

CORE LABORATORIES N V
Form 10-Q
July 25, 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 June 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 July 24, 2014 was 44,420,900.

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

INDEX

PART I - FINANCIAL INFORMATION

	Page
Item 1.	Financial Statements
	<u>Consolidated Balance Sheets (Unaudited) at June 30, 2014 and December 31, 2013</u> 1
	<u>Consolidated Statements of Operations (Unaudited) for the Three Months Ended June 30, 2014 and 2013</u> 2
	<u>Consolidated Statements of Operations (Unaudited) for the Six Months Ended June 30, 2014 and 2013</u> 2
	<u>Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Six Months Ended June 30, 2014 and 2013</u> 4
	<u>Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2014 and 2013</u> 5
	<u>Notes to the Unaudited Consolidated Interim Financial Statements</u> 6
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> 16
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u> 23
<u>Item 4.</u>	<u>Controls and Procedures</u> 23

PART II - OTHER INFORMATION

<u>Item 1.</u>	<u>Legal Proceedings</u> 24
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> 24
<u>Item 6.</u>	<u>Exhibits</u> 25
	<u>Signature</u> 26

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CORE LABORATORIES N.V.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	June 30, 2014 (Unaudited)	December 31, 2013
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$29,548	\$25,088
Accounts receivable, net of allowance for doubtful accounts of \$3,371 and \$2,872 at 2014 and 2013, respectively	200,990	201,322
Inventories	51,392	46,821
Prepaid expenses	14,892	13,128
Income taxes receivable	13,863	5,294
Other current assets	11,557	12,215
TOTAL CURRENT ASSETS	322,242	303,868
PROPERTY, PLANT AND EQUIPMENT, net	143,926	138,824
INTANGIBLES, net	12,037	10,949
GOODWILL	163,337	163,337
DEFERRED TAX ASSETS, net	4,214	4,452
OTHER ASSETS	43,372	39,580
TOTAL ASSETS	\$689,128	\$661,010
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$51,292	\$50,821
Accrued payroll and related costs	34,266	38,969
Taxes other than payroll and income	9,687	6,979
Unearned revenue	11,844	10,887
Income taxes payable	13,057	14,462
Other accrued expenses	13,778	13,657
TOTAL CURRENT LIABILITIES	133,924	135,775
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	333,000	267,002
DEFERRED COMPENSATION	41,125	38,014
DEFERRED TAX LIABILITIES, net	3,230	8,870
OTHER LONG-TERM LIABILITIES	41,568	41,960
COMMITMENTS AND CONTINGENCIES (Note 6)		
EQUITY:		
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, 46,750,002 issued and 44,480,019 outstanding at 2014 and 46,750,002 issued and 45,101,389 outstanding at 2013	1,203	1,203
Additional paid-in capital	2,691	—
Retained earnings	495,792	415,930
Accumulated other comprehensive income (loss)	(8,454)	(8,626)
Treasury shares (at cost), 2,269,983 at 2014 and 1,648,613 at 2013	(361,074)	(245,184)
Total Core Laboratories N.V. shareholders' equity	130,158	163,323
Non-controlling interest	6,123	6,066

TOTAL EQUITY	136,281	169,389
TOTAL LIABILITIES AND EQUITY	\$689,128	\$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 June 30,	
	2014	2013
	(Unaudited)	
REVENUE:		
Services	\$188,299	\$187,676
Product sales	79,263	75,463
Total revenue	267,562	263,139
OPERATING EXPENSES:		
Cost of services, exclusive of depreciation expense shown below	111,706	109,661
Cost of product sales, exclusive of depreciation expense shown below	56,452	53,842
General and administrative expense, exclusive of depreciation expense shown below	11,148	11,173
Depreciation	6,027	5,656
Amortization	291	308
Other (income) expense, net	(2,196)	) 630
OPERATING INCOME	84,134	81,869
Interest expense	2,794	2,263
Income before income tax expense	81,340	79,606
Income tax expense	17,244	19,664
Net income	64,096	59,942
Net income (loss) attributable to non-controlling interest	362	266
Net income attributable to Core Laboratories N.V.	\$63,734	\$59,676
EARNINGS PER SHARE INFORMATION:		
Basic earnings per share attributable to Core Laboratories N.V.	\$1.43	\$1.30
Diluted earnings per share attributable to Core Laboratories N.V.	\$1.42	\$1.29
Cash dividends per share	\$0.50	\$0.32
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	44,660	45,841
Diluted	44,910	46,128

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

[Return to Index](#)

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

	Six Months Ended June 30,	
	2014	2013
	(Unaudited)	
REVENUE:		
Services	\$377,034	\$370,157
Product sales	153,431	153,909
Total revenue	530,465	524,066
OPERATING EXPENSES:		
Cost of services, exclusive of depreciation expense shown below	222,277	219,814
Cost of product sales, exclusive of depreciation expense shown below	107,550	107,334
General and administrative expense, exclusive of depreciation expense shown below	21,667	23,982
Depreciation	12,369	11,379
Amortization	582	610
Other (income) expense, net	(941	) 41
OPERATING INCOME	166,961	160,906
Interest expense	5,157	4,532
Income before income tax expense	161,804	156,374
Income tax expense	36,555	39,700
Net income	125,249	116,674
Net income (loss) attributable to non-controlling interest	451	482
Net income attributable to Core Laboratories N.V.	\$124,798	\$116,192
EARNINGS PER SHARE INFORMATION:		
Basic earnings per share attributable to Core Laboratories N.V.	\$2.79	\$2.52
Diluted earnings per share attributable to Core Laboratories N.V.	\$2.77	\$2.51
Cash dividends per share	\$1.00	\$0.64
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	44,783	46,020
Diluted	45,045	46,313

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

	Three Months Ended		Six Months Ended	
	June 30, 2014 (Unaudited)	2013	June 30, 2014 (Unaudited)	2013
Net income	\$64,096	\$59,942	\$125,249	\$116,674
Pension and other postretirement benefit plans				
Prior service cost				
Amortization to net income of transition asset	(22	) (22	) (44	) (44
Amortization to net income of prior service cost	1	40	3	80
Amortization to net income of actuarial loss	135	117	270	234
Income taxes on pension and other postretirement benefit plans	(28	) (34	) (57	) (68
Comprehensive income	64,182	60,043	125,421	116,876
Comprehensive income (loss) attributable to non-controlling interest	362	266	451	482
Comprehensive income attributable to Core Laboratories N.V.	\$63,820	\$59,777	\$124,970	\$116,394

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)

	Six Months Ended June 30,	
	2014	2013
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$125,249	\$116,674
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	10,646	10,176
Depreciation and amortization	12,951	11,989
(Increase) decrease in value of life insurance policies	(1,497)	(1,456)
Deferred income taxes	(4,436)	(709)
Other non-cash items	878	(420)
Changes in assets and liabilities:		
Accounts receivable	261	(5,345)
Inventories	(4,824)	(6,168)
Prepaid expenses and other current assets	(10,887)	5,433
Other assets	1,219	(450)
Accounts payable	1,464	2,081
Accrued expenses	(3,256)	(1,939)
Unearned revenue	957	2,490
Other long-term liabilities	2,508	4,145
Net cash provided by operating activities	131,233	136,501
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(19,787)	(17,935)
Patents and other intangibles	(304)	(2,229)
Business acquisition, net of cash acquired	(1,200)	—
Proceeds from sale of assets	604	697
Premiums on life insurance	(2,866)	(1,527)
Net cash used in investing activities	(23,553)	(20,994)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt borrowings	(37,041)	(35,025)
Proceeds from debt borrowings	103,000	51,000
Stock options exercised	—	83
Excess tax benefits from stock-based compensation	1,449	2,353
Debt financing costs	(3)	—
Non-controlling interest - dividend	(394)	—
Dividends paid	(44,937)	(29,508)
Repurchase of common shares	(125,294)	(100,416)
Net cash used in financing activities	(103,220)	(111,513)
NET CHANGE IN CASH AND CASH EQUIVALENTS	4,460	3,994
CASH AND CASH EQUIVALENTS, beginning of period	25,088	19,226
CASH AND CASH EQUIVALENTS, end of period	\$29,548	\$23,220

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 six months ended June 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 six months ended June 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):

	June 30, 2014 (Unaudited)	December 31, 2013
Finished goods	\$38,332	\$37,143
Parts and materials	11,180	8,323
Work in progress	1,880	1,355
Total inventories	\$51,392	\$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](#)

	June 30, 2014 (Unaudited)	December 31, 2013
Senior notes	\$ 150,000	\$ 150,000
Credit facility	183,000	117,000
Capital lease obligations	11	28
Total debt	333,011	267,028
Less - current maturities of long-term debt and capital lease obligations	11	26
Long-term debt and capital lease obligations, net	\$ 333,000	\$ 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.

We maintain a revolving credit facility (the "Credit Facility") with an aggregate borrowing capacity of \$300 million at June 30, 2014. The Credit Facility provides an option to increase the commitment under the Credit Facility to \$350 million, if certain conditions are met. The Credit Facility bears interest at variable rates from LIBOR plus 1.50% to a maximum of LIBOR plus 2.25%. Any outstanding balance under the Credit Facility is due September 28, 2016 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 \$21.9 million at June 30, 2014, resulting in an available borrowing capacity under the Credit Facility of \$95.1 million. In addition to those items under the Credit Facility, we had \$24.4 million of outstanding letters of credit and performance guarantees and bonds from other sources as of June 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.

The estimated fair value of total debt at June 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.

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

7

[Return to Index](#)

	Three Months Ended		Six Months Ended	
	June 30, 2014 (Unaudited)	2013	June 30, 2014 (Unaudited)	2013
Service cost	\$372	\$388	\$742	\$784
Interest cost	452	411	902	831
Expected return on plan assets	(335)	(317)	(669)	(640)
Amortization of transition asset	(22)	(22)	(44)	(44)
Amortization of prior service cost	1	40	3	80
Amortization of actuarial loss	135	117	270	234
Net periodic pension cost	\$603	\$617	\$1,204	\$1,245

During the six months ended June 30, 2014, we contributed approximately \$1.1 million to fund the estimated 2014 premiums on investment contracts held by the Dutch Plan.

Defined Contribution Plans

We maintain five defined contribution plans (the "Defined Contribution Plans") for the benefit of eligible employees in Canada, The Netherlands, Puerto Rico, 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 June 30, 2014		
		Level 1	Level 2	Level 3
Assets:				
Deferred compensation trust assets ⁽¹⁾	\$23,137	\$—	\$23,137	\$—
Liabilities:				
Deferred compensation plan	\$28,105	\$—	\$28,105	\$—

	Total	Fair Value Measurement at December 31, 2013		
		Level 1	Level 2	Level 3
Assets:				
Deferred compensation trust assets ⁽¹⁾	\$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 June 30, 2014, we repurchased 455,219 of our common shares for \$78.5 million. Included in this total were rights to 17,918 shares valued at \$3.3 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 six months ended June 30, 2014, we repurchased 709,559 of our common shares for \$125.3 million. Included in this total were rights to 25,394 shares valued at \$4.7 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.

In February and May 2014, we paid a quarterly dividend of \$0.50 per share of common stock. In addition, on July 8, 2014, we declared a quarterly dividend of \$0.50 per share of common stock for shareholders of record on July 18,

2014 and payable on August 18, 2014.

The following table summarizes our changes in equity for the six months ended June 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 options exercised	—	—	—	—	—	—	—
Stock based-awards	—	1,242	—	—	9,404	—	10,646
Tax benefit of stock-based awards issued	—	1,449	—	—	—	—	1,449
Repurchase of common shares	—	—	—	—	(125,294)	—	(125,294)
Dividends paid	—	—	(44,936)	—	—	—	(44,936)
Non-controlling interest dividends	—	—	—	—	—	(394)	(394)
Amortization of deferred pension costs, net of tax	—	—	—	172	—	—	172
Net income (loss)	—	—	124,798	—	—	451	125,249
June 30, 2014	\$1,203	\$2,691	\$495,792	\$(8,454)	\$(361,074)	\$ 6,123	\$136,281

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

	June 30, 2014 (Unaudited)	December 31, 2013
Prior service cost	\$(52)	\$(55)
Transition asset	98	131
Unrecognized net actuarial loss	(8,500)	(8,702)
Total accumulated other comprehensive income (loss)	\$(8,454)	\$(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 employee stock options, 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 June 30, 2014 (Unaudited)		Six Months Ended June 30, 2014 (Unaudited)	
	2014	2013	2014	2013
Weighted average basic common shares outstanding	44,660	45,841	44,783	46,020
Effect of dilutive securities:				

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

Stock options	—	—	—	2
Performance shares	111	116	105	105
Restricted stock	139	171	157	186
Weighted average diluted common and potential common shares outstanding	44,910	46,128	45,045	46,313

10

[Return to Index](#)

9. OTHER (INCOME) EXPENSE, NET

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

	Three Months Ended		Six Months Ended	
	June 30, 2014 (Unaudited)	2013	June 30, 2014 (Unaudited)	2013
Sale of assets	\$(180)	) \$(323)	) \$(298)	) \$(532)
Results of non-consolidated subsidiaries	(52)	) (89)	) (130)	) (185)
Foreign exchange	(1,300)	) 1,631	300	2,522
Interest income	(185)	) (219)	) (186)	) (590)
Rents and royalties	(223)	) (213)	) (447)	) (443)
Insurance recovery	—	) (7)	) —	) (546)
Other, net	(256)	) (150)	) (180)	) (185)
Total other (income) expense, net	\$(2,196)	) \$630	) \$(941)	) \$41

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

	Three Months Ended		Six Months Ended	
	June 30, 2014 (Unaudited)	2013	June 30, 2014 (Unaudited)	2013
Australian Dollar	\$69	) \$164	\$62	) \$209
British Pound	(222)	) 79	(274)	) 541
Canadian Dollar	(860)	) 665	168	968
Euro	(50)	) 126	2	354
Mexican Peso	(28)	) 191	(62)	) 64
Russian Ruble	(136)	) (60)	) 40	) (54)
Other currencies, net	(73)	) 466	364	440
Total (gain) loss	\$(1,300)	) \$1,631	) \$300	) \$2,522

10. INCOME TAX EXPENSE

The effective tax rates for the three months ended June 30, 2014 and 2013 were 21.2% and 24.7%, respectively. The effective tax rates for the six months ended June 30, 2014 and 2013 were 22.6% and 25.4%, respectively. The change in tax expense is primarily the result of several items discrete to each quarter along with changes in activity levels among jurisdictions with different tax rates.

11. SEGMENT REPORTING

We operate our business in three reportable segments: (1) Reservoir Description, (2) Production Enhancement and (3) Reservoir Management. These segments provide different services and products and utilize different technologies.

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.

11

[Return to Index](#)

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 ¹	Consolidated
Three Months Ended June 30, 2014					
Revenue from unaffiliated clients	\$ 130,589	\$ 110,993	\$ 25,980	\$—	\$ 267,562
Inter-segment revenue	2,763	384	347	(3,494)	—
Segment operating income (loss)	36,341	37,660	9,794	339	84,134
Total assets (at end of period)	318,370	264,784	39,795	66,179	689,128
Capital expenditures	6,280	1,755	282	3,802	12,119
Depreciation and amortization	3,935	1,880	366	137	6,318
Three Months Ended June 30, 2013					
Revenue from unaffiliated clients	\$ 129,222	\$ 110,199	\$ 23,718	\$—	\$ 263,139
Inter-segment revenue	1,090	740	400	(2,230)	—
Segment operating income (loss)	36,918	37,239	7,475	237	81,869
Total assets (at end of period)	299,399	255,987	35,570	64,160	655,116
Capital expenditures	6,424	1,851	517	700	9,492
Depreciation and amortization	3,599	1,797	189	379	5,964
Six Months Ended June 30, 2014					
Revenue from unaffiliated clients	\$ 255,845	\$ 221,273	\$ 53,347	\$—	\$ 530,465
Inter-segment revenue	5,532	1,181	767	(7,480)	—
Segment operating income (loss)	71,194	74,862	20,268	637	166,961
Total assets	318,370	264,784	39,795	66,179	689,128
Capital expenditures	11,096	2,830	367	5,494	19,787
Depreciation and amortization	7,783	3,775	605	788	12,951
Six Months Ended June 30, 2013					
Revenue from unaffiliated clients	\$ 254,467	\$ 217,630	\$ 51,969	\$—	\$ 524,066
Inter-segment revenue	1,475	1,677	823	(3,975)	—
Segment operating income (loss)	71,769	71,477	17,321	339	160,906
Total assets	299,399	255,987	35,570	64,160	655,116
Capital expenditures	11,853	3,939	1,036	1,107	17,935
Depreciation and amortization	7,224	3,614	380	771	11,989

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

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 principal 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

12

[Return to Index](#)

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 June 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.

Our business units have been aggregated into three complementary reportable segments, which provide services and products 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 greater levels of deepwater coring programs during the second half of 2014, especially in the deepwater Gulf of Mexico. High pressure and temperature reservoir fluid phase behavior projects are also expected to remain at high levels. Internationally, in response to very supportive Brent crude prices, we project modest growth through the end of 2014, but expect higher levels of activity in 2015.

Results of Operations

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

(Unaudited)	Three Months Ended June 30,				\$ Change	% Change	
	2014		2013		2014/2013	2014/2013	
REVENUE:							
Services	\$188,299	70	% \$187,676	71	% \$623	0	%
Product sales	79,263	30	% 75,463	29	% 3,800	5	%
Total revenue	267,562	100	% 263,139	100	% 4,423	2	%
OPERATING EXPENSES:							
Cost of services, exclusive of depreciation expense shown below*	111,706	59	% 109,661	58	% 2,045	2	%
Cost of product sales, exclusive of depreciation expense shown below*	56,452	71	% 53,842	71	% 2,610	5	%
Total cost of services and product sales	168,158	63	% 163,503	62	% 4,655	3	%
General and administrative expense	11,148	4	% 11,173	4	% (25	)0	%
Depreciation and amortization	6,318	2	% 5,964	2	% 354	6	%
Other (income) expense, net	(2,196	) (1	)% 630	0	% (2,826	)(449)%
Operating income	84,134	31	% 81,869	31	% 2,265	3	%
Interest expense	2,794	1	% 2,263	1	% 531	23	%
Income before income tax expense	81,340	30	% 79,606	30	% 1,734	2	%
Income tax expense	17,244	6	% 19,664	7	% (2,420	)(12)%
Net income	64,096	24	% 59,942	23	% 4,154	7	%
Net income (loss) attributable to non-controlling interest	362	0	% 266	0	% 96	36	%
Net income attributable to Core Laboratories N.V.	\$63,734	24	% \$59,676	23	% \$4,058	7	%

* Percentage based on applicable revenue rather than total revenue.

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

(Unaudited)	Six Months Ended June 30,				\$ Change	% Change
	2014		2013		2014/2013	2014/2013
REVENUE:						
Services	\$ 377,034	71	% \$ 370,157	71	% \$ 6,877	2 %
Product sales	153,431	29	% 153,909	29	% (478)	) 0 %
Total revenue	530,465	100	% 524,066	100	% 6,399	1 %
OPERATING EXPENSES:						
Cost of services, exclusive of depreciation expense shown below*	222,277	59	% 219,814	59	% 2,463	1 %
Cost of product sales, exclusive of depreciation expense shown below*	107,550	70	% 107,334	70	% 216	0 %
Total cost of services and product sales	329,827	62	% 327,148	62	% 2,679	1 %
General and administrative expense	21,667	4	% 23,982	5	% (2,315)	) (10) %
Depreciation and amortization	12,951	2	% 11,989	2	% 962	8 %
Other (income), net	(941)	) 0	% 41	0	% (982)	) NM
Operating income	166,961	31	% 160,906	31	% 6,055	4 %
Interest expense	5,157	1	% 4,532	1	% 625	14 %
Income before income tax expense	161,804	31	% 156,374	30	% 5,430	3 %
Income tax expense	36,555	7	% 39,700	8	% (3,145)	) (8) %
Net income	125,249	24	% 116,674	22	% 8,575	7 %
Net income (loss) attributable to non-controlling interest	451	0	% 482	0	% (31)	) (6) %
Net income attributable to Core Laboratories N.V.	\$ 124,798	24	% \$ 116,192	22	% \$ 8,606	7 %

"NM" means not meaningful

* Percentage based on applicable revenue rather than total revenue.

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

Services Revenue

Services revenue increased to \$188.3 million for the second quarter of 2014, a slight increase when compared to \$187.7 million for the second quarter of 2013. For the six months ended June 30, 2014, services revenue increased to \$377.0 million, up 2% when compared to \$370.2 million for the same period of 2013.

Product Sales Revenue

Revenue associated with product sales increased 5%, to \$79.3 million, for the second quarter of 2014, compared to \$75.5 million for the second quarter of 2013. For the six months ended June 30, 2014, product sales revenue was approximately the same at \$153.4 million, compared to \$153.9 million during the same period in 2013. Product sales revenue is driven primarily by the 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 market.

Cost of Services

Cost of services expressed as a percentage of services revenue was 59.3% for the three months ended June 30, 2014, as compared to 58.4% in the same period in 2013. For the six months ended June 30, 2014, cost of services expressed as a percentage of services revenue was 59.0%, an improvement from 59.4% in the same period in 2013. The margin improvement for the six months ended June 30, 2014 is a 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 flat at 71% for the three months ended June 30, 2014 and 2013. For the six months ended June 30, 2014, cost of product sales expressed as a percentage of product sales revenue was 70%, comparable to the same period in 2013.

General and Administrative Expense

General and administrative ("G&A") expense include corporate management and centralized administrative services that benefit our operations. G&A expense for the second quarter of 2014 was 4.2% of revenue, comparable to the second quarter of 2013. For the six months ended June 30, 2014, G&A expense was 4.1% of revenue, an improvement from the same period in 2013 when it was 4.6% of revenue. The improvement for the six months ended June 30, 2014 was primarily attributable to lower variable compensation costs recorded in the second quarter of 2014.

Depreciation and Amortization Expense

Depreciation and amortization expense was \$6.3 million for the second quarter of 2014 compared to \$6.0 million in the second quarter of 2013. For the six months ended June 30, 2014, depreciation and amortization expense was \$13.0 million compared to \$12.0 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		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Sale of assets	\$(180)	) \$(323)	) \$(298)	) \$(532)
Results of non-consolidated subsidiaries	(52)	) (89)	) (130)	) (185)
Foreign exchange	(1,300)	) 1,631	300	2,522
Interest income	(185)	) (219)	) (186)	) (590)
Rents and royalties	(223)	) (213)	) (447)	) (443)
Insurance recovery	—	) (7)	) —	) (546)
Other, net	(256)	) (150)	) (180)	) (185)
Total other (income) expense, net	\$(2,196)	) \$630	) \$(941)	) \$41

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
	(Unaudited)		(Unaudited)	
Australian Dollar	\$69	) \$164	\$62	) \$209
British Pound	(222)	) 79	(274)	) 541
Canadian Dollar	(860)	) 665	168	968
Euro	(50)	) 126	2	354
Mexican Peso	(28)	) 191	(62)	) 64
Russian Ruble	(136)	) (60)	) 40	) (54)

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

Other currencies, net	(73	) 466	364	440
Total (gain) loss	\$(1,300	) \$1,631	\$300	\$2,522

Interest Expense

18

[Return to Index](#)

Interest expense for the three months ended June 30, 2014 and 2013 was \$2.8 million and \$2.3 million, respectively. Interest expense for the six months ended June 30, 2014 and 2013 was \$5.2 million and \$4.5 million, respectively.

Income Tax Expense

The effective tax rates for the three months ended June 30, 2014 and 2013 were 21.2% and 24.7%, respectively. The effective tax rates for the six months ended June 30, 2014 and 2013 were 22.6% and 25.4%, respectively. The change in tax expense is primarily the result of several items discrete to each quarter 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 six months ended June 30, 2014 and 2013 (in thousands):

	Three Months Ended June 30,		\$ Change	% Change	
	2014	2013	2014/2013	2014/2013	
Revenue:	(Unaudited)				
Reservoir Description	\$130,589	\$129,222	\$1,367	1	%
Production Enhancement	110,993	110,199	794	1	%
Reservoir Management	25,980	23,718	2,262	10	%
Consolidated	\$267,562	\$263,139	\$4,423	2	%
Operating income (loss):					
Reservoir Description	\$36,341	\$36,918	\$(577)	(2)	%
Production Enhancement	37,660	37,239	421	1	%
Reservoir Management	9,794	7,475	2,319	31	%
Corporate and Other ¹	339	237	102	NM	
Consolidated	\$84,134	\$81,869	\$2,265	3	%

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

"NM" means not meaningful

	Six Months Ended June 30,		\$ Change	% Change	
	2014	2013	2014/2013	2014/2013	
Revenue:	(Unaudited)				
Reservoir Description	\$255,845	\$254,467	\$1,378	1	%
Production Enhancement	221,273	217,630	3,643	2	%
Reservoir Management	53,347	51,969	1,378	3	%
Consolidated	\$530,465	\$524,066	\$6,399	1	%
Operating income (loss):					
Reservoir Description	\$71,194	\$71,769	\$(575)	(1)	%
Production Enhancement	74,862	71,477	3,385	5	%
Reservoir Management	20,268	17,321	2,947	17	%
Corporate and Other ¹	637	339	298	NM	
Consolidated	\$166,961	\$160,906	\$6,055	4	%

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

"NM" means not meaningful

Reservoir Description

[Return to Index](#)

Revenue from the Reservoir Description segment increased to \$130.6 million in the second quarter of 2014 compared to \$129.2 million in the second quarter of 2013. For the six months ended June 30, 2014, revenue increased \$1.4 million, to \$255.8 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 Iraq, Kuwait, and the United Arab Emirates.

Operating income decreased slightly to \$36.3 million in the second quarter of 2014 compared to \$36.9 million in the second quarter of 2013. Operating income for the six months ended June 30, 2014 decreased to \$71.2 million compared to \$71.8 million for the same period of 2013. Operating margins were 28% in the second quarter of 2014. 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 \$111.0 million in the second quarter of 2014 compared to \$110.2 million in the second quarter of 2013. Revenue increased to \$221.3 million for the six months ended June 30, 2014, compared to \$217.6 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.

Operating income in the second quarter of 2014 increased to \$37.7 million from \$37.2 million for the second quarter of 2013. For the six months ended June 30, 2014, operating income increased \$3.4 million, to \$74.9 million, from \$71.5 million for the same period in 2013. Operating margins were 34% in the second quarter of 2014, up slightly 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™ tracers in North America and internationally.

Reservoir Management

Revenue from the Reservoir Management segment increased 10% to \$26.0 million in the second quarter of 2014, compared to \$23.7 million for the second quarter of 2013. Revenue for the six months ended June 30, 2014 increased by 3% to \$53.3 million, compared to \$52.0 million for the same period in 2013. The increase in revenue was due to the timing of the completion of certain consortium and joint industry projects.

Operating income in the second quarter of 2014 increased 31% to \$9.8 million, from \$7.5 million for the second quarter of 2013. For the six months ended June 30, 2014, operating income was \$20.3 million compared to \$17.3 million for the same period in 2013. Operating margins were 38% in the second quarter of 2014, up over 600 basis points when compared to the same period in 2013. Operating income increased in the second 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

20

[Return to Index](#)

reconciles this non-GAAP financial measure to the most directly comparable measure calculated and presented in accordance with GAAP for the six months ended June 30, 2014 and 2013 (in thousands):

	Six Months Ended June 30,		% Change	
	2014	2013	2014/2013	
Free cash flow calculation:	(Unaudited)			
Net cash provided by operating activities	\$131,233	\$136,501	(4)%
Less: cash paid for capital expenditures	19,787	17,935	10	%
Free cash flow	\$111,446	\$118,566	(6)%

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

Cash Flows

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

	Six Months Ended June 30,		% Change	
	2014	2013	2014/2013	
Cash provided by/(used in):	(Unaudited)			
Operating activities	\$131,233	\$136,501	(4)%
Investing activities	(23,553	) (20,994	) 12	%
Financing activities	(103,220	) (111,513	) (7)%
Net change in cash and cash equivalents	\$4,460	\$3,994	12	%

The decrease in cash flows from operating activities for the first six 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 were higher during the first six months of 2014 compared to the same period in 2013. Capital expenditures were \$1.9 million higher in the first six months of 2014 compared to 2013.

Cash flows used in financing activities decreased for the first six months of 2014 compared to the same period in 2013 due to the increase in total debt, partially offset by higher levels of share buy-backs and an increase in the quarterly dividend payments. During the first six months of 2014, we increased the amount outstanding on our Credit Facility by \$66.0 million, as compared to increasing it by \$16.0 million during the first six months of 2013. In the first six months of 2014, we repurchased 709,559 shares of our common stock for an aggregate purchase price of \$125.3 million compared to the repurchase of 742,510 shares for an aggregate purchase price of \$100.4 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 \$44.9 million during the first six months of 2014, compared to \$29.5 million during the first six 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.

We maintain a revolving credit facility (the "Credit Facility") with an aggregate borrowing capacity of \$300 million at June 30, 2014. The Credit Facility provides an option to increase the commitment under the Credit Facility to \$350 million if certain conditions are met. The Credit Facility bears interest at variable rates from LIBOR plus 1.50% to a maximum of LIBOR plus 2.25%. Any outstanding balance under the Credit Facility is due September 28, 2016 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 \$21.9 million

21

[Return to Index](#)

at June 30, 2014, resulting in an available borrowing capacity under the Credit Facility of \$95.1 million. In addition to those items under the Credit Facility, we had \$24.4 million of outstanding letters of credit and performance guarantees and bonds from other sources as of June 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.

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 principal 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.

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 June 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 June 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 June 30, 2014:

Period	Total Number of Shares Purchased	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 (4)
April 30, 2014 (1)	176,395	\$191.12	176,395	2,650,166
May 31, 2014 (2)	202,402	160.56	202,402	2,449,089
June 30, 2014 (3)	76,422	160.57	76,422	2,405,017
Total	455,219	\$172.41	455,219	

(1) Contains 8,424 shares valued at approximately \$1.7 million, or \$202.29 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 April 2014.

(2) Contains 148 shares valued at approximately \$27.0 thousand, or \$182.30 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 May 2014.

(3) Contains 9,346 shares valued at approximately \$1.6 million, or \$166.93 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 June 2014.

(4) 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)
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

25

[Return to Index](#)

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: July 25, 2014

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