

CORE LABORATORIES N V  
Form 10-Q  
October 25, 2017

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, 2017  
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, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 23, 2017 was 44,147,365.

CORE LABORATORIES N.V.  
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2017

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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>2017 | December 31,<br>2016 |
|--|-----------------------|----------------------|
|  | (Unaudited)           |                      |
| <b>ASSETS</b>  |                       |                      |
| <b>CURRENT ASSETS:</b>   |                       |                      |
| Cash and cash equivalents  | \$ 13,780             | \$ 14,764            |
| Accounts receivable, net of allowance for doubtful accounts of \$3,050 and \$3,139 at 2017 and 2016, respectively  | 129,656               | 114,329              |
| Inventories  | 34,499                | 33,720               |
| Prepaid expenses   | 10,019                | 10,711               |
| Income taxes receivable  | 8,801                 | 6,426                |
| Other current assets   | 6,374                 | 6,511                |
| <b>TOTAL CURRENT ASSETS</b>  | <b>203,129</b>        | <b>186,461</b>       |
| PROPERTY, PLANT AND EQUIPMENT, net   | 124,120               | 129,882              |
| INTANGIBLES, net   | 9,533                 | 9,936                |
| GOODWILL   | 179,044               | 179,044              |
| DEFERRED TAX ASSETS, net   | 15,574                | 20,605               |
| OTHER ASSETS   | 51,344                | 47,124               |
| <b>TOTAL ASSETS</b>  | <b>\$ 582,744</b>     | <b>\$ 573,052</b>    |
| <b>LIABILITIES AND EQUITY</b>  |                       |                      |
| <b>CURRENT LIABILITIES:</b>  |                       |                      |
| Accounts payable   | \$ 34,904             | \$ 33,720            |
| Accrued payroll and related costs  | 25,576                | 19,411               |
| Taxes other than payroll and income  | 7,275                 | 5,816                |
| Unearned revenue   | 14,297                | 15,690               |
| Income taxes payable   | 1,223                 | 15,718               |
| Other current liabilities  | 9,863                 | 13,668               |
| <b>TOTAL CURRENT LIABILITIES</b>   | <b>93,138</b>         | <b>104,023</b>       |
| LONG-TERM DEBT, net  | 233,864               | 216,488              |
| DEFERRED COMPENSATION  | 51,286                | 46,251               |
| DEFERRED TAX LIABILITIES, net  | 5,099                 | 6,277                |
| OTHER LONG-TERM LIABILITIES  | 46,060                | 44,716               |
| <b>COMMITMENTS AND CONTINGENCIES (Note 6)</b>  |                       |                      |
| <b>EQUITY:</b>   |                       |                      |
| Preference shares, EUR 0.02 par value; 6,000,000 shares authorized, none issued or outstanding   | —                     | —                    |
| Common shares, EUR 0.02 par value;<br>200,000,000 shares authorized, 44,796,252 issued and 44,147,284 outstanding at 2017 and 44,796,252 issued and 44,151,261 outstanding at 2016 | 1,148                 | 1,148                |
| Additional paid-in capital   | 61,768                | 52,850               |
| Retained earnings  | 176,446               | 187,957              |
| Accumulated other comprehensive income (loss)  | (9,510)               | (9,828)              |
| Treasury shares (at cost), 648,968 at 2017 and 644,991 at 2016   | (80,481)              | (80,773)             |
| Total Core Laboratories N.V. shareholders' equity  | 149,371               | 151,354              |
| Non-controlling interest   | 3,926                 | 3,943                |

|                              |            |            |
|------------------------------|------------|------------|
| TOTAL EQUITY                 | 153,297    | 155,297    |
| TOTAL LIABILITIES AND EQUITY | \$ 582,744 | \$ 573,052 |

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, |               |
|---|-------------------------------------|---------------|
|   | 2017                                | 2016          |
|   | (Unaudited)                         |               |
| <b>REVENUE:</b>   |                                     |               |
| Services  | \$117,550                           | \$114,137     |
| Product sales   | 48,697                              | 29,346        |
| Total revenue   | 166,247                             | 143,483       |
| <b>OPERATING EXPENSES:</b>  |                                     |               |
| Cost of services, exclusive of depreciation expense shown below                   | 83,807                              | 80,419        |
| Cost of product sales, exclusive of depreciation expense shown below              | 37,083                              | 26,734        |
| General and administrative expense, exclusive of depreciation expense shown below | 11,887                              | 8,406         |
| Depreciation  | 5,841                               | 6,548         |
| Amortization  | 250                                 | 176           |
| Other (income) expense, net   | (97                                 | ) (288        |
| <b>OPERATING INCOME</b>   | <b>27,476</b>                       | <b>21,488</b> |
| Interest expense  | 2,707                               | 2,569         |
| Income before income tax expense  | 24,769                              | 18,919        |
| Income tax expense  | 3,716                               | 2,081         |
| Net income  | 21,053                              | 16,838        |
| Net income (loss) attributable to non-controlling interest                        | (33                                 | ) 108         |
| Net income attributable to Core Laboratories N.V.                                 | \$21,086                            | \$16,730      |
| <b>EARNINGS PER SHARE INFORMATION:</b>  |                                     |               |
| Basic earnings per share attributable to Core Laboratories N.V.                   | \$0.48                              | \$0.38        |
| Diluted earnings per share attributable to Core Laboratories N.V.                 | \$0.48                              | \$0.38        |
| Cash dividends per share  | \$0.55                              | \$0.55        |
| <b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>                                |                                     |               |
| Basic   | 44,141                              | 44,110        |
| Diluted   | 44,332                              | 44,320        |

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,<br>2017<br>(Unaudited) | 2016          |
|--|---|---------------|
| <b>REVENUE:</b>  |   |               |
| Services   | \$ 355,725  | \$ 355,079    |
| Product sales  | 132,232   | 90,120        |
| Total revenue  | 487,957   | 445,199       |
| <b>OPERATING EXPENSES:</b>   |   |               |
| Cost of services, exclusive<br>of depreciation expense<br>shown below                      | 247,839   | 249,062       |
| Cost of product sales,<br>exclusive of depreciation<br>expense shown below                 | 104,741   | 80,904        |
| General and administrative<br>expense, exclusive of<br>depreciation expense<br>shown below | 35,743  | 30,595        |
| Depreciation   | 18,136  | 19,706        |
| Amortization   | 684   | 616           |
| Other (income) expense,<br>net   | 752   | (339 )        |
| <b>OPERATING INCOME</b>  | <b>80,062</b>   | <b>64,655</b> |
| Interest expense   | 8,017   | 9,024         |
| Income before income tax<br>expense  | 72,045  | 55,631        |
| Income tax expense   | 10,601  | 7,141         |
| Net income   | 61,444  | 48,490        |
| Net income (loss)<br>attributable to<br>non-controlling interest                           | 10  | 54            |
| Net income attributable to<br>Core Laboratories N.V.                                       | \$ 61,434   | \$ 48,436     |
| <b>EARNINGS PER SHARE<br/>INFORMATION:</b>   |   |               |
| Basic earnings per share<br>attributable to Core<br>Laboratories N.V.                      | \$ 1.39   | \$ 1.12       |
| Diluted earnings per share<br>attributable to Core<br>Laboratories N.V.                    | \$ 1.39   | \$ 1.11       |



|   |    |        |    |        |
|---|----|--------|----|--------|
| Cash dividends per share                          | \$ | 1.65   | \$ | 1.65   |
| WEIGHTED AVERAGE<br>COMMON SHARES<br>OUTSTANDING: |    |        |    |        |
| Basic   |    | 44,155 |    | 43,265 |
| Diluted   |    | 44,335 |    | 43,450 |

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>2017 |          | Nine Months<br>Ended<br>September 30,<br>2017 |            |
|--|--|----------|---|------------|
|  | 2016   |          | 2016  |            |
|  | (Unaudited)                                    |          | (Unaudited)                                   |            |
| Net income   | \$21,053                                       | \$16,838 | \$61,444                                      | \$48,490   |
| Other comprehensive income:  |  |          |   |            |
| Derivatives  |  |          |   |            |
| Gain (loss) in fair value of interest rate swaps                     | (47  | ) 199    | (244  | ) (2,221 ) |
| Interest rate swap amounts reclassified to interest expense          | 112  | 207      | 419   | 631        |
| Income taxes on derivatives  | (23  | ) (150   | ) (61   | ) 585      |
| Total derivatives  | 42   | 256      | 114   | (1,005 )   |
| Pension and other postretirement benefit plans                       |  |          |   |            |
| Prior service cost   |  |          |   |            |
| Amortization to net income of prior service cost                     | (20  | ) (20    | ) (58   | ) (58 )    |
| Amortization to net income of actuarial loss                         | 110  | 148      | 330   | 444        |
| Income taxes on pension and other postretirement benefit plans       | (22  | ) (32    | ) (68   | ) (96 )    |
| Total pension and other postretirement benefit plans                 | 68   | 96       | 204   | 290        |
| Total other comprehensive income (loss)                              | 110  | 352      | 318   | (715 )     |
| Comprehensive income   | 21,163   | 17,190   | 61,762  | 47,775     |
| Comprehensive income (loss) attributable to non-controlling interest | (33  | ) 108    | 10  | 54         |
| Comprehensive income attributable to Core Laboratories N.V.          | \$21,196                                       | \$17,082 | \$61,752                                      | \$47,721   |

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>2017    2016<br>(Unaudited) |                 |
|---|--|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |  |                 |
| Net income  | \$61,444   | \$48,490        |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |                 |
| Stock-based compensation  | 17,323   | 16,762          |
| Depreciation and amortization   | 18,820   | 20,322          |
| Changes to value of life insurance policies                                       | (4,541 )   | (505 )          |
| Deferred income taxes   | 3,914  | (3,910 )        |
| Other non-cash items  | (696 )   | (1,226 )        |
| Changes in assets and liabilities:  |  |                 |
| Accounts receivable   | (15,488 )  | 37,610          |
| Inventories   | (796 )   | 2,995           |
| Prepaid expenses and other current assets   | (1,545 )   | 4,029           |
| Other assets  | 1,960  | (128 )          |
| Accounts payable  | 2,307  | (3,023 )        |
| Accrued expenses  | (10,676 )  | (13,017 )       |
| Unearned revenue  | (1,393 )   | (1,111 )        |
| Other long-term liabilities   | 7,722  | 1,396           |
| Net cash provided by operating activities   | 78,355   | 108,684         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |  |                 |
| Capital expenditures  | (14,264 )  | (7,740 )        |
| Patents and other intangibles   | (282 )   | (205 )          |
| Business acquisition, net of cash acquired  | —  | (1,242 )        |
| Proceeds from sale of assets  | 643  | 705             |
| Premiums on life insurance  | (1,351 )   | (2,015 )        |
| Net cash used in investing activities   | (15,254 )  | (10,497 )       |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |  |                 |
| Repayment of debt borrowings  | (89,000 )  | (290,226)       |
| Proceeds from debt borrowings   | 106,000  | 63,000          |
| Excess tax benefits from stock-based compensation                                 | —  | (187 )          |
| Non-controlling interest - dividend   | (27 )  | (211 )          |
| Dividends paid  | (72,861 )  | (70,883 )       |
| Repurchase of common shares   | (8,197 )   | (2,157 )        |
| Issuance of common shares   | —  | 197,202         |
| Net cash used in financing activities   | (64,085 )  | (103,462)       |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                                    | <b>(984 )</b>  | <b>(5,275 )</b> |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>                             | <b>14,764</b>  | <b>22,494</b>   |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>                                   | <b>\$13,780</b>  | <b>\$17,219</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, 2016 (the "2016 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, 2017 may not necessarily be indicative of the results that may be expected for the year ending December 31, 2017.

Core Laboratories N.V.'s balance sheet information for the year ended December 31, 2016 was derived from the 2016 audited consolidated financial statements but does not include all disclosures in accordance with U.S. GAAP.

Core Lab's continuing efforts to streamline its business has led to a simplification of its reporting structure and as of January 1, 2017, the Company presents its operating results in two reporting segments: Reservoir Description and Production Enhancement. For more detail about our segments, see Note 13 - Segment Reporting.

Certain reclassifications were made to prior period amounts in order to conform to the current period presentation. These reclassifications had no impact on the reported net income or cash flows for the three or nine months ended September 30, 2016.

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 consisted of the following (in thousands):

|                     | September 30, December 31, |           |
|---------------------|----------------------------|-----------|
|                     | 2017                       | 2016      |
| Finished goods      | \$ 21,777                  | \$ 21,635 |
| Parts and materials | 11,143                     | 11,185    |
| Work in progress    | 1,579                      | 900       |
| Total inventories   | \$ 34,499                  | \$ 33,720 |

We include freight costs incurred for shipping inventory to our clients in the Cost of product sales caption in the accompanying Consolidated Statements of Operations.

### 3. ACQUISITIONS

We had no significant acquisitions during the nine months ended September 30, 2017.

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#### 4. DEBT, NET

We have no capital lease obligations. Long-term debt is as follows (in thousands):

|                           | September 30, December 31, |            |
|---------------------------|----------------------------|------------|
|                           | 2017                       | 2016       |
| Senior notes              | \$ 150,000                 | \$ 150,000 |
| Credit facility           | 85,000                     | 68,000     |
| Total long-term debt      | 235,000                    | 218,000    |
| Less: Debt issuance costs | (1,136 )                   | (1,512 )   |
| Long-term debt, net       | \$ 233,864                 | \$ 216,488 |

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 \$17.5 million at September 30, 2017, resulting in an available borrowing capacity under the Credit Facility of \$297.5 million. In addition to those items under the Credit Facility, we had \$14.6 million of outstanding letters of credit and performance guarantees and bonds from other sources as of September 30, 2017.

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 11 - Derivative Instruments and Hedging Activities.

The estimated fair value of total debt at September 30, 2017 and December 31, 2016 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 noncontributory defined benefit pension plan covering 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.

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The following table summarizes the components of net periodic pension cost under the Dutch Plan (in thousands):

|                                    | Three Months Ended |                    | Nine Months Ended  |                    |
|------------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                    | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| Service cost                       | \$401              | \$364              | \$1,142            | \$1,097            |
| Interest cost                      | 295                | 332                | 838                | 1,001              |
| Expected return on plan assets     | (249 )             | (279 )             | (709 )             | (841 )             |
| Amortization of prior service cost | (20 )              | (20 )              | (58 )              | (58 )              |
| Amortization of actuarial loss     | 110                | 148                | 330                | 444                |
| Net periodic pension cost          | \$537              | \$545              | \$1,543            | \$1,643            |

During the nine months ended September 30, 2017, we contributed \$1.6 million to fund the estimated 2017 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, 2017, we repurchased 8,404 of our common shares for \$0.8 million. These consisted of rights to shares 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, 2017, we repurchased 77,832 of our common shares for \$8.2 million; included in this total were rights to 22,832 shares valued at \$2.5 million 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 27,453 and 73,855 treasury shares upon vesting of stock-based awards during the three and nine months ended September 30, 2017, respectively.

In February, May and August 2017, we paid quarterly dividends of \$0.55 per share of common stock. In addition, on October 10, 2017, we declared a quarterly dividend of \$0.55 per share of common stock for shareholders of record on October 20, 2017 and payable on November 21, 2017.

The following table summarizes our changes in equity for the nine months ended September 30, 2017 (in thousands):

| Common Shares | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Non-Controlling Interest | Total Equity |
|---------------|----------------------------|-------------------|--|----------------|--------------------------|--------------|
|---------------|----------------------------|-------------------|--|----------------|--------------------------|--------------|

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|  |          |           |            | (Loss)      |             |          |  |            |
|--|----------|-----------|------------|-------------|-------------|----------|--|------------|
| December 31, 2016                                  | \$ 1,148 | \$ 52,850 | \$ 187,957 | \$ (9,828 ) | \$ (80,773) | \$ 3,943 |  | \$ 155,297 |
| Adoption of ASU 2016-09 (see note 14)              | —        | 84        | (84 )      | —           | —           | —        |  | —          |
| Stock based-awards                                 | —        | 8,834     | —          | —           | 8,489       | —        |  | 17,323     |
| Repurchase of common shares                        | —        | —         | —          | —           | (8,197 )    | —        |  | (8,197 )   |
| Dividends paid                                     | —        | —         | (72,861 )  | —           | —           | —        |  | (72,861 )  |
| Non-controlling interest dividends                 | —        | —         | —          | —           | —           | (27 )    |  | (27 )      |
| Amortization of deferred pension costs, net of tax | —        | —         | —          | 204         | —           | —        |  | 204        |
| Interest rate swaps, net of tax                    | —        | —         | —          | 114         | —           | —        |  | 114        |
| Net income   | —        | —         | 61,434     | —           | —           | 10       |  | 61,444     |
| September 30, 2017                                 | \$ 1,148 | \$ 61,768 | \$ 176,446 | \$ (9,510 ) | \$ (80,481) | \$ 3,926 |  | \$ 153,297 |

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

|   | September 30,<br>2017 | December 31,<br>2016 |
|---|-----------------------|----------------------|
| Prior service cost                                  | \$ 556                | \$ 600               |
| Unrecognized net actuarial loss                     | (9,521 )              | (9,769 )             |
| Fair value of derivatives, net of tax               | (545 )                | (659 )               |
| Total accumulated other comprehensive income (loss) | \$ (9,510 )           | \$ (9,828 )          |

## 8. EARNINGS PER SHARE

We compute basic earnings per common share by dividing net income attributable to Core Laboratories N.V. 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 |                       | Nine Months<br>Ended  |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | September 30,<br>2017 | September 30,<br>2016 | September 30,<br>2017 | September 30,<br>2016 |
| Weighted average basic common shares outstanding                        | 44,141                | 44,110                | 44,155                | 43,265                |
| Effect of dilutive securities:  |                       |                       |                       |                       |
| Performance shares  | 159                   | 147                   | 148                   | 119                   |
| Restricted stock  | 32                    | 63                    | 32                    | 66                    |
| Weighted average diluted common and potential common shares outstanding | 44,332                | 44,320                | 44,335                | 43,450                |

## 9. OTHER (INCOME) EXPENSE, NET

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

|   | Three Months Ended |         | Nine Months Ended |         |
|---|--------------------|---------|-------------------|---------|
|   | September 30,      |         | September 30,     |         |
|   | 2017               | 2016    | 2017              | 2016    |
| Sale of assets                            | \$(12)             | \$(56 ) | \$(314)           | \$(544) |
| Results of non-consolidated subsidiaries  | (112 )             | (126 )  | (287 )            | (450 )  |
| Foreign exchange                          | 105                | 220     | 559               | 1,432   |
| Rents and royalties                       | (99 )              | (105 )  | (329 )            | (304 )  |
| Severance, compensation and other charges | —                  | —       | 1,145             | —       |
| Other, net                                | 21                 | (221 )  | (22 )             | (473 )  |
| Total other (income) expense, net         | \$(97)             | \$(288) | \$752             | \$(339) |

Foreign exchange gains and losses are summarized in the following table (in thousands):

|                            | Three Months Ended |       | Nine Months Ended |         |
|----------------------------|--------------------|-------|-------------------|---------|
|                            | September 30,      |       | September 30,     |         |
| (Gains) losses by currency | 2017               | 2016  | 2017              | 2016    |
| British Pound              | (27 )              | 39    | (82 )             | 514     |
| Canadian Dollar            | (153 )             | (6 )  | (230 )            | (54 )   |
| Euro                       | 431                | 45    | 1,266             | 215     |
| Russian Ruble              | (26 )              | 21    | (151 )            | (73 )   |
| Other currencies, net      | (120 )             | 121   | (244 )            | 830     |
| Total (gain) loss, net     | \$105              | \$220 | \$559             | \$1,432 |

## 10. INCOME TAX EXPENSE

The effective tax rates for the three months ended September 30, 2017 and 2016 were 15.0% and 11.0%, respectively. The effective tax rates for the nine months ended September 30, 2017 and 2016 were 14.7% and 12.8%, respectively. Income tax expense of \$3.7 million in the third quarter of 2017 increased by \$1.6 million compared to \$2.1 million in the same period in 2016, due to the result of several items discrete to each quarter, along with changes in activity levels in jurisdictions with differing tax rates.

On March 29, 2017, the Prime Minister of the United Kingdom ("UK") formally notified the European Council of the UK's intention to withdraw from the European Union ("EU") under Article 50 of the Treaty of Lisbon. The UK's formal withdrawal may impact tax exemptions and reliefs on intra-European transactions between our UK affiliates and EU companies. In addition, it may impact transactions between our UK affiliates and non-EU based companies as EU tax treaties may no longer apply to these transactions. Due to the uncertainty involved in evaluating the effect of the loss of tax exemptions and reliefs, we are unable to estimate the impact of these changes, if any, at this time. We will continue to monitor developments in this area.

## 11. 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.

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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 and are highly effective. Unrealized losses are deferred to shareholders' equity as a component of accumulated other comprehensive loss 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, 2017, we had fixed rate long-term debt aggregating \$200 million and variable rate long-term debt aggregating \$35 million, after taking into account the effect of the swaps.

The fair values of outstanding derivative instruments are as follows:

|                                   | Fair Value of<br>Derivatives |                      | Balance Sheet Classification |
|-----------------------------------|------------------------------|----------------------|------------------------------|
|                                   | September<br>2017            | December<br>31, 2016 |                              |
| Derivatives designated as hedges: |                              |                      |                              |
| 5 year interest rate swap         | \$ 62                        | \$ 211               | Other long-term liabilities  |
| 10 year interest rate swap        | 809                          | 835                  | Other long-term liabilities  |
|                                   | \$ 871                       | \$ 1,046             |                              |

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.

The effect of the interest rate swaps on the Consolidated Statement of Operations was as follows:

|                                   | Three<br>Months<br>Ended<br>September<br>30,<br>2017 |        | Nine<br>Months<br>Ended<br>September<br>30,<br>2016 |        | Income Statement Classification |
|-----------------------------------|--|--------|---|--------|---------------------------------|
|                                   | 2017   | 2016   | 2017  | 2016   |                                 |
| Derivatives designated as hedges: |  |        |   |        |                                 |
| 5 year interest rate swap         | \$ 31  | \$ 79  | \$ 136  | \$ 242 | Increase to interest expense    |
| 10 year interest rate swap        | 81   | 128    | 283   | 389    | Increase to interest expense    |
|                                   | \$ 112   | \$ 207 | \$ 419  | \$ 631 |                                 |

## 12. FINANCIAL INSTRUMENTS

The Company's only financial assets and liabilities which are measured at fair value on a recurring basis 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. The following table summarizes the fair value balances (in thousands):

|   | Fair Value<br>Measurement at<br>September 30,<br>2017 |             |                    |
|---|---|-------------|--------------------|
|   | Total   | Level<br>1  | Level 2<br>Level 3 |
| Assets:   |   |             |                    |
| Deferred compensation trust assets <sup>(1)</sup> | \$27,880  | \$-\$27,880 | \$ —               |
| Liabilities:                                      |   |             |                    |
| Deferred compensation plan                        | \$35,528  | \$-\$35,528 | \$ —               |
| 5 year interest rate swap                         | 62  | —62         | —                  |
| 10 year interest rate swap                        | 809   | —809        | —                  |
|   | \$36,399  | \$-\$36,399 | \$ —               |

|   | Fair Value<br>Measurement at<br>December 31,<br>2016 |             |                    |
|---|--|-------------|--------------------|
|   | Total  | Level<br>1  | Level 2<br>Level 3 |
| Assets:   |  |             |                    |
| Deferred compensation trust assets <sup>(1)</sup> | \$25,350   | \$-\$25,350 | \$ —               |
| Liabilities:                                      |  |             |                    |
| Deferred compensation plan                        | \$31,672   | \$-\$31,672 | \$ —               |
| 5 year interest rate swap                         | 211  | —211        | —                  |
| 10 year interest rate swap                        | 835  | —835        | —                  |
|   | \$32,718   | \$-\$32,718 | \$ —               |

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

## 13. SEGMENT REPORTING

Core Laboratories has taken steps to streamline its business by realigning its reporting structure into two reporting 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. In connection with the realignment of our reporting structure, amounts previously reported in our Reservoir Management segment are now presented within our Reservoir Description and Production Enhancement segments, and prior periods have

been revised to conform to the current presentation.

**Reservoir Description:** Encompasses the characterization of petroleum reservoir rock, fluid and gas samples to increase production and improve recovery of oil and gas from our clients' reservoirs. We provide laboratory based analytical and field services to characterize properties of crude oil and petroleum products to the oil and gas industry. We also provide proprietary and joint industry studies based on these types of analysis.

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

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Results for these segments are presented below. We use the same accounting policies to prepare our segment results as are used to prepare our Consolidated Financial Statements. All interest and other non-operating income (expense) is attributable to 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 | Corporate<br>& Other <sup>1</sup> | Consolidated |
|---------------------------------------|--------------------------|---------------------------|-----------------------------------|--------------|
| Three Months Ended September 30, 2017 |                          |                           |                                   |              |
| Revenue from unaffiliated clients     | \$ 101,442               | \$ 64,805                 | \$ —                              | \$ 166,247   |
| Inter-segment revenue                 | 54                       | 87                        | (141 )                            | —            |
| Segment operating income (loss)       | 14,621                   | 12,972                    | (117 )                            | 27,476       |
| Total assets (at end of period)       | 315,346                  | 207,186                   | 60,212                            | 582,744      |
| Capital expenditures                  | 2,930                    | 1,605                     | 367                               | 4,902        |
| Depreciation and amortization         | 4,383                    | 1,190                     | 518                               | 6,091        |
| Three Months Ended September 30, 2016 |                          |                           |                                   |              |
| Revenue from unaffiliated clients     | \$ 105,427               | \$ 38,056                 | \$ —                              | \$ 143,483   |
| Inter-segment revenue                 | 533                      | 563                       | (1,096)                           | —            |
| Segment operating income (loss)       | 21,274                   | 118                       | 96                                | 21,488       |
| Total assets (at end of period)       | 322,222                  | 190,479                   | 49,437                            | 562,138      |
| Capital expenditures                  | 2,020                    | 318                       | 100                               | 2,438        |
| Depreciation and amortization         | 4,647                    | 1,429                     | 648                               | 6,724        |
| Nine Months Ended September 30, 2017  |                          |                           |                                   |              |
| Revenue from unaffiliated clients     | \$ 310,650               | \$ 177,307                | \$ —                              | \$ 487,957   |
| Inter-segment revenue                 | 275                      | 537                       | (812 )                            | —            |
| Segment operating income (loss)       | 49,231                   | 31,132                    | (301 )                            | 80,062       |
| Total assets                          | 315,346                  | 207,186                   | 60,212                            | 582,744      |
| Capital expenditures                  | 7,605                    | 5,394                     | 1,265                             | 14,264       |
| Depreciation and amortization         | 13,531                   | 3,732                     | 1,557                             | 18,820       |
| Nine Months Ended September 30, 2016  |                          |                           |                                   |              |
| Revenue from unaffiliated clients     | \$ 321,129               | \$ 124,070                | \$ —                              | \$ 445,199   |
| Inter-segment revenue                 | 1,579                    | 1,167                     | (2,746)                           | —            |
| Segment operating income (loss)       | 60,011                   | 4,615                     | 29                                | 64,655       |
| Total assets                          | 322,222                  | 190,479                   | 49,437                            | 562,138      |
| Capital expenditures                  | 6,376                    | 856                       | 508                               | 7,740        |
| Depreciation and amortization         | 13,914                   | 4,518                     | 1,890                             | 20,322       |

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

#### 14. RECENT ACCOUNTING PRONOUNCEMENTS

##### Pronouncements Adopted in 2017

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 price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. We adopted this standard on January 1, 2017. The adoption of this standard had no effect on our Consolidated Balance Sheets, Consolidated Statements of Operations and Consolidated Statements of Cash Flows.

In March 2016, the FASB issued ASU 2016-09 ("Improvements to Employee Share-Based Payment Accounting") to simplify the accounting for share-based payment transactions, including accounting for forfeitures, excess tax benefit/expense, and tax withholding requirements. Under this new guidance, (1) companies have the option to estimate how many shares in a grant will be forfeited or to elect to recognize forfeitures as they occur; (2) all excess tax benefit and expense is recognized as income tax benefit or expense in the income statement as a discrete item to the quarter, and the accumulated benefits in additional paid-in

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capital ("APIC") are eliminated; and (3) companies are able to withhold share amounts up to the statutory maximum and the award will still be classified as equity. We adopted this standard on January 1, 2017 and have elected to recognize forfeitures as they occur. This resulted in a reclassification between retained earnings and additional paid-in-capital of \$84 thousand for the estimated forfeitures on unvested shares as of January 1, 2017. The adoption of this standard will result in periodic adjustments in the recognition of stock compensation expense associated with forfeitures in the period in which they occur. In addition to the income statement treatment of including the excess tax benefit/expense as a discrete income tax item each quarter, this has been removed from the Cash from financing activities section of the Statement of Cash Flows.

#### Pronouncements Not Yet Effective

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). We are currently analyzing the standard's impact on our revenues by looking at all of our revenue streams to determine the impact on our Consolidated Balance Sheets, Consolidated Statements of Operations and Consolidated Statements of Cash Flows. At this point, we do not anticipate any material changes to our revenue recognition policies and procedures nor to our financial statements, but extensive additional disclosures will be required. Upon adoption we expect to utilize the modified retrospective approach, which requires a cumulative adjustment to retained earnings and no adjustments to prior periods.

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 anticipate the adoption of this standard will have a material impact on our Consolidated Balance Sheets, increasing both asset balances and liability balances; however, there should not be a material impact to our Consolidated Statement of Operations.

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.

## 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, 2017 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, 2016 (the "2016 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 and production enhancement 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 4,600 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.

Core Lab's continuing efforts to streamline its business has led to a simplification of its reporting structure and as of January 1, 2017, the Company presents its operating results in two reporting segments: Reservoir Description and Production Enhancement. 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 to increase production and improve recovery of oil and gas from our clients' reservoirs. We provide laboratory based analytical and field services to characterize properties of crude oil and petroleum products to the oil and gas industry. We also provide proprietary and joint industry studies based on these types of analysis.

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

### 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 2016 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").

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## 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.

We expect fourth quarter 2017 North American completion activity levels to continue expanding although at a lower rate than it did for the first nine months of 2017. We are encouraged by the increasing focus of our major clients regarding capital management, return on invested capital "ROIC" and returning capital back to their shareholders, as opposed to just production growth. The companies adopting these metrics tend to be the more technologically sophisticated operators and form the foundation of Core's worldwide client base. We expect to benefit from our clients' shift in focus from strictly production growth to employing higher technological solutions in their efforts to maximize economic production growth and EURs, as we believe our clients are willing to spend money on technologies which also improve their ROIC and cash flow.

The volatility and significant reduction in the average price of crude oil during 2015 and 2016 resulted in a significant decrease in the activities associated with both the exploration and production of oil during 2015 and throughout most of 2016. Although the average price of oil and gas continued to decrease in 2016, prices showed some signs of improvement in the second half of the year and remained more stable year-to-date 2017.

In the U.S., the land-based rig count decreased 39% during the first half of 2016, which greatly impacted both services and product sales to this market. The third quarter of 2016 marked the beginning of a recovery in onshore U.S. drilling activity that continued year-to-date 2017. According to Baker Hughes, the U.S. land-based rig count at the September 30, 2017 was 44% higher than the beginning of the year. We believe this increase is in response to the improved pricing of crude oil as the average price of crude oil for the nine months ended September 30, 2017 was approximately \$50.50 per barrel while the average price of crude oil for same period in 2016 was approximately \$41.50 per barrel. We expect fourth quarter 2017 North American completion activity levels to continue to expand although at a lower rate than the first six months of 2017.

International and offshore activities associated with the exploration for and production of oil and natural gas also decreased during 2016, although not as significantly as the U.S. land-based activities. Our clients' activities relating to capital projects in the international and deepwater markets remained depressed throughout 2016 as well as the first three quarters of 2017. Internationally, a number of Final Investment Decisions ("FIDs") have been announced during the third quarter by oil and gas companies; however, activities for Core Lab relating to those FIDs are not expected to materially increase in 2017 as the operators are currently developing their project plans and should begin to implement those plans early in 2018. Further, the international rig count remains flat due to limited capital projects underway by international operators. However, operators continue to spend from their operating budgets to maximize recovery from their existing producing fields. We expect fourth quarter 2017 international activity levels to remain stable or improve slightly from third quarter levels with most ongoing projects to be funded largely from operating budgets.

## Results of Operations

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

|   | Three Months Ended September 30, |       | Change    |       |         |       |
|---|----------------------------------|-------|-----------|-------|---------|-------|
|   | 2017                             | 2016  | \$        | %     |         |       |
| <b>REVENUE:</b>   |                                  |       |           |       |         |       |
| Services  | \$117,550                        | 71 %  | \$114,137 | 80 %  | \$3,413 | 3 %   |
| Product sales   | 48,697                           | 29 %  | 29,346    | 20 %  | 19,351  | 66 %  |
| Total revenue   | 166,247                          | 100 % | 143,483   | 100 % | 22,764  | 16 %  |
| <b>OPERATING EXPENSES:</b>  |                                  |       |           |       |         |       |
| Cost of services, exclusive of depreciation expense shown below*      | 83,807                           | 71 %  | 80,419    | 70 %  | 3,388   | 4 %   |
| Cost of product sales, exclusive of depreciation expense shown below* | 37,083                           | 76 %  | 26,734    | 91 %  | 10,349  | 39 %  |
| Total cost of services and product sales                              | 120,890                          | 73 %  | 107,153   | 75 %  | 13,737  | 13 %  |
| General and administrative expense                                    | 11,887                           | 7 %   | 8,406     | 6 %   | 3,481   | 41 %  |
| Depreciation and amortization   | 6,091                            | 4 %   | 6,724     | 5 %   | (633 )  | (9 )% |
| Other (income) expense, net   | (97 )                            | — %   | (288 )    | — %   | 191     | NM    |
| Operating income  | 27,476                           | 17 %  | 21,488    | 15 %  | 5,988   | 28 %  |
| Interest expense  | 2,707                            | 2 %   | 2,569     | 2 %   | 138     | 5 %   |
| Income before income tax expense                                      | 24,769                           | 15 %  | 18,919    | 13 %  | 5,850   | 31 %  |
| Income tax expense  | 3,716                            | 2 %   | 2,081     | 1 %   | 1,635   | 79 %  |
| Net income  | 21,053                           | 13 %  | 16,838    | 12 %  | 4,215   | 25 %  |
| Net income (loss) attributable to non-controlling interest            | (33 )                            | — %   | 108       | — %   | (141 )  | NM    |
| Net income attributable to Core Laboratories N.V.                     | \$21,086                         | 13 %  | \$16,730  | 12 %  | \$4,356 | 26 %  |

"NM" means not meaningful

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

|   | Three Months Ended |      |              |      | Change    |       |
|---|--------------------|------|--------------|------|-----------|-------|
|   | Sep 30, 2017       |      | Jun 30, 2017 |      | \$        | %     |
| <b>REVENUE:</b>   |                    |      |              |      |           |       |
| Services  | \$117,550          | 71 % | \$117,239    | 72 % | \$311     | — %   |
| Product sales   | 48,697             | 29 % | 46,664       | 28 % | 2,033     | 4 %   |
| Total revenue   | 166,247            | 100% | 163,903      | 100% | 2,344     | 1 %   |
| <b>OPERATING EXPENSES:</b>  |                    |      |              |      |           |       |
| Cost of services, exclusive of depreciation expense shown below*      | 83,807             | 71 % | 80,431       | 69 % | 3,376     | 4 %   |
| Cost of product sales, exclusive of depreciation expense shown below* | 37,083             | 76 % | 36,687       | 79 % | 396       | 1 %   |
| Total cost of services and product sales                              | 120,890            | 73 % | 117,118      | 71 % | 3,772     | 3 %   |
| General and administrative expense                                    | 11,887             | 7 %  | 11,100       | 7 %  | 787       | 7 %   |
| Depreciation and amortization   | 6,091              | 4 %  | 6,302        | 4 %  | (211 )    | (3 )% |
| Other (income) expense, net   | (97 )              | — %  | (24 )        | — %  | (73 )     | NM    |
| Operating income  | 27,476             | 17 % | 29,407       | 18 % | (1,931 )  | (7 )% |
| Interest expense  | 2,707              | 2 %  | 2,692        | 2 %  | 15        | 1 %   |
| Income before income tax expense                                      | 24,769             | 15 % | 26,715       | 16 % | (1,946 )  | (7 )% |
| Income tax expense  | 3,716              | 2 %  | 4,006        | 2 %  | (290 )    | (7 )% |
| Net income  | 21,053             | 13 % | 22,709       | 14 % | (1,656 )  | (7 )% |
| Net income (loss) attributable to non-controlling interest            | (33 )              | — %  | 19           | — %  | (52 )     | NM    |
| Net income attributable to Core Laboratories N.V.                     | \$21,086           | 13 % | \$22,690     | 14 % | \$(1,604) | (7 )% |

"NM" means not meaningful

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



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|   | Nine Months Ended September 30, 2017 |      | 2016      |       | Change   |       |   |
|---|--------------------------------------|------|-----------|-------|----------|-------|---|
|   | \$                                   | %    | \$        | %     | \$       | %     | % |
| <b>REVENUE:</b>   |                                      |      |           |       |          |       |   |
| Services  | \$355,725                            | 73 % | \$355,079 | 80 %  | \$646    | —     | % |
| Product sales   | 132,232                              | 27 % | 90,120    | 20 %  | 42,112   | 47    | % |
| Total revenue   | 487,957                              | 100% | 445,199   | 100 % | 42,758   | 10    | % |
| <b>OPERATING EXPENSES:</b>  |                                      |      |           |       |          |       |   |
| Cost of services, exclusive of depreciation expense shown below*      | 247,839                              | 70 % | 249,062   | 70 %  | (1,223 ) | —     | % |
| Cost of product sales, exclusive of depreciation expense shown below* | 104,741                              | 79 % | 80,904    | 90 %  | 23,837   | 29    | % |
| Total cost of services and product sales                              | 352,580                              | 72 % | 329,966   | 74 %  | 22,614   | 7     | % |
| General and administrative expense                                    | 35,743                               | 7 %  | 30,595    | 7 %   | 5,148    | 17    | % |
| Depreciation and amortization   | 18,820                               | 4 %  | 20,322    | 4 %   | (1,502 ) | (7 )  | % |
| Other (income), net   | 752                                  | — %  | (339 )    | — %   | 1,091    | NM    |   |
| Operating income  | 80,062                               | 16 % | 64,655    | 15 %  | 15,407   | 24    | % |
| Interest expense  | 8,017                                | 2 %  | 9,024     | 2 %   | (1,007 ) | (11 ) | % |
| Income before income tax expense                                      | 72,045                               | 15 % | 55,631    | 12 %  | 16,414   | 30    | % |
| Income tax expense  | 10,601                               | 2 %  | 7,141     | 2 %   | 3,460    | 48    | % |
| Net income  | 61,444                               | 13 % | 48,490    | 11 %  | 12,954   | 27    | % |
| Net income (loss) attributable to non-controlling interest            | 10                                   | — %  | 54        | — %   | (44 )    | NM    |   |
| Net income attributable to Core Laboratories N.V.                     | \$61,434                             | 13 % | \$48,436  | 11 %  | \$12,998 | 27    | % |

"NM" means not meaningful

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

Operating Results for the Three Months Ended September 30, 2017 Compared to the Three Months Ended June 30, 2017 and September 30, 2016 and for the Nine Months Ended September 30, 2017 Compared to the Nine Months Ended September 30, 2016

### Services Revenue

Services revenue increased slightly to \$117.6 million for the third quarter of 2017 from \$117.2 million for the second quarter of 2017 and increased 3% from \$114.1 million in the third quarter of 2016. The year over year increase was driven by the increase in U.S. land-based activity. Hurricanes Harvey, Irma and Maria negatively impacted revenue in the third quarter 2017. For the nine months ended September 30, 2017, services revenue increased slightly to \$355.7 million as compared to \$355.1 million for the same period of 2016. We continue to focus on large-scale core analyses and reservoir fluids characterization studies in the U.S. Permian basin, offshore West and East Africa, offshore South America, and the Middle East, including Kuwait and the United Arab Emirates. Additionally, we have client interest in our existing multi-client reservoir studies such as the Tight Oil Reservoirs of the Midland Basin study and the Deepwater Gulf of Mexico - Phase II as well as several major enhanced oil recovery ("EOR") projects for unconventional reservoirs such as the newly initiated Unconventional EOR in the Eagle Ford Formation and similar EOR joint industry projects for tight-oil developments in other basins.

### Product Sales Revenue

Revenue associated with product sales increased 4% to \$48.7 million for the third quarter of 2017 from \$46.7 million for the second quarter of 2017 and increased 66% from \$29.3 million in the third quarter of 2016. Our product sales revenue is primarily driven by completions of wells in the North American market and, more specifically, the activity associated with the completion of each stage in a wellbore. We continue to benefit from increasing completion activity

in the U.S. as revenue from U.S. land-based completions increased 89% on a year-over-year quarterly basis. This outpaced the 51% increase in the U.S. Energy Information Administration ("EIA") reported U.S. well completions for the same periods, indicating increased market penetration of our newly introduced HERO® PerFRAC technology. For the nine months ended September 30, 2017, product sales revenue increased 47% to \$132.2 million as compared to \$90.1 million for the same period of 2016.

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### Cost of Services, excluding depreciation

Cost of services expressed as a percentage of services revenue was up slightly at 71% for the three months ended September 30, 2017, compared to 69% and 70% for the three months ended June 30, 2017 and September 30, 2016, respectively. This increase was due to the effects of Hurricanes Harvey, Irma and Maria as we and our clients suffered interruptions of business due to flooding, power outages and wind damage resulting in a decrease in business activity in the affected areas. Cost of services as a percentage of services revenue remained consistent at 70% for each of the nine months ended September 30, 2017 and September 30, 2016.

### Cost of Product Sales, excluding depreciation

Cost of product sales expressed as a percentage of product sales revenue improved to 76% for the three months ended September 30, 2017, compared to 79% and 91% for the three months ended June 30, 2017 and September 30, 2016, respectively. Cost of product sales expressed as a percentage of product sales revenue improved to 79% for the nine months ended September 30, 2017, compared to 90% for the same period in 2016. The decrease in cost of product sales as a percentage of revenue was primarily due to the improved absorption of our fixed costs as a result of the increase in activity levels which drove higher revenue in the quarter.

### 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, 2017 was \$11.9 million compared to \$11.1 million and \$8.4 million for the three months ended June 30, 2017 and September 30, 2016, respectively. The increases were primarily due to higher headcount and compensation costs in the third quarter of 2017. General and administrative expense for the nine months ended September 30, 2017 was \$35.7 million compared to \$30.6 million for the same period in 2016, primarily due to higher compensation costs in 2017.

### Depreciation and Amortization Expense

Depreciation and amortization expense for the three months ended September 30, 2017 was \$6.1 million compared to \$6.3 million and \$6.7 million for the three months ended June 30, 2017 and September 30, 2016, respectively. Depreciation and amortization expense for the nine months ended September 30, 2017 was \$18.8 million compared to \$20.3 million for the same period in 2016. Reduced capital expenditures during 2016 in response to the industry downturn led to lower depreciation expense in 2017.

### Other (Income) Expense, Net

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

|   | Three Months Ended |        | Nine Months Ended |         |
|---|--------------------|--------|-------------------|---------|
|   | September 30,      |        | September 30,     |         |
|   | 2017               | 2016   | 2017              | 2016    |
| Sale of assets                            | \$(12)             | \$(56) | \$(314)           | \$(544) |
| Results of non-consolidated subsidiaries  | (112)              | (126)  | (287)             | (450)   |
| Foreign exchange                          | 105                | 220    | 559               | 1,432   |
| Rents and royalties                       | (99)               | (105)  | (329)             | (304)   |
| Severance, compensation and other charges | —                  | —      | 1,145             | —       |

|                                   |        |         |       |         |
|-----------------------------------|--------|---------|-------|---------|
| Other, net                        | 21     | (221 )  | (22 ) | (473 )  |
| Total other (income) expense, net | \$(97) | \$(288) | \$752 | \$(339) |

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

|                        | Three Months Ended |                    | Nine Months Ended  |                    |
|------------------------|--------------------|--------------------|--------------------|--------------------|
|                        | September 30, 2017 | September 30, 2016 | September 30, 2017 | September 30, 2016 |
| British Pound          | (27 )              | 39                 | (82 )              | 514                |
| Canadian Dollar        | (153 )             | (6 )               | (230 )             | (54 )              |
| Euro                   | 431                | 45                 | 1,266              | 215                |
| Russian Ruble          | (26 )              | 21                 | (151 )             | (73 )              |
| Other currencies, net  | (120 )             | 121                | (244 )             | 830                |
| Total (gain) loss, net | \$105              | \$220              | \$559              | \$1,432            |

### Interest Expense

Interest expense for the three months ended September 30, 2017 was \$2.7 million compared to \$2.7 million and \$2.6 million for the three months ended June 30, 2017 and September 30, 2016, respectively. Interest expense for the nine months ended September 30, 2017 was \$8.0 million compared to \$9.0 million for the same period in 2016. Interest expense for the nine months ended September 30, 2017 was lower compared to the same period in 2016 primarily due to the reduction of our outstanding debt during the second quarter of 2016.

### Income Tax Expense

The effective tax rates for the three months ended September 30, 2017 and 2016 were 15.0% and 11.0%, respectively. The effective tax rates for the nine months ended September 30, 2017 and 2016 were 14.7% and 12.8%, respectively. Income tax expense of \$3.7 million in the third quarter of 2017 increased by \$1.6 million compared to \$2.1 million in the same period in 2016, due to the result of several items discrete to each quarter, along with changes in activity levels in jurisdictions with differing tax rates.

### Segment Analysis

Core Laboratories has taken steps to streamline its business by realigning its reporting structure into two reporting segments: Reservoir Description and Production Enhancement. 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. The following tables summarize our results by segment (in thousands):

|                          | Three Months Ended September 30, |           | 2017 / 2016 |          | Three Months Ended June 30, |           | Q3 / Q2  |  |
|--------------------------|----------------------------------|-----------|-------------|----------|-----------------------------|-----------|----------|--|
|                          | 2017                             | 2016      | \$ Change   | % Change | 2017                        | \$ Change | % Change |  |
| Revenue:                 |                                  |           |             |          |                             |           |          |  |
| Reservoir Description    | \$101,442                        | \$105,427 | \$(3,985)   | (4)%     | \$104,313                   | \$(2,871) | (3)%     |  |
| Production Enhancement   | 64,805                           | 38,056    | 26,749      | 70%      | 59,590                      | 5,215     | 9%       |  |
| Consolidated             | \$166,247                        | \$143,483 | \$22,764    | 16%      | \$163,903                   | \$2,344   | 1%       |  |
| Operating income (loss): |                                  |           |             |          |                             |           |          |  |
| Reservoir Description    | \$14,621                         | \$21,274  | \$(6,653)   | (31)%    | \$18,670                    | \$(4,049) | (22)%    |  |
| Production Enhancement   | 12,972                           | 118       | 12,854      | 10,893%  | 10,765                      | 2,207     | 21%      |  |

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|                                  |          |          |         |      |   |          |           |    |     |   |    |
|----------------------------------|----------|----------|---------|------|---|----------|-----------|----|-----|---|----|
| Corporate and Other <sup>1</sup> | (117     | )        | 96      | (213 | ) | NM       | (28       | )  | (89 | ) | NM |
| Consolidated                     | \$27,476 | \$21,488 | \$5,988 | 28   | % | \$29,407 | \$(1,931) | (7 | )   | % |    |

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

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|                                  | Nine Months Ended<br>September 30, |           |            |             |
|----------------------------------|------------------------------------|-----------|------------|-------------|
|                                  | 2017                               | 2016      | \$ Change  | %<br>Change |
| Revenue:                         | (Unaudited)                        |           |            |             |
| Reservoir Description            | \$310,650                          | \$321,129 | \$(10,479) | (3)%        |
| Production Enhancement           | 177,307                            | 124,070   | 53,237     | 43%         |
| Consolidated                     | \$487,957                          | \$445,199 | \$42,758   | 10%         |
| Operating income (loss):         |                                    |           |            |             |
| Reservoir Description            | \$49,231                           | \$60,011  | \$(10,780) | (18)%       |
| Production Enhancement           | 31,132                             | 4,615     | 26,517     | 575%        |
| Corporate and Other <sup>1</sup> | (301)                              | 29        | (330)      | NM          |
| Consolidated                     | \$80,062                           | \$64,655  | \$15,407   | 24%         |

(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 decreased 3% to \$101.4 million in the third quarter of 2017, compared to \$104.3 million in the second quarter of 2017 and 4% lower than \$105.4 million in the third quarter of 2016. For the nine months ended September 30, 2017, revenue decreased \$10.5 million to \$310.7 million, compared to the same period in 2016. This segment emphasizes technologically demanding services on internationally-based development and production-related crude oil projects over more cyclical exploration-related projects. We continue to focus on large-scale core analyses and reservoir fluids characterization studies in the U.S. Permian basin, offshore West and East Africa, offshore South America and in the Middle East, including Kuwait and the United Arab Emirates. Crude oil characterization, distillation, and fractionation studies increased during 2017 as oil company clients continued to investigate ways to maximize yields through the refining process; however Hurricanes Harvey, Irma and Maria caused business interruptions for us and our clients during August and September which led to the decreases in revenue in the third quarter of 2017. We are still focused on our joint industry projects, including the Utica, Duvernay, Montney, Wilrich, Mississippi Lime and Central Atlantic studies and the Marcellus, Niobrara, Wolfcamp, Eaglebine and Eagle Ford plays. Additionally, we have client interest in our existing multi-client reservoir studies such as the Tight Oil Reservoirs of the Midland Basin study and the Deepwater Gulf of Mexico - Phase II as well as several major EOR projects for unconventional reservoirs such as the newly initiated Unconventional EOR in the Eagle Ford Formation and similar EOR joint industry projects for tight-oil developments in other basins.

Operating income was \$14.6 million in the third quarter of 2017, a decrease of 22% compared to \$18.7 million in the second quarter of 2017 and a decrease of 31% compared to \$21.3 million in the third quarter of 2016. The sequential decrease was primarily due to the business interruptions we and our clients experienced following Hurricanes Harvey, Irma and Maria during the third quarter of 2017. Operating income for the nine months ended September 30, 2017 decreased to \$49.2 million compared to \$60.0 million for the same period in 2016 primarily due to lower revenue.

Operating margins were over 14% in the third quarter of 2017, a decrease from 18% in the second quarter of 2017 and a decrease from 20% in the third quarter of 2016. For the nine months ended September 30, 2017, operating margins were 16% compared to 19% for the same period in 2016. The lower margin is primarily due to the business interruptions following Hurricanes Harvey, Irma and Maria during the third quarter of 2017.

#### Production Enhancement

Revenue from the Production Enhancement segment, largely focused on North American unconventional reservoirs and complex completions and stimulations, was \$64.8 million in the third quarter of 2017, an increase of 9% from \$59.6 million in the second quarter of 2017 and an increase of 70% from \$38.1 million in the third quarter of 2016. The increased revenue was tied to the increase in the North America completions during 2017, including the third quarter of 2017, as compared to the level of completions in the second quarter of 2017 and the third quarter of 2016. Revenue increased 43% to \$177.3 million for the nine months ended September 30, 2017 compared to \$124.1 million for the same period in 2016 as the average number of EIA reported U.S. land-based completions for the first nine months of 2017 increased 38% from the same period in 2016.

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Operating income in the third quarter of 2017 was \$13.0 million, an increase from \$10.8 million in the second quarter of 2017 and an increase from \$0.1 million in the third quarter of 2016. The increased profitability related to higher revenue and the benefits of our cost reduction program that was implemented in prior periods. Operating income for the nine months ended September 30, 2017 increased to \$31.1 million compared to \$4.6 million for the same period in 2016 primarily due to increased revenue driven by the increase in our clients' U.S. land-based activity.

Operating margins were 20% in the third quarter of 2017, up from 18% in the second quarter of 2017 and 0.3% in the third quarter of 2016 as we benefited from the cost reduction program and realized improved absorption rates of our fixed costs across higher revenue. Operating margins improved to 18% for the nine months ended September 30, 2017 compared to 4% for the same period in 2016.

## 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, our dividend and share repurchase program. 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, 2017, \$11.7 million of our \$13.8 million of cash was held by our foreign subsidiaries.

### Cash Flows

The following table summarizes cash flows (in thousands):

|   | Nine Months Ended |            | 2017 / |
|---|-------------------|------------|--------|
|   | September 30,     |            | 2016   |
|   | 2017              | 2016       | %      |
|   |                   |            | Change |
| Cash flows provided by/(used in):       |                   |            |        |
| Operating activities                    | \$78,355          | \$108,684  | (28 )% |
| Investing activities                    | (15,254 )         | (10,497 )  | 45 %   |
| Financing activities                    | (64,085 )         | (103,462 ) | (38 )% |
| Net change in cash and cash equivalents | \$(984 )          | \$(5,275 ) | (81 )% |

Cash flows provided by operating activities for the first nine months of 2017 compared to the same period in 2016 decreased primarily due to changes in working capital.

The increase in cash flows used in investing activities during the first nine months of 2017 compared to the same period in 2016 was primarily attributable to increased capital expenditures in 2017.

Cash flows used in financing activities decreased for the first nine months of 2017 compared to the same period in 2016. During the first nine months of 2017, we increased our debt by \$17.0 million, as compared to decreasing it by \$227.2 million during the first nine months of 2016. In the first nine months of 2016, we issued 1,696,250 shares of our common stock with net proceeds of \$197.2 million after deducting underwriting discounts and offering expenses. In the first nine months of 2017, we repurchased 77,832 shares of our common stock for an aggregate purchase price of \$8.2 million compared to the repurchase of 34,959 shares for an aggregate purchase price of \$3.9 million during the

same period in 2016.

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

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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 (in thousands):

|   | Nine Months<br>Ended September<br>30, |           | 2017 /<br>2016 |
|---|---------------------------------------|-----------|----------------|
|   | 2017                                  | 2016      | %<br>Change    |
| Free cash flow calculation:               |                                       |           |                |
| Net cash provided by operating activities | \$78,355                              | \$108,684 | (28 )%         |
| Less: cash paid for capital expenditures  | 14,264                                | 7,740     | 84 %           |
| Free cash flow                            | \$64,091                              | \$100,944 | (37 )%         |

The decrease in free cash flow for the first nine months of 2017 compared to the same period in 2016 was primarily due to increased investment in working capital and higher capital expenditures in support of the increase in our operations during 2017.

#### 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 \$17.5 million at September 30, 2017, resulting in an available borrowing capacity under the Credit Facility of \$297.5 million. In addition to those items under the Credit Facility, we had \$14.6 million of outstanding letters of credit and performance guarantees and bonds from other sources as of September 30, 2017.

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 11 - 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

In a letter dated October 4, 2017, the Company was informed by the U.S. Department of Justice, that in regard to the investigation by the Department of Justice, Criminal Division, Fraud Section (the “Department”) into the Company concerning possible violations of the Foreign Corrupt Practices Act related to the Company’s interactions with Unaoil (which we first disclosed in our Q2 2016 quarterly report on Form 10-Q), the Department has closed its inquiry without taking any action against the Company. Specifically, the Department stated that “based upon the information known to the Department at this

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time, it has closed its inquiry into the Company in connection with this matter. The Department appreciates the Company's cooperation during the investigation".

### 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 2016 Annual Report.

### Item 4. Controls and Procedures

A complete discussion of our controls and procedures is included in our 2016 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, 2017 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, 2017, 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 2016 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:

| 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 (2)(3) |
|----------------------------|----------------------------------|------------------------------|--|---|
| July 1 - 31, 2017 (1)      | 4,433                            | \$101.27                     | —  | 3,821,557   |
| August 1 - 31, 2017 (1)    | 373                              | 100.62                       | —  | 3,822,409   |
| September 1 - 30, 2017 (1) | 3,598                            | 89.46                        | —  | 3,830,657   |
| Total                      | 8,404                            | \$96.19                      | —  |   |

(1) All shares repurchased during the quarter 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) 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.

(3) We distributed 27,453 treasury shares upon vesting of stock-based awards during the three months ended September 30, 2017.



Item 6. Exhibits

| Exhibit No. | Exhibit Title   | Incorporated by reference from the following documents                     |
|-------------|---|--|
| 3.1         | - <u>Articles of Association of Core Laboratories N.V., as amended in 2012 (including English translation)</u>  | Exhibit 3.1 filed on February 19, 2013 with 2012 10-K (File No. 001-14273) |
| 31.1        | - <u>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</u> | Filed herewith   |
| 31.2        | - <u>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</u> | Filed herewith   |
| 32.1        | - <u>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</u>                                | Furnished herewith   |
| 32.2        | - <u>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</u>                                | Furnished herewith   |
| 101.INS     | - <u>XBRL Instance Document</u>   | Filed herewith   |
| 101.SCH     | - <u>XBRL Schema Document</u>   | Filed herewith   |
| 101.CAL     | - <u>XBRL Calculation Linkbase Document</u>   | Filed herewith   |
| 101.LAB     | - <u>XBRL Label Linkbase Document</u>   | Filed herewith   |
| 101.PRE     | - <u>XBRL Presentation Linkbase Document</u>  | Filed herewith   |
| 101.DEF     | - <u>XBRL Definition Linkbase Document</u>  | 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 24, 2017 By: /s/ Richard L. Bergmark  
Richard L. Bergmark  
Chief Financial Officer  
(Duly Authorized Officer and  
Principal Financial Officer)

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