CORE LABORATORIES N V
Form 10-Q
October 25, 2010

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from ________________ to ______________

Commission File Number: 001-14273

CORE LABORATORIES N.V.
(Exact name of registrant as specified in its charter)

The Netherlands (State of other jurisdiction of incorporation or organization)	Not Applicable (I.R.S. Employer Identification No.)
Herengracht 424 1017 BZ Amsterdam The Netherlands (Address of principal executive offices)	Not Applicable (Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No ý

The number of common shares of the registrant, par value EUR 0.02 per share, outstanding at October 22, 2010 was 44,924,005.

CORE LABORATORIES N.V.
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2010

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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, 2010 (Unaudited)	December 31, 2009
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 167,953	$ 181,045
Accounts receivable, net of allowance for doubtful accounts of $3,489 and $3,202 at 2010 and 2009, respectively	141,113	133,758
Inventories, net	30,537	32,184
Prepaid expenses and other current assets	24,013	43,550
TOTAL CURRENT ASSETS	363,616	390,537
PROPERTY, PLANT AND EQUIPMENT, net	101,957	98,784
INTANGIBLES, net	8,911	6,520
GOODWILL	154,217	148,600
OTHER ASSETS	16,328	13,725
TOTAL ASSETS	$ 645,029	$ 658,166
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 38,509	$ 33,009
Accrued payroll and related costs	29,186	24,368
Taxes other than payroll and income	6,838	8,183
Unearned revenue	14,923	16,528
Income tax payable	24,917	15,433
Short-term debt – Senior Exchangeable Notes	198,193	-
Other accrued expenses	10,839	8,887
TOTAL CURRENT LIABILITIES	323,405	106,408
LONG-TERM DEBT – SENIOR EXCHANGEABLE NOTES	-	209,112
DEFERRED COMPENSATION	20,055	16,866
DEFERRED TAX LIABILITIES	8,026	7,692
OTHER LONG-TERM LIABILITIES	29,454	36,330
COMMITMENTS AND CONTINGENCIES	-	-
EQUITY COMPONENT OF SHORT-TERM DEBT – SENIOR EXCHANGEABLE NOTES	16,099	-
EQUITY:		
Preference shares, EUR 0.02 par value; 6,000,000 shares authorized, none issued or outstanding	-	-

Common shares, EUR 0.02 par value; 200,000,000 shares authorized, 49,739,912 issued and 44,924,005 outstanding at 2010 and 51,039,912 issued and 45,973,408 outstanding at 2009		1,396		1,430
Additional paid-in capital		-		61,719
Retained earnings		519,052		469,454
Accumulated other comprehensive (loss)		(6,279)		(6,536)
Treasury shares (at cost), 4,815,907 at 2010 and 5,066,504 at 2009		(268,980)		(246,699)
Total Core Laboratories N.V. shareholders' equity		245,189		279,368
Non-controlling interest		2,801		2,390
TOTAL EQUITY		247,990		281,758
TOTAL LIABILITIES AND EQUITY	$	645,029	$	658,166

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 September 30, 2010	2009
	(Unaudited)	
REVENUE:		
Services	$ 151,671	$ 133,819
Product sales	47,550	33,983
	199,221	167,802
OPERATING EXPENSES:		
Cost of services, exclusive of depreciation expense shown below	92,914	85,792
Cost of product sales, exclusive of depreciation expense shown below	32,858	26,383
General and administrative expenses	8,416	6,637
Depreciation	5,496	5,840
Amortization	318	183
Other expense (income), net	(998)	(1,232)
OPERATING INCOME	60,217	44,199
Loss on exchange of Senior Exchangeable Notes	675	-
Interest expense	4,015	3,895
Income before income tax expense	55,527	40,304
Income tax expense	16,764	9,189
Net income	38,763	31,115
Net income attributable to non-controlling interest	209	127
Net income attributable to Core Laboratories N.V.	$ 38,554	$ 30,988
EARNINGS PER SHARE INFORMATION:		
Basic earnings per share attributable to Core Laboratories N.V.	$ 0.86	$ 0.67
Diluted earnings per share attributable to Core Laboratories N.V.	$ 0.79	$ 0.67
Cash dividends per share	$ 0.71	$ 0.43
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	44,736	45,939
Diluted	48,955	46,499

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 September 30, 2010	Nine Months Ended September 30, 2009
	(Unaudited)	
REVENUE:		
Services	$ 448,123	$ 410,182
Product sales	138,337	103,758
	586,460	513,940
OPERATING EXPENSES:		
Cost of services, exclusive of depreciation expense shown below	284,682	258,489
Cost of product sales, exclusive of depreciation expense shown below	95,595	78,715
General and administrative expenses	24,007	22,595
Depreciation	16,345	17,091
Amortization	989	546
Other expense (income), net	(508)	(6,002)
OPERATING INCOME	165,350	142,506
Loss on exchange of Senior Exchangeable Notes	675	-
Interest expense	12,188	11,535
Income before income tax expense	152,487	130,971
Income tax expense	47,076	40,653
Net income	105,411	90,318
Net income attributable to non-controlling interest	436	331
Net income attributable to Core Laboratories N.V.	$ 104,975	$ 89,987
EARNINGS PER SHARE INFORMATION:		
Basic earnings per share attributable to Core Laboratories N.V.	$ 2.35	$ 1.96
Diluted earnings per share attributable to Core Laboratories N.V.	$ 2.19	$ 1.94
Cash dividends per share	$ 0.83	$ 0.53
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	44,741	45,930
Diluted	47,923	46,422

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

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

	Nine Months Ended September 30, 2010	2009
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 105,411	$ 90,318
Adjustments to reconcile net income to net cash provided by operating activities:		
Net provision for doubtful accounts	787	1,487
Provisions for inventory obsolescence	513	362
Equity in earnings of affiliates	(342)	(103)
Stock-based compensation	6,016	4,261
Depreciation and amortization	17,334	17,637
Non-cash interest expense	11,590	10,917
Gain on sale of assets	(80)	(312)
Loss on exchange of Senior Exchangeable Notes	675	-
Realization of pension obligation	257	176
Increase in value of life insurance policies	(575)	(1,640)
Deferred income taxes	(5,315)	3,853
Changes in assets and liabilities:		
Accounts receivable	(8,142)	24,825
Inventories	1,134	159
Prepaid expenses and other current assets	25,185	(1,434)
Other assets	(436)	(246)
Accounts payable	5,500	(13,607)
Accrued expenses	13,304	2,409
Other long-term liabilities	(3,687)	5,852
Net cash provided by operating activities	169,129	144,914
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(19,661)	(9,994)
Patents and other intangibles	(180)	(191)
Business Acquisitions	(9,000)	-
Non-controlling interest - contributions	156	-
Proceeds from sale of assets	406	522
Premiums on life insurance	(1,357)	(1,183)
Net cash used in investing activities	(29,636)	(10,846)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt borrowings	(24,366)	-
Stock options exercised	336	399
Excess tax benefits from stock-based compensation	798	127
Non-controlling interest - dividends	(181)	(246)
Dividends paid	(37,095)	(24,117)
Repurchase of common shares	(92,077)	(9,144)
Net cash used in financing activities	(152,585)	(32,981)

NET CHANGE IN CASH AND CASH EQUIVALENTS		(13,092)		101,087
CASH AND CASH EQUIVALENTS, beginning of period		181,045		36,138
CASH AND CASH EQUIVALENTS, end of period	$	167,953	$	137,225
Non-cash investing and financing activities:				
Financed capital expenditures	$	-	$	1,810

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 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, 2009.

Core Laboratories N.V. uses the equity method of accounting for investments in which it has less than a majority interest and over which it does not exercise control. Non-controlling interest has 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 the periods presented have been included in these financial statements. Furthermore, the operating results presented for the three and nine months ended September 30, 2010 may not necessarily be indicative of the results that may be expected for the year ended December 31, 2010.

Core Laboratories N.V.'s balance sheet information for the year ended December 31, 2009 was derived from the 2009 audited consolidated financial statements but does not include all disclosures in accordance with U.S. GAAP.

At our annual meeting on June 10, 2010, the shareholders approved an amendment to increase the authorized shares of our common stock from 100 million to 200 million and to increase the authorized shares of our preference stock from 3 million to 6 million. In addition, shareholders approved the two-for-one stock split authorized by the Supervisory Board and thereby reduced the par value of each share from EUR 0.04 to EUR 0.02. As a result of the stock split, shareholders of record on June 30, 2010 received an additional share of common stock for each common share held. The additional shares were distributed on July 8, 2010. All references in the consolidated financial statements and the accompanying notes to common shares, share prices, per share amounts and stock plans have been restated retroactively for the stock split.

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 for the three month and nine month periods ended September 30, 2010.

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

2. INVENTORIES

Inventories consist of the following (in thousands):

	September 30, 2010 (Unaudited)	December 31, 2009
Finished goods	$ 22,349	$ 22,161

Parts and materials		5,642		8,756
Work in progress		2,546		1,267
Total inventories, net	$	30,537	$	32,184

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

3. GOODWILL AND INTANGIBLES

We account for intangible assets with indefinite lives, including goodwill, in accordance with the applicable accounting guidance, which requires us to evaluate these assets for impairment annually, or more frequently if an indication of impairment has occurred. Based upon our most recent evaluation, we determined that goodwill is not impaired. We amortize intangible assets with a defined term on a straight-line basis over their respective useful lives.

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In January 2010, we acquired fracture diagnostics assets for $9.0 million in cash. The acquisition was recorded in the Production Enhancement business segment and resulted in an increase of $5.6 million in goodwill and an increase of $3.2 million in intangible assets. The intangible assets will be amortized over a period of 36 to 60 months. The acquisition did not have a material impact to the Production Enhancement business segment or consolidated operating results for the nine months ended September 30, 2010. The remaining composition of goodwill by business segment at September 30, 2010 was consistent with the amounts disclosed in our Annual Report on Form 10-K as of December 31, 2009.

4. DEBT AND CAPITAL LEASE OBLIGATIONS

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

	September 30, 2010 (Unaudited)	December 31, 2009
Senior exchangeable notes	$ 214,292	$ 238,658
Discount on senior exchangeable notes	(16,099)	(29,546)
Net senior exchangeable notes	$ 198,193	$ 209,112

In 2006, Core Laboratories LP, a wholly owned subsidiary of Core Laboratories N.V., issued $300 million aggregate principal amount of Senior Exchangeable Notes (the "Notes") which are fully and unconditionally guaranteed by Core Laboratories N.V. and mature on October 31, 2011. The Notes bear interest at a rate of 0.25% per year paid on a semi-annual basis.

With the additional amortization of the discount on the Notes, the effective interest rate is 7.48% for the nine-month period ended September 30, 2010, which resulted in additional non-cash interest expense of $3.8 million and $3.7 million for the three months ended September 30, 2010 and 2009, respectively, and $11.5 million and $10.8 million for the nine months ended September 30, 2010 and 2009, respectively. Each Note carries a $1,000 principal amount and is exchangeable into shares of Core Laboratories N.V. common stock under certain circumstances at an exchange price of $45.78 per share, or 21.8425 shares per Note. Upon exchange, holders will receive cash for the principal amount plus any amount related to fractional shares, and any excess exchange value will be delivered in whole shares of Core Laboratories N.V. common stock at the completion of the valuation period as defined under the Notes agreement. At September 30, 2010, the Notes were trading at 189.3% of their face value which is equivalent to $191.4 million of value in excess of the aggregate principal amount. At December 31, 2009, the Notes were trading at 134% of their face value which is equivalent to $81.1 million of value in excess of the aggregate principal amount. There were 214,292 and 238,658 Notes outstanding at September 30, 2010 and December 31, 2009, respectively.

Under the terms of the Notes the early exchange option for the holders of the Notes was enabled in the third quarter of 2010, as it was in the second quarter of 2010. As a result, the Notes can be exchanged during the fourth quarter of 2010 and will remain classified as a short-term liability at September 30, 2010. In addition, the equity component of the Notes at September 30, 2010 was classified as temporary equity. This balance combined with the debt amount reflects the outstanding principcal amount of the Notes. We received 10 notices during the second and third quarters of 2010 to exchange 24,366 Notes, which were settled during the third quarter for 224,338 shares of our common stock, all of which were treasury shares, and $24.4 million in cash resulting in a loss of $0.7 million.

We received three notices during the third quarter to exchange 5,564 Notes which we will settle during the fourth quarter. Subsequent to September 30, 2010, we have received an additional notice to exchange 8,029 Notes which we will settle during the fourth quarter.

We maintain a revolving credit facility (the "Credit Facility") that allows for an aggregate borrowing capacity of $100.0 million. The Credit Facility provides an option to increase the commitment under the Credit Facility to $150.0 million, if certain conditions are met. The Credit Facility bears interest at variable rates from LIBOR plus 0.5% to a maximum of LIBOR plus 1.125%. Any outstanding balance under the Credit Facility is due in December 2010 when the Credit Facility matures. We are currently reviewing the Credit Facility and its extension. Interest payment terms are variable depending upon the specific type of borrowing under this facility. Our available borrowing capacity under the Credit Facility was reduced by outstanding letters of credit and performance guarantees and bonds arranged totaling $12.6 million at September 30, 2010 relating to certain projects in progress. Our available borrowing capacity under the Credit Facility at September 30, 2010 was $87.4 million. As of September 30, 2010, we had $17.0 million of outstanding letters of credit and performance guarantees and bonds in addition to those under the Credit Facility.

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The terms of the Credit Facility require us to meet certain financial and operational covenants. We believe that we were in compliance with all such covenants at September 30, 2010. All of our material, wholly owned subsidiaries are guarantors or co-borrowers under the Credit Facility.

5. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

We provide a noncontributory defined benefit pension plan covering substantially all of our Dutch employees (the "Dutch Plan") who were hired prior to 2007 based on years of service and final pay or career average pay, depending on when the employee began participating. Employees are immediately vested in the benefits earned. We fund the future obligations of the Dutch Plan by purchasing investment contracts from a large multi-national insurance company. The investment contracts are purchased annually and expire after five years at which time they are replaced with new contracts that are adjusted to include changes in the benefit obligation for the current year and redemption of the expired contracts. We determine the fair value of these plan assets with the assistance of an actuary using observable inputs (Level 2). We make annual premium payments to the insurance company, based on each employee's age and current salary.

The following table summarizes the components of net periodic pension cost under this plan for the three and nine months ended September 30, 2010 and 2009 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30	
	2010	2009	2010	2009
	(Unaudited)		(Unaudited)	
Service cost	$ 294	$ 278	$ 921	$ 796
Interest cost	341	356	1,069	1,019
Expected return on plan assets	(108)	(196)	(338)	(560)
Amortization of transition asset	(22)	(22)	(66)	(66)
Amortization of prior service cost	40	40	120	120
Amortization of net loss	94	61	283	183
Net periodic pension cost	$ 639	$ 517	$ 1,989	$ 1,492

During the nine months ended September 30, 2010, we contributed approximately $2.1 million, as determined by the insurance company, to fund the estimated 2010 premiums on investment contracts held by the Dutch Plan.

We have adopted a non-qualified deferred compensation plan that allows certain highly compensated employees to defer a portion of their salary, commission and bonus, as well as the amount of any reductions in their deferrals under the deferred compensation plan for employees in the United States (the "Deferred Compensation Plan"), due to certain limitations imposed by the U.S. Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). The Deferred Compensation Plan also provides for employer contributions to be made on behalf of participants equal in amount to certain forfeitures of, and/or reductions in, employer contributions that participants could have received under the 401(k) Plan in the absence of certain limitations imposed by the Internal Revenue Code. Employer contributions to the Deferred Compensation Plan vest ratably over a period of five years. Contributions to the plan are invested in equity and other investment fund assets, and carried on the balance sheet at fair value. The benefits under these contracts are fully vested and payment of benefits generally commences as of the last day of the month following the termination of services except that the payment of benefits for select executives generally commences on the first working day following a six month waiting period following the date of termination.

On a recurring basis, we use the market approach to value certain assets and liabilities at fair value at quoted prices in an active market (Level 1) and certain assets and liabilities using significant other observable inputs (Level 2). We do not have any assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3). Gains and losses related to the fair value changes in the deferred compensation assets and liabilities are recorded in General and Administrative Expenses in the Consolidated Statements of Operations. The following table summarizes the fair value balances (in thousands):

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(Unaudited)	Fair Value Measurement at September 30, 2010			
	Total	Level 1	Level 2	Level 3
Assets:				
Deferred compensation plan trust assets	$ 7,501	$ -	$ 7,501	$ -
Liabilities:				
Deferred compensation plan	$ 11,651	$ 2,167	$ 9,484	$ -

	Fair Value Measurement at December 31, 2009		
	Total	Level 1	Level 2