

CORE LABORATORIES N V
Form 10-Q
October 18, 2013

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2013

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 of other jurisdiction of
incorporation or organization)

Strawinskylaan 913
Tower A, Level 9
1077 XX Amsterdam

The Netherlands
(Address of principal executive offices)

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

Not Applicable
(Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller

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

reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

The number of common shares of the registrant, par value EUR 0.02 per share, outstanding at October 18, 2013 was 45,365,296.

CORE LABORATORIES N.V.
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2013

INDEX

PART I - FINANCIAL INFORMATION

	Page
Item 1.	Financial Statements
	<u>Consolidated Balance Sheets (Unaudited) at September 30, 2013 and December 31, 2012</u>
	<u>1</u>
	<u>Consolidated Statements of Operations (Unaudited) for the Three Months Ended September 30, 2013 and 2012</u>
	<u>2</u>
	<u>Consolidated Statements of Operations (Unaudited) for the Nine Months Ended September 30, 2013 and 2012</u>
	<u>3</u>
	<u>Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Nine Months Ended September 30, 2013 and 2012</u>
	<u>4</u>
	<u>Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2013 and 2012</u>
	<u>5</u>
	<u>Notes to the Unaudited Consolidated Interim Financial Statements</u>
	<u>6</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	<u>15</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>
	<u>23</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>
	<u>23</u>

PART II - OTHER INFORMATION

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

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CORE LABORATORIES N.V.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	September 30, 2013 (Unaudited)	December 31, 2012
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$22,204	\$19,226
Accounts receivable, net of allowance for doubtful accounts of \$3,286 and \$3,516 at 2013 and 2012, respectively	205,121	184,774
Inventories	53,646	49,265
Prepaid expenses	13,305	14,959
Income tax receivable	4,359	17,943
Other current assets	9,193	10,740
TOTAL CURRENT ASSETS	307,828	296,907
PROPERTY, PLANT AND EQUIPMENT, net	135,001	125,418
INTANGIBLES, net	10,836	8,721
GOODWILL	163,337	163,337
DEFERRED TAX ASSETS, net	5,866	13,224
OTHER ASSETS	34,608	28,909
TOTAL ASSETS	\$657,476	\$636,516
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$53,901	\$55,168
Accrued payroll and related costs	35,318	34,919
Taxes other than payroll and income	10,338	11,787
Unearned revenue	12,507	13,868
Income tax payable	10,361	9,542
Other accrued expenses	15,405	15,226
TOTAL CURRENT LIABILITIES	137,830	140,510
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	256,007	234,033
DEFERRED COMPENSATION	34,645	28,112
DEFERRED TAX LIABILITIES, net	5,273	6,777
OTHER LONG-TERM LIABILITIES	39,430	39,171
COMMITMENTS AND CONTINGENCIES (Note 6)		
EQUITY:		
Preference shares, EUR 0.02 par value; 6,000,000 shares authorized, none issued or outstanding	—	—
Common shares, EUR 0.02 par value; 200,000,000 shares authorized, 46,750,002 issued and 45,366,384 outstanding at 2013 and 47,899,584 issued and 46,349,411 outstanding at 2012	1,203	1,233
Additional paid-in capital	—	—
Retained earnings	370,905	361,255
Accumulated other comprehensive income (loss)	(8,108)	(8,413)
Treasury shares (at cost), 1,383,618 at 2013 and 1,550,173 at 2012	(185,783)	(171,845)
Total Core Laboratories N.V. shareholders' equity	178,217	182,230
Non-controlling interests	6,074	5,683

TOTAL EQUITY	184,291	187,913
TOTAL LIABILITIES AND EQUITY	\$657,476	\$636,516

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

1

[Return to Index](#)

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

	Three Months Ended September 30,	
	2013	2012
	(Unaudited)	
REVENUE:		
Services	\$194,267	\$174,465
Product sales	78,896	70,963
Total revenue	273,163	245,428
OPERATING EXPENSES:		
Cost of services, exclusive of depreciation expense shown below	110,087	102,935
Cost of product sales, exclusive of depreciation expense shown below	57,340	52,406
General and administrative expenses, exclusive of depreciation expense shown below	14,346	10,504
Depreciation	6,396	6,170
Amortization	357	289
Other (income) expense, net	41	(2,256)
OPERATING INCOME	84,596	75,380
Interest expense	2,302	2,160
Income before income tax expense	82,294	73,220
Income tax expense	20,490	18,671
Net income	61,804	54,549
Net income (loss) attributable to non-controlling interests	(91)	) 146
Net income attributable to Core Laboratories N.V.	\$61,895	\$54,403
EARNINGS PER SHARE INFORMATION:		
Basic earnings per share attributable to Core Laboratories N.V.	\$1.36	\$1.15
Diluted earnings per share attributable to Core Laboratories N.V.	\$1.35	\$1.14
Cash dividends per share	\$0.32	\$0.28
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	45,526	47,232
Diluted	45,828	47,528

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

2

[Return to Index](#)

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

	Nine Months Ended September 30,	
	2013	2012
	(Unaudited)	
REVENUE:		
Services	\$564,424	\$512,883
Product sales	232,805	213,742
Total revenue	797,229	726,625
OPERATING EXPENSES:		
Cost of services, exclusive of depreciation expense shown below	329,901	304,871
Cost of product sales, exclusive of depreciation expense shown below	164,674	155,990
General and administrative expenses, exclusive of depreciation expense shown below	38,328	30,883
Depreciation	17,775	16,554
Amortization	967	865
Other (income) expense, net	82	(3,950)
OPERATING INCOME	245,502	221,412
Interest expense	6,834	6,528
Income before income tax expense	238,668	214,884
Income tax expense	60,190	53,454
Net income	178,478	161,430
Net income (loss) attributable to non-controlling interests	391	160
Net income attributable to Core Laboratories N.V.	\$178,087	\$161,270
EARNINGS PER SHARE INFORMATION:		
Basic earnings per share attributable to Core Laboratories N.V.	\$3.88	\$3.40
Diluted earnings per share attributable to Core Laboratories N.V.	\$3.86	\$3.38
Cash dividends per share	\$0.96	\$0.84
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	45,854	47,436
Diluted	46,150	47,754

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

3

[Return to Index](#)

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Net income	\$61,804	\$54,549	\$178,478	\$161,430
Pension and other postretirement benefit plans				
Prior service cost				
Amortization to net income of transition asset	(21	) (21	) (65	) (65
Amortization to net income of prior service cost	39	39	119	119
Amortization to net income of actuarial loss	117	—	351	—
Income taxes on pension and other postretirement benefit plans	(33	) (5	) (101	) (14
Comprehensive income	61,906	54,562	178,782	161,470
Comprehensive income (loss) attributable to non-controlling interests	(91	) 146	391	160
Comprehensive income attributable to Core Laboratories N.V.	\$61,997	\$54,416	\$178,391	\$161,310

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

4

[Return to Index](#)

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

	Nine Months Ended September 30,	
	2013	2012
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$178,478	\$161,430
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	15,408	13,503
Depreciation and amortization	18,742	17,419
(Gain) on insurance recovery	—	(101)
(Increase) decrease in value of life insurance policies	(3,194)	(1,659)
Deferred income taxes	6,212	(811)
Other non-cash items	676	484
Changes in assets and liabilities:		
Accounts receivable	(20,425)	(12,395)
Inventories	(5,143)	(896)
Prepaid expenses and other current assets	14,595	(8,916)
Other assets	(414)	51
Accounts payable	(1,506)	(11,975)
Accrued expenses	1,788	(3,284)
Unearned revenue	(1,361)	(6,321)
Other long-term liabilities	6,792	5,621
Net cash provided by operating activities	210,648	152,150
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(26,988)	(24,154)
Patents and other intangibles	(3,083)	(1,096)
Cash settled for acquisition	—	1,632
Investment in non-consolidated affiliates	(50)	—
Proceeds from sale of assets	852	499
Proceeds from insurance recovery	—	101
Premiums on life insurance	(2,553)	(1,727)
Net cash used in investing activities	(31,822)	(24,745)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(51,035)	(53,330)
Proceeds from debt	73,000	41,000
Stock options exercised	83	5
Excess tax benefits from stock-based compensation	2,500	3,479
Debt financing costs	—	(7)
Dividends paid	(44,125)	(39,876)
Repurchase of common shares	(156,271)	(83,350)
Net cash used in financing activities	(175,848)	(132,079)
NET CHANGE IN CASH AND CASH EQUIVALENTS	2,978	(4,674)
CASH AND CASH EQUIVALENTS, beginning of period	19,226	29,332
CASH AND CASH EQUIVALENTS, end of period	\$22,204	\$24,658

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

5

[Return to Index](#)

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

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Core Laboratories N.V. and its subsidiaries for which we have a controlling voting interest and/or a controlling financial interest. These financial statements have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") for interim financial information using the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all of the information and footnote disclosures required by U.S. GAAP and should be read in conjunction with the 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, 2012 (the "2012 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. Non-controlling interests have been recorded to reflect outside ownership attributable to consolidated subsidiaries that are less than 100% owned. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods presented have been included in these financial statements. Furthermore, the operating results presented for the three and nine months ended September 30, 2013 may not necessarily be indicative of the results that may be expected for the year ended December 31, 2013.

Core Laboratories N.V.'s balance sheet information for the year ended December 31, 2012 was derived from the 2012 audited consolidated financial statements but does not include all disclosures in accordance with U.S. GAAP.

Certain reclassifications were made to prior period amounts in order to conform to the current period presentation. These reclassifications had no impact on the reported net income or cash flows for the three and nine month periods ended September 30, 2012.

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

2. INVENTORIES

Inventories consist of the following (in thousands):

	September 30, 2013 (Unaudited)	December 31, 2012
Finished goods	\$40,218	\$38,572
Parts and materials	10,312	8,818
Work in progress	3,116	1,875
Total inventories	\$53,646	\$49,265

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 2012, we determined that goodwill is not impaired. We amortize intangible assets with a finite life on a straight-line basis over their respective useful lives.

4. DEBT AND CAPITAL LEASE OBLIGATIONS

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

6

[Return to Index](#)

	September 30, 2013 (Unaudited)	December 31, 2012
Senior notes	\$ 150,000	\$ 150,000
Credit facility	106,000	84,000
Capital lease obligations	39	73
Total debt	256,039	234,073
Less - current maturities of long-term debt and capital lease obligations	32	40
Long-term debt and capital lease obligations, net	\$ 256,007	\$ 234,033

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 credit facility (the "Credit Facility") with an aggregate borrowing capacity of \$300 million at September 30, 2013. 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 \$18.7 million at September 30, 2013, resulting in an available borrowing capacity under the Credit Facility of \$175.3 million. In addition to those items under the Credit Facility, we had \$24.6 million of outstanding letters of credit and performance guarantees and bonds from other sources as of September 30, 2013.

The terms of the Credit Facility and the Senior Notes require us to meet certain financial and operational covenants, including, but not limited to, certain operational and 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 September 30, 2013 and December 31, 2012 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 noncontributory defined benefit pension plan covering substantially all of our Dutch employees (the "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 nine months ended September 30, 2013 and 2012 (in thousands):

7

[Return to Index](#)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Service cost	\$394	\$273	\$1,178	\$845
Interest cost	417	409	1,248	1,262
Expected return on plan assets	(321	) (292	) (961	) (902
Amortization of transition asset	(21	) (21	) (65	) (65
Amortization of prior service cost	39	39	119	119
Amortization of actuarial loss	117	—	351	—
Net periodic pension cost	\$625	\$408	\$1,870	\$1,259

During the nine months ended September 30, 2013, we contributed approximately \$2.0 million to fund the estimated 2013 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 consistent with the terms of each plan.

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 also 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 received under the 401(k) Plan in the absence of 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.

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 Expenses in the Consolidated Statements of Operations. The following table summarizes the fair value balances (in thousands):

(Unaudited)

Fair Value Measurement at

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

		September 30, 2013		
	Total	Level 1	Level 2	Level 3
Assets:				
Deferred compensation trust assets ⁽¹⁾	\$ 16,043	\$—	\$ 16,043	\$—
Liabilities:				
Deferred compensation plan	\$ 23,270	\$ 1,791	\$ 21,479	\$—

8

[Return to Index](#)

	Total	Fair Value Measurement at December 31, 2012		
		Level 1	Level 2	Level 3
Assets:				
Deferred compensation trust assets ⁽¹⁾	\$ 12,654	\$—	\$ 12,654	\$—
Liabilities:				
Deferred compensation plan	\$ 18,579	\$ 2,667	\$ 15,912	\$—

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

6. COMMITMENTS AND CONTINGENCIES

We have been and may from time to time be named as a defendant in legal actions that arise in the ordinary course of business. These include, but are not limited to, employment-related claims and contractual disputes or claims for personal injury or property damage which occur in connection with the provision of our services and products.

Management does not currently believe that any of our pending contractual, employment-related, personal injury or property damage claims and disputes will have a material effect on our future results of operations, financial position or cash flow.

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

7. EQUITY

During the three months ended September 30, 2013, we repurchased 362,776 of our common shares for \$55.9 million. Included in this total were rights to 5,964 shares valued at \$0.9 million that were surrendered to us pursuant to the terms of a stock-based compensation plan in consideration of the participants' tax burdens that may result from the issuance of common shares under that plan. During the nine months ended September 30, 2013, we repurchased 1,105,286 of our common shares for \$156.3 million. Included in this total were rights to 32,297 shares valued at \$4.6 million that were surrendered to us pursuant to the terms of a stock-based compensation plan in consideration of the participants' tax burdens that may result from the issuance of common shares under that plan. Such common shares, unless canceled, may be reissued for a variety of purposes such as future acquisitions, non-employee director stock awards or employee stock awards.

At the annual meeting of shareholders on May 16, 2013, the shareholders approved the cancellation of 1,149,582 shares of our common stock then held as treasury stock. These treasury shares were cancelled on August 1, 2013, after the expiration of the waiting period required under Dutch law. In accordance with ASC 505-30-30-8, we charged the excess of the cost of the treasury stock over its par value to additional paid-in capital and retained earnings.

In February, May and August 2013, we paid a quarterly dividend of \$0.32 per share of common stock. In addition, on October 8, 2013, we declared a quarterly dividend of \$0.32 per share of common stock for shareholders of record on October 18, 2013 and payable on November 20, 2013.

The following table summarizes our changes in equity for the nine months ended September 30, 2013 (in thousands):

[Return to Index](#)

(Unaudited)	Common Shares	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-Controlling Interests	Total Equity
December 31, 2012	\$ 1,233	\$—	\$ 361,255	\$(8,413)	\$(171,845)	\$ 5,683	\$ 187,913
Stock options exercised	—	(1,411)	—	—	1,494	—	83
Stock based-awards	—	2,291	(327)	—	13,444	—	15,408
Tax benefit of stock-based awards issued	—	2,500	—	—	—	—	2,500
Repurchase of common shares	—	—	—	—	(156,271)	—	(156,271)
Dividends paid	—	—	(44,125)	—	—	—	(44,125)
Cancellation of common shares	(30)	(3,380)	(123,985)	—	127,395	—	—
Amortization of deferred pension costs, net of tax	—	—	—	305	—	—	305
Net income (loss)	—	—	178,087	—	—	391	178,478
September 30, 2013	\$ 1,203	\$—	\$ 370,905	\$(8,108)	\$(185,783)	\$ 6,074	\$ 184,291

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

	September 30, 2013 (Unaudited)	December 31, 2012
Prior service cost	\$(526)	\$(616)
Transition asset	146	195
Unrecognized net actuarial loss	(7,728)	(7,992)
Total accumulated other comprehensive income (loss)	\$(8,108)	\$(8,413)

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 September 30,		Nine Months Ended September 30,	
	2013 (Unaudited)	2012	2013 (Unaudited)	2012
Weighted average basic common shares outstanding	45,526	47,232	45,854	47,436

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

Effect of dilutive securities:

Stock options	—	11	1	12
Performance shares	135	136	115	128
Restricted stock	167	149	180	178
Weighted average diluted common and potential common shares outstanding	45,828	47,528	46,150	47,754

10

[Return to Index](#)

9. OTHER (INCOME) EXPENSE, NET

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Sale of assets	\$ (155	) \$ (70	) \$ (687	) \$ (383
Results of non-consolidated subsidiaries	43	(234	) (142	) (481
Foreign exchange	518	(610	) 3,040	(280
Rents and royalties	(156	) (214	) (599	) (809
Insurance recovery	(336	) (1,023	) (882	) (4,490
Legal entity realignment	—	—	—	1,860
NYSE Euronext Amsterdam listing	—	—	—	923
Other, net	127	(105	) (648	) (290
Total other (income) expense, net	\$ 41	\$ (2,256	) \$ 82	\$ (3,950

We incurred property losses during Hurricane Isaac in 2012. During 2013, the insurer agreed to pay a portion of the claim which resulted in a net gain of \$0.9 million after related expenses and the disposal of the assets. The insurer is continuing to review the remainder of the claim.

During the second quarter of 2012, we incurred legal, accounting and other fees in connection with the realignment of certain of our legal entities into a more cost effective structure and the listing of our shares on the NYSE Euronext Amsterdam Stock Exchange.

As a result of a supply disruption in 2011 from a key vendor that provided certain high performance specialty steel tubulars used with our perforating systems, we filed a claim under our business interruption insurance policy which was fully settled during 2012 for \$4.4 million. We recorded a gain of \$3.4 million in the first quarter of 2012 for the initial payment and a gain of \$1.0 million in the third quarter of 2012 when the claim was settled and closed.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Australian Dollar	\$ 182	\$ 47	\$ 391	\$ 32
British Pound	(430	) (127	) 111	(68
Canadian Dollar	(278	) (581	) 690	(599
Euro	266	(59	) 620	(66
Indonesian Rupiah	320	18	373	158
Malaysian Ringgit	144	(33	) 332	46
Mexican Peso	52	(179	) 116	(140
Russian Ruble	16	164	(38	) 108
Other currencies, net	246	140	445	249
Total (gain) loss	\$ 518	\$ (610	) \$ 3,040	\$ (280

10. INCOME TAX EXPENSE

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

The effective tax rates for the three months ended September 30, 2013 and 2012 were 24.9% and 25.5%, respectively. The effective tax rates for the year-to-date 2013 and 2012 were 25.2% and 24.9%, respectively. The change in tax expense reflects the change in activity levels among jurisdictions with different tax rates.

11

[Return to Index](#)

11. SEGMENT REPORTING

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

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

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

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

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

(Unaudited)	Reservoir Description	Production Enhancement	Reservoir Management	Corporate & Other ¹	Consolidated
Three Months Ended September 30, 2013					
Revenues from unaffiliated customers	\$131,533	\$119,511	\$22,119	\$—	\$273,163
Inter-segment revenues	656	791	301	(1,748)	—
Segment operating income (loss)	35,938	42,284	6,516	(142)	84,596
Total assets (at end of period)	320,505	261,970	37,005	37,996	657,476
Capital expenditures	5,414	1,467	285	1,887	9,053
Depreciation and amortization	3,856	2,196	312	389	6,753
Three Months Ended September 30, 2012					
Revenues from unaffiliated customers	\$124,156	\$100,871	\$20,401	\$—	\$245,428
Inter-segment revenues	638	972	295	(1,905)	—
Segment operating income (loss)	36,780	32,339	6,029	232	75,380
Total assets (at end of period)	289,830	247,907	28,194	72,601	638,532
Capital expenditures	4,448	1,882	290	2,640	9,260
Depreciation and amortization	3,557	1,874	188	840	6,459
Nine Months Ended September 30, 2013					
Revenues from unaffiliated customers	\$386,000	\$337,141	\$74,088	\$—	\$797,229
Inter-segment revenues	2,131	2,468	1,124	(5,723)	—
Segment operating income (loss)	107,707	113,761	23,837	197	245,502
Total assets	320,505	261,970	37,005	37,996	657,476
Capital expenditures	17,267	5,406	1,321	2,994	26,988
Depreciation and amortization	11,080	5,810	692	1,160	18,742
Nine Months Ended September 30, 2012					
Revenues from unaffiliated customers	\$366,724	\$297,151	\$62,750	\$—	\$726,625
Inter-segment revenues	1,934	2,055	1,099	(5,088)	—
Segment operating income (loss)	107,271	95,434	21,057	(2,350)	221,412
Total assets	289,830	247,907	28,194	72,601	638,532
Capital expenditures	10,594	6,150	730	6,680	24,154

Depreciation and amortization	10,549	4,374	530	1,966	17,419
-------------------------------	--------	-------	-----	-------	--------

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

12. RECENT ACCOUNTING PRONOUNCEMENTS

12

[Return to Index](#)

In February 2013, the FASB issued ASU 2013-02 relating to comprehensive income (FASB ASC Topic 220), which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component (the respective line items of net income). This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. We adopted this pronouncement for our fiscal year beginning January 1, 2013. The adoption of this pronouncement did not have a material effect on our consolidated financial statements.

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 are evaluating the impact that the adoption of this standard may have on our consolidated financial statements.

13

[Return to Index](#)

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

The following discussion summarizes the financial position of Core Laboratories N.V. and its subsidiaries as of September 30, 2013 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 consolidated financial statements and accompanying notes to our Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (the "2012 Annual Report").

General

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

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

Our business units have been aggregated into three complementary reportable segments, which provide services and products for improving reservoir performance and increasing oil and gas recovery from new and existing fields.

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

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

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

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Certain statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations section, including those under the headings "Outlook" and "Liquidity and Capital Resources", and in other parts of this Form 10-Q, are forward-looking. In addition, from time to time, we may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. Forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "believe", "expect", "anticipate", "estimate", "continue", or other similar words, including statements as to the intent, belief, or current expectations of our directors, officers, and management with respect to our future operations, performance, or positions or which contain other forward-looking information. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, no assurances can be given that the future results indicated, whether expressed or implied, will be achieved. While we believe that these statements are and will be accurate, our actual results and experience may differ materially from the anticipated results or other expectations expressed in our statements due to a variety of risks and uncertainties.

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

14

[Return to Index](#)

- general and economic business conditions;
- market prices of oil and gas and expectations about future prices;
- cost of producing and the ability to deliver oil and natural gas;
- the level of drilling and production activity;
- mergers, consolidations and downsizing among our clients;
- coordination by OPEC;
- the impact of commodity prices on the expenditure levels of our clients;
- financial condition of our client base and their ability to fund capital expenditures;
- the physical effects of climatic change, including adverse weather or geologic/geophysical conditions;
- the adoption of legal requirements or taxation relating to climate change that lower the demand for petroleum-based fuels;
- civil unrest or political uncertainty in oil producing or consuming countries;
- level of consumption of oil, gas and petrochemicals by consumers;
- changes in existing laws, regulations, or other governmental actions;
- the business opportunities (or lack thereof) that may be presented to and pursued by us;
- availability of services and materials for our clients to grow their capital expenditures;
- 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 2012 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. Based on recent activity levels, we believe that the current level of activities, workflows, and operating margins within North America will remain similar to that experienced in the first nine months of 2013, but we believe activity outside North America, particularly those relating to oil development projects, will grow moderately throughout 2013.

Results of Operations

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

15

[Return to Index](#)

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

(Unaudited)	Three Months Ended September 30,				% Change		
	2013		2012		2013/2012		
REVENUE:							
Services	\$194,267	71	% \$174,465	71	% 11	%	
Product sales	78,896	29	% 70,963	29	% 11	%	
Total revenue	273,163	100	% 245,428	100	% 11	%	
OPERATING EXPENSES:							
Cost of services, exclusive of depreciation expense shown below*	110,087	57	% 102,935	59	% 7	%	
Cost of product sales, exclusive of depreciation expense shown below*	57,340	73	% 52,406	74	% 9	%	
Total cost of services and product sales	167,427	61	% 155,341	63	% 8	%	
General and administrative expenses	14,346	5	% 10,504	4	% 37	%	
Depreciation and amortization	6,753	2	% 6,459	3	% 5	%	
Other (income) expense, net	41	0	% (2,256	) (1	)% (102)%	
Operating income	84,596	31	% 75,380	31	% 12	%	
Interest expense	2,302	1	% 2,160	1	% 7	%	
Income before income tax expense	82,294	30	% 73,220	30	% 12	%	
Income tax expense	20,490	8	% 18,671	8	% 10	%	
Net income	61,804	23	% 54,549	22	% 13	%	
Net income (loss) attributable to non-controlling interests	(91	) 0	% 146	0	% (162)%	
Net income attributable to Core Laboratories N.V.	\$61,895	23	% \$54,403	22	% 14	%	

* Percentage based on applicable revenue rather than total revenue.

(Unaudited)	Nine Months Ended September 30,				% Change		
	2013		2012		2013/2012		
REVENUE:							
Services	\$564,424	71	% \$512,883	71	% 10	%	
Product sales	232,805	29	% 213,742	29	% 9	%	
Total revenue	797,229	100	% 726,625	100	% 10	%	
OPERATING EXPENSES:							
Cost of services, exclusive of depreciation expense shown below*	329,901	58	% 304,871	59	% 8	%	
Cost of product sales, exclusive of depreciation expense shown below*	164,674	71	% 155,990	73	% 6	%	
Total cost of services and product sales	494,575	62	% 460,861	63	% 7	%	
General and administrative expenses	38,328	5	% 30,883	4	% 24	%	
Depreciation and amortization	18,742	2	% 17,419	2	% 8	%	
Other (income), net	82	0	% (3,950	) (1	)% (102)%	
Operating income	245,502	31	% 221,412	30	% 11	%	
Interest expense	6,834	1	% 6,528	1	% 5	%	
Income before income tax expense	238,668	30	% 214,884	30	% 11	%	
Income tax expense	60,190	8	% 53,454	7	% 13	%	
Net income	178,478	22	% 161,430	22	% 11	%	
Net income (loss) attributable to non-controlling interests	391	0	% 160	0	% 144	%	
Net income attributable to Core Laboratories N.V.	\$178,087	22	% \$161,270	22	% 10	%	

* Percentage based on applicable revenue rather than total revenue.

16

[Return to Index](#)

Operating Results for the Three and Nine Months Ended September 30, 2013 Compared to the Three and Nine Months Ended September 30, 2012 (unaudited)

Services Revenue

Services revenue increased to \$194.3 million for the third quarter of 2013, up 11% when compared to \$174.5 million for the third quarter of 2012. For the nine months ended September 30, 2013, services revenue increased to \$564.4 million, up 10% when compared to \$512.9 million for the same period of 2012. The increase in services revenue was primarily due to our continued focus on worldwide crude-oil related and large natural gas for liquefaction projects, especially those related to the development of deepwater fields offshore West and East Africa, the eastern Mediterranean, and the Gulf of Mexico.

Product Sales Revenue

Revenue associated with product sales was up 11% to \$78.9 million for the third quarter of 2013, compared to \$71.0 million for the third quarter of 2012. For the nine months ended September 30, 2013, product sales revenues increased to \$232.8 million, up 9% from the same period in 2012. The increase in product sales revenue, focusing primarily on North American tight-oil developments, was due to greater market penetration of our patented and proprietary perforating technologies despite the decline in drilling activity in North America. North America rig count was down over 3% this quarter compared to the same quarter of last year.

Cost of Services

Cost of services expressed as a percentage of services revenue was 57% for the quarter ended September 30, 2013, an improvement from 59% in the same period in 2012. For the nine months ended September 30, 2013, cost of services expressed as a percentage of services revenue was 58%, an improvement from 59% in the same period in 2012. The margin improvement is a result of higher sales, including 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 was 73% for the quarter ended September 30, 2013, an improvement from 74% during the same period in 2012. For the nine months ended September 30, 2013, cost of product sales expressed as a percentage of product sales revenue was 71%, an improvement from 73% during the same period in 2012. The decrease in cost of sales as a percentage of product sales revenue was primarily due to the growing demand for our new technologies which led to an overall increase in sales, which improved absorption of our fixed cost structure.

General and Administrative Expenses

General and administrative ("G&A") expenses include corporate management and centralized administrative services that benefit our operations. G&A expenses for the third quarter of 2013 were 5.3% of revenue, an increase from the third quarter of 2012 when these expenses represented 4.3% of revenue. For the nine months ended September 30, 2013, G&A expenses were 4.8% of revenue, an increase from the same period in 2012 when they were 4.3% of revenue. The increase for the three and nine months ended September 30, 2013 was primarily attributable to increases in compensation costs, including variable compensation, recorded during 2013.

Depreciation and Amortization Expense

Depreciation and amortization expense was \$6.8 million for the third quarter of 2013 compared to \$6.5 million in the third quarter of 2012. For the nine months ended September 30, 2013, depreciation and amortization expense was \$18.7 million compared to \$17.4 million for the same period in 2012. For the three and nine months ended September 30, 2013, the increase is a result of growth in our client-directed capex program resulting from continued improvement in industry activity, particularly internationally and in the deepwater environment.

Other (Income) Expense, Net

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

17

[Return to Index](#)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Sale of assets	\$ (155	) \$ (70	) \$ (687	) \$ (383
Results of non-consolidated subsidiaries	43	(234	) (142	) (481
Foreign exchange	518	(610	) 3,040	(280
Rents and royalties	(156	) (214	) (599	) (809
Insurance recovery	(336	) (1,023	) (882	) (4,490
Legal entity realignment	—	—	—	1,860
NYSE Euronext Amsterdam listing	—	—	—	923
Other, net	127	(105	) (648	) (290
Total other (income) expense, net	\$41	\$ (2,256	) \$82	\$ (3,950

We incurred property losses during Hurricane Isaac in 2012. During 2013, the insurer agreed to pay a portion of the claim which resulted in a net gain of \$0.9 million after related expenses and the disposal of the assets. The insurer is continuing to review the remainder of the claim and we anticipate this being concluded in the fourth quarter of 2013.

During the second quarter of 2012, we incurred legal, accounting and other fees in connection with the realignment of certain of our legal entities into a more cost effective structure and the listing of our shares on the NYSE Euronext Amsterdam Stock Exchange.

As a result of a supply disruption in 2011 from a key vendor that provided certain high performance specialty steel tubulars used with our perforating systems, we filed a claim under our business interruption insurance policy which was fully settled during 2012 for \$4.4 million. We recorded a gain of \$3.4 million in the first quarter of 2012 for the initial payment and a gain of \$1.0 million in the third quarter of 2012 when the claim was settled and closed.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2013	2012	2013	2012
	(Unaudited)		(Unaudited)	
Australian Dollar	\$182	\$47	\$391	\$32
British Pound	(430	) (127	) 111	(68
Canadian Dollar	(278	) (581	) 690	(599
Euro	266	(59	) 620	(66
Indonesian Rupiah	320	18	373	158
Malaysian Ringgit	144	(33	) 332	46
Mexican Peso	52	(179	) 116	(140
Russian Ruble	16	164	(38	) 108
Other currencies, net	246	140	445	249
Total (gain) loss	\$518	\$ (610	) \$3,040	\$ (280

Interest Expense

Interest expense for the three months ended September 30, 2013 and 2012 was \$2.3 million and \$2.2 million, respectively. Interest expense for the nine months ended September 30, 2013 and 2012 was \$6.8 million and \$6.5 million, respectively.

Income Tax Expense

18

[Return to Index](#)

The effective tax rates for the three months ended September 30, 2013 and 2012 were 24.9% and 25.5%, respectively. The effective tax rates for the nine months ended September 30, 2013 and 2012 were 25.2% and 24.9%, respectively. The change in tax expense reflects the change in activity levels among jurisdictions with different tax rates.

Segment Analysis

Our operations are managed primarily in three complementary reportable segments - Reservoir Description, Production Enhancement and Reservoir Management. The following tables summarize our results by segment for the three and nine months ended September 30, 2013 and 2012 (in thousands):

	Three Months Ended September 30,		% Change	
	2013	2012	2013/2012	
Revenue:	(Unaudited)			
Reservoir Description	\$131,533	\$124,156	6	%
Production Enhancement	119,511	100,871	18	%
Reservoir Management	22,119	20,401	8	%
Consolidated	\$273,163	\$245,428	11	%
Operating income (loss):				
Reservoir Description	\$35,938	\$36,780	(2)%
Production Enhancement	42,284	32,339	31	%
Reservoir Management	6,516	6,029	8	%
Corporate and Other ¹	(142	) 232	NM	
Consolidated	\$84,596	\$75,380	12	%

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

"NM" means not meaningful

	Nine Months Ended September 30,		% Change	
	2013	2012	2013/2012	
Revenue:	(Unaudited)			
Reservoir Description	\$386,000	\$366,724	5	%
Production Enhancement	337,141	297,151	13	%
Reservoir Management	74,088	62,750	18	%
Consolidated	\$797,229	\$726,625	10	%
Operating income (loss):				
Reservoir Description	\$107,707	\$107,271	0	%
Production Enhancement	113,761	95,434	19	%
Reservoir Management	23,837	21,057	13	%
Corporate and Other ¹	197	(2,350	) NM	
Consolidated	\$245,502	\$221,412	11	%

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

"NM" means not meaningful

Reservoir Description

Revenue from the Reservoir Description segment increased 6%, or \$7.4 million, to \$131.5 million in the third quarter of 2013, compared to \$124.2 million in the third quarter of 2012. For the nine months ended September 30, 2013, revenue increased 5%, or \$19.3 million, to \$386.0 million, compared to \$366.7 million for the same period of 2012. This segment's operations, which focus on international crude-oil related products, continued to benefit from increased

activity in large-scale core analyses and reservoir fluids characterization studies in the Asia-Pacific areas, offshore West and East Africa, the Eastern Mediterranean region, the Middle East, including Iraq, Kuwait, and the United Arab Emirates, and deepwater Gulf of Mexico.

Operating income in the third quarter of 2013 decreased by 2%, or \$0.8 million, to \$35.9 million compared to \$36.8 million for the third quarter of 2012 reflecting higher than normal corporate general and administrative costs. Operating income for the

19

[Return to Index](#)

nine months ended September 30, 2013 increased by \$0.4 million, to \$107.7 million compared to \$107.3 million for the same period of 2012. Operating margin for the quarter ended September 30, 2013 was 27%. This segment emphasizes technologically demanding services on internationally-based development and production-related crude oil projects over the more cyclical exploration-related projects.

Production Enhancement

Revenue from the Production Enhancement segment increased by 18%, or \$18.6 million, to \$119.5 million in the third quarter of 2013 compared to \$100.9 million in the third quarter of 2012. Revenues increased by 13%, or \$40.0 million, to \$337.1 million for the nine months ended September 30, 2013, compared to \$297.2 million for the same period in 2012. The revenue increase was primarily due to demand for our diagnostic services, both for fracture diagnostics in North America and flood diagnostics internationally, and our proprietary perforating system technology.

Operating income in the third quarter of 2013 increased by 31%, or \$9.9 million, to \$42.3 million from \$32.3 million for the third quarter of 2012. For the nine months ended September 30, 2013, operating income increased by 19%, to \$113.8 million over the same period of 2012. Operating margins were 35% in the third quarter of 2013. The increase in operating income from 2012 to 2013 was primarily driven by increased demand for the Company's proprietary and patented hydraulic fracture and field-flood diagnostic technologies and services such as FlowProfiler™, SpectraChem ZeroWash®, and SpectraFlood™ tracers in North America and internationally.

Reservoir Management

Revenue from the Reservoir Management segment increased by 8% to \$22.1 million in the third quarter of 2013 compared to \$20.4 million for the third quarter of 2012. Revenue for the nine months ended September 30, 2013 increased by 18% to \$74.1 million compared to \$62.8 million for the same period in 2012. The increase in revenue was due to the instrumenting of two oil sands projects in Canada for permanent reservoir monitoring and ongoing interest in several of our existing multi-client reservoir studies such as the Duvernay Shale Project in Canada and the Tight Oil Reservoirs of the Midland Basin study as well as our new joint-industry projects in the Williston Basin targeting the tight oil of the entire Three Forks sections and a study in the Appalachian Basin of the emerging Devonian shales in the liquids window.

Operating income in the third quarter of 2013 increased 8% to \$6.5 million from \$6.0 million for the third quarter of 2012. For the nine months ended September 30, 2013, operating income was \$23.8 million compared to \$21.1 million for the same period in 2012. Operating margins were 29% in the third quarter of 2013. The increase in operating income in the third quarter of 2013 was primarily a result of additional participants in our joint industry projects, including the Utica, Duvernay, and Mississippi Lime studies and the Marcellus, Niobrara, Wolfcamp and Eagle Ford plays.

Liquidity and Capital Resources

General

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

We utilize the non-GAAP financial measure of free cash flow to evaluate our cash flows and results of operations. Free cash flow is defined as net cash provided by operating activities (which is the most directly comparable GAAP measure) less cash paid for capital expenditures. Management believes that free cash flow provides useful information to investors regarding the cash available in the period that was in excess of our needs to

fund our capital expenditures and operating activities. Free cash flow is not a measure of operating performance under GAAP, and should not be considered in isolation nor construed as an alternative to operating profit, net income (loss) or cash flows from operating, investing or financing activities, each as determined in accordance with GAAP. Free cash flow does not represent residual cash available for distribution because we may have other non-discretionary expenditures that are not deducted from the measure. Moreover, since free cash flow is not a measure determined in accordance with GAAP and thus is susceptible to varying interpretations and calculations, free cash flow as presented, may not be comparable to similarly titled measures presented by other companies. The following table reconciles this non-GAAP financial measure to the most directly comparable measure calculated and presented in accordance with GAAP for the nine months ended September 30, 2013 and 2012 (in thousands):

20

[Return to Index](#)

	Nine Months Ended September 30,		% Change	
	2013	2012	2013/2012	
Free cash flow calculation:	(Unaudited)			
Net cash provided by operating activities	\$210,648	\$152,150	38	%
Less: cash paid for capital expenditures	26,988	24,154	12	%
Free cash flow	\$183,660	\$127,996	43	%

The increase in free cash flow for the first nine months of 2013 compared to the same period in 2012 was primarily due to an increase in cash from operations.

Cash Flows

The following table summarizes cash flows for the nine months ended September 30, 2013 and 2012 (in thousands):

	Nine Months Ended September 30,		% Change	
	2013	2012	2013/2012	
Cash provided by/(used in):	(Unaudited)			
Operating activities	\$210,648	\$152,150	38	%
Investing activities	(31,822	) (24,745	) 29	%
Financing activities	(175,848	) (132,079	) 33	%
Net change in cash and cash equivalents	\$2,978	\$(4,674	) 164	%

The increase in cash flows from operating activities for the first nine months of 2013 compared to the same period in 2012 was primarily attributable to an increase in net income and changes in current liabilities and prepaid expenses and other current assets.

Cash flows used in investing activities were higher during the first nine months of 2013 when compared to the same period in 2012. During the nine month period ended September 30, 2013 there was an increase of \$2.0 million in expenditures for intangible assets compared to the same period in 2012. Capital expenditures were \$2.8 million higher in the first nine months of 2013 compared to 2012.

Cash flows used in financing activities increased for the first nine months of 2013 when compared to the same period in 2012. During the first nine months of 2013, we repurchased 1,105,286 shares of our common stock for an aggregate purchase price of \$156.3 million compared to the repurchase of 686,896 shares for an aggregate purchase price of \$83.4 million during the same period in 2012. In the first nine months of 2013, we increased the amount outstanding on our Credit Facility by \$22.0 million, as compared to reducing it by \$12.3 million during the first nine months of 2012. We increased the amount of our quarterly dividend from 28 cents per share to 32 cents per share resulting in dividend payments of \$44.1 million paid during the first nine months of 2013, an increase of \$4.2 million over the \$39.9 million paid during the first nine months of 2012.

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 credit facility (the "Credit Facility") with an aggregate borrowing capacity of \$300 million at September 30, 2013. 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 the Credit Facility. Our available capacity at any point in time is reduced by borrowings outstanding at the time and outstanding letters of credit which totaled \$18.7 million at September 30, 2013, resulting in an available borrowing capacity under the Credit Facility of \$175.3 million. In addition to

21

[Return to Index](#)

those items under the Credit Facility, we had \$24.6 million of outstanding letters of credit and performance guarantees and bonds from other sources as of September 30, 2013.

The terms of the Credit Facility and the Senior Notes require us to meet certain financial and operational covenants, including, but not limited to, certain operational and 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 February 2013, the FASB issued ASU 2013-02 relating to comprehensive income (FASB ASC Topic 220), which requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component (the respective line items of net income). This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. We adopted this pronouncement for our fiscal year beginning January 1, 2013. The adoption of this pronouncement did not have a material effect on our consolidated financial statements.

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 are evaluating the impact that the adoption of this standard may 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, 2012.

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, 2012.

Disclosure Controls and Procedures

Our management, under the supervision of and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2013 at the reasonable assurance level.

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

Changes in Internal Control Over Financial Reporting

There have been no changes in our system of internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the fiscal quarter ended September 30, 2013, 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 quarter ended September 30, 2013:

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 (3)
July 31, 2013	123,500	\$151.56	123,500	2,476,125
August 31, 2013 (1)	139,325	150.14	139,325	3,375,674
September 30, 2013 (2)	99,951	162.27	99,951	3,291,382
Total	362,776	\$153.97	362,776	

(1) Contains 1,354 shares valued at approximately \$0.2 million, or \$154.19 per share, surrendered to us by participants in a stock-based compensation plan to settle any personal tax liabilities which may result from the award in August 2013.

(2) Contains 4,610 shares valued at approximately \$0.7 million, or \$151.51 per share, surrendered to us by participants in a stock-based compensation plan to settle any personal tax liabilities which may result from the award in September 2013.

(3) 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 16, 2013, our shareholders authorized an extension to repurchase 10% of our issued share capital through November 16, 2014. 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: October 18, 2013

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

26

[Return to Index](#)