

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

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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.

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

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## 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,<br>2014<br>(Unaudited) | December 31,<br>2013 |
|---|---------------------------------|----------------------|
| <b>ASSETS</b>   |                                 |                      |
| <b>CURRENT ASSETS:</b>  |                                 |                      |
| 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               |
| <b>TOTAL CURRENT ASSETS</b>   | <b>322,242</b>                  | <b>303,868</b>       |
| <b>PROPERTY, PLANT AND EQUIPMENT, net</b>   | <b>143,926</b>                  | <b>138,824</b>       |
| <b>INTANGIBLES, net</b>   | <b>12,037</b>                   | <b>10,949</b>        |
| <b>GOODWILL</b>   | <b>163,337</b>                  | <b>163,337</b>       |
| <b>DEFERRED TAX ASSETS, net</b>   | <b>4,214</b>                    | <b>4,452</b>         |
| <b>OTHER ASSETS</b>   | <b>43,372</b>                   | <b>39,580</b>        |
| <b>TOTAL ASSETS</b>   | <b>\$689,128</b>                | <b>\$661,010</b>     |
| <b>LIABILITIES AND EQUITY</b>   |                                 |                      |
| <b>CURRENT LIABILITIES:</b>   |                                 |                      |
| 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               |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>133,924</b>                  | <b>135,775</b>       |
| <b>LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS</b>   | <b>333,000</b>                  | <b>267,002</b>       |
| <b>DEFERRED COMPENSATION</b>  | <b>41,125</b>                   | <b>38,014</b>        |
| <b>DEFERRED TAX LIABILITIES, net</b>  | <b>3,230</b>                    | <b>8,870</b>         |
| <b>OTHER LONG-TERM LIABILITIES</b>  | <b>41,568</b>                   | <b>41,960</b>        |
| <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, 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                |

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|                              |           |           |
|------------------------------|-----------|-----------|
| 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.

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

|   | Three Months Ended<br>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.

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

|   | Six Months Ended<br>June 30, |                |
|---|------------------------------|----------------|
|   | 2014                         | 2013           |
|   | (Unaudited)                  |                |
| <b>REVENUE:</b>   |                              |                |
| Services  | \$377,034                    | \$370,157      |
| Product sales   | 153,431                      | 153,909        |
| Total revenue   | 530,465                      | 524,066        |
| <b>OPERATING EXPENSES:</b>  |                              |                |
| 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           |
| <b>OPERATING INCOME</b>   | <b>166,961</b>               | <b>160,906</b> |
| 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      |
| <b>EARNINGS PER SHARE INFORMATION:</b>  |                              |                |
| 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         |
| <b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>                                |                              |                |
| 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,<br>2014<br>(Unaudited) | 2013     | June 30,<br>2014<br>(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.

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

|   | Six Months Ended<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2014                         | 2013      |
|   | (Unaudited)                  |           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                              |           |
| 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   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                              |           |
| 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)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                              |           |
| 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.

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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,<br>2014<br>(Unaudited) | December 31,<br>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):

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|   | June 30,<br>2014<br>(Unaudited) | December 31,<br>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):

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|                                    | Three Months Ended              |        | Six Months Ended                |         |
|------------------------------------|---------------------------------|--------|---------------------------------|---------|
|                                    | June 30,<br>2014<br>(Unaudited) | 2013   | June 30,<br>2014<br>(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):

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| (Unaudited)                                       | Total    | Fair Value Measurement at<br>June 30, 2014     |          |         |
|---|----------|--|----------|---------|
|   |          | Level 1  | Level 2  | Level 3 |
| Assets:   |          |  |          |         |
| Deferred compensation trust assets <sup>(1)</sup> | \$23,137 | \$—  | \$23,137 | \$—     |
| Liabilities:                                      |          |  |          |         |
| Deferred compensation plan                        | \$28,105 | \$—  | \$28,105 | \$—     |
|   |          | Fair Value Measurement at<br>December 31, 2013 |          |         |
|   | Total    | 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 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):

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| (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<br>(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<br>June 30,<br>2014<br>(Unaudited) |        | Six Months Ended<br>June 30,<br>2014<br>(Unaudited) |        |
|--|---|--------|---|--------|
|  | 2014  | 2013   | 2014  | 2013   |
| Weighted average basic common shares outstanding | 44,660  | 45,841 | 44,783  | 46,020 |
| Effect of dilutive securities:                   |   |        |   |        |

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|   |        |        |        |        |
|---|--------|--------|--------|--------|
| 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 |

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## 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,<br>2014<br>(Unaudited) | 2013      | June 30,<br>2014<br>(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,<br>2014<br>(Unaudited) | 2013      | June 30,<br>2014<br>(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.

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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.

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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<br>Description | Production<br>Enhancement | Reservoir<br>Management | Corporate &<br>Other <sup>1</sup> | 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

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years, beginning after December 15, 2016. We are evaluating the impact that the adoption of this standard will have on our consolidated financial statements.

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## 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:

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- 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 |    |
| <b>REVENUE:</b>   |                             |      |             |     |           |           |    |
| 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         | %  |
| <b>OPERATING EXPENSES:</b>  |                             |      |             |     |           |           |    |
| 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.

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| (Unaudited)   | Six Months Ended June 30, |     |              |     | \$ Change  | % Change  |
|---|---------------------------|-----|--------------|-----|------------|-----------|
|   | 2014                      |     | 2013         |     | 2014/2013  | 2014/2013 |
| <b>REVENUE:</b>   |                           |     |              |     |            |           |
| 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 %       |
| <b>OPERATING EXPENSES:</b>  |                           |     |              |     |            |           |
| 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)  |

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

Interest Expense

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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 <sup>1</sup> | 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 <sup>1</sup> | 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

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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

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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

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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   |

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)

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