

CORE LABORATORIES N V  
Form 10-Q  
November 04, 2014

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

FORM 10-Q  
(Mark One)

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

For the quarterly period ended September 30, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-14273

CORE LABORATORIES N.V.  
(Exact name of registrant as specified in its charter)

The Netherlands  
(State or other jurisdiction of  
incorporation or organization)

Strawinskylaan 913  
Tower A, Level 9  
1077 XX Amsterdam

The Netherlands  
(Address of principal executive offices)

Not Applicable  
(I.R.S. Employer Identification No.)

Not Applicable  
(Zip Code)

(31-20) 420-3191  
(Registrant's telephone number, including area code)

None  
(Former name, former address and former fiscal year, if changed since last report)

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

Edgar Filing: CORE LABORATORIES N V - Form 10-Q

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

The number of common shares of the registrant, par value EUR 0.02 per share, outstanding at November 3, 2014 was 43,796,660.

---

CORE LABORATORIES N.V.  
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2014

INDEX

PART I - FINANCIAL INFORMATION

	Page
Item 1.	Financial Statements
	<u>Consolidated Balance Sheets (Unaudited) at September 30, 2014 and December 31, 2013</u>
	<u>1</u>
	<u>Consolidated Statements of Operations (Unaudited) for the Three Months Ended September 30, 2014 and 2013</u>
	<u>2</u>
	<u>Consolidated Statements of Operations (Unaudited) for the Nine Months Ended September 30, 2014 and 2013</u>
	<u>3</u>
	<u>Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Nine Months Ended September 30, 2014 and 2013</u>
	<u>4</u>
	<u>Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2014 and 2013</u>
	<u>5</u>
	<u>Notes to the Unaudited Consolidated Interim Financial Statements</u>
	<u>6</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	<u>16</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	<u>24</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>
	<u>24</u>

PART II - OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>25</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>25</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>26</u>
	<u>Signature</u>	<u>27</u>

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## CORE LABORATORIES N.V.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	September 30, 2014 (Unaudited)	December 31, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$25,307	\$25,088
Accounts receivable, net of allowance for doubtful accounts of \$3,526 and \$2,872 at 2014 and 2013, respectively	201,769	201,322
Inventories	49,451	46,821
Prepaid expenses	14,398	13,128
Income taxes receivable	9,041	5,294
Other current assets	11,302	12,215
<b>TOTAL CURRENT ASSETS</b>	<b>311,268</b>	<b>303,868</b>
PROPERTY, PLANT AND EQUIPMENT, net	146,951	138,824
INTANGIBLES, net	10,867	10,949
GOODWILL	164,472	163,337
DEFERRED TAX ASSETS, net	7,167	4,452
OTHER ASSETS	44,407	39,580
<b>TOTAL ASSETS</b>	<b>\$685,132</b>	<b>\$661,010</b>
<b>LIABILITIES AND EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$49,648	\$50,821
Accrued payroll and related costs	34,096	38,969
Taxes other than payroll and income	11,308	6,979
Unearned revenue	11,045	10,887
Income taxes payable	5,746	14,462
Other accrued expenses	15,194	13,657
<b>TOTAL CURRENT LIABILITIES</b>	<b>127,037</b>	<b>135,775</b>
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	370,000	267,002
DEFERRED COMPENSATION	41,681	38,014
DEFERRED TAX LIABILITIES, net	5,685	8,870
OTHER LONG-TERM LIABILITIES	38,954	41,960
<b>COMMITMENTS AND CONTINGENCIES (Note 6)</b>		
<b>EQUITY:</b>		
Preference shares, EUR 0.02 par value; 6,000,000 shares authorized, none issued or outstanding	—	—
Common shares, EUR 0.02 par value; 200,000,000 shares authorized, 45,600,002 issued and 43,934,396 outstanding at 2014 and 46,750,002 issued and 45,101,389 outstanding at 2013	1,174	1,203
Additional paid-in capital	2,013	—
Retained earnings	384,335	415,930
Accumulated other comprehensive income (loss)	(8,368)	(8,626)
Treasury shares (at cost), 1,665,606 at 2014 and 1,648,613 at 2013	(283,656)	(245,184)
Total Core Laboratories N.V. shareholders' equity	95,498	163,323
Non-controlling interest	6,277	6,066

TOTAL EQUITY	101,775	169,389
TOTAL LIABILITIES AND EQUITY	\$685,132	\$661,010

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

1

[Return to Index](#)

---

CORE LABORATORIES N.V.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share data)

	Three Months Ended September 30,	
	2014	2013
	(Unaudited)	
REVENUE:		
Services	\$203,578	\$194,267
Product sales	72,557	78,896
Total revenue	276,135	273,163
OPERATING EXPENSES:		
Cost of services, exclusive of depreciation expense shown below	113,917	110,087
Cost of product sales, exclusive of depreciation expense shown below	53,010	57,340
General and administrative expense, exclusive of depreciation expense shown below	12,316	14,346
Depreciation	6,362	6,396
Amortization	483	357
Other (income) expense, net	927	41
OPERATING INCOME	89,120	84,596
Interest expense	2,561	2,302
Income before income tax expense	86,559	82,294
Income tax expense	19,909	20,490
Net income	66,650	61,804
Net income (loss) attributable to non-controlling interest	153	(91)
Net income attributable to Core Laboratories N.V.	\$66,497	\$61,895
EARNINGS PER SHARE INFORMATION:		
Basic earnings per share attributable to Core Laboratories N.V.	\$1.51	\$1.36
Diluted earnings per share attributable to Core Laboratories N.V.	\$1.50	\$1.35
Cash dividends per share	\$0.50	\$0.32
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	44,152	45,526
Diluted	44,381	45,828

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

2

[Return to Index](#)

---

CORE LABORATORIES N.V.  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(In thousands, except per share data)

	Nine Months Ended September 30, 2014      2013 (Unaudited)	
REVENUE:		
Services	\$580,612	\$564,424
Product sales	225,988	232,805
Total revenue	806,600	797,229
OPERATING EXPENSES:		
Cost of services, exclusive of depreciation expense shown below	336,194	329,901
Cost of product sales, exclusive of depreciation expense shown below	160,560	164,674
General and administrative expense, exclusive of depreciation expense shown below	33,983	38,328
Depreciation	18,731	17,775
Amortization	1,065	967
Other (income) expense, net	(14	) 82
OPERATING INCOME	256,081	245,502
Interest expense	7,718	6,834
Income before income tax expense	248,363	238,668
Income tax expense	56,464	60,190
Net income	191,899	178,478
Net income (loss) attributable to non-controlling interest	604	391
Net income attributable to Core Laboratories N.V.	\$191,295	\$178,087
EARNINGS PER SHARE INFORMATION:		
Basic earnings per share attributable to Core Laboratories N.V.	\$4.29	\$3.88
Diluted earnings per share attributable to Core Laboratories N.V.	\$4.27	\$3.86
Cash dividends per share	\$1.50	\$0.96
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	44,571	45,854
Diluted	44,823	46,150

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



3

[Return to Index](#)

---

CORE LABORATORIES N.V.  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Net income	\$66,650	\$61,804	\$191,899	\$178,478
Pension and other postretirement benefit plans				
Prior service cost				
Amortization to net income of transition asset	(21	) (21	) (65	) (65
Amortization to net income of prior service cost	2	39	5	119
Amortization to net income of actuarial loss	135	117	405	351
Income taxes on pension and other postretirement benefit plans	(29	) (33	) (86	) (101
Comprehensive income	66,737	61,906	192,158	178,782
Comprehensive income (loss) attributable to non-controlling interest	153	(91	) 604	391
Comprehensive income attributable to Core Laboratories N.V.	\$66,584	\$61,997	\$191,554	\$178,391

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

4

[Return to Index](#)

---

CORE LABORATORIES N.V.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

	Nine Months Ended September 30,	
	2014	2013
	(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$191,899	\$178,478
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	15,497	15,408
Depreciation and amortization	19,796	18,742
Debt issuance costs	341	360
(Increase) decrease in value of life insurance policies	(724)	(3,194)
Deferred income taxes	(190)	6,212
Other non-cash items	728	316
Changes in assets and liabilities:		
Accounts receivable	(959)	(20,425)
Inventories	(3,053)	(5,143)
Prepaid expenses and other current assets	(7,041)	14,595
Other assets	1,529	(414)
Accounts payable	(2,171)	(1,506)
Accrued expenses	(10,604)	1,788
Unearned revenue	158	(1,361)
Other long-term liabilities	453	6,792
Net cash provided by operating activities	205,659	210,648
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(27,624)	(26,988)
Patents and other intangibles	(753)	(3,083)
Business acquisition, net of cash acquired	(1,200)	—
Investment in non-consolidated affiliates	—	(50)
Proceeds from sale of assets	1,098	852
Premiums on life insurance	(3,482)	(2,553)
Net cash used in investing activities	(31,961)	(31,822)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of debt borrowings	(57,157)	(51,035)
Proceeds from debt borrowings	160,000	73,000
Stock options exercised	—	83
Excess tax benefits from stock-based compensation	2,680	2,500
Debt financing costs	(1,054)	—
Non-controlling interest - dividend	(393)	—
Dividends paid	(67,153)	(44,125)
Repurchase of common shares	(210,402)	(156,271)
Net cash used in financing activities	(173,479)	(175,848)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>219</b>	<b>2,978</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>25,088</b>	<b>19,226</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$25,307</b>	<b>\$22,204</b>

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

5

[Return to Index](#)

---

CORE LABORATORIES N.V.  
 NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Core Laboratories N.V. and its subsidiaries for which we have a controlling voting interest and/or a controlling financial interest. These financial statements have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") for interim financial information using the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all of the information and footnote disclosures required by U.S. GAAP and should be read in conjunction with the audited financial statements and the summary of significant accounting policies and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2013 (the "2013 Annual Report").

Core Laboratories N.V. uses the equity method of accounting for investments in which it has less than a majority interest and over which it does not exercise control but does exert significant influence. We use the cost method to record certain other investments in which we own less than 20% of the outstanding equity and do not exercise control or exert significant influence. Non-controlling interests have been recorded to reflect outside ownership attributable to consolidated subsidiaries that are less than 100% owned. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods presented have been included in these financial statements. Furthermore, the operating results presented for the three and nine months ended September 30, 2014 may not necessarily be indicative of the results that may be expected for the year ended December 31, 2014.

Core Laboratories N.V.'s balance sheet information for the year ended December 31, 2013 was derived from the 2013 audited consolidated financial statements but does not include all disclosures in accordance with U.S. GAAP.

Certain reclassifications were made to prior period amounts in order to conform to the current period presentation. These reclassifications had no impact on the reported net income or cash flows for the three and nine months ended September 30, 2013.

References to "Core Lab", the "Company", "we", "our" and similar phrases are used throughout this Quarterly Report on Form 10-Q and relate collectively to Core Laboratories N.V. and its consolidated subsidiaries.

### 2. INVENTORIES

Inventories consist of the following (in thousands):

	September 30, 2014 (Unaudited)	December 31, 2013
Finished goods	\$36,119	\$37,143
Parts and materials	10,720	8,323
Work in progress	2,612	1,355
Total inventories	\$49,451	\$46,821

We include freight costs incurred for shipping inventory to customers in the Cost of product sales line of the Consolidated Statements of Operations.

### 3. GOODWILL AND INTANGIBLES

We account for intangible assets with indefinite lives, including goodwill, in accordance with the applicable accounting guidance, which requires us to evaluate these assets for impairment annually or more frequently if an indication of impairment is possible. Based upon our most recent evaluation at the end of 2013, we determined that intangible assets, including goodwill, are not impaired. We amortize intangible assets with a finite life on a straight-line basis over their respective useful lives.

#### 4. DEBT AND CAPITAL LEASE OBLIGATIONS

Debt is summarized in the following table (in thousands):

6

[Return to Index](#)

---

	September 30, 2014 (Unaudited)	December 31, 2013
Senior notes	\$ 150,000	\$ 150,000
Credit facility	220,000	117,000
Capital lease obligations	5	28
Total debt	370,005	267,028
Less - current maturities of long-term debt and capital lease obligations	5	26
Long-term debt and capital lease obligations, net	\$ 370,000	\$ 267,002

In 2011, we issued two series of senior notes with an aggregate principal amount of \$150 million ("Senior Notes") in a private placement transaction. Series A consists of \$75 million in aggregate principal amount of notes that bear interest at a fixed rate of 4.01% and are due in full on September 30, 2021. Series B consists of \$75 million in aggregate principal amount of notes that bear interest at a fixed rate of 4.11% and are due in full on September 30, 2023. Interest on each series of the Senior Notes is payable semi-annually on March 30 and September 30.

On August 29, 2014, we entered into an agreement to amend our revolving credit facility (the "Credit Facility") to increase the aggregate borrowing capacity from \$300 million to \$350 million and to increase the uncommitted availability an additional \$50 million to bring the total borrowings available to \$400 million if certain prescribed conditions are met by the Company. The variable rate was reduced from LIBOR plus 1.5% to LIBOR plus 1.25%. The maturity date was extended from September 28, 2016 to August 29, 2019.

The Credit Facility carries an aggregate borrowing capacity of \$350 million and provides an option to increase the commitment to \$400 million, if certain conditions are met. The Credit Facility bears interest at variable rates from LIBOR plus 1.25% to a maximum of LIBOR plus 2.00%. Any outstanding balance under the Credit Facility is due August 29, 2019, when the Credit Facility matures. Interest payment terms are variable depending upon the specific type of borrowing under this facility. Our available capacity at any point in time is reduced by borrowings outstanding at the time and outstanding letters of credit which totaled \$25.5 million at September 30, 2014, resulting in an available borrowing capacity under the Credit Facility of \$104.5 million. In addition to those items under the Credit Facility, we had \$19.5 million of outstanding letters of credit and performance guarantees and bonds from other sources as of September 30, 2014.

The terms of the Credit Facility and the Senior Notes require us to meet certain covenants, including, but not limited to, certain minimum equity and cash flow ratios. We believe that we are in compliance with all such covenants contained in our credit agreements. Certain of our material, wholly-owned subsidiaries are guarantors or co-borrowers under the Credit Facility and Senior Notes.

In October 2014, we entered into two interest rate swap agreements for a total notional amount of \$50 million to hedge changes in the variable rate interest expense on \$50 million of our existing or replacement LIBOR-priced debt. Under the first swap agreement of \$25 million, which is effective through August 29, 2024, we will receive interest at one-month LIBOR and will pay interest at a fixed rate of 2.50%, resulting in a total fixed rate of 3.75% for this amount of debt. Under the second swap agreement of \$25 million, which is effective through August 29, 2019, we will receive interest at one-month LIBOR and will pay interest at a fixed rate of 1.73%, resulting in a total fixed rate of 2.98% for this amount of debt. Both of these swaps are designated and qualify as cash flow hedging instruments, resulting in no effect to the Consolidated Statements of Operations or earnings per share.

The estimated fair value of total debt at September 30, 2014 and December 31, 2013 approximated the book value of total debt. The fair value was estimated using Level 2 inputs by calculating the sum of the discounted future interest and principal payments through the date of maturity.



## 5. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

### Defined Benefit Plan

We provide a non-contributory defined benefit pension plan for substantially all of our Dutch employees ("Dutch Plan") who were hired prior to 2007 based on years of service and final pay or career average pay, depending on when the employee began participating. The benefits earned by the employees are immediately vested. We fund the future obligations of the Dutch Plan by purchasing insurance contracts from a large multi-national insurance company. The insurance contracts are purchased annually and renew after five years at which time they are replaced with new contracts that are adjusted to include changes in the benefit obligation for the current year and redemption of the expired contracts. We make annual premium payments to the insurance company based on each employee's age and current salary, and the contractual growth rate. We determine the fair value of these plan assets with the assistance of an actuary using observable inputs (Level 2), which approximates the contract value of the investments.

7

[Return to Index](#)

---

The following table summarizes the components of net periodic pension cost under the Dutch Plan for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Service cost	\$361	\$394	\$1,103	\$1,178
Interest cost	439	417	1,341	1,248
Expected return on plan assets	(326	) (321	) (995	) (961
Amortization of transition asset	(21	) (21	) (65	) (65
Amortization of prior service cost	2	39	5	119
Amortization of actuarial loss	135	117	405	351
Net periodic pension cost	\$590	\$625	\$1,794	\$1,870

During the nine months ended September 30, 2014, we contributed approximately \$1.7 million to fund the estimated 2014 premiums on investment contracts held by the Dutch Plan.

#### Defined Contribution Plans

We maintain defined contribution plans (the "Defined Contribution Plans") for the benefit of eligible employees in certain countries, including Canada, The Netherlands, the United Kingdom and the United States. In accordance with the terms of each plan, we and our participating employees contribute up to specified limits, and under certain plans, we may make discretionary contributions in accordance with the terms of the Defined Contribution Plans.

#### Deferred Compensation Arrangements

We have entered into deferred compensation contracts for certain key employees. The benefits under these contracts are fully vested and benefits are paid when the participants attain 65 years of age. Life insurance policies with cash surrender values have been purchased for the purpose of assisting in the funding of the deferred compensation contracts.

We have adopted a non-qualified deferred compensation plan that allows certain highly compensated employees to defer a portion of their salary, commission and bonus, as well as the amount of any reductions in their deferrals under the deferred compensation plan for employees in the United States (the "Deferred Compensation Plan"), due to certain limitations imposed by the U.S. Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). The Deferred Compensation Plan also provides for employer contributions to be made on behalf of participants equal in amount to certain forfeitures of, and/or reductions in, employer contributions that participants could have otherwise received under the Defined Contribution Plan for U.S. employees qualified under Internal Revenue Code Section 401(k) had there not been certain limitations imposed by the Internal Revenue Code. Employer contributions to the Deferred Compensation Plan vest ratably over a period of five years. Contributions to the plan are invested in equity and other investment fund assets within life insurance policies, and carried on the balance sheet at fair value. A participant's plan benefits include the participant's deferrals, the vested portion of the employer's contributions, and deemed investment gains and losses on such amounts. The benefits under these contracts are fully vested and payment of benefits generally commences as of the last day of the month following the termination of services except that the payment of benefits for select executives generally commences on the first working day following a six month waiting period following the date of termination.

The Company's only financial assets and liabilities which involve fair value measures relate to certain aspects of the Company's benefit plans. On a recurring basis, we use the market approach to value certain assets and liabilities at fair value at quoted prices in an active market (Level 1) and certain assets and liabilities using significant other observable inputs (Level 2) with the assistance of a third party specialist. We do not have any assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3). Gains and losses related to the fair value changes in the deferred compensation assets and liabilities are recorded in General and Administrative Expense in the Consolidated Statements of Operations. The following table summarizes the fair value balances (in thousands):

8

[Return to Index](#)

---

(Unaudited)	Total	Fair Value Measurement at September 30, 2014		
		Level 1	Level 2	Level 3
Assets:				
Deferred compensation trust assets <sup>(1)</sup>	\$23,316	\$—	\$23,316	\$—
Liabilities:				
Deferred compensation plan	\$28,322	\$—	\$28,322	\$—

  

	Total	Fair Value Measurement at December 31, 2013		
		Level 1	Level 2	Level 3
Assets:				
Deferred compensation trust assets <sup>(1)</sup>	\$20,104	\$—	\$20,104	\$—
Liabilities:				
Deferred compensation plan	\$25,470	\$1,182	\$24,288	\$—

(1) Trust assets consist of the cash surrender value of life insurance policies intended to assist in the funding of the deferred compensation plan and are included in Other assets in the Balance Sheet.

## 6. COMMITMENTS AND CONTINGENCIES

We have been and may from time to time be named as a defendant in legal actions that arise in the ordinary course of business. These include, but are not limited to, employment-related claims and contractual disputes or claims for personal injury or property damage which occur in connection with the provision of our services and products. Management does not currently believe that any of our pending contractual, employment-related, personal injury or property damage claims and disputes will have a material effect on our future results of operations, financial position or cash flow.

In connection with an audit of the 2008 and 2009 U.S. federal income tax returns of our U.S. consolidated group, the U.S. Internal Revenue Service has proposed that certain transfer pricing positions taken by the Company be adjusted, which could result in additional federal income tax of approximately \$11 million plus interest for this two-year audit period. We believe that these transactions are valid as originally recorded, and we are appealing this proposed adjustment. It is our belief that we will prevail on this issue; consequently, we have made no additional income tax accrual for this proposed adjustment.

## 7. EQUITY

During the three months ended September 30, 2014, we repurchased 562,913 of our common shares for \$85.1 million. Included in this total were rights to 4,887 shares valued at \$0.8 million that were surrendered to us pursuant to the terms of a stock-based compensation plan in consideration of the participants' tax burdens that may result from the issuance of common shares under that plan. During the nine months ended September 30, 2014, we repurchased 1,272,472 of our common shares for \$210.4 million. Included in this total were rights to 30,281 shares valued at \$5.5 million that were surrendered to us pursuant to the terms of a stock-based compensation plan in consideration of the participants' tax burdens that may result from the issuance of common shares under that plan. Such common shares, unless canceled, may be reissued for a variety of purposes such as future acquisitions, non-employee director stock awards or employee stock awards.

At the annual meeting of shareholders on May 13, 2014, the shareholders approved the cancellation of 1,150,000 shares of our common stock then held as treasury stock. These treasury shares were cancelled on July 25, 2014, after

the expiration of the waiting period required under Dutch law. In accordance with ASC 505-30-30-8, we charged the excess of the cost of the treasury stock over its par value to additional paid-in capital and retained earnings.

In February, May and August 2014, we paid a quarterly dividend of \$0.50 per share of common stock. In addition, on October 6, 2014, we declared a quarterly dividend of \$0.50 per share of common stock for shareholders of record on October 17, 2014 and payable on November 25, 2014.

The following table summarizes our changes in equity for the nine months ended September 30, 2014 (in thousands):

9

[Return to Index](#)

---

(Unaudited)	Common Shares	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-Controlling Interest	Total Equity
December 31, 2013	\$1,203	\$—	\$415,930	\$(8,626 )	\$(245,184 )	\$ 6,066	\$ 169,389
Stock based-awards	—	3,648	—	—	11,849	—	15,497
Tax benefit of stock-based awards issued	—	2,680	—	—	—	—	2,680
Repurchase of common shares	—	—	—	—	(210,402 )	—	(210,402 )
Dividends paid	—	—	(67,153 )	—	—	—	(67,153 )
Cancellation of common shares	(29 )	(4,315 )	(155,737 )	—	160,081	—	—
Non-controlling interest dividends	—	—	—	—	—	(393 )	(393 )
Amortization of deferred pension costs, net of tax	—	—	—	258	—	—	258
Net income (loss)	—	—	191,295	—	—	604	191,899
September 30, 2014	\$1,174	\$2,013	\$384,335	\$(8,368 )	\$(283,656 )	\$ 6,277	\$ 101,775

Accumulated other comprehensive income (loss) consisted of the following (in thousands):

	September 30, 2014 (Unaudited)	December 31, 2013
Transition asset	\$82	\$131
Prior service cost	(51 )	(55 )
Unrecognized net actuarial loss	(8,399 )	(8,702 )
Total accumulated other comprehensive income (loss)	\$(8,368 )	\$(8,626 )

## 8. EARNINGS PER SHARE

We compute basic earnings per common share by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per common and potential common shares include additional shares in the weighted average share calculations associated with the incremental effect of dilutive restricted stock awards and contingently issuable shares, as determined using the treasury stock method. The following table summarizes the calculation of weighted average common shares outstanding used in the computation of diluted earnings per share (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Weighted average basic common shares outstanding	44,152	45,526	44,571	45,854
Effect of dilutive securities:				

Edgar Filing: CORE LABORATORIES N V - Form 10-Q

Stock options	—	—	—	1
Performance shares	121	135	110	115
Restricted stock	108	167	142	180
Weighted average diluted common and potential common shares outstanding	44,381	45,828	44,823	46,150

10

[Return to Index](#)

---

## 9. OTHER (INCOME) EXPENSE, NET

The components of other (income) expense, net, were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Sale of assets	\$ (442)	) \$ (155)	) \$ (740)	) \$ (687)
Results of non-consolidated subsidiaries	(165)	) 43	(295)	) (142)
Foreign exchange	1,858	518	2,158	3,040
Interest income	(8)	) 4	(194)	) (586)
Rents and royalties	(209)	) (156)	) (656)	) (599)
Insurance recovery	—	(336)	) —	(882)
Other, net	(107)	) 123	(287)	) (62)
Total other (income) expense, net	\$ 927	\$ 41	\$ (14)	) \$ 82

Foreign exchange (gain) loss by currency is summarized in the following table (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Australian Dollar	\$ 104	\$ 182	\$ 166	\$ 391
British Pound	770	(430)	) 496	111
Canadian Dollar	903	(278)	) 1,071	690
Euro	(448)	) 266	(446)	) 620
Indonesian Rupiah	82	320	48	373
Malaysian Ringgit	77	144	90	332
Other currencies, net	370	314	733	523
Total (gain) loss	\$ 1,858	\$ 518	\$ 2,158	\$ 3,040

## 10. INCOME TAX EXPENSE

The effective tax rates for the three months ended September 30, 2014 and 2013 were 23.0% and 24.9%, respectively. The effective tax rates for the nine months ended September 30, 2014 and 2013 were 22.7% and 25.2%, respectively. The change in tax expense is primarily the result of several items discrete to each of the three and nine months ended September 30, 2014 and 2013 along with changes in activity levels among jurisdictions with different tax rates.



## 11. SEGMENT REPORTING

We operate our business in three reportable segments. These complimentary segments provide different services and products and utilize different technologies for improving reservoir performance and increasing oil and gas recovery from new and existing fields.

**Reservoir Description:** Encompasses the characterization of petroleum reservoir rock, fluid and gas samples. We provide analytical and field services to characterize properties of crude oil and petroleum products to the oil and gas industry.

**Production Enhancement:** Includes services and products relating to reservoir well completions, perforations, stimulations and production. We provide integrated services to evaluate the effectiveness of well completions and to develop solutions aimed at increasing the effectiveness of enhanced oil recovery projects.

**Reservoir Management:** Combines and integrates information from reservoir description and production enhancement services to increase production and improve recovery of oil and gas from our clients' reservoirs.

Results for these segments are presented below. We use the same accounting policies to prepare our segment results as are used to prepare our Consolidated Financial Statements. All interest and other non-operating income (expense) is attributable to the Corporate & Other area and is not allocated to specific segments. Summarized financial information concerning our segments is shown in the following table (in thousands):

(Unaudited)	Reservoir Description	Production Enhancement	Reservoir Management	Corporate & Other <sup>1</sup>	Consolidated
Three Months Ended September 30, 2014					
Revenue from unaffiliated clients	\$131,380	\$122,161	\$22,594	\$—	\$276,135
Inter-segment revenue	4,734	52,916	1,422	(59,072)	—
Segment operating income (loss)	35,377	45,735	7,553	455	89,120
Total assets (at end of period)	317,741	277,320	33,646	56,425	685,132
Capital expenditures	4,577	2,678	2,021	(1,439)	7,837
Depreciation and amortization	4,158	1,830	350	507	6,845
Three Months Ended September 30, 2013					
Revenue from unaffiliated clients	\$131,533	\$119,511	\$22,119	\$—	\$273,163
Inter-segment revenue	656	791	301	(1,748)	—
Segment operating income (loss)	35,938	42,284	6,516	(142)	84,596
Total assets (at end of period)	320,505	261,970	37,005	37,996	657,476
Capital expenditures	5,414	1,467	285	1,887	9,053
Depreciation and amortization	3,856	2,196	312	389	6,753
Nine Months Ended September 30, 2014					
Revenue from unaffiliated clients	\$387,225	\$343,434	\$75,941	\$—	\$806,600
Inter-segment revenue	10,266	54,097	2,189	(66,552)	—
Segment operating income (loss)	106,571	120,597	27,821	1,092	256,081
Total assets	317,741	277,320	33,646	56,425	685,132
Capital expenditures	15,673	5,508	2,388	4,055	27,624
Depreciation and amortization	11,941	5,605	955	1,295	19,796
Nine Months Ended September 30, 2013					
Revenue from unaffiliated clients	\$386,000	\$337,141	\$74,088	\$—	\$797,229
Inter-segment revenue	2,131	2,468	1,124	(5,723)	—
Segment operating income (loss)	107,707	113,761	23,837	197	245,502

Edgar Filing: CORE LABORATORIES N V - Form 10-Q

Total assets	320,505	261,970	37,005	37,996	657,476
Capital expenditures	17,267	5,406	1,321	2,994	26,988
Depreciation and amortization	11,080	5,810	692	1,160	18,742

(1) "Corporate & Other" represents those items that are not directly related to a particular segment and eliminations.

12

[Return to Index](#)

---

## 12. RECENT ACCOUNTING PRONOUNCEMENTS

In July 2013, the Financial Accounting Standards Board ("FASB") issued ASU 2013-11 relating to income taxes (FASB ASC Topic 740), which provides guidance on the presentation of unrecognized tax benefits. The intent is to better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We have adopted this pronouncement for our fiscal year beginning January 1, 2014. The adoption of this pronouncement did not have a material effect on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 relating to revenue from contracts with customers (FASB ASC Topic 606), which provides guidance on revenue recognition. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance requires entities to apply a five-step method to (1) identify the contract(s) with customers; (2) identify the performance obligation(s) in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation(s) in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. We are evaluating the impact that the adoption of this standard will have on our consolidated financial statements.

13

[Return to Index](#)

---

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion summarizes the financial position of Core Laboratories N.V. and its subsidiaries as of September 30, 2014 and should be read in conjunction with (i) the unaudited consolidated interim financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (ii) the audited consolidated financial statements and accompanying notes to our Annual Report on Form 10-K for the fiscal year ended December 31, 2013 (the "2013 Annual Report").

### General

Core Laboratories N.V. is a limited liability company incorporated and domiciled in The Netherlands. It was established in 1936 and is one of the world's leading providers of proprietary and patented reservoir description, production enhancement and reservoir management services and products to the oil and gas industry. These services and products can enable our clients to improve reservoir performance and increase oil and gas recovery from their producing fields. Core Laboratories N.V. has over 70 offices in more than 50 countries and employs approximately 5,000 people worldwide.

References to "Core Lab", the "Company", "we", "our" and similar phrases are used throughout this Quarterly Report on Form 10-Q and relate collectively to Core Laboratories N.V. and its consolidated affiliates.

We operate our business in three reportable segments. These complimentary segments provide different services and products and utilize different technologies for improving reservoir performance and increasing oil and gas recovery from new and existing fields.

**Reservoir Description:** Encompasses the characterization of petroleum reservoir rock, fluid and gas samples. We provide analytical and field services to characterize properties of crude oil and petroleum products to the oil and gas industry.

**Production Enhancement:** Includes services and products relating to reservoir well completions, perforations, stimulations and production. We provide integrated services to evaluate the effectiveness of well completions and to develop solutions aimed at increasing the effectiveness of enhanced oil recovery projects.

**Reservoir Management:** Combines and integrates information from reservoir description and production enhancement services to increase production and improve recovery of oil and gas from our clients' reservoirs.

### Cautionary Statement Regarding 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. Certain statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations section, including those under the headings "Outlook" and "Liquidity and Capital Resources", and in other parts of this Form 10-Q, are forward-looking. In addition, from time to time, we may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. Forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "believe", "expect", "anticipate", "estimate", "continue", or other similar words, including statements as to the intent, belief, or current expectations of our directors, officers, and management with respect to our future operations, performance, or positions or which contain other forward-looking information. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, no assurances can be given that the future results indicated, whether expressed or implied, will be achieved. While we believe that these statements are and will be accurate, our actual results and

experience may differ materially from the anticipated results or other expectations expressed in our statements due to a variety of risks and uncertainties.

The oil and gas industry is highly cyclical and demand for the majority of our oilfield services and products is substantially dependent on the level of expenditures by the oil and gas industry for the exploration, development and production of crude oil and natural gas reserves, which are sensitive to oil and natural gas prices and generally dependent on the industry's view of future oil and gas prices. There are numerous factors affecting the supply of and demand for our services and products, which are summarized as:

14

[Return to Index](#)

---

- general and economic business conditions;
- market prices of oil and gas and expectations about future prices;
- cost of producing and the ability to deliver oil and natural gas;
- the level of drilling and production activity;
- mergers, consolidations and downsizing among our clients;
- coordination by OPEC;
- the impact of commodity prices on the expenditure levels of our clients;
- financial condition of our client base and their ability to fund capital expenditures;
- the physical effects of climatic change, including adverse weather or geologic/geophysical conditions;
- the adoption of legal requirements or taxation relating to climate change that lower the demand for petroleum-based fuels;
- civil unrest or political uncertainty in oil producing or consuming countries;
- level of consumption of oil, gas and petrochemicals by consumers;
- changes in existing laws, regulations, or other governmental actions;
- the business opportunities (or lack thereof) that may be presented to and pursued by us;
- availability of services and materials for our clients to grow their capital expenditures;
- ability of our clients to deliver product to market;
- availability of materials and equipment from key suppliers; and
- cyber attacks on our network that disrupt operations or result in lost or compromised critical data.

Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a more detailed discussion of some of the foregoing risks and uncertainties, see "Item 1A - Risk Factors" in our 2013 Annual Report and in Part II of this document, as well as the other reports filed by us with the Securities and Exchange Commission ("SEC").

## Outlook

We continue our efforts to expand our market presence by opening or expanding facilities in strategic areas and realizing synergies within our business lines. We believe our market presence provides us a unique opportunity to service clients who have global operations in addition to the national oil companies.

We have established internal earnings targets that are based on market conditions existing at the time our targets were established. We anticipate North American activity will continue to increase for emerging unconventional oil plays while activity will remain at reduced, yet stable, levels in established unconventional tight-oil and gas plays. We also anticipate the greater levels of deepwater coring programs experienced in the third quarter will continue into the last quarter of 2014 and into 2015, especially in the deepwater Gulf of Mexico. High pressure and high temperature reservoir fluid phase behavior projects are also expected to remain at high levels. Internationally, in response to reduced Brent crude prices, we project only modest growth through the end of 2014, but expect higher levels of activity in 2015 should Brent pricing increase which could enable greater client activity.

## Results of Operations

Our results of operations as a percentage of applicable revenue were as follows (in thousands):

(Unaudited)	Three Months Ended September 30,				\$ Change	% Change		
	2014		2013		2014/2013	2014/2013		
<b>REVENUE:</b>								
Services	\$203,578	74	% \$194,267	71	% \$9,311	5	%	
Product sales	72,557	26	% 78,896	29	% (6,339)	(8)	)%	
Total revenue	276,135	100	% 273,163	100	% 2,972	1	%	
<b>OPERATING EXPENSES:</b>								
Cost of services, exclusive of depreciation expense shown below*	113,917	56	% 110,087	57	% 3,830	3	%	
Cost of product sales, exclusive of depreciation expense shown below*	53,010	73	% 57,340	73	% (4,330)	(8)	)%	
Total cost of services and product sales	166,927	60	% 167,427	61	% (500)	0	%	
General and administrative expense	12,316	4	% 14,346	5	% (2,030)	(14)	)%	
Depreciation and amortization	6,845	2	% 6,753	3	% 92	1	%	
Other (income) expense, net	927	0	% 41	0	% 886	NM		
Operating income	89,120	32	% 84,596	31	% 4,524	5	%	
Interest expense	2,561	1	% 2,302	1	% 259	11	%	
Income before income tax expense	86,559	31	% 82,294	30	% 4,265	5	%	
Income tax expense	19,909	7	% 20,490	8	% (581)	(3)	)%	
Net income	66,650	24	% 61,804	23	% 4,846	8	%	
Net income (loss) attributable to non-controlling interest	153	0	% (91 )	0	% 244	268	%	
Net income attributable to Core Laboratories N.V.	\$66,497	24	% \$61,895	23	% \$4,602	7	%	

"NM" means not meaningful

\* Percentage based on applicable revenue rather than total revenue.

Edgar Filing: CORE LABORATORIES N V - Form 10-Q

(Unaudited)	Nine Months Ended September 30,				\$ Change	% Change
	2014		2013		2014/2013	2014/2013
<b>REVENUE:</b>						
Services	\$ 580,612	72	% \$ 564,424	71	% \$ 16,188	3 %
Product sales	225,988	28	% 232,805	29	% (6,817	) (3) %
Total revenue	806,600	100	% 797,229	100	% 9,371	1 %
<b>OPERATING EXPENSES:</b>						
Cost of services, exclusive of depreciation expense shown below*	336,194	58	% 329,901	58	% 6,293	2 %
Cost of product sales, exclusive of depreciation expense shown below*	160,560	71	% 164,674	71	% (4,114	) (2) %
Total cost of services and product sales	496,754	62	% 494,575	62	% 2,179	0 %
General and administrative expense	33,983	4	% 38,328	5	% (4,345	) (11) %
Depreciation and amortization	19,796	2	% 18,742	2	% 1,054	6 %
Other (income), net	(14	) 0	% 82	0	% (96	) NM
Operating income	256,081	32	% 245,502	31	% 10,579	4 %
Interest expense	7,718	1	% 6,834	1	% 884	13 %
Income before income tax expense	248,363	31	% 238,668	30	% 9,695	4 %
Income tax expense	56,464	7	% 60,190	8	% (3,726	) (6) %
Net income	191,899	24	% 178,478	22	% 13,421	8 %
Net income (loss) attributable to non-controlling interest	604	0	% 391	0	% 213	54 %
Net income attributable to Core Laboratories N.V.	\$ 191,295	24	% \$ 178,087	22	% \$ 13,208	7 %

"NM" means not meaningful

\* Percentage based on applicable revenue rather than total revenue.

Operating Results for the Three and Nine Months Ended September 30, 2014 Compared to the Three and Nine Months Ended September 30, 2013 (unaudited)

Services Revenue

Services revenue increased 5% to \$203.6 million for the third quarter of 2014 when compared to \$194.3 million for the third quarter of 2013. For the nine months ended September 30, 2014, services revenue increased to \$580.6 million, up 3% when compared to \$564.4 million for the same period of 2013. The increase in services revenue was primarily due to growth in our fracture diagnostic services led by our FLOWPROFILER™ technology along with our continued focus on worldwide crude oil related and large natural gas liquefaction projects, especially those related to the development of deepwater fields off West and East Africa, the eastern Mediterranean and an improvement of activity in the Gulf of Mexico.

Product Sales Revenue

Revenue associated with product sales decreased to \$72.6 million, for the third quarter of 2014, compared to \$78.9 million for the third quarter of 2013. For the nine months ended September 30, 2014, product sales revenue decreased slightly to \$226.0 million, compared to \$232.8 million during the same period in 2013. During the quarter, increased sales of recently introduced products using advanced technology partially replaced basic technology related perforating products. This improved sales revenue mix was a result of increasing market penetration of new technologies such as our new completion systems for optimizing completions and stimulations of horizontal wells, including our HTD-BLAST™ and KODIAK™ Enhanced Perforating System and our permanent reservoir



monitoring systems, primarily in the Canadian oil sands market. These new higher margin products replaced higher volume, low margin perforating products in our revenue mix.

#### Cost of Services

Cost of services expressed as a percentage of services revenue improved to 56.0% for the three months ended September 30, 2014, as compared to 56.7% in the same period in 2013. For the nine months ended September 30, 2014, cost of services

17

[Return to Index](#)

---

expressed as a percentage of services revenue was 57.9%, a favorable change from 58.4% in the same period in 2013. The margin improvements are the result of a better mix of projects aimed at more complex reservoirs, over the fixed cost structure.

#### Cost of Product Sales

Cost of product sales expressed as a percentage of product sales revenue remained relatively unchanged at approximately 73% for the three months ended September 30, 2014 and 2013. For the nine months ended September 30, 2014, cost of product sales expressed as a percentage of product sales revenue was 71%, comparable to the same period in 2013.

#### General and Administrative Expense

General and administrative ("G&A") expense includes corporate management and centralized administrative services that benefit our operations. G&A expense for the third quarter of 2014 was 4.5% of revenue, lower than 5.3% in the third quarter of 2013. For the nine months ended September 30, 2014, G&A expense was 4.2% of revenue, an improvement from the same period in 2013 when it was 4.8% of revenue. The improvement for the three and nine months ending September 30, 2014 was primarily attributable to lower variable compensation costs recorded in the third quarter of 2014.

#### Depreciation and Amortization Expense

Depreciation and amortization expense was \$6.8 million for the third quarter of 2014, unchanged from the third quarter of 2013. For the nine months ended September 30, 2014, depreciation and amortization expense was \$19.8 million compared to \$18.7 million for the same period in 2013. The increase is a result of growth in our client-directed capital expenditure program.

#### Other (Income) Expense, Net

The components of other (income) expense, net, were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Sale of assets	\$ (442)	) \$ (155)	) \$ (740)	) \$ (687)
Results of non-consolidated subsidiaries	(165)	) 43	(295)	) (142)
Foreign exchange	1,858	518	2,158	3,040
Interest income	(8)	) 4	(194)	) (586)
Rents and royalties	(209)	) (156)	) (656)	) (599)
Insurance recovery	—	(336)	) —	(882)
Other, net	(107)	) 123	(287)	) (62)
Total other (income) expense, net	\$ 927	) \$ 41	) \$ (14)	) \$ 82

Foreign exchange (gain) loss by currency is summarized in the following table (in thousands):



	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Australian Dollar	\$104	\$182	\$166	\$391
British Pound	770	(430	) 496	111
Canadian Dollar	903	(278	) 1,071	690
Euro	(448	) 266	(446	) 620
Indonesian Rupiah	82	320	48	373
Malaysian Ringgit	77	144	90	332
Other currencies, net	370	314	733	523
Total (gain) loss	\$1,858	\$518	\$2,158	\$3,040

### Interest Expense

Interest expense for the three months ended September 30, 2014 and 2013 was \$2.6 million and \$2.3 million, respectively. Interest expense for the nine months ended September 30, 2014 and 2013 was \$7.7 million and \$6.8 million, respectively.

### Income Tax Expense

The effective tax rates for the three months ended September 30, 2014 and 2013 were 23.0% and 24.9%, respectively. The effective tax rates for the nine months ended September 30, 2014 and 2013 were 22.7% and 25.2%, respectively. The change in tax expense is primarily the result of several items discrete to each of the three and nine months ended September 30, 2014 and 2013 along with changes in activity levels among jurisdictions with different tax rates.

### Segment Analysis

Our operations are managed primarily in three complementary reportable segments - Reservoir Description, Production Enhancement and Reservoir Management. The following tables summarize our results by segment for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	Three Months Ended		\$ Change	% Change	
	September 30,				
	2014	2013	2014/2013	2014/2013	
	(Unaudited)				
Revenue:					
Reservoir Description	\$131,380	\$131,533	\$(153	)0	%
Production Enhancement	122,161	119,511	2,650	2	%
Reservoir Management	22,594	22,119	475	2	%
Consolidated	\$276,135	\$273,163	\$2,972	1	%
Operating income (loss):					
Reservoir Description	\$35,377	\$35,938	\$(561	)2	)%
Production Enhancement	45,735	42,284	3,451	8	%
Reservoir Management	7,553	6,516	1,037	16	%
Corporate and Other <sup>1</sup>	455	(142	) 597	NM	
Consolidated	\$89,120	\$84,596	\$4,524	5	%

(1) "Corporate and Other" represents those items that are not directly related to a particular segment  
 "NM" means not meaningful

[Return to Index](#)

---

	Nine Months Ended		\$ Change 2014/2013	% Change 2014/2013	
	September 30, 2014	2013			
Revenue:	(Unaudited)				
Reservoir Description	\$387,225	\$386,000	\$1,225	0	%
Production Enhancement	343,434	337,141	6,293	2	%
Reservoir Management	75,941	74,088	1,853	3	%
Consolidated	\$806,600	\$797,229	\$9,371	1	%
Operating income (loss):					
Reservoir Description	\$106,571	\$107,707	\$(1,136)	(1)	)%
Production Enhancement	120,597	113,761	6,836	6	%
Reservoir Management	27,821	23,837	3,984	17	%
Corporate and Other <sup>1</sup>	1,092	197	895	NM	
Consolidated	\$256,081	\$245,502	\$10,579	4	%

(1) "Corporate and Other" represents those items that are not directly related to a particular segment  
 "NM" means not meaningful

#### Reservoir Description

Revenue from the Reservoir Description segment remained relatively unchanged at \$131.4 million in the third quarter of 2014 compared to \$131.5 million in the third quarter of 2013. For the nine months ended September 30, 2014, revenue decreased \$1.2 million, to \$387.2 million, compared to the same period in 2013. This segment's operations, which focus on international crude-oil related products, continued to benefit from large-scale core analyses and reservoir fluids characterization studies in the Asia-Pacific areas, offshore West and East Africa, the Eastern Mediterranean region and the Middle East, including Kuwait and the United Arab Emirates.

Operating income decreased slightly to \$35.4 million in the third quarter of 2014 compared to \$35.9 million in the third quarter of 2013. Operating income for the nine months ended September 30, 2014 decreased slightly to \$106.6 million compared to \$107.7 million for the same period of 2013. Operating margins were 27% in the third quarter of 2014, comparable to the same period in 2013. This segment emphasizes technologically demanding services on internationally-based development and production-related crude oil projects over more cyclical exploration-related projects.

#### Production Enhancement

Revenue from the Production Enhancement segment increased to \$122.2 million in the third quarter of 2014 compared to \$119.5 million in the third quarter of 2013. Revenue increased to \$343.4 million for the nine months ended September 30, 2014, compared to \$337.1 million for the same period in 2013. Revenue increased primarily due to the continued successful introduction of Core's FLOWPROFILER™ service, our new completion diagnostic service for optimizing completions and stimulations of horizontal wells, and our new KODIAK™ propellant booster coupled with our HERO™ perforating charges.

Operating income in the third quarter of 2014 increased to \$45.7 million from \$42.3 million for the third quarter of 2013. For the nine months ended September 30, 2014, operating income increased \$6.8 million, to \$120.6 million, from \$113.8 million for the same period in 2013. Operating margins were 37% in the third quarter of 2014, up 200 basis points when compared to the same period in 2013. Operating income increased from 2013 to 2014 primarily due to increased demand for the Company's proprietary and patented hydraulic fracture and field-flood diagnostic technologies from services such as FLOWPROFILER™, SPECTRACHEM™, ZERO WASH®, and SPECTRAFLOOD™ diagnostic tracers in North America and internationally.

## Reservoir Management

Revenue from the Reservoir Management segment increased 2% to \$22.6 million in the third quarter of 2014, compared to \$22.1 million for the third quarter of 2013. Revenue for the nine months ended September 30, 2014 increased by 3% to \$75.9 million, compared to \$74.1 million for the same period in 2013. The increase in revenue was due to increased client participation in certain consortium and joint industry projects.

Operating income in the third quarter of 2014 increased 16% to \$7.6 million, from \$6.5 million for the third quarter of 2013. For the nine months ended September 30, 2014, operating income was \$27.8 million, an increase of 17% compared to \$23.8

20

[Return to Index](#)

---

million for the same period in 2013. Operating margins were 33% in the third quarter of 2014, up 390 basis points when compared to the same period in 2013. Operating income increased in the third quarter of 2014 primarily as a result of additional participants in our joint industry projects, including the Utica, Duvernay, and Mississippi Lime studies and the Marcellus, Niobrara, Wolfcamp, and Eagle Ford plays.

## Liquidity and Capital Resources

### General

We have historically financed our activities through cash on hand, cash flows from operations, bank credit facilities, or the issuance of debt and equity financing.

We utilize the non-GAAP financial measure of free cash flow to evaluate our cash flows and results of operations. Free cash flow is defined as net cash provided by operating activities (which is the most directly comparable GAAP measure) less cash paid for capital expenditures. Management believes that free cash flow provides useful information to investors regarding the cash available in the period that was in excess of our needs to fund our capital expenditures and operating activities. Free cash flow is not a measure of operating performance under GAAP, and should not be considered in isolation nor construed as an alternative to operating profit, net income (loss) or cash flows from operating, investing or financing activities, each as determined in accordance with GAAP. Free cash flow does not represent residual cash available for distribution because we may have other non-discretionary expenditures that are not deducted from the measure. Moreover, since free cash flow is not a measure determined in accordance with GAAP and thus is susceptible to varying interpretations and calculations, free cash flow as presented, may not be comparable to similarly titled measures presented by other companies. The following table reconciles this non-GAAP financial measure to the most directly comparable measure calculated and presented in accordance with GAAP for the nine months ended September 30, 2014 and 2013 (in thousands):

	Nine Months Ended September 30,		% Change	
	2014	2013	2014/2013	
Free cash flow calculation:	(Unaudited)			
Net cash provided by operating activities	\$205,659	\$210,648	(2	)%
Less: cash paid for capital expenditures	27,624	26,988	2	)%
Free cash flow	\$178,035	\$183,660	(3	)%

The decrease in free cash flow for the first nine months of 2014 compared to the same period in 2013 was primarily due to the timing of income tax installment payments and changes in working capital, partially offset by cash provided by operations.

### Cash Flows

The following table summarizes cash flows for the nine months ended September 30, 2014 and 2013 (in thousands):

	Nine Months Ended September 30,		% Change	
	2014	2013	2014/2013	
Cash provided by/(used in):	(Unaudited)			
Operating activities	\$205,659	\$210,648	(2	)%
Investing activities	(31,961	) (31,822	) 0	)%
Financing activities	(173,479	) (175,848	) (1	)%
Net change in cash and cash equivalents	\$219	\$2,978	(93	)%

The decrease in cash flows from operating activities for the first nine months of 2014 compared to the same period in 2013 was primarily attributable to timing of income tax installment payments and changes in working capital.



Cash flows used in investing activities during the first nine months of 2014 were comparable to the same period in 2013.

Cash flows used in financing activities decreased slightly for the first nine months of 2014 compared to the same period in 2013. During the first nine months of 2014, we increased our debt by \$103 million, as compared to increasing it by \$22 million during the first nine months of 2013. In the first nine months of 2014, we repurchased 1,272,472 shares of our common stock

21

[Return to Index](#)

---

for an aggregate purchase price of \$210.4 million compared to the repurchase of 1,105,286 shares for an aggregate purchase price of \$156.3 million during the same period in 2013. We increased the amount of our quarterly dividend from 32 cents per share to 50 cents per share, resulting in dividend payments of \$67.2 million during the first nine months of 2014, compared to \$44.1 million during the first nine months of 2013.

#### Notes, Credit Facilities and Available Future Liquidity

In 2011, we issued two series of senior notes with an aggregate principal amount of \$150 million ("Senior Notes") in a private placement transaction. Series A consists of \$75 million in aggregate principal amount of notes that bear interest at a fixed rate of 4.01% and are due in full on September 30, 2021. Series B consists of \$75 million in aggregate principal amount of notes that bear interest at a fixed rate of 4.11% and are due in full on September 30, 2023. Interest on each series of the Senior Notes is payable semi-annually on March 30 and September 30.

On August 29, 2014, we entered into an agreement to amend our revolving credit facility (the "Credit Facility") to increase the aggregate borrowing capacity from \$300 million to \$350 million and to increase the uncommitted availability an additional \$50 million to bring the total borrowings available to \$400 million if certain prescribed conditions are met by the Company. The variable rate was reduced from LIBOR plus 1.5% to LIBOR plus 1.25%. The maturity date was extended from September 28, 2016 to August 29, 2019.

The Credit Facility carries an aggregate borrowing capacity of \$350 million and provides an option to increase the commitment to \$400 million, if certain conditions are met. The Credit Facility bears interest at variable rates from LIBOR plus 1.25% to a maximum of LIBOR plus 2.00%. Any outstanding balance under the Credit Facility is due August 29, 2019, when the Credit Facility matures. Interest payment terms are variable depending upon the specific type of borrowing under this facility. Our available capacity at any point in time is reduced by borrowings outstanding at the time and outstanding letters of credit which totaled \$25.5 million at September 30, 2014, resulting in an available borrowing capacity under the Credit Facility of \$104.5 million. In addition to those items under the Credit Facility, we had \$19.5 million of outstanding letters of credit and performance guarantees and bonds from other sources as of September 30, 2014.

The terms of the Credit Facility and the Senior Notes require us to meet certain covenants, including, but not limited to, certain minimum equity and cash flow ratios. We believe that we are in compliance with all such covenants contained in our credit agreements. Certain of our material, wholly-owned subsidiaries are guarantors or co-borrowers under the Credit Facility and Senior Notes.

In October 2014, we entered into two interest rate swap agreements for a total notional amount of \$50 million to hedge changes in the variable rate interest expense on \$50 million of our existing or replacement LIBOR-priced debt. Under the first swap agreement of \$25 million, which is effective through August 29, 2024, we will receive interest at one-month LIBOR and will pay interest at a fixed rate of 2.50%, resulting in a total fixed rate of 3.75% for this amount of debt. Under the second swap agreement of \$25 million, which is effective through August 29, 2019, we will receive interest at one-month LIBOR and will pay interest at a fixed rate of 1.73%, resulting in a total fixed rate of 2.98% for this amount of debt. Both of these swaps are designated and qualify as cash flow hedging instruments, resulting in no effect to the Consolidated Statements of Operations or earnings per share.

Our ability to maintain and grow our operating income and cash flow depends, to a large extent, on continued investing activities. We are a Netherlands holding company and substantially all of our operations are conducted through subsidiaries. Consequently, our cash flow depends upon the ability of our subsidiaries to pay cash dividends or otherwise distribute or advance funds to us. We believe our future cash flows from operations, supplemented by our borrowing capacity and issuances of additional equity, should be sufficient to fund our debt requirements, capital expenditures, working capital, dividend payments and future acquisitions.

## Recent Accounting Pronouncements

In July 2013, the FASB issued ASU 2013-11 relating to income taxes (FASB ASC Topic 740), which provides guidance on the presentation of unrecognized tax benefits. The intent is to better reflect the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses, or tax credit carryforwards exist. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. We have adopted this pronouncement for our fiscal year beginning January 1, 2014. The adoption of this pronouncement did not have a material effect on our consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09 relating to revenue from contracts with customers (FASB ASC Topic 606), which provides guidance on revenue recognition. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance requires entities to apply a five-step method to (1) identify the contract(s) with customers; (2) identify the performance obligation(s) in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation(s) in the contract; and (5) recognize revenue when (or as)

22

[Return to Index](#)

---

the entity satisfies a performance obligation. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. We are evaluating the impact that the adoption of this standard will have on our consolidated financial statements.

23

[Return to Index](#)

---

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risk from the information provided in Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2013.

### Item 4. Controls and Procedures

A complete discussion of our controls and procedures is included in our Annual Report on Form 10-K for the year ended December 31, 2013.

#### Disclosure Controls and Procedures

Our management, under the supervision of and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2014 at the reasonable assurance level.

Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. Further, the design of disclosure controls and internal control over financial reporting must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

#### Changes in Internal Control Over Financial Reporting

There have been no changes in our system of internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the fiscal quarter ended September 30, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

CORE LABORATORIES N.V.  
PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note 6 to our Consolidated Interim Financial Statements in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the three months ended September 30, 2014:

Period	Total Number of Shares Purchased (1)	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Number of Shares That May Yet be Purchased Under the Program (2)
July 2014	199,814	\$153.82	199,814	3,240,603
August 2014	286,458	148.15	285,828	2,956,320
September 2014	76,641	155.73	72,384	2,894,394
Total	562,913	\$151.19	558,026	

(1) Contains 630 shares valued at approximately \$0.1 million, or \$146.17 per share, surrendered to us by participants in a stock-based compensation plan to settle any personal tax liabilities which may result from the award in August 2014; Contains 4,257 shares valued at approximately \$0.7 million, or \$157.99 per share, surrendered to us by participants in a stock-based compensation plan to settle any personal tax liabilities which may result from the award in September 2014.

(2) In connection with our initial public offering in September 1995, our shareholders authorized our Management Board to repurchase up to 10% of our issued share capital for a period of 18 months. This authorization was renewed at subsequent annual or special shareholder meetings. At our annual shareholders' meeting on May 13, 2014, our shareholders authorized an extension to repurchase 10% of our issued share capital through November 13, 2015. The repurchase of shares in the open market is at the discretion of management pursuant to this shareholder authorization.

## Item 6. Exhibits

Exhibit No.	Exhibit Title	Incorporated by reference from the following documents
3.1	- Articles of Association of Core Laboratories N.V., as amended in 2012 (including English translation)	Exhibit 3.1 filed on February 19, 2013 with 2012 10-K (File No. 001-14273)
10.1	- Sixth Amended and Restated Credit Agreement between Core Laboratories N.V. and Core Laboratories (U.S.) Interests Holdings, Inc., as borrowers, and Bank of America, N.A. as Administrative Agent, Swing Line Lender and L/C Issuer.	Form 8-K, August 29, 2014 (File No. 001-14273)
31.1	- Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	- Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	- Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
32.2	- Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
101.INS	- XBRL Instance Document	Filed herewith
101.SCH	- XBRL Schema Document	Filed herewith
101.CAL	- XBRL Calculation Linkbase Document	Filed herewith
101.LAB	- XBRL Label Linkbase Document	Filed herewith
101.PRE	- XBRL Presentation Linkbase Document	Filed herewith
101.DEF	- XBRL Definition Linkbase Document	Filed herewith

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant, Core Laboratories N.V., has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CORE LABORATORIES N.V.

Date: November 4, 2014

By: /s/ Richard L. Bergmark  
Richard L. Bergmark  
Chief Financial Officer  
(Duly Authorized Officer and  
Principal Financial Officer)

27

[Return to Index](#)