measures that are used by management and external users of the Company's 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. The Company defines Free Cash Flow as Adjusted EBITDA less Cash Interest and CapEx, excluding capitalized interest. Adjusted EBITDA and Free Cash Flow are not measures of net income (loss) or cash flows as determined by GAAP.

The following table presents reconciliations of the GAAP financial measures of net income (loss) and net cash provided by (used in) operating activities to the non-GAAP financial measures of Adjusted EBITDA and Free Cash Flow for the periods presented:

	Three Months Ended March 31,	
	2017	2016
	(In thousands)	
Net income (loss)	\$ 23,825	\$ (64,455)
Gain on extinguishment of debt	—	(7,016)
Net gain on derivative instruments	(56,075)	(14,375)
Derivative settlements ⁽¹⁾	(7,960)	73,313
Interest expense, net of capitalized interest	36,321	38,739
Depreciation, depletion and amortization	126,666	122,449
Impairment	2,682	3,562
Exploration expenses	1,489	363
Stock-based compensation expenses	6,708	6,730
Income tax (benefit) expense	16,037	(27,629)
Other non-cash adjustments	912	1,207
Adjusted EBITDA	150,605	132,888
Cash Interest	(35,096)	(39,290)
Capital expenditures ⁽²⁾	(109,795)	(87,955)
Capitalized interest	2,820	4,468
Free Cash Flow	\$ 8,534	\$ 10,111
Net cash provided by (used in) operating activities	\$ 107,799	\$ (46,051)
Derivative settlements ⁽¹⁾	(7,960)	73,313
Interest expense, net of capitalized interest	36,321	38,739
Exploration expenses	1,489	363
Deferred financing costs amortization and other	(4,940)	(5,066)
Changes in working capital	16,984	70,383
Other non-cash adjustments	912	1,207
Adjusted EBITDA	150,605	132,888
Cash Interest	(35,096)	(39,290)
Capital expenditures ⁽²⁾	(109,795)	(87,955)
Capitalized interest	2,820	4,468
Free Cash Flow	\$ 8,534	\$ 10,111

- (1) Cash settlements represent the cumulative gains and losses on our 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) Capital expenditures reflected in the table above differ from the amounts shown in the statement of cash flows in our condensed consolidated financial statements because amounts reflected in the table above include changes in accrued liabilities from the previous reporting period for capital expenditures, while the amounts presented in the statement of cash flows are presented on a cash basis.

Segment Adjusted EBITDA Reconciliations

The following tables present reconciliations of the GAAP financial measure of income (loss) 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 March 31,	
	2017	2016
	(In thousands)	
Income (loss) before income taxes	\$ 20,736	\$ (105,764)
Gain on extinguishment of debt	—	(7,016)
Net gain on derivative instruments	(56,075)	(14,375)
Derivative settlements ⁽¹⁾	(7,960)	73,313
Interest expense, net of capitalized interest	36,321	38,739
Depreciation, depletion and amortization	124,409	120,842
Impairment	2,682	1,131
Exploration expenses	1,489	363
Stock-based compensation expenses	6,499	6,547
Other non-cash adjustments	912	1,207
Adjusted EBITDA	\$ 129,013	\$ 114,987

- (1) Cash settlements represent the cumulative gains and losses on our 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.

Midstream Services

	Three Months Ended March 31,	
	2017	2016
	(In thousands)	
Income before income taxes	\$ 20,761	\$ 15,157
Depreciation, depletion and amortization	3,458	1,684
Impairment	—	2,431
Stock-based compensation expenses	348	219
Adjusted EBITDA	\$ 24,567	\$ 19,491

Well Services

	Three Months Ended March 31,	
	2017	2016
	(In thousands)	
Income (loss) before income taxes	\$ (3,588)	\$ 4,011
Depreciation, depletion and amortization	3,164	4,248
Stock-based compensation expenses	396	664
Adjusted EBITDA	\$ (28)	\$ 8,923

Adjusted Net Income (Loss) and Adjusted Diluted Earnings (Loss) Per Share

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

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

	Three Months Ended March 31,	
	2017	2016
	(In thousands, except per share data)	
Net income (loss)	\$ 23,825	\$ (64,455)
Gain on extinguishment of debt	—	(7,016)
Net gain on derivative instruments	(56,075)	(14,375)
Derivative settlements ⁽¹⁾	(7,960)	73,313
Impairment	2,682	3,562
Amortization of deferred financing costs ⁽²⁾	1,690	3,917
Amortization of debt discount	2,355	—
Other non-cash adjustments	912	1,207
Tax impact ⁽³⁾	21,103	(22,655)
Adjusted Net Loss	\$ (11,468)	\$ (26,502)
Diluted earnings (loss) per share	\$ 0.10	\$ (0.40)
Gain on extinguishment of debt	—	(0.04)
Net gain on derivative instruments	(0.24)	(0.09)
Derivative settlements ⁽¹⁾	(0.03)	0.45
Impairment	0.01	0.02
Amortization of deferred financing costs ⁽²⁾	0.01	0.02
Amortization of debt discount	0.01	—
Other non-cash adjustments	—	0.01
Tax impact ⁽³⁾	0.09	(0.13)
Adjusted Diluted Loss Per Share	\$ (0.05)	\$ (0.16)
Diluted weighted average shares outstanding	237,900	162,922
Effective tax rate applicable to adjustment items	37.4%	37.4%

- (1) Cash settlements represent the cumulative gains and losses on our 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) As of March 31, 2017, Adjusted Net Income (Loss) includes the non-cash adjustment for amortization of deferred financing costs. Comparative periods have been conformed. The amortization of deferred financing costs is included in interest expense on the Company's Condensed Consolidated Statement of Operations.
- (3) The tax impact is computed utilizing the Company's effective tax rate applicable to the adjustments for certain non-cash and non-recurring items.