

CORE LABORATORIES N V  
Form 10-Q  
October 21, 2016

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

FORM 10-Q  
(Mark One)

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

For the quarterly period ended  
September 30, 2016  
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    Not  
                          Applicable  
                          (I.R.S.  
(State or other      Employer  
jurisdiction of      Identification  
                          No.)

incorporation or  
organization)

Strawinskylaan

913

Tower A, Level 9

1077 XX

Amsterdam

The Netherlands      Not  
                                         Applicable

(Address of  
principal executive(Zip Code)  
offices)

(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 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 20, 2016 was 44,109,761.

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CORE LABORATORIES N.V.  
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2016

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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)

|                                                                                                                                                                                    | September 30,<br>2016 | December 31,<br>2015 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------|----------------------|
|                                                                                                                                                                                    | (Unaudited)           |                      |
| <b>ASSETS</b>                                                                                                                                                                      |                       |                      |
| <b>CURRENT ASSETS:</b>                                                                                                                                                             |                       |                      |
| Cash and cash equivalents                                                                                                                                                          | \$ 17,219             | \$ 22,494            |
| Accounts receivable, net of allowance for doubtful accounts of \$3,146 and \$4,136 at 2016 and 2015, respectively                                                                  | 108,520               | 145,689              |
| Inventories                                                                                                                                                                        | 37,339                | 40,906               |
| Prepaid expenses                                                                                                                                                                   | 8,971                 | 12,053               |
| Income taxes receivable                                                                                                                                                            | 6,374                 | 7,209                |
| Other current assets                                                                                                                                                               | 6,931                 | 10,196               |
| <b>TOTAL CURRENT ASSETS</b>                                                                                                                                                        | <b>185,354</b>        | <b>238,547</b>       |
| <b>PROPERTY, PLANT AND EQUIPMENT, net</b>                                                                                                                                          | <b>131,210</b>        | <b>143,211</b>       |
| <b>INTANGIBLES, net</b>                                                                                                                                                            | <b>10,019</b>         | <b>10,041</b>        |
| <b>GOODWILL</b>                                                                                                                                                                    | <b>179,044</b>        | <b>178,159</b>       |
| <b>DEFERRED TAX ASSETS, net</b>                                                                                                                                                    | <b>9,793</b>          | <b>11,693</b>        |
| <b>OTHER ASSETS</b>                                                                                                                                                                | <b>46,718</b>         | <b>43,607</b>        |
| <b>TOTAL ASSETS</b>                                                                                                                                                                | <b>\$ 562,138</b>     | <b>\$ 625,258</b>    |
| <b>LIABILITIES AND EQUITY (DEFICIT)</b>                                                                                                                                            |                       |                      |
| <b>CURRENT LIABILITIES:</b>                                                                                                                                                        |                       |                      |
| Accounts payable                                                                                                                                                                   | \$ 32,201             | \$ 33,474            |
| Accrued payroll and related costs                                                                                                                                                  | 23,541                | 36,475               |
| Taxes other than payroll and income                                                                                                                                                | 6,816                 | 9,495                |
| Unearned revenue                                                                                                                                                                   | 12,990                | 14,101               |
| Income taxes payable                                                                                                                                                               | 5,596                 | 1,733                |
| Other current liabilities                                                                                                                                                          | 12,398                | 25,480               |
| <b>TOTAL CURRENT LIABILITIES</b>                                                                                                                                                   | <b>93,542</b>         | <b>120,758</b>       |
| <b>LONG-TERM DEBT, net</b>                                                                                                                                                         | <b>206,363</b>        | <b>430,987</b>       |
| <b>DEFERRED COMPENSATION</b>                                                                                                                                                       | <b>45,977</b>         | <b>43,478</b>        |
| <b>DEFERRED TAX LIABILITIES, net</b>                                                                                                                                               | <b>5,859</b>          | <b>4,881</b>         |
| <b>OTHER LONG-TERM LIABILITIES</b>                                                                                                                                                 | <b>47,600</b>         | <b>48,853</b>        |
| <b>COMMITMENTS AND CONTINGENCIES (Note 6)</b>                                                                                                                                      |                       |                      |
| <b>EQUITY (DEFICIT):</b>                                                                                                                                                           |                       |                      |
| Preference shares, EUR 0.02 par value; 6,000,000 shares authorized, none issued or outstanding                                                                                     | —                     | —                    |
| Common shares, EUR 0.02 par value;<br>200,000,000 shares authorized, 44,796,252 issued and 44,100,116 outstanding at 2016 and 44,350,002 issued and 42,375,905 outstanding at 2015 | 1,148                 | 1,142                |
| Additional paid-in capital                                                                                                                                                         | 62,479                | —                    |
| Retained earnings                                                                                                                                                                  | 196,760               | 219,207              |
| Accumulated other comprehensive income (loss)                                                                                                                                      | (11,253               | ) (10,538 )          |
| Treasury shares (at cost), 696,136 at 2016 and 1,974,097 at 2015                                                                                                                   | (91,545               | ) (238,875 )         |
| Total Core Laboratories N.V. shareholders' equity (deficit)                                                                                                                        | 157,589               | (29,064 )            |
| Non-controlling interest                                                                                                                                                           | 5,208                 | 5,365                |

|                                        |            |            |
|----------------------------------------|------------|------------|
| TOTAL EQUITY (DEFICIT)                 | 162,797    | (23,699 )  |
| TOTAL LIABILITIES AND EQUITY (DEFICIT) | \$ 562,138 | \$ 625,258 |

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>September 30,<br>2016 |         | 2015 |         |
|--------------------------------------------------------------------------------------------|---------------------------------------------|---------|------|---------|
|                                                                                            | (Unaudited)                                 |         |      |         |
| <b>REVENUE:</b>                                                                            |                                             |         |      |         |
| Services                                                                                   | \$                                          | 114,137 | \$   | 150,128 |
| Product sales                                                                              |                                             | 29,346  |      | 47,137  |
| Total revenue                                                                              |                                             | 143,483 |      | 197,265 |
| <b>OPERATING EXPENSES:</b>                                                                 |                                             |         |      |         |
| Cost of services, exclusive<br>of depreciation expense<br>shown below                      |                                             | 80,419  |      | 94,117  |
| Cost of product sales,<br>exclusive of depreciation<br>expense shown below                 |                                             | 26,734  |      | 34,933  |
| General and administrative<br>expense, exclusive of<br>depreciation expense<br>shown below |                                             | 8,406   |      | 12,155  |
| Depreciation                                                                               |                                             | 6,548   |      | 6,695   |
| Amortization                                                                               |                                             | 176     |      | 215     |
| Other (income) expense,<br>net                                                             |                                             | (288)   |      | 2,332   |
| OPERATING INCOME                                                                           |                                             | 21,488  |      | 46,818  |
| Interest expense                                                                           |                                             | 2,569   |      | 3,471   |
| Income before income tax<br>expense                                                        |                                             | 18,919  |      | 43,347  |
| Income tax expense                                                                         |                                             | 2,081   |      | 9,753   |
| Net income                                                                                 |                                             | 16,838  |      | 33,594  |
| Net income (loss)<br>attributable to<br>non-controlling interest                           |                                             | 108     |      | 190     |
| Net income attributable to<br>Core Laboratories N.V.                                       | \$                                          | 16,730  | \$   | 33,404  |
| <b>EARNINGS PER SHARE<br/>INFORMATION:</b>                                                 |                                             |         |      |         |
| Basic earnings per share<br>attributable to Core<br>Laboratories N.V.                      | \$                                          | 0.38    | \$   | 0.79    |
| Diluted earnings per share<br>attributable to Core<br>Laboratories N.V.                    | \$                                          | 0.38    | \$   | 0.78    |
| Cash dividends per share                                                                   | \$                                          | 0.55    | \$   | 0.55    |

WEIGHTED AVERAGE  
COMMON SHARES  
OUTSTANDING:

|         |        |        |
|---------|--------|--------|
| Basic   | 44,110 | 42,517 |
| Diluted | 44,320 | 42,685 |

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)

|                                                                                   | Nine Months Ended<br>September 30, |           |
|-----------------------------------------------------------------------------------|------------------------------------|-----------|
|                                                                                   | 2016                               | 2015      |
|                                                                                   | (Unaudited)                        |           |
| REVENUE:                                                                          |                                    |           |
| Services                                                                          | \$355,079                          | \$469,963 |
| Product sales                                                                     | 90,120                             | 144,834   |
| Total revenue                                                                     | 445,199                            | 614,797   |
| OPERATING EXPENSES:                                                               |                                    |           |
| Cost of services, exclusive of depreciation expense shown below                   | 249,062                            | 295,374   |
| Cost of product sales, exclusive of depreciation expense shown below              | 80,904                             | 112,569   |
| General and administrative expense, exclusive of depreciation expense shown below | 30,595                             | 37,463    |
| Depreciation                                                                      | 19,706                             | 19,792    |
| Amortization                                                                      | 616                                | 614       |
| Other (income) expense, net                                                       | (339)                              | 4,467     |
| Severance and other charges                                                       | —                                  | 7,090     |
| OPERATING INCOME                                                                  | 64,655                             | 137,428   |
| Interest expense                                                                  | 9,024                              | 8,990     |
| Income before income tax expense                                                  | 55,631                             | 128,438   |
| Income tax expense                                                                | 7,141                              | 29,100    |
| Net income                                                                        | 48,490                             | 99,338    |
| Net income (loss) attributable to non-controlling interest                        | 54                                 | (91)      |
| Net income attributable to Core Laboratories N.V.                                 | \$48,436                           | \$99,429  |
| EARNINGS PER SHARE INFORMATION:                                                   |                                    |           |
| Basic earnings per share attributable to Core Laboratories N.V.                   | \$1.12                             | \$2.32    |
| Diluted earnings per share attributable to Core Laboratories N.V.                 | \$1.11                             | \$2.31    |
| Cash dividends per share                                                          | \$1.65                             | \$1.65    |
| WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:                                       |                                    |           |
| Basic                                                                             | 43,265                             | 42,879    |
| Diluted                                                                           | 43,450                             | 43,038    |

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

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

|                                                                      | Three Months<br>Ended<br>September 30,<br>2016 |          | Nine Months<br>Ended<br>September 30,<br>2016 |          |
|----------------------------------------------------------------------|------------------------------------------------|----------|-----------------------------------------------|----------|
|                                                                      | 2015                                           |          | 2015                                          |          |
|                                                                      | (Unaudited)                                    |          | (Unaudited)                                   |          |
| Net income                                                           | \$16,838                                       | \$33,594 | \$48,490                                      | \$99,338 |
| Other comprehensive income:                                          |                                                |          |                                               |          |
| Derivatives                                                          |                                                |          |                                               |          |
| Gain (loss) in fair value of interest rate swaps                     | 199                                            | (1,475 ) | (2,221 )                                      | (1,880 ) |
| Interest rate swap amounts reclassified to interest expense          | 207                                            | 246      | 631                                           | 734      |
| Income taxes on derivatives                                          | (150 )                                         | 455      | 585                                           | 822      |
| Total derivatives                                                    | 256                                            | (774 )   | (1,005 )                                      | (324 )   |
| Pension and other postretirement benefit plans                       |                                                |          |                                               |          |
| Prior service cost                                                   |                                                |          |                                               |          |
| Amortization to net income of transition asset                       | —                                              | (22 )    | —                                             | (66 )    |
| Amortization to net income of prior service cost                     | (20 )                                          | (21 )    | (58 )                                         | (59 )    |
| Amortization to net income of actuarial loss                         | 148                                            | 181      | 444                                           | 548      |
| Income taxes on pension and other postretirement benefit plans       | (32 )                                          | (33 )    | (96 )                                         | (106 )   |
| Total pension and other postretirement benefit plans                 | 96                                             | 105      | 290                                           | 317      |
| Total other comprehensive income (loss)                              | 352                                            | (669 )   | (715 )                                        | (7 )     |
| Comprehensive income                                                 | 17,190                                         | 32,925   | 47,775                                        | 99,331   |
| Comprehensive income (loss) attributable to non-controlling interest | 108                                            | 190      | 54                                            | (91 )    |
| Comprehensive income attributable to Core Laboratories N.V.          | \$17,082                                       | \$32,735 | \$47,721                                      | \$99,422 |

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)

|                                                                                   | Nine Months<br>Ended<br>September 30,<br>2016    2015<br>(Unaudited) |                 |
|-----------------------------------------------------------------------------------|----------------------------------------------------------------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                                                                      |                 |
| Net income                                                                        | \$48,490                                                             | \$99,338        |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                                                      |                 |
| Stock-based compensation                                                          | 16,762                                                               | 15,964          |
| Depreciation and amortization                                                     | 20,322                                                               | 20,406          |
| Changes to value of life insurance policies                                       | (505 )                                                               | 2,190           |
| Deferred income taxes                                                             | (3,910 )                                                             | (3,445 )        |
| Other non-cash items                                                              | (1,226 )                                                             | 1,259           |
| Changes in assets and liabilities:                                                |                                                                      |                 |
| Accounts receivable                                                               | 37,610                                                               | 43,775          |
| Inventories                                                                       | 2,995                                                                | (138 )          |
| Prepaid expenses and other current assets                                         | 4,029                                                                | 8,039           |
| Other assets                                                                      | (128 )                                                               | 2,061           |
| Accounts payable                                                                  | (3,023 )                                                             | (10,864 )       |
| Accrued expenses                                                                  | (13,017 )                                                            | (8,582 )        |
| Unearned revenue                                                                  | (1,111 )                                                             | 2,909           |
| Other long-term liabilities                                                       | 1,396                                                                | (3,142 )        |
| Net cash provided by operating activities                                         | 108,684                                                              | 169,770         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                                                                      |                 |
| Capital expenditures                                                              | (7,740 )                                                             | (18,276 )       |
| Patents and other intangibles                                                     | (205 )                                                               | (1,502 )        |
| Business acquisition, net of cash acquired                                        | (1,242 )                                                             | (13,824 )       |
| Proceeds from sale of assets                                                      | 705                                                                  | 1,193           |
| Premiums on life insurance                                                        | (2,015 )                                                             | (2,210 )        |
| Net cash used in investing activities                                             | (10,497 )                                                            | (34,619 )       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                                                                      |                 |
| Repayment of debt borrowings                                                      | (290,226)                                                            | (49,693 )       |
| Proceeds from debt borrowings                                                     | 63,000                                                               | 120,000         |
| Excess tax benefits from stock-based compensation                                 | (187 )                                                               | 180             |
| Debt financing costs                                                              | —                                                                    | (339 )          |
| Non-controlling interest - dividend                                               | (211 )                                                               | —               |
| Dividends paid                                                                    | (70,883 )                                                            | (70,933 )       |
| Repurchase of common shares                                                       | (2,157 )                                                             | (139,255)       |
| Issuance of common shares                                                         | 197,202                                                              | —               |
| Net cash used in financing activities                                             | (103,462)                                                            | (140,040)       |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                                    | <b>(5,275 )</b>                                                      | <b>(4,889 )</b> |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>                             | <b>22,494</b>                                                        | <b>23,350</b>   |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>                                   | <b>\$17,219</b>                                                      | <b>\$18,461</b> |

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, 2015 (the "2015 Annual Report").

Core Laboratories N.V. uses the equity method of accounting for investments in which it has less than a majority interest and over which it does not exercise control but does exert significant influence. We use the cost method to record certain other investments in which we own less than 20% of the outstanding equity and do not exercise control or exert significant influence. Non-controlling interests have been recorded to reflect outside ownership attributable to consolidated subsidiaries that are less than 100% owned. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods presented have been included in these financial statements. Furthermore, the operating results presented for the three and nine months ended September 30, 2016 may not necessarily be indicative of the results that may be expected for the year ending December 31, 2016.

Core Laboratories N.V.'s balance sheet information for the year ended December 31, 2015 was derived from the 2015 audited consolidated financial statements but does not include all disclosures in accordance with U.S. GAAP.

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, December 31, |           |
|---------------------|----------------------------|-----------|
|                     | 2016                       | 2015      |
| Finished goods      | \$ 23,863                  | \$ 25,778 |
| Parts and materials | 11,929                     | 12,637    |
| Work in progress    | 1,547                      | 2,491     |
| Total inventories   | \$ 37,339                  | \$ 40,906 |

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

### 3. ACQUISITIONS

In the second quarter of 2015, we acquired a business providing additional reservoir fluids technology for \$17.2 million in cash. We accounted for this acquisition by allocating the purchase price to the net assets acquired based on their estimated fair values at the date of acquisition, resulting in an increase to goodwill of \$13.7 million and an increase of \$2.0 million in intangible assets. The acquisition of this entity did not have a material impact on our Consolidated Balance Sheet or Consolidated Statements of Operations, and was recorded in the Reservoir Description

business segment.

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#### 4. LONG-TERM DEBT

We have no capital lease obligations. Long-term debt is summarized in the following table (in thousands):

|                                                      | September 30,<br>2016 | December 31,<br>2015 |
|------------------------------------------------------|-----------------------|----------------------|
| Senior notes                                         | \$ 150,000            | \$ 150,000           |
| Credit facility                                      | 58,000                | 283,000              |
| Other indebtedness                                   | 18                    | 2,244                |
| Total debt                                           | 208,018               | 435,244              |
| Less: Short-term debt included in other indebtedness | (18                   | ) (2,244             |
| Less: Debt issuance costs                            | (1,637                | ) (2,013             |
| Long-term debt, net                                  | \$ 206,363            | \$ 430,987           |

We have two series of senior notes outstanding with an aggregate principal amount of \$150 million ("Senior Notes") issued 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 ("Credit Facility") that allows for an aggregate borrowing capacity of \$400 million. The Credit Facility also provides an option to increase the commitment under the Credit Facility by an additional \$50 million to bring the total borrowings available to \$450 million if certain prescribed conditions are met by the Company. The Credit Facility bears interest at variable rates from LIBOR plus 1.25% to a maximum of LIBOR plus 2.00%.

Any outstanding balance under the Credit Facility is due August 29, 2019, when the Credit Facility matures. Our available capacity at any point in time is reduced by borrowings outstanding at the time and outstanding letters of credit which totaled \$25.7 million at September 30, 2016, resulting in an available borrowing capacity under the Credit Facility of \$316.3 million. In addition to those items under the Credit Facility, we had \$9.4 million of outstanding letters of credit and performance guarantees and bonds from other sources as of September 30, 2016.

The terms of the Credit Facility and Senior Notes require us to meet certain covenants, including, but not limited to, an interest coverage ratio (consolidated EBITDA divided by interest expense) and a leverage ratio (consolidated net indebtedness divided by consolidated EBITDA), where consolidated EBITDA (as defined in each agreement) and interest expense are calculated using the most recent four fiscal quarters. The Credit Facility has the more restrictive covenants with a minimum interest coverage ratio of 3.0 to 1.0 and a maximum leverage ratio of 2.5 to 1.0. We believe that we are in compliance with all such covenants contained in our credit agreements. Certain of our material, wholly-owned subsidiaries are guarantors or co-borrowers under the Credit Facility and Senior Notes.

In 2014, we entered into two interest rate swap agreements for a total notional amount of \$50 million. See Note 12 - Derivative Instruments and Hedging Activities.

The estimated fair value of total debt at September 30, 2016 and December 31, 2015 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. PENSION

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. The pension benefit is 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.

The following table summarizes the components of net periodic pension cost under the Dutch Plan for the three and nine months ended September 30, 2016 and 2015 (in thousands):

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|                                    | Three<br>Months<br>Ended<br>September<br>30, |        | Nine Months<br>Ended<br>September 30, |         |
|------------------------------------|----------------------------------------------|--------|---------------------------------------|---------|
|                                    | 2016                                         | 2015   | 2016                                  | 2015    |
| Service cost                       | \$364                                        | \$453  | \$1,097                               | \$1,356 |
| Interest cost                      | 332                                          | 301    | 1,001                                 | 904     |
| Expected return on plan assets     | (279 )                                       | (249 ) | (841 )                                | (748 )  |
| Amortization of transition asset   | —                                            | (22 )  | —                                     | (66 )   |
| Amortization of prior service cost | (20 )                                        | (21 )  | (58 )                                 | (59 )   |
| Amortization of actuarial loss     | 148                                          | 181    | 444                                   | 548     |
| Net periodic pension cost          | \$545                                        | \$643  | \$1,643                               | \$1,935 |

During the nine months ended September 30, 2016, we contributed \$1.1 million to fund the estimated 2016 premiums on investment contracts held by the Dutch 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.

## 7. EQUITY

During the three months ended September 30, 2016, we repurchased 24,795 of our common shares for \$2.8 million. Included in this total were rights to 8,795 shares valued at \$1.0 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, 2016, we repurchased 34,959 of our common shares for \$3.9 million. Included in this total were rights to 18,959 shares valued at \$2.2 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. We distributed 29,028 and 62,920 treasury shares upon vesting of stock-based awards during the three and nine months ended September 30, 2016, respectively.

In February, May and August 2016, we paid quarterly dividends of \$0.55 per share of common stock. In addition, on October 11, 2016, we declared a quarterly dividend of \$0.55 per share of common stock for shareholders of record on October 21, 2016 and payable on November 22, 2016.

On May 17, 2016 we completed a public offering of 1,475,000 shares of our common stock. The purchase price paid by the underwriter was \$116.67 per share. On May 26, 2016, the underwriter exercised in full its option to purchase an additional 221,250 shares of common stock at the public offering price of \$116.67 per share bringing the total shares issued from the offering to 1,696,250. The net proceeds from these issuances of common stock were \$197.2 million, after deducting underwriting discounts and offering expenses. The proceeds were used to repay a portion of the outstanding borrowings under our Credit Facility.

At the annual meeting of shareholders on May 19, 2016, our shareholders approved the cancellation of 1,250,000 shares of our common stock then held as treasury stock. This treasury stock was cancelled on August 2, 2016, 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.

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The following table summarizes our changes in equity for the nine months ended September 30, 2016 (in thousands, except share data):

|                                                          | Shares<br>Outstanding | Common<br>Shares | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income<br>(Loss) | Treasury<br>Stock | Non-Controlling<br>Interest | Total<br>Equity |
|----------------------------------------------------------|-----------------------|------------------|----------------------------------|----------------------|-----------------------------------------------------------|-------------------|-----------------------------|-----------------|
| December 31, 2015                                        | 42,375,905            | \$ 1,142         | \$—                              | \$ 219,207           | \$ (10,538 )                                              | \$ (238,875 )     | \$ 5,365                    | \$ (23,699 )    |
| Stock based-awards                                       | 62,920                | —                | 8,457                            | —                    | —                                                         | 8,305             | —                           | 16,762          |
| Tax detriment of<br>stock-based awards                   | —                     | —                | (187 )                           | —                    | —                                                         | —                 | —                           | (187 )          |
| Repurchase of<br>common shares                           | (34,959 )             | —                | —                                | —                    | —                                                         | (3,962 )          | —                           | (3,962 )        |
| Issuance of common<br>shares                             | 1,696,250             | 38               | 197,164                          | —                    | —                                                         | —                 | —                           | 197,202         |
| Dividends paid                                           | —                     | —                | —                                | (70,883 )            | —                                                         | —                 | —                           | (70,883 )       |
| Cancellation of<br>treasury shares                       | —                     | (32 )            | (142,955)                        | —                    | —                                                         | 142,987           | —                           | —               |
| Non-controlling<br>interest dividends                    | —                     | —                | —                                | —                    | —                                                         | —                 | (211 )                      | (211 )          |
| Amortization of<br>deferred pension<br>costs, net of tax | —                     | —                | —                                | —                    | 290                                                       | —                 | —                           | 290             |
| Interest rate swaps,<br>net of tax                       | —                     | —                | —                                | —                    | (1,005 )                                                  | —                 | —                           | (1,005 )        |
| Net income                                               | —                     | —                | —                                | 48,436               | —                                                         | —                 | 54                          | 48,490          |
| September 30, 2016                                       | 44,100,116            | \$ 1,148         | \$ 62,479                        | \$ 196,760           | \$ (11,253 )                                              | \$ (91,545 )      | \$ 5,208                    | \$ 162,797      |

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

|                                                     | September 30,<br>2016 | December 31,<br>2015 |
|-----------------------------------------------------|-----------------------|----------------------|
| Prior service cost                                  | \$ 618                | \$ 661               |
| Unrecognized net actuarial loss                     | (9,868 )              | (10,201 )            |
| Fair value of derivatives                           | (2,003 )              | (998 )               |
| Total accumulated other comprehensive income (loss) | \$ (11,253 )          | \$ (10,538 )         |

## 8. EARNINGS PER SHARE

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

|                                                                         | Three Months<br>Ended<br>September 30,<br>2016 |        | Nine Months<br>Ended<br>September 30,<br>2015 |        |
|-------------------------------------------------------------------------|------------------------------------------------|--------|-----------------------------------------------|--------|
| Weighted average basic common shares outstanding                        | 44,110                                         | 42,517 | 43,265                                        | 42,879 |
| Effect of dilutive securities:                                          |                                                |        |                                               |        |
| Performance shares                                                      | 147                                            | 114    | 119                                           | 95     |
| Restricted stock                                                        | 63                                             | 54     | 66                                            | 64     |
| Weighted average diluted common and potential common shares outstanding | 44,320                                         | 42,685 | 43,450                                        | 43,038 |

## 9. OTHER (INCOME) EXPENSE, NET

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

|                                          | Three Months<br>Ended<br>September 30,<br>2016 |          | Nine Months<br>Ended<br>September 30,<br>2015 |          |
|------------------------------------------|------------------------------------------------|----------|-----------------------------------------------|----------|
| Sale of assets                           | \$(56 )                                        | \$(100 ) | \$(544)                                       | \$(362 ) |
| Results of non-consolidated subsidiaries | (126 )                                         | (131 )   | (450 )                                        | (211 )   |
| Foreign exchange                         | 220                                            | 2,612    | 1,432                                         | 4,454    |
| Rents and royalties                      | (105 )                                         | (115 )   | (304 )                                        | (370 )   |
| Other, net                               | (221 )                                         | 66       | (473 )                                        | 956      |
| Total other (income) expense, net        | \$(288)                                        | \$2,332  | \$(339)                                       | \$4,467  |

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

|                             | Three Months<br>Ended<br>September 30,<br>2016 |         | Nine Months<br>Ended<br>September 30,<br>2015 |         |
|-----------------------------|------------------------------------------------|---------|-----------------------------------------------|---------|
| Angolan Kwanza              | \$(32 )                                        | \$311   | \$473                                         | \$819   |
| British Pound               | 39                                             | 173     | 514                                           | 285     |
| Canadian Dollar             | (6 )                                           | 549     | (54 )                                         | 1,772   |
| Euro                        | 45                                             | 615     | 215                                           | (145 )  |
| Indonesian Rupiah           | (56 )                                          | 219     | (168 )                                        | 381     |
| Malaysian Ringgit           | 25                                             | 361     | 22                                            | 533     |
| Nigerian Naira              | 273                                            | 238     | 431                                           | 557     |
| Other currencies, net (68 ) | 146                                            | (1 )    | 252                                           |         |
| Total (gain) loss, net      | \$220                                          | \$2,612 | \$1,432                                       | \$4,454 |

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## 10. INCOME TAX EXPENSE

The effective tax rate for the three months ended September 30, 2016 was 11.0% compared to 22.5% for the three months ended September 30, 2015. The effective tax rate for the nine months ended September 30, 2016 was 12.8% compared to 22.7% for the same period in 2015. Income tax expense of \$2.1 million in the third quarter of 2016 decreased by \$7.7 million compared to \$9.8 million in the same period in 2015, primarily in the United States as taxable income recognized in the United States decreased by \$18.2 million in the third quarter of 2016 compared to 2015. No other jurisdiction in which we operate had a material change in income tax expense.

## 11. SEVERANCE AND OTHER CHARGES

In 2015 and throughout 2016, in response to reduced spending by our clients on their oil and gas fields as a result of lower commodity prices for crude oil and natural gas, we reduced our cost structure, primarily through a reduction in our workforce, to better align with the decreasing activity levels into the foreseeable future. As a result of these cost reductions, we recorded severance charges of \$8.8 million in 2015, of which \$7.1 million was recorded during the nine months ended September 30, 2015. At September 30, 2016, \$0.6 million was accrued and remaining to be paid.

During the third quarter of 2016, we continued to closely monitor rig counts, crude oil and natural gas prices, and activity levels within the industry. We continued to execute our cost reduction initiative which began in the first quarter of 2015, but no additional expenses associated with severance or asset impairments were recorded during the three or nine months ended September 30, 2016.

## 12. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are exposed to market risks related to fluctuations in interest rates. To mitigate these risks, we utilize derivative instruments in the form of interest rate swaps. We do not enter into derivative transactions for speculative purposes.

### Interest Rate Risk

Our Credit Facility bears interest at variable rates from LIBOR plus 1.25% to a maximum of LIBOR plus 2.00%. As a result of two interest rate swap agreements, we are subject to interest rate risk on debt in excess of \$50 million drawn on our Credit Facility.

In 2014, we entered into two interest rate swap agreements for a total notional amount of \$50 million to hedge changes in the variable rate interest expense on \$50 million of our existing or replacement LIBOR-priced debt. Under the first swap agreement of \$25 million, we have fixed the LIBOR portion of the interest rate at 1.73% through August 29, 2019, and under the second swap agreement of \$25 million, we have fixed the LIBOR portion of the interest rate at 2.5% through August 29, 2024. Each swap is measured at fair value and recorded in our Consolidated Balance Sheet as a liability. They are designated and qualify as cash flow hedging instruments. Unrealized losses are deferred to shareholders' equity as a component of accumulated other comprehensive loss (AOCL) and are recognized in income as an increase to interest expense in the period in which the related cash flows being hedged are recognized in expense.

At September 30, 2016, we had fixed rate long-term debt aggregating \$200 million and variable rate long-term debt aggregating \$8 million, after taking into account the effect of the swaps.

The fair values of outstanding derivative instruments are as follows (in thousands):

Fair Value of  
Derivatives



|                                   | September 30, 2016 | December 31, 2015 | Balance Sheet Classification |
|-----------------------------------|--------------------|-------------------|------------------------------|
| Derivatives designated as hedges: |                    |                   |                              |
| 5 year interest rate swap         | \$ 651             | \$ 353            | Other long-term liabilities  |
| 10 year interest rate swap        | 2,521              | 1,229             | Other long-term liabilities  |
|                                   | \$3,172            | \$ 1,582          |                              |

The fair value of all outstanding derivatives was determined using a model with inputs that are observable in the market (Level 2) or can be derived from or corroborated by observable data.

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The effect of the interest rate swaps on the Consolidated Statement of Operations was as follows (in thousands):

|                                   | Three Months Ended |                | Nine Months Ended |                | Income Statement Classification |
|-----------------------------------|--------------------|----------------|-------------------|----------------|---------------------------------|
|                                   | September 2016     | September 2015 | September 2016    | September 2015 |                                 |
| Derivatives designated as hedges: |                    |                |                   |                |                                 |
| 5 year interest rate swap         | \$ 79              | \$ 98          | \$ 242            | \$ 293         | Increase to interest expense    |
| 10 year interest rate swap        | 128                | 148            | 389               | 441            | Increase to interest expense    |
|                                   | \$ 207             | \$ 246         | \$ 631            | \$ 734         |                                 |

### 13. FINANCIAL INSTRUMENTS

The Company's only financial assets and liabilities which involve fair value measures relate to certain aspects of the Company's benefit plans and our derivative instruments. We use the market approach to value certain assets and liabilities at fair value 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 quoted prices in an active market (Level 1) or 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. Gains and losses related to the fair value of the interest rate swaps are recorded in Other comprehensive income (loss). The following table summarizes the fair value balances (in thousands):

|                                                   | Fair Value Measurement at September 30, 2016 |         |                    |
|---------------------------------------------------|----------------------------------------------|---------|--------------------|
|                                                   | Total                                        | Level 1 | Level 2<br>Level 3 |
| Assets:                                           |                                              |         |                    |
| Deferred compensation trust assets <sup>(1)</sup> | \$25,010                                     | \$—     | \$25,010 \$ —      |
| Liabilities:                                      |                                              |         |                    |
| Deferred compensation plan                        | \$31,018                                     | \$—     | \$31,018 \$ —      |
| 5 year interest rate swap                         | 651                                          | —       | 651 —              |
| 10 year interest rate swap                        | 2,521                                        | —       | 2,521 —            |
|                                                   | \$34,190                                     | \$—     | \$34,190 \$ —      |

|                                                   | Fair Value Measurement at December 31, 2015 |         |                    |
|---------------------------------------------------|---------------------------------------------|---------|--------------------|
|                                                   | Total                                       | Level 1 | Level 2<br>Level 3 |
| Assets:                                           |                                             |         |                    |
| Deferred compensation trust assets <sup>(1)</sup> | \$23,737                                    | \$—     | \$23,737 \$ —      |
| Liabilities:                                      |                                             |         |                    |
| Deferred compensation plan                        | \$29,155                                    | \$—     | \$29,155 \$ —      |
| 5 year interest rate swap                         | 353                                         | —       | 353 —              |
| 10 year interest rate swap                        | 1,229                                       | —       | 1,229 —            |
|                                                   | \$30,737                                    | \$—     | \$30,737 \$ —      |

(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.

#### 14. SEGMENT REPORTING

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

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**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 diagnostic 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 Corporate & Other and is not allocated to specific segments. Summarized financial information concerning our segments is shown in the following table (in thousands):

|                                              | Reservoir<br>Description | Production<br>Enhancement | Reservoir<br>Management | Corporate<br>& Other <sup>1</sup> | Consolidated |
|----------------------------------------------|--------------------------|---------------------------|-------------------------|-----------------------------------|--------------|
| <b>Three Months Ended September 30, 2016</b> |                          |                           |                         |                                   |              |
| Revenue from unaffiliated clients            | \$ 100,267               | \$ 37,552                 | \$ 5,664                | \$ —                              | \$ 143,483   |
| Inter-segment revenue                        | 761                      | 179                       | 36                      | (976 )                            | —            |
| Segment operating income (loss)              | 20,395                   | 1,121                     | (125 )                  | 97                                | 21,488       |
| Total assets (at end of period)              | 308,739                  | 187,846                   | 16,116                  | 49,437                            | 562,138      |
| Capital expenditures                         | 2,012                    | 318                       | 8                       | 100                               | 2,438        |
| Depreciation and amortization                | 4,455                    | 1,294                     | 327                     | 648                               | 6,724        |
| <b>Three Months Ended September 30, 2015</b> |                          |                           |                         |                                   |              |
| Revenue from unaffiliated clients            | \$ 117,943               | \$ 64,918                 | \$ 14,404               | \$ —                              | \$ 197,265   |
| Inter-segment revenue                        | 1,770                    | 140                       | 37                      | (1,947)                           | —            |
| Segment operating income (loss)              | 30,338                   | 11,367                    | 4,796                   | 317                               | 46,818       |
| Total assets (at end of period)              | 334,892                  | 210,209                   | 24,320                  | 65,684                            | 635,105      |
| Capital expenditures                         | 5,224                    | 309                       | 7                       | 426                               | 5,966        |
| Depreciation and amortization                | 4,287                    | 1,614                     | 401                     | 608                               | 6,910        |
| <b>Nine Months Ended September 30, 2016</b>  |                          |                           |                         |                                   |              |
| Revenue from unaffiliated clients            | \$ 304,778               | \$ 120,846                | \$ 19,575               | \$ —                              | \$ 445,199   |
| Inter-segment revenue                        | 3,054                    | 563                       | 65                      | (3,682)                           | —            |
| Segment operating income (loss)              | 57,824                   | 6,017                     | 784                     | 30                                | 64,655       |
| Total assets (at end of period)              | 308,739                  | 187,846                   | 16,116                  | 49,437                            | 562,138      |
| Capital expenditures                         | 6,352                    | 856                       | 24                      | 508                               | 7,740        |
| Depreciation and amortization                | 13,345                   | 4,062                     | 1,025                   | 1,890                             | 20,322       |
| <b>Nine Months Ended September 30, 2015</b>  |                          |                           |                         |                                   |              |
| Revenue from unaffiliated clients            | \$ 358,613               | \$ 210,652                | \$ 45,532               | \$ —                              | \$ 614,797   |
| Inter-segment revenue                        | 6,957                    | 1,509                     | 244                     | (8,710)                           | —            |
| Segment operating income (loss)              | 89,812                   | 35,666                    | 12,114                  | (164 )                            | 137,428      |
| Total assets (at end of period)              | 334,892                  | 210,209                   | 24,320                  | 65,684                            | 635,105      |
| Capital expenditures                         | 13,958                   | 2,821                     | 273                     | 1,224                             | 18,276       |
| Depreciation and amortization                | 12,302                   | 5,024                     | 1,254                   | 1,826                             | 20,406       |

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

## 15. RECENT ACCOUNTING PRONOUNCEMENTS

In February 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2015-02 ("Amendments to the Consolidation Analysis") which amends the guidelines for determining whether certain legal entities should be consolidated. This update eliminates the presumption that a general partner should consolidate a limited partnership and modifies the evaluation of whether limited partnerships are variable interest entities or voting interest entities. Overall, the amendments in this Update are an improvement to current GAAP because they simplify the Codification and reduce the number of consolidation models through the elimination of the indefinite deferral of Statement 167 and because they place more emphasis on risk of loss when determining a controlling financial interest. This update is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. We adopted this standard on January 1, 2016. The adoption of this standard had no effect on our current consolidated financial statements or on the entities that we consolidate.

In November 2015, the FASB issued ASU 2015-17 ("Balance Sheet Classification of Deferred Taxes") to simplify the presentation of deferred income taxes. The amendments in this update require that deferred tax liabilities and assets be classified as non-current in a classified statement of financial position. This pronouncement is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. We early adopted this standard for our fiscal year beginning on January 1, 2016 and applied the adoption prospectively. The adoption of this standard had no effect on our current Consolidated Statements of Operations and Consolidated Statement of Cash Flows but had an immaterial effect on our Consolidated Balance Sheet with the reclassification of certain deferred tax balance sheet accounts. The comparative prior period Consolidated Balance Sheet as of December 31, 2015 was not retrospectively adjusted.

In May 2014, the FASB issued ASU 2014-09 ("Revenue from Contracts with Customers"), which provides guidance on revenue recognition. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance requires entities to apply a five-step method to (1) identify the contract(s) with customers; (2) identify the performance obligation(s) in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation(s) in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017 (on July 9, 2015, the FASB deferred the implementation date for one year). Since the issuance of ASU 2014-09, the FASB has issued several amendments which clarify certain points in the new Topic 606 - Revenue from Contracts with Customers, including ASU 2016-08 ("Principal versus Agent Considerations - Reporting Revenue Gross versus Net"), ASU 2016-10 ("Identifying Performance Obligations and Licensing"), ASU 2016-11 ("Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting"), and ASU 2016-12 ("Narrow-Scope Improvements and Practical Expedients"). We anticipate adopting all of these standards at the same time. We are evaluating the impact that the adoption of these standards will have on our consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11 ("Simplifying the Measurement of Inventory") to require the measurement of inventory at the lower of cost and net realizable value. Net realizable value is the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This pronouncement is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2016. The adoption of this standard will have no material effect on our current consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02 ("Leases"), which introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The new standard

establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. The new standard is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years with early adoption permitted. We are evaluating the impact that the adoption of this standard will have on our consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09 ("Improvements to Employee Share-Based Payment Accounting") which simplifies several aspects of accounting for share-based payment transactions including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The new standard is effective for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years with early adoption permitted. We are evaluating the impact that the adoption of this standard will have on our consolidated financial statements.

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In June 2016, the FASB issued ASU 2016-13 ("Measurement of Credit Losses on Financial Instruments") which replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years with early adoption permitted in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. 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 September 30, 2016 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 ("Quarterly Report") 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, 2015 (the "2015 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 4,400 people worldwide.

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

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

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

**Production Enhancement:** Includes services and products relating to reservoir well completions, perforations, stimulations and production. We provide integrated diagnostic 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 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 Quarterly Report, 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.

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 2015 Annual Report and in Part II of this Quarterly Report, as well as the other reports filed by us with the Securities and Exchange Commission ("SEC").

## Outlook

As part of our long-term growth strategy, we continue our long-term efforts to expand our market presence by opening or expanding facilities in strategic areas and realizing synergies within our business lines subject to client demand and market conditions. We believe our market presence provides us a unique opportunity to service clients who have global operations whether they are international oil companies, national oil companies, or independent oil companies.

During 2015, average crude oil prices decreased 48% compared to 2014, which resulted in a significant decrease in activities and spending related to the exploration and production of oil and natural gas. Although crude oil prices showed some strengthening during 2016, with West Texas Intermediate ("WTI") increasing from \$37.13 per barrel at December 31, 2015 to \$47.72 per barrel at September 30, 2016, the average price during the first nine months of 2015 and 2016 was \$50.94 and \$41.35, respectively, a 19% decrease.

In North America, land-based activity continues to be the most significantly impacted by these lower commodity prices, as the average land-based rig count for the third quarter of 2016 decreased 45% from the same period of 2015. However, the average land-based rig count in North America increased 16% sequentially, responding to some stability and improvement in the commodity prices during the quarter. During the quarter, however, the number of completions declined according to information provided by the U.S. Energy Information Administration ("EIA").

Outside of North America, activities associated with the exploration and production of oil and gas have also decreased from 2015 levels, although not as significantly as the land-based activities in North America. The average international rig count for the third quarter of 2016 is down 17% from the same period in 2015. These reduced international activities have impacted most regions, except the Middle East, where we continued to see sustained levels for the third quarter of 2016.

We believe the anticipated "V-shaped" worldwide commodity recovery has begun. One indication is that several U.S.-based operators continue to announce rig additions. Further, global demand for hydrocarbon-based energy continues to increase, while worldwide crude oil supply peaked in the second half of 2015 and began a decline that we believe will continue through all of 2016 and 2017. We have observed that U.S. oil production peaked at approximately 9,700,000 barrels of oil per day ("BOPD") in March 2015 and has fallen since then by an estimated 1,300,000 BOPD, with decreases of 450,000 BOPD in 2015 and another 850,000 BOPD so far in 2016.

At current activity levels, we predict 2016 U.S. onshore oil production will fall more than 1,100,000 BOPD which may be somewhat offset by deepwater Gulf of Mexico ("GOM") gains of approximately 100,000 BOPD (significantly lower than previously projected), yielding a U.S. net decline of 1,000,000 BOPD and an updated net decline curve rate of approximately 11%. Based on currently available worldwide crude oil production data, coupled with internal Core Lab data, we estimate that the net worldwide annual crude oil production decline rate is approximately 3.3%. That is supported by recent International Energy Agency ("IEA") reports that worldwide crude oil production continued to fall through the third quarter of 2016 and by recent bullish U.S. inventory trends. In addition to the U.S. decline, we expect 2016 production declines in Angola, China, Colombia, Indonesia, Iraq, Mexico, Nigeria, and Venezuela, among others. China recently reported a year-over-year production decline of 10% to less than 3,900,000 BOPD, nearing a six-year low.

The net worldwide decline rate is predicated on sharper decline curve rates for tight-oil reservoirs and a significant reduction of maintenance capital expenditures for the existing crude oil production base. These factors, together with the continuing decline in global production, recent Organization of the Petroleum Exporting Countries ("OPEC") action, the accelerated decline in U.S.-based inventories, and the continuing increase in global energy consumption are creating a tighter crude oil supply market and are expected to result in increasing crude prices and industry activity levels worldwide. This expectation does not take into account any unanticipated demand or supply fluctuations caused

by industry or geopolitical events.

#### Response to Decline in Oilfield Services Activities

In 2015 and throughout 2016, in response to reduced spending by our clients on their oil and gas fields as a result of lower commodity prices for crude oil and natural gas, we reduced our cost structure, primarily through a reduction in our workforce, to better align with the decreasing activity levels into the foreseeable future. As a result of these cost reductions, we recorded severance charges of \$8.8 million in 2015, of which \$7.1 million was recorded in the nine months ended September 30, 2015. At September 30, 2016, \$0.6 million was accrued and remaining to be paid.

During the third quarter of 2016, we continued to closely monitor rig counts, crude oil and natural gas prices, and activity levels within the industry. We continued to execute our cost reduction initiative which began in the first quarter of 2015, but no additional accruals or write-offs were recorded during the three or nine months ended September 30, 2016.

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## Results of Operations

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

|                                                                       | Three Months Ended September 30, 2016 |       | Three Months Ended September 30, 2015 |       | \$ Change  | % Change  |
|-----------------------------------------------------------------------|---------------------------------------|-------|---------------------------------------|-------|------------|-----------|
|                                                                       |                                       |       |                                       |       | 2016/2015  | 2016/2015 |
| <b>REVENUE:</b>                                                       |                                       |       |                                       |       |            |           |
| Services                                                              | \$114,137                             | 80 %  | \$150,128                             | 76 %  | \$(35,991) | (24)%     |
| Product sales                                                         | 29,346                                | 20 %  | 47,137                                | 24 %  | (17,791)   | (38)%     |
| Total revenue                                                         | 143,483                               | 100 % | 197,265                               | 100 % | (53,782)   | (27)%     |
| <b>OPERATING EXPENSES:</b>                                            |                                       |       |                                       |       |            |           |
| Cost of services, exclusive of depreciation expense shown below*      | 80,419                                | 71 %  | 94,117                                | 63 %  | (13,698)   | (15)%     |
| Cost of product sales, exclusive of depreciation expense shown below* | 26,734                                | 91 %  | 34,933                                | 74 %  | (8,199)    | (23)%     |
| Total cost of services and product sales                              | 107,153                               | 75 %  | 129,050                               | 65 %  | (21,897)   | (17)%     |
| General and administrative expense                                    | 8,406                                 | 6 %   | 12,155                                | 6 %   | (3,749)    | (31)%     |
| Depreciation and amortization                                         | 6,724                                 | 5 %   | 6,910                                 | 4 %   | (186)      | (3)%      |
| Other (income) expense, net                                           | (288)                                 | (1)%  | 2,332                                 | 1 %   | (2,620)    | NM        |
| Operating income                                                      | 21,488                                | 15 %  | 46,818                                | 24 %  | (25,330)   | (54)%     |
| Interest expense                                                      | 2,569                                 | 2 %   | 3,471                                 | 2 %   | (902)      | (26)%     |
| Income before income tax expense                                      | 18,919                                | 13 %  | 43,347                                | 22 %  | (24,428)   | (56)%     |
| Income tax expense                                                    | 2,081                                 | 1 %   | 9,753                                 | 5 %   | (7,672)    | (79)%     |
| Net income                                                            | 16,838                                | 12 %  | 33,594                                | 17 %  | (16,756)   | (50)%     |
| Net income (loss) attributable to non-controlling interest            | 108                                   | — %   | 190                                   | — %   | (82)       | NM        |
| Net income attributable to Core Laboratories N.V.                     | \$16,730                              | 12 %  | \$33,404                              | 17 %  | \$(16,674) | (50)%     |

"NM" means not meaningful

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

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|                                                                       | Three Months Ended |     |   |              |     |   | \$<br>Change<br>Q3/Q2 | %<br>Change<br>Q3/Q2 |
|-----------------------------------------------------------------------|--------------------|-----|---|--------------|-----|---|-----------------------|----------------------|
|                                                                       | Sep 30, 2016       |     |   | Jun 30, 2016 |     |   |                       |                      |
| <b>REVENUE:</b>                                                       |                    |     |   |              |     |   |                       |                      |
| Services                                                              | \$114,137          | 80  | % | \$118,172    | 80  | % | \$(4,035)             | (3)%                 |
| Product sales                                                         | 29,346             | 20  | % | 29,897       | 20  | % | (551)                 | (2)%                 |
| Total revenue                                                         | 143,483            | 100 | % | 148,069      | 100 | % | (4,586)               | (3)%                 |
| <b>OPERATING EXPENSES:</b>                                            |                    |     |   |              |     |   |                       |                      |
| Cost of services, exclusive of depreciation expense shown below*      | 80,419             | 71  | % | 83,349       | 71  | % | (2,930)               | (4)%                 |
| Cost of product sales, exclusive of depreciation expense shown below* | 26,734             | 91  | % | 26,650       | 89  | % | 84                    | —%                   |
| Total cost of services and product sales                              | 107,153            | 75  | % | 109,999      | 74  | % | (2,846)               | (3)%                 |
| General and administrative expense                                    | 8,406              | 6   | % | 11,139       | 8   | % | (2,733)               | (25)%                |
| Depreciation and amortization                                         | 6,724              | 5   | % | 6,751        | 5   | % | (27)                  | —%                   |
| Other (income) expense, net                                           | (288)              | (1) | % | (47)         | (1) | % | (241)                 | NM                   |
| Operating income                                                      | 21,488             | 15  | % | 20,227       | 14  | % | 1,261                 | 6%                   |
| Interest expense                                                      | 2,569              | 2   | % | 3,021        | 2   | % | (452)                 | (15)%                |
| Income before income tax expense                                      | 18,919             | 13  | % | 17,206       | 12  | % | 1,713                 | 10%                  |
| Income tax expense                                                    | 2,081              | 1   | % | 671          | 1   | % | 1,410                 | 210%                 |
| Net income                                                            | 16,838             | 12  | % | 16,535       | 11  | % | 303                   | 2%                   |
| Net income (loss) attributable to non-controlling interest            | 108                | —   | % | (89)         | —   | % | 197                   | NM                   |
| Net income attributable to Core Laboratories N.V.                     | \$16,730           | 12  | % | \$16,624     | 11  | % | \$106                 | 1%                   |

"NM" means not meaningful

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

|                                                                       | Nine Months Ended September 30, |       | \$ Change |           | % Change    |       |
|-----------------------------------------------------------------------|---------------------------------|-------|-----------|-----------|-------------|-------|
|                                                                       | 2016                            | 2015  | 2016/2015 | 2016/2015 |             |       |
| <b>REVENUE:</b>                                                       |                                 |       |           |           |             |       |
| Services                                                              | \$355,079                       | 80 %  | \$469,963 | 76 %      | \$(114,884) | (24)% |
| Product sales                                                         | 90,120                          | 20 %  | 144,834   | 24 %      | (54,714)    | (38)% |
| Total revenue                                                         | 445,199                         | 100 % | 614,797   | 100 %     | (169,598)   | (28)% |
| <b>OPERATING EXPENSES:</b>                                            |                                 |       |           |           |             |       |
| Cost of services, exclusive of depreciation expense shown below*      | 249,062                         | 70 %  | 295,374   | 63 %      | (46,312)    | (16)% |
| Cost of product sales, exclusive of depreciation expense shown below* | 80,904                          | 90 %  | 112,569   | 78 %      | (31,665)    | (28)% |
| Total cost of services and product sales                              | 329,966                         | 74 %  | 407,943   | 66 %      | (77,977)    | (19)% |
| General and administrative expense                                    | 30,595                          | 7 %   | 37,463    | 6 %       | (6,868)     | (18)% |
| Depreciation and amortization                                         | 20,322                          | 5 %   | 20,406    | 3 %       | (84)        | 0%    |
| Other (income), net                                                   | (339)                           | (1)%  | 4,467     | 2 %       | (4,806)     | NM    |
| Severance and other charges                                           | —                               | 0 %   | 7,090     | 1 %       | (7,090)     | NM    |
| Operating income                                                      | 64,655                          | 15 %  | 137,428   | 22 %      | (72,773)    | (53)% |
| Interest expense                                                      | 9,024                           | 3 %   | 8,990     | 1 %       | 34          | 0%    |
| Income before income tax expense                                      | 55,631                          | 12 %  | 128,438   | 21 %      | (72,807)    | (57)% |
| Income tax expense                                                    | 7,141                           | 1 %   | 29,100    | 5 %       | (21,959)    | (75)% |
| Net income                                                            | 48,490                          | 11 %  | 99,338    | 16 %      | (50,848)    | (51)% |
| Net income (loss) attributable to non-controlling interest            | 54                              | 0 %   | (91)      | 0 %       | 145         | NM    |
| Net income attributable to Core Laboratories N.V.                     | \$48,436                        | 11 %  | \$99,429  | 16 %      | \$(50,993)  | (51)% |

"NM" means not meaningful

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

Operating Results for the Three Months Ended September 30, 2016 Compared to the Three Months Ended June 30, 2016 and September 30, 2015 and for the Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015

#### Services Revenue

Services revenue decreased 3% to \$114.1 million for the third quarter of 2016 from \$118.2 million for the second quarter of 2016 and decreased 24% as compared to \$150.1 million for the third quarter of 2015. The sequential decrease in service revenue is primarily due to reduced activity in South America and Asia-Pacific regions. The year-over-year decrease is primarily due to the decrease in industry activity; however, the global average rig count for the third quarter of 2016 decreased 30% when compared to the same period of 2015. Our services revenue outperformed the decrease in the global rig count as demand for our analytical, diagnostic, and completion services are less impacted by decreases in drilling activities. For the nine months ended September 30, 2016, services revenue decreased 24% to \$355.1 million as compared to \$470.0 million for the same period of 2015. The average global rig count for the nine months ended September 30, 2016 fell by 36% compared to the same period in 2015, primarily driven by decreases in North America. Our continued focus on worldwide crude oil related and large natural gas liquefaction projects, especially those related to the development of deepwater fields off West and East Africa and the eastern Mediterranean, kept services revenue from declining further.



### Product Sales Revenue

Revenue associated with product sales decreased 2% to \$29.3 million for the third quarter of 2016 from \$29.9 million for the second quarter of 2016 and decreased 38% as compared to \$47.1 million for the third quarter of 2015. Our product sales revenue is primarily driven by sales in the North American market and, more specifically, the activity associated with the completion of wells. During the third quarter of 2016, the number of active rigs did show a slight increase; however, this has not translated into an increase of wells being completed which are down sequentially according to the EIA. As a result of our differentiated well completion products, we continued to outperform in the market place, and as a result our product sales did not decrease as much as the average North America rig count, which declined 43% year-over-year. For the nine months ended September 30, 2016, product sales revenue decreased 38% to \$90.1 million compared to \$144.8 million during the same period in 2015 where the average rig count in North America decreased by 52%.

### Cost of Services

Cost of services expressed as a percentage of services revenue was flat at 71% for the three months ended September 30, 2016 and June 30, 2016 and increased compared to 63% for the three months ended September 30, 2015. Cost of services expressed as a percentage of services revenue increased to 70% for the nine months ended September 30, 2016, compared to 63% for the same period in 2015. These increases were primarily due to our fixed-cost structure not being absorbed on lower revenue in 2016 when compared to 2015.

### Cost of Product Sales

Cost of product sales expressed as a percentage of product sales revenue was 91% for the three months ended September 30, 2016, compared to 89% and 74% for the three months ended June 30, 2016 and September 30, 2015, respectively. Cost of product sales expressed as a percentage of product sales revenue increased to 90% for the nine months ended September 30, 2016, compared to 78% for the same period in 2015. The increases were primarily due to our fixed-cost structure not being absorbed on lower revenue in 2016 when compared to 2015.

### General and Administrative Expense

General and administrative ("G&A") expense includes corporate management and centralized administrative services that benefit our operations. G&A expense for the three months ended September 30, 2016 was \$8.4 million compared to \$11.1 million and \$12.2 million for the three months ended June 30, 2016 and September 30, 2015, respectively. G&A expense for the nine months ended September 30, 2016 was \$30.6 million compared to \$37.5 million for the same period in 2015. The decreases are primarily due to reduced staffing and lower compensation expense.

### Depreciation and Amortization Expense

Depreciation and amortization expense for the three months ended September 30, 2016 was \$6.7 million compared to \$6.8 million and \$6.9 million for the three months ended June 30, 2016 and September 30, 2015, respectively. Depreciation and amortization expense for the nine months ended September 30, 2016 was \$20.3 million compared to \$20.4 million for the same period in 2015.

### Severance and Other Charges

In 2015 and throughout 2016, in response to reduced spending by our clients on their oil and gas fields as a result of lower commodity prices for crude oil and natural gas, we reduced our cost structure, primarily through a reduction in our workforce, to better align with the decreasing activity levels into the foreseeable future. As a result of these cost



reductions, we recorded severance charges of \$8.8 million in 2015, of which \$7.1 million was recorded during the nine months ended September 30, 2015. At September 30, 2016, \$0.6 million was accrued and remaining to be paid.

During the third quarter of 2016, we continued to closely monitor rig counts, crude oil and natural gas prices, and activity levels within the industry. We continued to execute our cost reduction initiative which began in the first quarter of 2015, but no additional expenses associated with severance or asset impairments were recorded during the three or nine months ended September 30, 2016.

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## Other (Income) Expense, Net

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

|                                          | Three Months  |          | Nine Months   |          |
|------------------------------------------|---------------|----------|---------------|----------|
|                                          | Ended         |          | Ended         |          |
|                                          | September 30, |          | September 30, |          |
|                                          | 2016          | 2015     | 2016          | 2015     |
| Sale of assets                           | \$(56 )       | \$(100 ) | \$(544)       | \$(362 ) |
| Results of non-consolidated subsidiaries | (126 )        | (131 )   | (450 )        | (211 )   |
| Foreign exchange                         | 220           | 2,612    | 1,432         | 4,454    |
| Rents and royalties                      | (105 )        | (115 )   | (304 )        | (370 )   |
| Other, net                               | (221 )        | 66       | (473 )        | 956      |
| Total other (income) expense, net        | \$(288)       | \$2,332  | \$(339)       | \$4,467  |

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

|                             | Three Months  |         | Nine Months   |         |
|-----------------------------|---------------|---------|---------------|---------|
|                             | Ended         |         | Ended         |         |
|                             | September 30, |         | September 30, |         |
|                             | 2016          | 2015    | 2016          | 2015    |
| Angolan Kwanza              | \$(32 )       | \$311   | \$473         | \$819   |
| British Pound               | 39            | 173     | 514           | 285     |
| Canadian Dollar             | (6 )          | 549     | (54 )         | 1,772   |
| Euro                        | 45            | 615     | 215           | (145 )  |
| Indonesian Rupiah           | (56 )         | 219     | (168 )        | 381     |
| Malaysian Ringgit           | 25            | 361     | 22            | 533     |
| Nigerian Naira              | 273           | 238     | 431           | 557     |
| Other currencies, net (68 ) | 146           | (1 )    | 252           |         |
| Total (gain) loss, net      | \$220         | \$2,612 | \$1,432       | \$4,454 |

## Interest Expense

Interest expense for the three months ended September 30, 2016 was \$2.6 million compared to \$3.0 million and \$3.5 million for the three months ended June 30, 2016 and September 30, 2015, respectively. The decrease in interest expense was primarily due to the reduction of our outstanding debt during the second quarter of 2016. Interest expense for the nine months ended September 30, 2016 and September 30, 2015 was \$9.0 million.

## Income Tax Expense

The effective tax rate for the three months ended September 30, 2016 was 11.0% compared to 3.9% and 22.5% for both the three months ended June 30, 2016 and September 30, 2015, respectively. The effective tax rate for the nine months ended September 30, 2016 was 12.8% compared to 22.7% for the same period in 2015. Income tax expense of \$2.1 million in the third quarter of 2016 decreased by \$7.7 million compared to \$9.8 million in the same period in 2015, primarily in the United States as taxable income recognized in the United States decreased by \$18.2 million in 2016 compared to 2015. No other jurisdiction in which we operate had a material change in income tax expense.

## 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, 2016 and 2015 and June 30, 2016 (in thousands):

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|                                  | Three Months Ended<br>September 30, |           | \$ Change<br>2016/2015 | % Change<br>2016/2015 | Three<br>Months<br>Ended<br>June 30, | \$<br>Change<br>Q3/Q2 | % Change<br>Q3/Q2 |  |    |
|----------------------------------|-------------------------------------|-----------|------------------------|-----------------------|--------------------------------------|-----------------------|-------------------|--|----|
|                                  | 2016                                | 2015      |                        |                       | 2016                                 |                       |                   |  |    |
| Revenue:                         |                                     |           |                        |                       |                                      |                       |                   |  |    |
| Reservoir Description            | \$100,267                           | \$117,943 | \$(17,676)             | (15)%                 | \$102,962                            | \$(2,695)             | (3)               |  | )% |
| Production Enhancement           | 37,552                              | 64,918    | (27,366)               | (42)%                 | 39,149                               | (1,597)               | (4)               |  | )% |
| Reservoir Management             | 5,664                               | 14,404    | (8,740)                | (61)%                 | 5,958                                | (294)                 | (5)               |  | )% |
| Consolidated                     | \$143,483                           | \$197,265 | \$(53,782)             | (27)%                 | \$148,069                            | \$(4,586)             | (3)               |  | )% |
| Operating income (loss):         |                                     |           |                        |                       |                                      |                       |                   |  |    |
| Reservoir Description            | \$20,395                            | \$30,338  | \$(9,943)              | (33)%                 | \$19,209                             | \$1,186               | 6                 |  | %  |
| Production Enhancement           | 1,121                               | 11,367    | (10,246)               | (90)%                 | 755                                  | 366                   | 48                |  | %  |
| Reservoir Management             | (125)                               | 4,796     | (4,921)                | (103)%                | 422                                  | (547)                 | (130)             |  | )% |
| Corporate and Other <sup>1</sup> | 97                                  | 317       | (220)                  | NM                    | (159)                                | 256                   | NM                |  |    |
| Consolidated                     | \$21,488                            | \$46,818  | \$(25,330)             | (54)%                 | \$20,227                             | \$1,261               | 6                 |  | %  |

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

|                                  | Nine Months<br>Ended September 30, |           | \$ Change<br>2016/2015 | % Change<br>2016/2015 |  |    |
|----------------------------------|------------------------------------|-----------|------------------------|-----------------------|--|----|
|                                  | 2016<br>(Unaudited)                | 2015      |                        |                       |  |    |
| Revenue:                         |                                    |           |                        |                       |  |    |
| Reservoir Description            | \$304,778                          | \$358,613 | \$(53,835)             | (15)%                 |  | )% |
| Production Enhancement           | 120,846                            | 210,652   | (89,806)               | (43)%                 |  | )% |
| Reservoir Management             | 19,575                             | 45,532    | (25,957)               | (57)%                 |  | )% |
| Consolidated                     | \$445,199                          | \$614,797 | \$(169,598)            | (28)%                 |  | )% |
| Operating income (loss):         |                                    |           |                        |                       |  |    |
| Reservoir Description            | \$57,824                           | \$89,812  | \$(31,988)             | (36)%                 |  | )% |
| Production Enhancement           | 6,017                              | 35,666    | (29,649)               | (83)%                 |  | )% |
| Reservoir Management             | 784                                | 12,114    | (11,330)               | (94)%                 |  | )% |
| Corporate and Other <sup>1</sup> | 30                                 | (164)     | 194                    | NM                    |  |    |
| Consolidated                     | \$64,655                           | \$137,428 | \$(72,773)             | (53)%                 |  | )% |

(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 was \$100.3 million in the third quarter of 2016, a decrease of 3% from \$103.0 million in the second quarter of 2016 and a decrease of 15% from \$117.9 million in the third quarter of 2015. For the nine months ended September 30, 2016, revenue decreased \$53.8 million to \$304.8 million, compared to the same period in 2015. This segment's operations continue to work on large-scale, long-term crude-oil and liquefied natural gas projects with an emphasis on deepwater developments and international markets. We continue to focus on large-scale core analyses and reservoir fluids characterization studies in the Asia-Pacific areas, offshore West and East Africa, the U.S. Permian basin, offshore Guyana, and the Middle East, including Kuwait and the United Arab Emirates.

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Operating income was \$20.4 million in the third quarter of 2016, an increase of 6% compared to \$19.2 million in the second quarter of 2016 and a decrease of 33% compared to \$30.3 million in the third quarter of 2015. The improvement sequentially is the result of Core's cost reduction programs which continue to right-size expense levels. The decrease year-over-year was primarily due to our fixed-cost structure not being fully absorbed on lower revenue in 2016 when compared to 2015. Operating income for the nine months ended September 30, 2016 decreased to \$57.8 million compared to \$89.8 million for the same period in 2015 primarily due to lower revenue. Operating margins improved to 20% in the third quarter of 2016, compared to 19% in the second quarter of 2016, but were down from 26% in the third quarter of 2015. 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, largely focused on North American unconventional reservoirs and complex deepwater completions and stimulations, was \$37.6 million in the third quarter of 2016, a decrease of 4% from \$39.1 million in the second quarter of 2016. The decreased revenue was more tied to a decreased number of U.S. completions in the third quarter of 2016 as compared to completions in the second quarter of the year. Revenue from this segment decreased 42% from \$64.9 million in the third quarter of 2015 as the average rig count for North America decreased 43%. Revenue decreased 43% to \$120.8 million for the nine months ended September 30, 2016 compared to \$210.7 million for the same period in 2015 as the average rig count for North America for the first nine months of 2016 decreased 52% from the same period in 2015.

Operating income in the third quarter of 2016 was \$1.1 million, an increase from \$0.8 million in the second quarter of 2016 and a decrease from \$11.4 million in the third quarter of 2015. The increased profitability was related to our cost reduction program and increasing numbers of technologically sophisticated and challenging projects, many located throughout the Permian Basin. The decrease in year-over-year operating income was primarily due to lower revenue in 2016 caused by the reduction in activities and spending of our clients in 2016, primarily in North America. For the nine months ended September 30, 2016, operating income decreased to \$6.0 million from \$35.7 million for the same period in 2015. This decrease was due to lower revenue in 2016 as compared to 2015. Operating margins were 3% in the third quarter of 2016, up from 2% in the second quarter of 2016, which showed modest improvement despite the decrease in revenue. Operating margins for the third quarter of 2016 were down from 18% for the third quarter of 2015 as a result of absorbing less of our fixed costs on lower revenue.

#### Reservoir Management

Revenue from the Reservoir Management segment was \$5.7 million in the third quarter of 2016, a decrease of \$0.3 million from the second quarter of 2016 and a decrease of \$8.7 million from the third quarter of 2015. Revenue for the nine months ended September 30, 2016 decreased to \$19.6 million compared to \$45.5 million for the same period in 2015. The decrease in 2016 when compared to 2015 is primarily due to the decrease of oil commodity prices which, as a result, greatly reduced or eliminated discretionary spending from our oil and gas clients. The spending cut backs in the Canadian oil sands have negatively impacted sales of Reservoir Management's instrumentation. We continue to have interest in our existing multi-client reservoir studies such as the Avalon Basin study and the Tight Oil Reservoirs of the Midland Basin study, both within the larger area of the Permian Basin acreage, as five companies were added to these two studies during the third quarter of 2016.

Operating income in the third quarter of 2016 was a \$0.1 million loss, a decrease from a gain of \$0.4 million during the second quarter of 2016 and a decrease from a gain of \$4.8 million during the third quarter of 2015. For the nine months ended September 30, 2016, operating income decreased to \$0.8 million compared to \$12.1 million for the same period in 2015. These decreases were due primarily to lower revenue. Operating margins were (2.2%) in the

third quarter of 2016, down from 7% and 33% in the second quarter of 2016 and third quarter of 2015, respectively. Operating margins for Reservoir Management can fluctuate due to the sale of fully completed studies, which generate significant incremental margins.

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## Liquidity and Capital Resources

## General

We have historically financed our activities through cash on hand, cash flows from operations, bank credit facilities, equity financing and the issuance of debt. Cash flows from operating activities provides the primary source of funds to finance operating needs, capital expenditures and our dividend and share repurchase programs. If necessary, we supplement this cash flow with borrowings under bank credit facilities to finance some capital expenditures, business acquisitions, or the repurchase of the Company's common shares. As we are a Netherlands holding company, we conduct substantially all of our operations through subsidiaries. Our cash availability is largely dependent upon the ability of our subsidiaries to pay cash dividends or otherwise distribute or advance funds to us. There are no restrictions preventing any of our subsidiaries from repatriating earnings, and there are no restrictions or income taxes associated with distributing cash to the parent company through loans or advances. As of September 30, 2016, \$15.5 million of our \$17.2 million of cash was held by our foreign subsidiaries.

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, 2016 and 2015 (in thousands):

|                                           | Nine Months     |           |           |  |
|-------------------------------------------|-----------------|-----------|-----------|--|
|                                           | Ended September |           | % Change  |  |
|                                           | 30,             |           |           |  |
|                                           | 2016            | 2015      | 2016/2015 |  |
| Free cash flow calculation:               |                 |           |           |  |
| Net cash provided by operating activities | \$108,684       | \$169,770 | (36 )%    |  |
| Less: cash paid for capital expenditures  | 7,740           | 18,276    | (58 )%    |  |
| Free cash flow                            | \$100,944       | \$151,494 | (33 )%    |  |

The decrease in free cash flow for the first nine months of 2016 compared to the same period in 2015 was primarily due to lower net income and less significant improvements in working capital, partially offset by lower capital expenditures.

## Cash Flows

The following table summarizes cash flows for the nine months ended September 30, 2016 and 2015 (in thousands):

|                             | Nine Months Ended |           |           |  |
|-----------------------------|-------------------|-----------|-----------|--|
|                             | September 30,     |           | % Change  |  |
|                             | 2016              | 2015      | 2016/2015 |  |
| Cash provided by/(used in): |                   |           |           |  |
| Operating activities        | \$108,684         | \$169,770 | (36 )%    |  |



|                                         |            |            |    |    |
|-----------------------------------------|------------|------------|----|----|
| Investing activities                    | (10,497 )  | (34,619 )  | 70 | %  |
| Financing activities                    | (103,462 ) | (140,040 ) | 26 | %  |
| Net change in cash and cash equivalents | \$(5,275 ) | \$(4,889 ) | (8 | )% |

Cash flows from operating activities for the first nine months of 2016 compared to the same period in 2015 decreased primarily due to lower net income and less significant improvements to working capital.

The decrease in cash flows used in investing activities during the first nine months of 2016 compared to the same period in 2015 was primarily attributable to an acquisition in 2015 as well as lower capital expenditures in 2016.

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Cash flows used in financing activities decreased for the first nine months of 2016 compared to the same period in 2015. In the first nine months of 2016, we issued 1,696,250 shares of our common stock for net proceeds of \$197.2 million, after deducting underwriting discounts and offering expenses. During the first nine months of 2016, we decreased our debt by \$227.2 million, as compared to increasing it by \$70.3 million during the first nine months of 2015. In the first nine months of 2016, we repurchased 34,959 shares of our common stock for an aggregate purchase price of \$3.9 million compared to the repurchase of 1,311,616 shares for an aggregate purchase price of \$144.5 million during the same period in 2015.

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

We have two series of senior notes outstanding with an aggregate principal amount of \$150 million ("Senior Notes") issued 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 ("Credit Facility") that allows for an aggregate borrowing capacity of \$400 million. The Credit Facility also provides an option to increase the commitment under the Credit Facility by an additional \$50 million to bring the total borrowings available to \$450 million if certain prescribed conditions are met by the Company. The Credit Facility bears interest at variable rates from LIBOR plus 1.25% to a maximum of LIBOR plus 2.00%.

Any outstanding balance under the Credit Facility is due August 29, 2019, when the Credit Facility matures. Our available capacity at any point in time is reduced by borrowings outstanding at the time and outstanding letters of credit which totaled \$25.7 million at September 30, 2016, resulting in an available borrowing capacity under the Credit Facility of \$316.3 million. In addition to those items under the Credit Facility, we had \$9.4 million of outstanding letters of credit and performance guarantees and bonds from other sources as of September 30, 2016.

The terms of the Credit Facility and Senior Notes require us to meet certain covenants, including, but not limited to, an interest coverage ratio (consolidated EBITDA divided by interest expense) and a leverage ratio (consolidated net indebtedness divided by consolidated EBITDA), where consolidated EBITDA (as defined in each agreement) and interest expense are calculated using the most recent four fiscal quarters. The Credit Facility has the more restrictive covenants with a minimum interest coverage ratio of 3.0 to 1.0 and a maximum leverage ratio of 2.5 to 1.0. We believe that we are in compliance with all such covenants contained in our credit agreements. Certain of our material, wholly-owned subsidiaries are guarantors or co-borrowers under the Credit Facility and Senior Notes.

In 2014, we entered into two interest rate swap agreements for a total notional amount of \$50 million. See Note 12 - Derivative Instruments and Hedging Activities.

Our ability to maintain and grow our operating income and cash flow depends, to a large extent, on continued investing activities. 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.

#### Other Matters

Several months ago, there were news reports related to Unaoil, a Monaco based company, and activities Unaoil may have engaged in related to international projects involving several global companies, including Core Lab. It has also been reported that the U.S. Department of Justice ("DOJ") is conducting an investigation of Unaoil related to the

information reported in these news articles. The DOJ contacted the Company in connection with that investigation, and the Company will cooperate with the DOJ.

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### 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 2015 Annual Report.

### Item 4. Controls and Procedures

A complete discussion of our controls and procedures is included in our 2015 Annual Report.

#### 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, 2016 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, 2016, 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.

Item 1A. Risk Factors

Our business faces many risks. Any of the risks discussed in this Quarterly Report or our other SEC filings could have a material impact on our business, financial position or results of operations. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations. For a detailed discussion of the risk factors that should be understood by any investor contemplating investment in our securities, please refer to "Item 1A - Risk Factors" in our 2015 Annual Report.

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

Unregistered Sales of Equity Securities

None.

Issuer Repurchases of Equity Securities

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 and nine months ended September 30, 2016:

| 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)(4) |
|------------------------|----------------------------------|------------------------------|--------------------------------------------------------------------------|-----------------------------------------------------------------------------|
| July 31, 2016 (1)      | 4,640                            | \$ 124.97                    | —                                                                        | 2,664,675                                                                   |
| August 31, 2016 (1)    | 400                              | 114.94                       | —                                                                        | 3,790,600                                                                   |
| September 30, 2016 (2) | 19,755                           | 112.56                       | 16,000                                                                   | 3,783,489                                                                   |
| Total                  | 24,795                           | \$ 114.92                    | 16,000                                                                   |                                                                             |

(1) All shares repurchased during July and August, 2016 were surrendered to us by participants in a stock-based compensation plan to settle any personal tax liabilities which may result from the award.

(2) Contains 3,755 shares valued at \$0.4 million, or \$111.43 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.

(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. The repurchase of shares in the open market is at the discretion of management pursuant to this shareholder authorization.

(4) We distributed 29,028 treasury shares upon vesting of stock-based awards during the three months ended September 30, 2016.

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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 21, 2016 By: /s/ Richard L. Bergmark  
Richard L. Bergmark  
Chief Financial Officer  
(Duly Authorized Officer and  
Principal Financial Officer)

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