

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)

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  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

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

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

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

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

---

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

INDEX

|                                | Page  |    |
|--------------------------------|---|----|
| PART I - FINANCIAL INFORMATION |   |    |
| Item 1.                        | Financial Statements  |    |
|                                | <u>Consolidated Balance Sheets (Unaudited) at<br/>September 30, 2010 and December 31, 2009</u>                          | 1  |
|                                | <u>Consolidated Statements of Operations<br/>(Unaudited) for the Three Months Ended<br/>September 30, 2010 and 2009</u> | 2  |
|                                | <u>Consolidated Statements of Operations<br/>(Unaudited) for the Nine Months Ended<br/>September 30, 2010 and 2009</u>  | 3  |
|                                | <u>Consolidated Statements of Cash Flows<br/>(Unaudited) for the Nine Months Ended<br/>September 30, 2010 and 2009</u>  | 4  |
|                                | <u>Notes to the Unaudited Consolidated Interim<br/>Financial Statements</u>   | 5  |
| Item 2.                        | <u>Management's Discussion and Analysis of<br/>Financial Condition and Results of Operations</u>                        | 19 |
| Item 3.                        | <u>Quantitative and Qualitative Disclosures About<br/>Market Risk</u>   | 27 |
| Item 4.                        | <u>Controls and Procedures</u>  | 27 |
| PART II - OTHER INFORMATION    |   |    |
| Item 1.                        | <u>Legal Proceedings</u>  | 28 |
| Item 2.                        | <u>Unregistered Sales of Equity Securities and Use of<br/>Proceeds</u>  | 28 |
| Item 6.                        | <u>Exhibits</u>   | 29 |
|                                | <u>Signature</u>  | 30 |



## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

CORE LABORATORIES N.V.  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share and per share data)

|   | September<br>30,<br>2010<br>(Unaudited) | December<br>31,<br>2009 |
|---|---|-------------------------|
| <b>ASSETS</b>   |   |                         |
| <b>CURRENT ASSETS:</b>  |   |                         |
| 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                  |
| <b>TOTAL CURRENT ASSETS</b>   | <b>363,616</b>                          | <b>390,537</b>          |
| <b>PROPERTY, PLANT AND EQUIPMENT, net</b>   | <b>101,957</b>                          | <b>98,784</b>           |
| <b>INTANGIBLES, net</b>   | <b>8,911</b>                            | <b>6,520</b>            |
| <b>GOODWILL</b>   | <b>154,217</b>                          | <b>148,600</b>          |
| <b>OTHER ASSETS</b>   | <b>16,328</b>                           | <b>13,725</b>           |
| <b>TOTAL ASSETS</b>   | <b>\$ 645,029</b>                       | <b>\$ 658,166</b>       |
| <b>LIABILITIES AND EQUITY</b>   |   |                         |
| <b>CURRENT LIABILITIES:</b>   |   |                         |
| 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                   |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>323,405</b>                          | <b>106,408</b>          |
| <b>LONG-TERM DEBT – SENIOR EXCHANGEABLE NOTES</b>   | <b>-</b>                                | <b>209,112</b>          |
| <b>DEFERRED COMPENSATION</b>  | <b>20,055</b>                           | <b>16,866</b>           |
| <b>DEFERRED TAX LIABILITIES</b>   | <b>8,026</b>                            | <b>7,692</b>            |
| <b>OTHER LONG-TERM LIABILITIES</b>  | <b>29,454</b>                           | <b>36,330</b>           |
| <b>COMMITMENTS AND CONTINGENCIES</b>  | <b>-</b>                                | <b>-</b>                |
| <b>EQUITY COMPONENT OF SHORT-TERM DEBT – SENIOR EXCHANGEABLE NOTES</b>  | <b>16,099</b>                           | <b>-</b>                |
| <b>EQUITY:</b>  |   |                         |
| Preference shares, EUR 0.02 par value; 6,000,000 shares authorized, none issued or outstanding                    | -                                       | -                       |

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

|   |                   |                   |
|---|-------------------|-------------------|
| 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             |
| <b>TOTAL EQUITY</b>   | <b>247,990</b>    | <b>281,758</b>    |
| <b>TOTAL LIABILITIES AND EQUITY</b>   | <b>\$ 645,029</b> | <b>\$ 658,166</b> |

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

[Return to Table of Contents](#)

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

|  | Three Months Ended<br>September 30, |               |
|--|-------------------------------------|---------------|
|  | 2010                                | 2009          |
|  | (Unaudited)                         |               |
| <b>REVENUE:</b>  |                                     |               |
| Services   | \$ 151,671                          | \$ 133,819    |
| Product sales  | 47,550                              | 33,983        |
|  | 199,221                             | 167,802       |
| <b>OPERATING EXPENSES:</b>   |                                     |               |
| 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 )      |
| <b>OPERATING INCOME</b>  | <b>60,217</b>                       | <b>44,199</b> |
| 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     |
| <b>EARNINGS PER SHARE INFORMATION:</b>                               |                                     |               |
| 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       |
| <b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>                   |                                     |               |
| Basic  | 44,736                              | 45,939        |
| Diluted  | 48,955                              | 46,499        |

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

[Return to Table of Contents](#)



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

|  | Nine Months Ended<br>September 30, |                |
|--|------------------------------------|----------------|
|  | 2010                               | 2009           |
|  | (Unaudited)                        |                |
| <b>REVENUE:</b>  |                                    |                |
| Services   | \$ 448,123                         | \$ 410,182     |
| Product sales  | 138,337                            | 103,758        |
|  | 586,460                            | 513,940        |
| <b>OPERATING EXPENSES:</b>   |                                    |                |
| 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 )       |
| <b>OPERATING INCOME</b>  | <b>165,350</b>                     | <b>142,506</b> |
| 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      |
| <b>EARNINGS PER SHARE INFORMATION:</b>                               |                                    |                |
| 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        |
| <b>WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:</b>                   |                                    |                |
| Basic  | 44,741                             | 45,930         |
| Diluted  | 47,923                             | 46,422         |

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

[Return to Table of Contents](#)

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

|   | Nine Months Ended |           |
|---|-------------------|-----------|
|   | September 30,     |           |
|   | 2010              | 2009      |
|   | (Unaudited)       |           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                      |                   |           |
| 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   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                                      |                   |           |
| 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 ) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                                      |                   |           |
| 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 ) |

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

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

[Return to Table of Contents](#)

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<br>30,<br>2010 | December<br>31,<br>2009 |
|----------------|--------------------------|-------------------------|
|                | (Unaudited)              |                         |
| Finished goods | \$ 22,349                | \$ 22,161               |

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

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

[Return to Table of Contents](#)

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<br>30,<br>2010<br>(Unaudited) | December<br>31,<br>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 principal 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.

[Return to Table of Contents](#)



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<br>Ended September<br>30, |        | Nine Months Ended<br>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<br>assets               | (108 )                                 | (196 ) | (338 )                            | (560 )   |
| A m o r t i z a t i o n o f<br>transition asset | (22 )                                  | (22 )  | (66 )                             | (66 )    |
| Amortization of prior<br>service cost           | 40                                     | 40     | 120                               | 120      |
| Amortization of net loss                        | 94                                     | 61     | 283                               | 183      |
| Net periodic pension<br>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):

[Return to Table of Contents](#)

| (Unaudited)                                | Fair Value Measurement at<br>September 30, 2010 |          |          |            |
|--|---|----------|----------|------------|
|  | Total   | Level 1  | Level 2  | Level<br>3 |
| Assets:                                    |   |          |          |            |
| Deferred compensation<br>plan trust assets | \$ 7,501  | \$ -     | \$ 7,501 | \$ -       |
| Liabilities:                               |   |          |          |            |
| Deferred compensation<br>plan              | \$ 11,651                                       | \$ 2,167 | \$ 9,484 | \$ -       |
|  | Fair Value Measurement at<br>December 31, 2009  |          |          |            |
|  | Total   | Level 1  | Level 2  | Level<br>3 |
| Assets:                                    |   |          |          |            |
| Deferred compensation<br>plan trust assets | \$ 6,193  | \$ -     | \$ 6,193 | \$ -       |
| Liabilities:                               |   |          |          |            |
| Deferred compensation<br>plan              | \$ 9,366  | \$ 1,339 | \$ 8,027 | \$ -       |

## 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 products and services.

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.

During the quarter ended September 30, 2010, our office and laboratory facilities in Finland were partially damaged by fire, resulting in the loss of the laboratory portion of the building, as well as some of the laboratory equipment. In August 2010, we filed claims with our insurance carrier for reimbursement of these costs. We are still in the process of determining the extent of our loss, but we expect that the insurance proceeds will be adequate to recover our costs.

## 7. EQUITY

During the three months ended September 30, 2010, we repurchased 4,989 of our common shares for \$0.4 million. This total consists 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, 2010, we repurchased 1,488,269 of our common shares for \$92.1 million. Included in this total were rights to 47,523 shares valued at \$3.3 million that were surrendered to us pursuant to the terms of a stock-based compensation plan in consideration of the participants' tax burdens that may result from

the issuance of common shares under that plan. Such common shares, unless cancelled, may be reissued for a variety of purposes such as future acquisitions, employee stock awards, exchange of the Notes, or settlement of warrants.

During the three and nine months ended September 30, 2010, we recognized tax benefits of \$0 and \$0.8 million, respectively, relating to tax deductions in excess of book expense for stock-based compensation awards. These tax benefits are recorded to additional paid-in capital to the extent deductions reduce current taxable income.

At the annual meeting of shareholders on June 10, 2010, the shareholders approved the cancellation of 1.3 million shares of our common stock currently held as treasury stock. These treasury shares were cancelled on September 2, 2010, after the expiration of the waiting period required under Dutch law. We charge the excess of the cost of the treasury stock over its par value to additional paid-in capital. If additional paid-in-capital is not sufficient for this charge, the remainder is charged directly to retained earnings.

In February, May, and August 2010, we paid a quarterly dividend of \$0.06 per share of common stock. In addition, we paid a special cash dividend of \$0.65 per share in August 2010. In addition, on October 12, 2010, we declared a quarterly dividend of \$0.06 per share of common stock for shareholders of record on October 22, 2010 and payable on November 24, 2010.

[Return to Table of Contents](#)

The following table summarizes our changes in equity for the nine months ended September 30, 2010 (in thousands):

| (Unaudited)                                    | Common<br>Shares | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Treasury<br>Stock | Non-<br>Controlling<br>Interest | Total<br>Equity |
|--|------------------|----------------------------------|----------------------|--|-------------------|---------------------------------|-----------------|
| December 31,<br>2009                           | \$1,430          | \$61,719                         | \$469,454            | \$ (6,536 )  | \$(246,699 )      | \$2,390                         | \$281,758       |
| Stock options<br>exercised                     | -                | (1,483 )                         | -                    | -  | 1,819             | -                               | 336             |
| Stock<br>based-awards                          | -                | (1,005 )                         | -                    | -  | 7,021             | -                               | 6,016           |
| Tax benefit of<br>stock-based<br>awards issued | -                | 798                              | -                    | -  | -                 | -                               | 798             |
| Repurchase of<br>common shares                 | -                | -                                | -                    | -  | (92,077 )         | -                               | (92,077 )       |
| Dividends paid                                 | -                | -                                | (37,095 )            | -  | -                 | -                               | (37,095 )       |
| Equity component<br>of short-term debt         | -                | (16,099 )                        | -                    | -  | -                 | -                               | (16,099 )       |
| Exchange of<br>Senior<br>Exchangeable<br>Notes | -                | (10,186 )                        | -                    | -  | 8,896             | -                               | (1,290 )        |
| Non-controlling<br>interest<br>contribution    | -                | -                                | -                    | -  | -                 | 156                             | 156             |
| Non-controlling<br>interest dividend           | -                | -                                | -                    | -  | -                 | (181 )                          | (181 )          |
| Cancellation of<br>common shares               | (34 )            | (33,744 )                        | (18,282 )            | -  | 52,060            | -                               | -               |
| Comprehensive<br>income:                       |                  |                                  |                      |  |                   |                                 |                 |
| Amortization of<br>pension,<br>net of tax      | -                | -                                | -                    | 257  | -                 | -                               | 257             |
| Net income                                     | -                | -                                | 104,975              | -  | -                 | 436                             | 105,411         |
| Total<br>comprehensive<br>income               |                  |                                  |                      |  |                   |                                 | 105,668         |
| September 30,<br>2010                          | \$1,396          | \$-                              | \$519,052            | \$ (6,279 )  | \$(268,980 )      | \$2,801                         | \$247,990       |

#### Comprehensive Income

The components of comprehensive income consisted of the following (in thousands):

|                                   | Three months ended<br>September 30,<br>2010 |           | Nine months ended<br>September 30,<br>2009 |           |
|-----------------------------------|---|-----------|--|-----------|
|                                   | (Unaudited)                                 |           | (Unaudited)                                |           |
| Net income                        | \$ 38,763                                   | \$ 31,115 | \$ 105,411                                 | \$ 90,318 |
| Realization of pension obligation | 86  | 59        | 257  | 176       |
| Total comprehensive income        | \$ 38,849                                   | \$ 31,174 | \$ 105,668                                 | \$ 90,494 |

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

|  | September<br>30,<br>2010 | December<br>31,<br>2009 |
|--|--------------------------|-------------------------|
|  | (Unaudited)              |                         |
| Prior service cost                         | \$ (881 )                | \$ (971 )               |
| Transition asset                           | 341                      | 389                     |
| Unrecognized net actuarial loss            | (5,739 )                 | (5,954 )                |
| Total accumulated other comprehensive loss | \$ (6,279 )              | \$ (6,536 )             |

[Return to Table of Contents](#)

## 8. EARNINGS PER SHARE

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

|   | Three Months Ended                   |        | Nine Months Ended                    |        |
|---|--------------------------------------|--------|--------------------------------------|--------|
|   | September 30,<br>2010<br>(Unaudited) | 2009   | September 30,<br>2010<br>(Unaudited) | 2009   |
| Weighted average basic common shares outstanding                        | 44,736                               | 45,939 | 44,741                               | 45,930 |
| Effect of dilutive securities:  |                                      |        |                                      |        |
| Stock options   | 55                                   | 88     | 58                                   | 124    |
| Contingent shares   | 38                                   | 40     | 37                                   | 32     |
| Restricted stock and other  | 591                                  | 432    | 564                                  | 336    |
| Senior exchangeable notes   | 2,030                                | -      | 1,735                                | -      |
| Warrants  | 1,505                                | -      | 788                                  | -      |
| Weighted average diluted common and potential common shares outstanding | 48,955                               | 46,499 | 47,923                               | 46,422 |

In 2006, we sold warrants on our common shares, which have an exercise price of \$61.63 per share, and will settle in January 2012. The warrant agreement calls for the net value of these warrants to be settled with Core Laboratories N.V. common shares. Included in the table above are 1,505,000 and 788,000 shares which were added to the share count for the three and nine months ended September 30, 2010 because the average share price exceeded the strike price of the warrants. These shares were included in calculating the impact to our dilutive earnings per share for the three and nine months ended September 30, 2010.

## 9. OTHER EXPENSE (INCOME), NET

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

|  | Three Months                               |      | Nine Months Ended                    |      |
|--|--|------|--------------------------------------|------|
|  | Ended September 30,<br>2010<br>(Unaudited) | 2009 | September 30,<br>2010<br>(Unaudited) | 2009 |

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

|                                   |           |            |           |            |
|-----------------------------------|-----------|------------|-----------|------------|
| Loss (gain) on sale of assets     | \$ (88 )  | \$ 33      | \$ (80 )  | \$ (312 )  |
| Foreign exchange loss (gain)      | (547 )    | (859 )     | 1,074     | (1,868)    |
| Interest income                   | -         | (17 )      | (142 )    | (115 )     |
| Non-income tax accrual            | -         | -          | -         | (2,500)    |
| Rents and royalties               | (352 )    | (212 )     | (1,052)   | (1,061)    |
| Other, net                        | (11 )     | (177 )     | (308 )    | (146 )     |
| Total other expense (income), net | \$ (998 ) | \$ (1,232) | \$ (508 ) | \$ (6,002) |

As a result of finalizing a non-income related tax settlement agreement, we released the remaining \$2.5 million of the contingent liability during the second quarter of 2009.

[Return to Table of Contents](#)



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

|                       | Three Months        |           | Nine Months Ended |            |
|-----------------------|---------------------|-----------|-------------------|------------|
|                       | Ended September 30, |           | September 30,     |            |
|                       | 2010                | 2009      | 2010              | 2009       |
|                       | (Unaudited)         |           | (Unaudited)       |            |
| Australian Dollar     | \$ (213 )           | \$ (168 ) | \$ (110 )         | \$ (446 )  |
| British Pound         | (133 )              | 105       | 283               | (127 )     |
| Canadian Dollar       | (102 )              | (815 )    | (338 )            | (1,582)    |
| Euro                  | 76                  | 35        | 1,665             | (178 )     |
| Russian Ruble         | (18 )               | (35 )     | (33 )             | 189        |
| Venezuelan Bolivar    | (10 )               | (1 )      | (201 )            | (2 )       |
| Other currencies, net | (147 )              | 20        | (192 )            | 278        |
| Total loss (gain)     | \$ (547 )           | \$ (859 ) | \$ 1,074          | \$ (1,868) |

## 10. INCOME TAX EXPENSE

The effective tax rates for the three months ended September 30, 2010 and 2009 were 30.2% and 22.8%, respectively. The lower effective tax rate for 2009 included an adjustment to income tax expense and deferred tax liabilities associated with monetary assets and liabilities of our foreign subsidiaries. The effective tax rates for year-to-date 2010 and 2009 were 30.9% and 31.0%, respectively. These rates reflect the change in activity levels between jurisdictions with different tax rates.

## 11. SEGMENT REPORTING

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

- \* Reservoir Description: Encompasses the characterization of petroleum reservoir rock, fluid and gas samples. We provide analytical and field services to characterize properties of crude oil and petroleum products to the oil and gas industry.
- \* Production Enhancement: Includes products and services relating to reservoir well completions, perforations, stimulations and production. We provide integrated services to evaluate the effectiveness of well completions and to develop solutions aimed at increasing the effectiveness of enhanced oil recovery projects.
- \* Reservoir Management: Combines and integrates information from reservoir description and production enhancement services to increase production and improve recovery of oil and gas from our clients' reservoirs.

Results for these business segments are presented below. We use the same accounting policies to prepare our business segment results as are used to prepare our Consolidated Financial Statements. We evaluate performance based on income or loss before income tax, interest and other non-operating income (expense). Summarized financial information concerning our segments is shown in the following table (in thousands):



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

| (Unaudited)                               | Reservoir<br>Description | Production<br>Enhancement | Reservoir<br>Management | Corporate<br>&<br>Other 1 | Consolidated |
|---|--------------------------|---------------------------|-------------------------|---------------------------|--------------|
| Three Months Ended<br>September 30, 2010  |                          |                           |                         |                           |              |
| Revenue from<br>unaffiliated<br>customers | \$ 106,485               | \$ 78,992                 | \$ 13,744               | \$ -                      | \$ 199,221   |
| Inter-segment<br>revenue                  | 441                      | 390                       | 319                     | (1,150 )                  | -            |
| Segment operating<br>income               | 28,014                   | 26,260                    | 5,535                   | 408                       | 60,217       |
| Total assets                              | 261,582                  | 189,481                   | 14,958                  | 179,008                   | 645,029      |
| Capital expenditures                      | 5,351                    | 1,135                     | 201                     | 278                       | 6,965        |
| Depreciation and<br>amortization          | 3,485                    | 1,600                     | 199                     | 530                       | 5,814        |
| Three Months Ended<br>September 30, 2009  |                          |                           |                         |                           |              |
| Revenue from<br>unaffiliated<br>customers | \$ 101,475               | \$ 54,398                 | \$ 11,929               | \$ -                      | \$ 167,802   |
| Inter-segment<br>revenue                  | 332                      | 317                       | 636                     | (1,285 )                  | -            |
| Segment operating<br>income (loss)        | 26,792                   | 14,627                    | 3,498                   | (718 )                    | 44,199       |
| Total assets                              | 251,410                  | 168,781                   | 15,389                  | 155,219                   | 590,799      |
| Capital expenditures                      | 2,915                    | 767                       | 17                      | 975                       | 4,674        |
| Depreciation and<br>amortization          | 3,659                    | 1,492                     | 175                     | 697                       | 6,023        |
| Nine Months Ended<br>September 30, 2010   |                          |                           |                         |                           |              |
| Revenue from<br>unaffiliated<br>customers | \$ 317,106               | \$ 227,553                | \$ 41,801               | \$ -                      | \$ 586,460   |
| Inter-segment<br>revenue                  | 989                      | 1,103                     | 1,034                   | (3,126 )                  | -            |
| Segment operating<br>income (loss)        | 78,229                   | 73,355                    | 14,827                  | (1,061 )                  | 165,350      |
| Total assets                              | 261,582                  | 189,481                   | 14,958                  | 179,008                   | 645,029      |
| Capital expenditures                      | 15,280                   | 2,527                     | 458                     | 1,396                     | 19,661       |
| Depreciation and<br>amortization          | 10,515                   | 4,849                     | 523                     | 1,447                     | 17,334       |
| Nine Months Ended<br>September 30, 2009   |                          |                           |                         |                           |              |

|                                     |            |            |           |          |            |
|-------------------------------------|------------|------------|-----------|----------|------------|
| Revenue from unaffiliated customers | \$ 307,477 | \$ 169,512 | \$ 36,951 | \$ -     | \$ 513,940 |
| Inter-segment revenue               | 806        | 1,125      | 1,372     | (3,303 ) | -          |
| Segment operating income            | 83,006     | 47,370     | 10,460    | 1,670    | 142,506    |
| Total assets                        | 251,410    | 168,781    | 15,389    | 155,219  | 590,799    |
| Capital expenditures                | 7,098      | 1,755      | 69        | 1,072    | 9,994      |
| Depreciation and amortization       | 10,609     | 4,416      | 530       | 2,082    | 17,637     |

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

## 12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Core Laboratories N.V. has fully and unconditionally guaranteed all of the Notes issued by Core Laboratories LP in 2006. Core Laboratories LP is a wholly owned subsidiary of Core Laboratories N.V.

The following condensed consolidating financial information is included so that separate financial statements of Core Laboratories LP are not required to be filed with the U.S. Securities and Exchange Commission (the "SEC"). The condensed consolidating financial statements present investments in both consolidated and unconsolidated affiliates using the equity method of accounting.

The following condensed consolidating financial information presents: balance sheets as of September 30, 2010 and December 31, 2009, statements of operations for each of the three and nine months ended September 30, 2010 and 2009 and the statements of cash flows for each of the nine months ended September 30, 2010 and 2009 of (a) Core Laboratories N.V., parent/guarantor, (b) Core Laboratories LP, issuer of public debt securities guaranteed by Core Laboratories N.V., (c) the non-guarantor subsidiaries, (d) consolidating adjustments necessary to consolidate Core Laboratories N.V. and its subsidiaries and (e) Core Laboratories N.V. on a consolidated basis.

[Return to Table of Contents](#)

Condensed Consolidating Balance  
Sheets (Unaudited)

(In thousands)

September 30, 2010

|   | Core<br>Laboratories<br>N.V.<br>(Parent/<br>Guarantor) | Core<br>Laboratories<br>LP<br>(Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
|---|--|--|---|------------------------------|-----------------------|
| <b>ASSETS</b>                             |  |  |   |                              |                       |
| <b>CURRENT ASSETS:</b>                    |  |  |   |                              |                       |
| Cash and cash equivalents                 | \$ 9,227   | \$ 145,029                             | \$ 13,697                                     | \$ -                         | \$ 167,953            |
| Accounts receivable, net                  | 1  | 30,281                                 | 110,831                                       | -                            | 141,113               |
| Inventories, net                          | -  | 3,185                                  | 27,352  | -                            | 30,537                |
| Prepaid expenses and other current assets | 6,035  | 9,403                                  | 8,575   | -                            | 24,013                |
| <b>Total current assets</b>               | <b>15,263</b>  | <b>187,898</b>                         | <b>160,455</b>                                | <b>-</b>                     | <b>363,616</b>        |
| <b>PROPERTY, PLANT AND EQUIPMENT, net</b> |  |  |   |                              |                       |
|   | -  | 21,330                                 | 80,627  | -                            | 101,957               |
| <b>GOODWILL AND INTANGIBLES, net</b>      |  |  |   |                              |                       |
|   | 46,986   | 16,046                                 | 100,096                                       | -                            | 163,128               |
| <b>INTERCOMPANY RECEIVABLES</b>           |  |  |   |                              |                       |
|   | 32,955   | 208,770                                | 269,743                                       | (511,468 )                   | -                     |
| <b>INVESTMENT IN AFFILIATES</b>           |  |  |   |                              |                       |
|   | 616,519  | -                                      | 1,813,896                                     | (2,429,753)                  | 662                   |
| <b>DEFERRED TAX ASSET</b>                 |  |  |   |                              |                       |
|   | 2,810  | -                                      | 6,515   | (8,671 )                     | 654                   |
| <b>OTHER ASSETS</b>                       |  |  |   |                              |                       |
|   | 2,955  | 9,960                                  | 2,097   | -                            | 15,012                |
| <b>TOTAL ASSETS</b>                       | <b>\$ 717,488</b>                                      | <b>\$ 444,004</b>                      | <b>\$ 2,433,429</b>                           | <b>\$ (2,949,892)</b>        | <b>\$ 645,029</b>     |
| <b>LIABILITIES AND EQUITY</b>             |  |  |   |                              |                       |
| <b>CURRENT LIABILITIES:</b>               |  |  |   |                              |                       |
| Accounts payable                          | \$ 630   | \$ 6,703                               | \$ 31,176                                     | \$ -                         | \$ 38,509             |
| Short-term debt                           | -  | 198,193                                | -   | -                            | 198,193               |
| Other accrued expenses                    | 2,207  | 27,105                                 | 57,391  | -                            | 86,703                |
| <b>Total current liabilities</b>          | <b>2,837</b>   | <b>232,001</b>                         | <b>88,567</b>                                 | <b>-</b>                     | <b>323,405</b>        |
| <b>LONG-TERM DEBT</b>                     |  |  |   |                              |                       |
|   | -  | -                                      | -   | -                            | -                     |
| <b>DEFERRED COMPENSATION</b>              |  |  |   |                              |                       |
|   | 6,506  | 13,450                                 | 99  | -                            | 20,055                |
| <b>DEFERRED TAX LIABILITY</b>             |  |  |   |                              |                       |
|   | -  | 16,697                                 | -   | (8,671 )                     | 8,026                 |
| <b>INTERCOMPANY PAYABLES</b>              |  |  |   |                              |                       |
|   | 449,509  | 35,590                                 | 26,369  | (511,468 )                   | -                     |
|   | 13,447   | 3,062                                  | 12,945  | -                            | 29,454                |

OTHER LONG-TERM  
LIABILITIES

|  |   |        |   |   |        |
|--|---|--------|---|---|--------|
| Equity Component of<br>Short-term Debt -Senior<br>Exchangeable Notes | - | 16,099 | - | - | 16,099 |
|--|---|--------|---|---|--------|

## SHAREHOLDERS'

|        |         |         |           |             |         |
|--------|---------|---------|-----------|-------------|---------|
| EQUITY | 245,189 | 127,105 | 2,302,648 | (2,429,753) | 245,189 |
|--------|---------|---------|-----------|-------------|---------|

NON-CONTROLLING  
INTEREST

|  |   |   |       |   |       |
|--|---|---|-------|---|-------|
|  | - | - | 2,801 | - | 2,801 |
|--|---|---|-------|---|-------|

|              |         |         |           |             |         |
|--------------|---------|---------|-----------|-------------|---------|
| TOTAL EQUITY | 245,189 | 127,105 | 2,305,449 | (2,429,753) | 247,990 |
|--------------|---------|---------|-----------|-------------|---------|

## TOTAL LIABILITIES

|            |            |            |              |                |            |
|------------|------------|------------|--------------|----------------|------------|
| AND EQUITY | \$ 717,488 | \$ 444,004 | \$ 2,433,429 | \$ (2,949,892) | \$ 645,029 |
|------------|------------|------------|--------------|----------------|------------|

[Return to Table of Contents](#)

C o n d e n s e d  
Consolidating Balance  
Sheets

(In thousands)

December 31, 2009

|   | Core<br>Laboratories<br>N.V.<br>(Parent/<br>Guarantor) | Core<br>Laboratories<br>LP<br>(Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
|---|--|--|---|------------------------------|-----------------------|
| <b>ASSETS</b>                             |  |  |   |                              |                       |
| <b>CURRENT ASSETS:</b>                    |  |  |   |                              |                       |
| Cash and cash equivalents                 | \$ 73,998  | \$ 95,048                              | \$ 11,999                                     | \$ -                         | \$ 181,045            |
| Accounts receivable, net                  | 1  | 29,452                                 | 104,305                                       | -                            | 133,758               |
| Inventories, net                          | -  | 2,679                                  | 29,505  | -                            | 32,184                |
| Prepaid expenses and other current assets | 11,809   | 22,209                                 | 9,532   | -                            | 43,550                |
| <b>Total current assets</b>               | <b>85,808</b>  | <b>149,388</b>                         | <b>155,341</b>                                | <b>-</b>                     | <b>390,537</b>        |
| <b>PROPERTY, PLANT AND EQUIPMENT, net</b> | <b>-</b>   | <b>21,988</b>                          | <b>76,796</b>                                 | <b>-</b>                     | <b>98,784</b>         |
| <b>GOODWILL AND INTANGIBLES, net</b>      | <b>46,986</b>  | <b>7,949</b>                           | <b>100,185</b>                                | <b>-</b>                     | <b>155,120</b>        |
| <b>INTERCOMPANY RECEIVABLES</b>           | <b>37,681</b>  | <b>216,670</b>                         | <b>232,802</b>                                | <b>(487,153 )</b>            | <b>-</b>              |
| <b>INVESTMENT IN AFFILIATES</b>           | <b>540,724</b>   | <b>-</b>                               | <b>1,387,715</b>                              | <b>(1,928,118)</b>           | <b>321</b>            |
| <b>DEFERRED TAX ASSET</b>                 | <b>2,951</b>   | <b>4,644</b>                           | <b>14,359</b>                                 | <b>(21,954 )</b>             | <b>-</b>              |
| <b>OTHER ASSETS</b>                       | <b>2,828</b>   | <b>8,770</b>                           | <b>1,806</b>                                  | <b>-</b>                     | <b>13,404</b>         |
| <b>TOTAL ASSETS</b>                       | <b>\$ 716,978</b>                                      | <b>\$ 409,409</b>                      | <b>\$ 1,969,004</b>                           | <b>\$ (2,437,225)</b>        | <b>\$ 658,166</b>     |
| <b>LIABILITIES AND EQUITY</b>             |  |  |   |                              |                       |
| <b>CURRENT LIABILITIES:</b>               |  |  |   |                              |                       |
| Accounts payable                          | \$ 501   | \$ 6,404                               | \$ 26,104                                     | \$ -                         | \$ 33,009             |
| Other accrued expenses                    | 673  | 29,738                                 | 42,988  | -                            | 73,399                |
| <b>Total current liabilities</b>          | <b>1,174</b>   | <b>36,142</b>                          | <b>69,092</b>                                 | <b>-</b>                     | <b>106,408</b>        |
| <b>LONG-TERM DEBT</b>                     | <b>-</b>   | <b>209,112</b>                         | <b>-</b>                                      | <b>-</b>                     | <b>209,112</b>        |
| <b>DEFERRED COMPENSATION</b>              | <b>6,046</b>   | <b>10,094</b>                          | <b>726</b>                                    | <b>-</b>                     | <b>16,866</b>         |
| <b>DEFERRED TAX LIABILITY</b>             | <b>-</b>   | <b>29,646</b>                          | <b>-</b>                                      | <b>(21,954 )</b>             | <b>7,692</b>          |
| <b>INTERCOMPANY PAYABLES</b>              | <b>417,618</b>   | <b>-</b>                               | <b>69,535</b>                                 | <b>(487,153 )</b>            | <b>-</b>              |
|   | <b>12,772</b>  | <b>7,702</b>                           | <b>15,856</b>                                 | <b>-</b>                     | <b>36,330</b>         |

OTHER LONG-TERM  
LIABILITIES

## SHAREHOLDERS'

|        |         |         |           |             |         |
|--------|---------|---------|-----------|-------------|---------|
| EQUITY | 279,368 | 116,713 | 1,811,405 | (1,928,118) | 279,368 |
|--------|---------|---------|-----------|-------------|---------|

## NON-CONTROLLING

|          |   |   |       |   |       |
|----------|---|---|-------|---|-------|
| INTEREST | - | - | 2,390 | - | 2,390 |
|----------|---|---|-------|---|-------|

|              |         |         |           |             |         |
|--------------|---------|---------|-----------|-------------|---------|
| TOTAL EQUITY | 279,368 | 116,713 | 1,813,795 | (1,928,118) | 281,758 |
|--------------|---------|---------|-----------|-------------|---------|

## TOTAL LIABILITIES

|            |            |            |              |                |            |
|------------|------------|------------|--------------|----------------|------------|
| AND EQUITY | \$ 716,978 | \$ 409,409 | \$ 1,969,004 | \$ (2,437,225) | \$ 658,166 |
|------------|------------|------------|--------------|----------------|------------|

[Return to Table of Contents](#)



Condensed Consolidating Statements  
of Operations (Unaudited)

(In thousands)

Three Months Ended September, 2010

|  | Core<br>Laboratories<br>N.V.<br>(Parent/<br>Guarantor) | Core<br>Laboratories<br>LP<br>(Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
|--|--|--|---|------------------------------|-----------------------|
| <b>REVENUE</b>   |  |  |   |                              |                       |
| Operating revenue  | \$ -   | \$ 48,856                              | \$ 150,365                                    | \$ -                         | \$ 199,221            |
| Intercompany<br>revenue                                      | 356  | 6,230                                  | 37,948  | (44,534 )                    | -                     |
| Earnings from<br>consolidated<br>affiliates                  | 42,764   | -                                      | 69,553  | (112,317)                    | -                     |
| Total revenue  | 43,120   | 55,086                                 | 257,866                                       | (156,851)                    | 199,221               |
| <b>O P E R A T I N G<br/>EXPENSES</b>                        |  |  |   |                              |                       |
| Operating costs  | 346  | 24,928                                 | 100,498                                       | -                            | 125,772               |
| General and<br>administrative<br>expenses                    | 1,416  | 6,997                                  | 3   | -                            | 8,416                 |
| Depreciation and<br>amortization                             | -  | 1,610                                  | 4,204   | -                            | 5,814                 |
| Other expense<br>(income), net                               | 1,178  | 3,850                                  | 26,265  | (32,291 )                    | (998 )                |
| Operating income   | 40,180   | 17,701                                 | 126,896                                       | (124,560)                    | 60,217                |
| Loss on exchange of<br>Senior Exchangeable<br>Notes          | -  | 675                                    | -   | -                            | 675                   |
| Interest expense   | -  | 24,008                                 | 3   | (19,996 )                    | 4,015                 |
| Income before<br>income tax expense                          | 40,180   | (6,982 )                               | 126,893                                       | (104,564)                    | 55,527                |
| Income tax expense<br>(benefit)                              | 1,626  | 10,463                                 | 4,675   | -                            | 16,764                |
| Net income   | 38,554   | (17,445 )                              | 122,218                                       | (104,564)                    | 38,763                |
| Net income<br>attributable to<br>non-controlling<br>interest | -  | -                                      | 209   | -                            | 209                   |
| Net income<br>attributable to Core                           | \$ 38,554  | \$ (17,445 )                           | \$ 122,009                                    | \$ (104,564)                 | \$ 38,554             |

## Laboratories

Condensed Consolidating Statements  
of Operations (Unaudited)

(In thousands)

Nine Months Ended September 30, 2010

|  | Core<br>Laboratories<br>N.V.<br>(Parent/<br>Guarantor) | Core<br>Laboratories<br>LP<br>(Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
|--|--|--|---|------------------------------|-----------------------|
| <b>REVENUE</b>   |  |  |   |                              |                       |
| Operating revenue  | \$ -   | \$ 142,403                             | \$ 444,057                                    | \$ -                         | \$ 586,460            |
| Intercompany<br>revenue                                      | 1,023  | 18,436                                 | 108,908                                       | (128,367)                    | -                     |
| Earnings from<br>consolidated<br>affiliates                  | 115,662  | -                                      | 286,057                                       | (401,719)                    | -                     |
| Total revenue  | 116,685  | 160,839                                | 839,022                                       | (530,086)                    | 586,460               |
| <b>OPERATING<br/>EXPENSES</b>                                |  |  |   |                              |                       |
| Operating costs  | 1,058  | 75,149                                 | 304,070                                       | -                            | 380,277               |
| General and<br>administrative<br>expenses                    | 5,730  | 18,267                                 | 10  | -                            | 24,007                |
| Depreciation and<br>amortization                             | -  | 4,722                                  | 12,612  | -                            | 17,334                |
| Other expense<br>(income), net                               | 2,035  | 8,852                                  | 84,457  | (95,852)                     | (508)                 |
| Operating income   | 107,862  | 53,849                                 | 437,873                                       | (434,234)                    | 165,350               |
| Loss on exchange of<br>Senior Exchangeable<br>Notes          | -  | 675                                    | -   | -                            | 675                   |
| Interest expense   | -  | 32,175                                 | 9   | (19,996)                     | 12,188                |
| Income before<br>income tax expense                          | 107,862  | 20,999                                 | 437,864                                       | (414,238)                    | 152,487               |
| Income tax expense<br>(benefit)                              | 2,887  | 21,937                                 | 22,252  | -                            | 47,076                |
| Net income   | 104,975  | (938)                                  | 415,612                                       | (414,238)                    | 105,411               |
| Net income<br>attributable to<br>non-controlling<br>interest | -  | -                                      | 436   | -                            | 436                   |
|  | \$ 104,975   | \$ (938)                               | \$ 415,176                                    | \$ (414,238)                 | \$ 104,975            |

Net income  
attributable to Core  
Laboratories

[Return to Table of Contents](#)

15

---

Condensed Consolidating Statements of  
Cash Flows (Unaudited)

(In thousands)

|   | Nine Months Ended September 30, 2010                |  |   |                              |                       |
|---|---|--|---|------------------------------|-----------------------|
|   | Core<br>Laboratories<br>N.V. (Parent/<br>Guarantor) | Core<br>Laboratories<br>LP<br>(Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
| Net cash provided by operating activities             | \$ 63,267   | \$ 87,595                              | \$ 18,267                                     | \$ -                         | \$ 169,129            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>          |   |  |   |                              |                       |
| Capital expenditures                                  | -   | (2,899 )                               | (16,762 )                                     | -                            | (19,661 )             |
| Patents and other intangibles                         | -   | (3 )                                   | (177 )  | -                            | (180 )                |
| Business Acquisitions                                 | -   | (9,000 )                               | -   | -                            | (9,000 )              |
| Non-controlling interest - contributions              | -   | -                                      | 156   | -                            | 156                   |
| Proceeds from sale of assets                          | -   | 11                                     | 395   | -                            | 406                   |
| Premiums on life insurance                            | -   | (1,357 )                               | -   | -                            | (1,357 )              |
| Net cash used in investing activities                 | -   | (13,248 )                              | (16,388 )                                     | -                            | (29,636 )             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>          |   |  |   |                              |                       |
| Repayment of debt borrowings                          | -   | (24,366 )                              | -   | -                            | (24,366 )             |
| Stock options exercised                               | 336   | -                                      | -   | -                            | 336                   |
| Excess tax benefit from stock-based payments          | 798   | -                                      | -   | -                            | 798                   |
| Non-controlling interest - dividends                  | -   | -                                      | (181 )  | -                            | (181 )                |
| Dividends paid  | (37,095 )   | -                                      | -   | -                            | (37,095 )             |
| Repurchase of common shares                           | (92,077 )   | -                                      | -   | -                            | (92,077 )             |
| Net cash used in financing activities                 | (128,038 )  | (24,366 )                              | (181 )  | -                            | (152,585 )            |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>        | <b>(64,771 )</b>                                    | <b>49,981</b>                          | <b>1,698</b>                                  | <b>-</b>                     | <b>(13,092 )</b>      |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b> | <b>73,998</b>                                       | <b>95,048</b>                          | <b>11,999</b>                                 | <b>-</b>                     | <b>181,045</b>        |

|  |          |            |           |      |            |
|--|----------|------------|-----------|------|------------|
| CASH AND CASH<br>EQUIVALENTS, end<br>of period | \$ 9,227 | \$ 145,029 | \$ 13,697 | \$ - | \$ 167,953 |
|--|----------|------------|-----------|------|------------|

[Return to Table of Contents](#)

Condensed Consolidating Statements  
of Operations (Unaudited)

(In thousands)

Three Months Ended September 30, 2009

|  | Core<br>Laboratories<br>N.V.<br>(Parent/<br>Guarantor) | Core<br>Laboratories<br>LP<br>(Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
|--|--|--|---|------------------------------|-----------------------|
| <b>REVENUE</b>   |  |  |   |                              |                       |
| Operating revenue  | \$ -   | \$ 38,468                              | \$ 129,334                                    | \$ -                         | \$ 167,802            |
| Intercompany<br>revenue                                      | 372  | 5,805                                  | 30,509  | (36,686 )                    | -                     |
| Earnings from<br>consolidated affiliates                     | 17,619   | -                                      | 58,763  | (76,382 )                    | -                     |
| Total revenue  | 17,991   | 44,273                                 | 218,606                                       | (113,068)                    | 167,802               |
| <b>O P E R A T I N G<br/>EXPENSES</b>                        |  |  |   |                              |                       |
| Operating costs  | 646  | 22,577                                 | 88,952  | -                            | 112,175               |
| General and<br>administrative<br>expenses                    | 98   | 6,537                                  | 2   | -                            | 6,637                 |
| Depreciation and<br>amortization                             | -  | 1,373                                  | 4,650   | -                            | 6,023                 |
| Other expense<br>(income), net                               | (15,179 )  | 3,739                                  | 40,650  | (30,442 )                    | (1,232 )              |
| Operating income   | 32,426   | 10,047                                 | 84,352  | (82,626 )                    | 44,199                |
| Interest expense   | -  | 3,895                                  | -   | -                            | 3,895                 |
| Income before<br>income tax expense                          | 32,426   | 6,152                                  | 84,352  | (82,626 )                    | 40,304                |
| Income tax expense<br>(benefit)                              | 1,438  | 4,367                                  | 3,384   | -                            | 9,189                 |
| Net income   | 30,988   | 1,785                                  | 80,968  | (82,626 )                    | 31,115                |
| Net income<br>attributable to<br>non-controlling<br>interest | -  | -                                      | 127   | -                            | 127                   |
| Net income<br>attributable to Core<br>Laboratories           | \$ 30,988  | \$ 1,785                               | \$ 80,841                                     | \$ (82,626 )                 | \$ 30,988             |

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

Condensed Consolidating Statements  
of Operations (Unaudited)

(In thousands)

Nine Months Ended September 30, 2009

|  | Core<br>Laboratories<br>N.V.<br>(Parent/<br>Guarantor) | Core<br>Laboratories<br>LP<br>(Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
|--|--|--|---|------------------------------|-----------------------|
| <b>REVENUE</b>   |  |  |   |                              |                       |
| Operating revenue  | \$ -   | \$ 124,277                             | \$ 389,663                                    | \$ -                         | \$ 513,940            |
| Intercompany<br>revenue                                      | 1,070  | 19,162                                 | 80,254  | (100,486)                    | -                     |
| Earnings from<br>consolidated<br>affiliates                  | 81,047   | -                                      | 245,247                                       | (326,294)                    | -                     |
| Total revenue  | 82,117   | 143,439                                | 715,164                                       | (426,780)                    | 513,940               |
| <b>OPERATING<br/>EXPENSES</b>                                |  |  |   |                              |                       |
| Operating costs  | 1,266  | 67,608                                 | 268,330                                       | -                            | 337,204               |
| General and<br>administrative<br>expenses                    | 5,550  | 17,036                                 | 9   | -                            | 22,595                |
| Depreciation and<br>amortization                             | -  | 4,121                                  | 13,516  | -                            | 17,637                |
| Other expense<br>(income), net                               | (17,586 )  | 10,487                                 | 92,672  | (91,575 )                    | (6,002 )              |
| Operating income   | 92,887   | 44,187                                 | 340,637                                       | (335,205)                    | 142,506               |
| Interest expense   | 7  | 11,497                                 | 31  | -                            | 11,535                |
| Income before<br>income tax expense                          | 92,880   | 32,690                                 | 340,606                                       | (335,205)                    | 130,971               |
| Income tax expense   | 2,893  | 15,805                                 | 21,955  | -                            | 40,653                |
| Net income   | 89,987   | 16,885                                 | 318,651                                       | (335,205)                    | 90,318                |
| Net income<br>attributable to<br>non-controlling<br>interest | -  | -                                      | 331   | -                            | 331                   |
| Net income<br>attributable to Core<br>Laboratories           | \$ 89,987  | \$ 16,885                              | \$ 318,320                                    | \$ (335,205)                 | \$ 89,987             |

[Return to Table of Contents](#)

Condensed Consolidating Statements of  
Cash Flows (Unaudited)

(In thousands)

|   | Nine Months Ended September 30, 2009                |  |  |                              |                       |
|---|---|--|--|------------------------------|-----------------------|
|   | Core<br>Laboratories<br>N.V. (Parent/<br>Guarantor) | Core<br>Laboratories<br>LP<br>(Issuer) | Other<br>Subsidiaries<br>(Non-Consolidating<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
| Net cash provided by operating activities             | \$ 63,498   | \$ 68,955                              | \$ 12,461  | \$ -                         | \$ 144,914            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>          |   |  |  |                              |                       |
| Capital expenditures                                  | -   | (1,498 )                               | (8,496 )   | -                            | (9,994 )              |
| Patents and other intangibles                         | -   | -                                      | (191 )   | -                            | (191 )                |
| Proceeds from sale of assets                          | -   | 189                                    | 333  | -                            | 522                   |
| Premiums on life insurance                            | -   | (1,183 )                               | -  | -                            | (1,183 )              |
| Net cash used in investing activities                 | -   | (2,492 )                               | (8,354 )   | -                            | (10,846 )             |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>          |   |  |  |                              |                       |
| Stock options exercised                               | 399   | -                                      | -  | -                            | 399                   |
| Excess tax benefit from stock-based payments          | 127   | -                                      | -  | -                            | 127                   |
| Non-controlling interest - dividends                  | -   | -                                      | (246 )   | -                            | (246 )                |
| Dividends paid  | (24,117 )   | -                                      | -  | -                            | (24,117 )             |
| Repurchase of common shares                           | (9,144 )  | -                                      | -  | -                            | (9,144 )              |
| Net cash used in financing activities                 | (32,735 )   | -                                      | (246 )   | -                            | (32,981 )             |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>        |   |  |  |                              |                       |
|   | 30,763  | 66,463                                 | 3,861  | -                            | 101,087               |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b> |   |  |  |                              |                       |
|   | 13,347  | 11,027                                 | 11,764   | -                            | 36,138                |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>       |   |  |  |                              |                       |
|   | \$ 44,110   | \$ 77,490                              | \$ 15,625  | \$ -                         | \$ 137,225            |



[Return to Table of Contents](#)

## 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, 2010 and should be read in conjunction with (i) the unaudited consolidated interim financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (ii) the consolidated financial statements and accompanying notes to our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

### General

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

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

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

- \* **Reservoir Description:** Encompasses the characterization of petroleum reservoir rock, fluid and gas samples. We provide analytical and field services to characterize properties of crude oil and petroleum products to the oil and gas industry.
- \* **Production Enhancement:** Includes products and services relating to reservoir well completions, perforations, stimulations and production. We provide integrated services to evaluate the effectiveness of well completions and to develop solutions aimed at increasing the effectiveness of enhanced oil recovery projects.
- \* **Reservoir Management:** Combines and integrates information from reservoir description and production enhancement services to increase production and improve recovery of oil and gas from our clients' reservoirs.

### Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Certain statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations section, including those under the headings "Outlook" and "Liquidity and Capital Resources", and in other parts of this Form 10-Q, are forward-looking. In addition, from time to time, we may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. Forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "believe", "expect", "anticipate", "estimate", "continue", or other similar words, including statements as to the intent, belief, or current expectations of our directors, officers, and management with respect to our future operations, performance, or positions or which contain other forward-looking information. These forward-looking statements are based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are

reasonable as and when made, no assurances can be given that the future results indicated, whether expressed or implied, will be achieved. Our actual results may differ significantly from the results discussed in the forward-looking statements. While we believe that these statements are and will be accurate, a variety of factors could cause our actual results and experience to differ materially from the anticipated results or other expectations expressed in our statements. Such factors include, but are not limited to, the risks and uncertainties summarized below:

- general and economic business conditions;
- market prices of oil and gas and expectations about future prices;
- cost of producing oil and natural gas;
- the level of drilling and production activity;
- mergers, consolidations and downsizing among our clients;
- coordination by OPEC;

[Return to Table of Contents](#)

- the impact of commodity prices on the expenditure levels of our clients;
- financial condition of our client base and their ability to fund capital expenditures;
- the physical and/or financial effects of climatic change, including adverse weather or geologic/geophysical conditions;
- the adoption of legal requirements or taxation relating to climate change that lower the demand for petroleum-based fuels;
- civil unrest or political uncertainty in oil producing or consuming countries;
- level of consumption of oil, gas and petrochemicals by consumers;
- changes in existing laws, regulations, or other governmental actions;
- the business opportunities (or lack thereof) that may be presented to and pursued by us; and
- availability of services and materials for our clients to grow their capital expenditures.

Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a more detailed discussion of some of the foregoing risks and uncertainties, see "Item 1A - Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009, as well as the other reports filed by us with the Securities and Exchange Commission ("SEC").

## Outlook

We continue our efforts to expand our market presence by opening or expanding facilities in strategic areas and realizing synergies within our business lines. We believe our market presence provides us a unique opportunity to service customers who have global operations in addition to the national oil companies.

We have established internal earnings targets that are based on market conditions existing at the time our targets were established. Based on recent activity levels, we believe that the current level of activities, workflows, and operating margins both outside North America and within North America will grow moderately into 2011. Deepwater activity in the Gulf of Mexico is not expected to improve in the near-term despite the U.S. government lifting its moratorium, due to the expected time lag for approval of permits.

[Return to Table of Contents](#)

## Results of Operations

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

| (Unaudited)   | Three Months Ended September 30, |       |            |       | % Change  |    |  |
|---|----------------------------------|-------|------------|-------|-----------|----|--|
|   | 2010                             |       | 2009       |       | 2010/2009 |    |  |
| <b>REVENUE:</b>                                     |                                  |       |            |       |           |    |  |
| Services  | \$ 151,671                       | 76 %  | \$ 133,819 | 80 %  | 13        | %  |  |
| Product sales                                       | 47,550                           | 24 %  | 33,983     | 20 %  | 40        | %  |  |
| Total revenue                                       | 199,221                          | 100 % | 167,802    | 100 % | 19        | %  |  |
| <b>O P E R A T I N G</b>                            |                                  |       |            |       |           |    |  |
| <b>EXPENSES:</b>                                    |                                  |       |            |       |           |    |  |
| Cost of services*                                   | 92,914                           | 61 %  | 85,792     | 64 %  | 8         | %  |  |
| Cost of product sales*                              | 32,858                           | 69 %  | 26,383     | 78 %  | 25        | %  |  |
| Total cost of services and product sales            | 125,772                          | 63 %  | 112,175    | 67 %  | 12        | %  |  |
| General and administrative expenses                 | 8,416                            | 4 %   | 6,637      | 4 %   | 27        | %  |  |
| Depreciation and amortization                       | 5,814                            | 3 %   | 6,023      | 4 %   | (3        | %) |  |
| Other expense (income), net                         | (998 )                           | -     | (1,232 )   | (1 %) | (19       | %) |  |
| Operating income                                    | 60,217                           | 30 %  | 44,199     | 26 %  | 36        | %  |  |
| Loss on exchange of Senior Exchangeable Notes       | 675                              | -     | -          | -     | -         |    |  |
| Interest expense                                    | 4,015                            | 2 %   | 3,895      | 2 %   | 3         | %  |  |
| Income before income tax expense                    | 55,527                           | 28 %  | 40,304     | 24 %  | 38        | %  |  |
| Income tax expense                                  | 16,764                           | 9 %   | 9,189      | 5 %   | 82        | %  |  |
| Net income  | 38,763                           | 19 %  | 31,115     | 19 %  | 25        | %  |  |
| Net income attributable to non-controlling interest | 209                              | -     | 127        | -     | 65        | %  |  |
| Net income attributable to Core Laboratories N.V.   | \$ 38,554                        | 19 %  | \$ 30,988  | 19 %  | 24        | %  |  |

\*Percentage based on applicable revenue rather than total revenue

| (Unaudited) | Nine Months Ended September 30, |  |  |  | % Change |  |
|-------------|---------------------------------|--|--|--|----------|--|
|-------------|---------------------------------|--|--|--|----------|--|

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

|   | 2010       |       | 2009       |       | 2010/2009 |    |
|---|------------|-------|------------|-------|-----------|----|
| <b>REVENUE:</b>                                     |            |       |            |       |           |    |
| Services  | \$ 448,123 | 76 %  | \$ 410,182 | 80 %  | 9         | %  |
| Product sales                                       | 138,337    | 24 %  | 103,758    | 20 %  | 33        | %  |
| Total revenue                                       | 586,460    | 100 % | 513,940    | 100 % | 14        | %  |
| <b>O P E R A T I N G</b>                            |            |       |            |       |           |    |
| <b>EXPENSES:</b>                                    |            |       |            |       |           |    |
| Cost of services*                                   | 284,682    | 64 %  | 258,489    | 63 %  | 10        | %  |
| Cost of sales*                                      | 95,595     | 69 %  | 78,715     | 76 %  | 21        | %  |
| Total cost of services and sales                    | 380,277    | 65 %  | 337,204    | 66 %  | 13        | %  |
| General and administrative expenses                 | 24,007     | 4 %   | 22,595     | 4 %   | 6         | %  |
| Depreciation and amortization                       | 17,334     | 3 %   | 17,637     | 3 %   | (2        | %) |
| Other expense, net                                  | (508 )     | -     | (6,002 )   | (1 %) | (92       | %) |
| Operating income                                    | 165,350    | 28 %  | 142,506    | 28 %  | 16        | %  |
| Loss on exchange of Senior Exchangeable Notes       | 675        | -     | -          | -     | -         |    |
| Interest expense                                    | 12,188     | 2 %   | 11,535     | 2 %   | 6         | %  |
| Income before income tax expense                    | 152,487    | 26 %  | 130,971    | 26 %  | 16        | %  |
| Income tax expense                                  | 47,076     | 8 %   | 40,653     | 8 %   | 16        | %  |
| Net income  | 105,411    | 18 %  | 90,318     | 18 %  | 17        | %  |
| Net income attributable to non-controlling interest | 436        | -     | 331        | -     | 32        | %  |
| Net income attributable to Core Laboratories N.V.   | \$ 104,975 | 18 %  | \$ 89,987  | 18 %  | 17        | %  |

\*Percentage based on applicable revenue rather than total revenue

[Return to Table of Contents](#)

Operating Results for the Three and Nine Months Ended September 30, 2010 Compared to the Three and Nine Months Ended September 30, 2009 (unaudited)

Service Revenue

Service revenue increased to \$151.7 million for the third quarter of 2010, up 13% when compared to \$133.8 million for the third quarter of 2009. For the nine months ended September 30, 2010, service revenue increased 9% to \$448.1 million compared to \$410.2 million for the respective period in 2009. The increase in service revenue was due, in part, to the increased demand for reservoir fluids phase-behavior studies, and for crude oil testing, inspection, distillation, assay, fractionation and characterization projects worldwide. Our large scale core analyses and advance rock properties studies from the eastern Mediterranean region, the Middle East, and West Africa offshore also provided meaningful revenue streams. Activity in the North American shale plays, especially those that are liquid-rich, has remained active throughout 2010 offset somewhat with lower activity involving gas shales as a result of decreasing natural gas commodity prices as the third quarter progressed.

Product Sales Revenue

Revenue associated with product sales increased to \$47.6 million for the third quarter of 2010, up 40% from \$34.0 million for the third quarter of 2009. For the nine months ended September 30, 2010, product sale revenue increased 33% to \$138.3 million compared to \$103.8 million for the same period in 2009. The increase in revenue was driven by the acceptance and demand of our specialized completion products which has led to increased market share in North American natural gas and oil shale reservoirs and has increased market penetration in the Middle East and Asia-Pacific perforating markets. These specialized optimizing technologies are focused on high-end well completion and stimulation programs mainly in the Haynesville, Marcellus, Montney and Eagle Ford shale plays and in multi-stage completions in the Bakken oil-shale play. We are also providing high margin completion and recompletion technologies and services to be used in reworking major, giant, and super-giant fields in southern Iraq.

Cost of Services

Cost of services expressed as a percentage of service revenue was 61% for the quarter ended September 30, 2010, compared to 64% for the same period in 2009. For the nine months ended September 30, 2010, cost of services expressed as a percentage of service revenue was 64% as compared to 63% for the same period in 2009. The decrease in the cost of services year-over-year for the quarter was primarily a result of higher sales over our fixed cost structure.

Cost of Product Sales

Cost of sales expressed as a percentage of product sales revenue was 69% for the quarter ended September 30, 2010, down from 78% for the same period in 2009. For the nine months ended September 30, 2010, cost of product sales expressed as a percentage of sales revenue was 69%, down from 76% for the same period in 2009. The decrease in cost of sales as a percentage of product sale revenue was primarily due to the growing demand for our new technologies, which are our higher margin products, and from an overall increase in sales, which improved absorption of our fixed cost structure and increased manufacturing efficiencies.

General and Administrative Expenses

General and administrative expenses totaled \$8.4 million for the third quarter of 2010, down from \$9.2 million last quarter, but up 27% from the \$6.6 million incurred in the third quarter of 2009. For the nine months ended September 30, 2010 general and administrative expenses were \$24.0 million compared to \$22.6 million for the nine months ended September 30, 2009. The increase in general and administrative expenses was primarily due to compensation related expenses.

#### Depreciation and Amortization Expense

Depreciation and amortization expense decreased to \$5.8 million for the third quarter of 2010, down 3% when compared to \$6.0 million for the third quarter of 2009. For the nine months ended September 30, 2010, depreciation and amortization expense was \$17.3 million, a decrease of \$0.3 million from the nine months ended September 30, 2009.

[Return to Table of Contents](#)



## Other Expense (Income), Net

Other expense (income), net consisted of the following for the quarter ended September 30, 2010 and 2009 (in thousands):

|                                   | Three Months<br>Ended September<br>30,<br>2010 |            | Nine Months Ended<br>September 30,<br>2009 |            |
|-----------------------------------|--|------------|--|------------|
|                                   | (Unaudited)                                    |            | (Unaudited)                                |            |
| Loss (gain) on sale of assets     | \$ (88 )                                       | \$ 33      | \$ (80 )                                   | \$ (312 )  |
| Foreign exchange loss (gain)      | (547 )   | (859 )     | 1,074                                      | (1,868)    |
| Interest income                   | -  | (17 )      | (142 )                                     | (115 )     |
| Non-income tax accrual            | -  | -          | -  | (2,500)    |
| Rents and royalties               | (352 )   | (212 )     | (1,052)                                    | (1,061)    |
| Other, net                        | (11 )  | (177 )     | (308 )                                     | (146 )     |
| Total Other expense (income), net | \$ (998 )                                      | \$ (1,232) | \$ (508 )                                  | \$ (6,002) |

As a result of finalizing a non-income related tax settlement agreement, we released the remaining \$2.5 million of the contingent liability during the second quarter of 2009.

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

|                       | Three Months<br>Ended September<br>30,<br>2010 |           | Nine Months Ended<br>September 30,<br>2009 |            |
|-----------------------|--|-----------|--|------------|
|                       | (Unaudited)                                    |           | (Unaudited)                                |            |
| Australian Dollar     | \$ (213 )                                      | \$ (168 ) | \$ (110 )                                  | \$ (446 )  |
| British Pound         | (133 )   | 105       | 283  | (127 )     |
| Canadian Dollar       | (102 )   | (815 )    | (338 )                                     | (1,582)    |
| Euro                  | 76   | 35        | 1,665                                      | (178 )     |
| Russian Ruble         | (18 )  | (35 )     | (33 )                                      | 189        |
| Venezuelan Bolivar    | (10 )  | (1 )      | (201 )                                     | (2 )       |
| Other currencies, net | (147 )   | 20        | (192 )                                     | 278        |
| Total loss (gain)     | \$ (547 )                                      | \$ (859 ) | \$ 1,074                                   | \$ (1,868) |

## Loss on Exchange of Senior Exchangeable Notes

Under the terms of the Senior Exchangeable Notes (the "Notes"), the early exchange option for the holders of the Notes was enabled in the second and third quarters of 2010. As a result, the Notes could be exchanged during the third quarter of 2010 and will continue to be exchangeable during the fourth quarter of 2010. 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.

### Interest Expense

Interest expense for the three months ended September 30, 2010 and 2009 was \$4.0 million and \$3.9 million, respectively, and for the nine months ended September 30, 2010 and 2009, interest expense was \$12.2 million and \$11.5 million, respectively. The majority of this is non-cash interest expense due to the amortization of the discount on the Senior Exchangeable Notes.

### Income Tax Expense

The effective tax rates for the three months ended September 30, 2010 and 2009 were 30.2% and 22.8%, respectively. The lower effective tax rate for 2009 included an adjustment to income tax expense and deferred tax liabilities associated with monetary assets and liabilities of our foreign subsidiaries. The effective tax rates for year-to-date 2010 and 2009 were 30.9% and 31.0%, respectively. These rates reflect the change in activity levels between jurisdictions with different tax rates.

[Return to Table of Contents](#)

## Segment Analysis

Our operations are managed primarily in three complementary segments - Reservoir Description, Production Enhancement and Reservoir Management. The following tables summarize our results by operating segment for the three and nine months ended September 30, 2010 and 2009 (in thousands):

|                                  | Three Months Ended |            | % Change  |    |
|----------------------------------|--------------------|------------|-----------|----|
|                                  | September 30,      |            | 2010/2009 |    |
|                                  | 2010               | 2009       |           |    |
| Revenue:                         | (Unaudited)        |            |           |    |
| Reservoir Description            | \$ 106,485         | \$ 101,475 | 5         | %  |
| P r o d u c t i o n              |                    |            |           |    |
| Enhancement                      | 78,992             | 54,398     | 45        | %  |
| R e s e r v o i r                |                    |            |           |    |
| Management                       | 13,744             | 11,929     | 15        | %  |
| Consolidated                     | \$ 199,221         | \$ 167,802 | 19        | %  |
| Operating income:                |                    |            |           |    |
| Reservoir Description            | \$ 28,014          | \$ 26,792  | 5         | %  |
| P r o d u c t i o n              |                    |            |           |    |
| Enhancement                      | 26,260             | 14,627     | 80        | %  |
| R e s e r v o i r                |                    |            |           |    |
| Management                       | 5,535              | 3,498      | 58        | %  |
| Corporate and Other <sup>1</sup> | 408                | (718 )     |           | NM |
| Consolidated                     | \$ 60,217          | \$ 44,199  | 36        | %  |

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

"NM" means not meaningful

|                                  | Nine Months Ended |            | % Change  |    |
|----------------------------------|-------------------|------------|-----------|----|
|                                  | September 30,     |            | 2010/2009 |    |
|                                  | 2010              | 2009       |           |    |
| Revenue:                         | (Unaudited)       |            |           |    |
| Reservoir Description            | \$ 317,106        | \$ 307,477 | 3         | %  |
| P r o d u c t i o n              |                   |            |           |    |
| Enhancement                      | 227,553           | 169,512    | 34        | %  |
| R e s e r v o i r                |                   |            |           |    |
| Management                       | 41,801            | 36,951     | 13        | %  |
| Consolidated                     | \$ 586,460        | \$ 513,940 | 14        | %  |
| Operating income:                |                   |            |           |    |
| Reservoir Description            | \$ 78,229         | \$ 83,006  | (6        | %) |
| P r o d u c t i o n              |                   |            |           |    |
| Enhancement                      | 73,355            | 47,370     | 55        | %  |
| R e s e r v o i r                |                   |            |           |    |
| Management                       | 14,827            | 10,460     | 42        | %  |
| Corporate and Other <sup>1</sup> | (1,061 )          | 1,670      |           | NM |

|              |            |            |    |   |
|--------------|------------|------------|----|---|
| Consolidated | \$ 165,350 | \$ 142,506 | 16 | % |
|--------------|------------|------------|----|---|

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

"NM" means not meaningful

### Reservoir Description

Revenue from the Reservoir Description segment increased 5%, or \$5.0 million, to \$106.5 million in the third quarter of 2010, compared to \$101.5 million in the third quarter of 2009. For the nine months ended September 30, 2010, revenue increased 3%, or \$9.6 million, to \$317.1 million from \$307.5 million for the nine months ended September 30, 2009. This segment's operations continued to benefit from large-scale core analyses and advanced rock properties studies from the eastern Mediterranean region, the Middle East and offshore West Africa. This segment continued to realize increased demand for reservoir fluids phase-behavior studies, and for crude oil testing, inspection, distillation, assay, fractionation and characterization projects worldwide.

Operating income in the third quarter of 2010 increased by 5%, or \$1.2 million, to \$28.0 million compared to \$26.8 million for the third quarter of 2009. Operating income for the nine months ended September 30, 2010 decreased by 6%, or \$4.8 million, to \$78.2 million. Operating margins for the quarter and nine months ended September 30, 2010 were 26% and 25%, respectively, compared to 26% and 27% for the same periods in 2009, respectively. This segment continues to focus on emphasizing higher

[Return to Table of Contents](#)

value, and thus higher margin, services on internationally-based development and production-related crude oil projects in addition to de-emphasizing the more cyclical exploration-related projects.

#### Production Enhancement

Revenue from the Production Enhancement segment increased by 45%, or \$24.6 million, to \$79.0 million in the third quarter of 2010 as compared to \$54.4 million in the third quarter of 2009. Revenue increased by 34%, or \$58.1 million, to \$227.6 million for the nine months ended September 30, 2010 as compared to \$169.5 million for the same period in 2009. The revenue increase was due to the increased acceptance by our clients of our high margin completion products as well as our fracture diagnostic services, and an increased market share of our perforating charges and gun systems particularly in the North American markets relating to horizontal well developments of gas-shale and oil-shale reservoirs and for projects to rework the oilfields in Iraq.

Operating income in the third quarter of 2010 increased by 80%, or \$11.7 million, to \$26.3 million from \$14.6 million for the third quarter of 2009. Operating margins increased to 33% in the third quarter of 2010 compared to 27% for the same period in 2009. For the nine months ended September 30, 2010, operating income increased to \$73.4 million, an increase of 55% over the same period in 2009. Operating margins increased to 32% in the nine months ended September 30, 2010 compared to 28% for the same period in 2009. The increase in margins was primarily driven by our continued market penetration of higher-margin services including our proprietary and patented diagnostic technologies, such as SpectraChem® Plus+, SpectraScan®, ZeroWash®, and our HERO™ line of perforating charges and gun systems and our new Horizontal Time-Delayed Ballistics Actuated Sequential Transfer (HTD Blast™) perforating system which is used for the perforation of extended-reach horizontal completions. This segment also began providing high margin completion and recompletion technologies and services to be used in the reworking of major, giant, and super-giant fields in southern Iraq.

#### Reservoir Management

Revenue from the Reservoir Management segment increased by 15% in the third quarter of 2010 compared to the third quarter of 2009. Revenue for the nine months ended September 30, 2010 were \$41.8 million, an increase of 13% from \$37.0 million from the same period in 2009. The increase in revenue was due to ongoing interest in several of our existing multi-client reservoir studies including studies in the Montney Shale in northeastern British Columbia and northern Alberta, and the Eagle Ford Shale in south Texas, along with the continued participation in our North American Gas Shale Study and our Worldwide Oil and Natural Gas Shale Reservoir Study. In addition, increased revenue was provided by our proprietary studies which parallel our joint-industry projects, including studies of offshore Ivory Coast, Ghana and Nigeria, a gas-shale reconnaissance project in Indonesia and detailed proprietary reservoir studies for several companies active in the Wolfberry play in West Texas.

Operating income in the third quarter of 2010 increased 58% to \$5.5 million from \$3.5 million for the third quarter of 2009. For the nine months ended September 30, 2010, operating income increased 42%, to \$14.8 million, compared to operating income of \$10.5 million from the same period in 2009. The increase in operating income was primarily related to growth in our consortium projects and the delivery of completed consortium projects.

#### Liquidity and Capital Resources

##### General

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

We utilize the non-GAAP financial measure of free cash flow to evaluate our cash flows and results of operations. Free cash flow is defined as net cash provided by operating activities (which is the most directly comparable GAAP measure) less capital expenditures. Management believes that free cash flow provides useful information to investors regarding the cash that was available in the period that was in excess of our needs to fund our capital expenditures and operating activities. Free cash flow is not a measure of operating performance under GAAP, and should not be considered in isolation nor construed as an alternative to operating profit, net income (loss) or cash flows from operating, investing or financing activities, each as determined in accordance with GAAP. Free cash flow does not represent residual cash available for distribution because we may have other non-discretionary expenditures that are not deducted from the measure. Moreover, since free cash flow is not a measure determined in accordance with GAAP and thus is susceptible to varying interpretations and calculations, free cash flow as presented, may not be comparable to similarly titled measures presented by other companies. The following table reconciles this non-GAAP financial measure to the most directly comparable measure calculated and presented in accordance with GAAP for the nine months ended September 30, 2010 and 2009 (in thousands):

[Return to Table of Contents](#)

|   | Nine Months Ended |            | % Change  |   |
|---|-------------------|------------|-----------|---|
|   | September 30,     |            | 2010/2009 |   |
|   | 2010              | 2009       |           |   |
| Free cash flow calculation:               | (Unaudited)       |            |           |   |
| Net cash provided by operating activities | \$ 169,129        | \$ 144,914 | 17        | % |
| Less: capital expenditures                | 19,661            | 9,994      | 97        | % |
| Free cash flow                            | \$ 149,468        | \$ 134,920 | 11        | % |

The increase in free cash flow in 2010 compared to 2009 was due to an increase in net income and improved working capital, excluding cash and senior exchangeable notes, partially offset by an increase in capital expenditures.

#### Cash Flows

The following table summarizes cash flows for the nine months ended September 30, 2010 and 2009 (in thousands):

|   | Nine Months Ended |            | % Change  |    |
|---|-------------------|------------|-----------|----|
|   | September 30,     |            | 2010/2009 |    |
|   | 2010              | 2009       |           |    |
| Cash provided by/(used in):             | (Unaudited)       |            |           |    |
| Operating activities                    | \$ 169,129        | \$ 144,914 | 17        | %  |
| Investing activities                    | (29,636 )         | (10,846 )  | 173       | %  |
| Financing activities                    | (152,585 )        | (32,981 )  | 363       | %  |
| Net change in cash and cash equivalents | \$ (13,092 )      | \$ 101,087 | (113      | %) |

The increase in cash flows provided by operating activities was primarily attributable to an increase in net income and improved working capital, excluding cash and Senior Exchangeable Notes.

Cash flows used in investing activities increased due to higher capital expenditures of \$9.7 million more in 2010 than in 2009, and an acquisition for \$9.0 million during the first quarter of 2010.

The increase in cash flows used in financing activities relates primarily to an increase in the number of shares repurchased under our common share repurchase program. In the first nine months of 2010, we repurchased 1,488,269 shares for an aggregate price of \$92.1 million compared to 136,871 shares for an aggregate price of \$9.1 million during the same period in 2009. In addition, we received 10 notices during the second and third quarters of 2010 to exchange 24,366 of our \$1,000 face value Notes which were settled during the third quarter for \$24.4 million in cash and 224,338 of our common stock, all of which were treasury shares. In the first quarter of 2010, our Board of Directors announced a 20% increase to our quarterly dividend and in the third quarter, our special dividend was increased from \$0.375 per share to \$0.65 per share resulting in an increase of \$13.0 million in dividends paid during 2010 over 2009.

#### Credit Facilities and Available Future Liquidity

In 2006, Core Laboratories LP, a wholly owned subsidiary of Core Laboratories N.V., issued \$300 million aggregate principal amount of Senior Exchangeable Notes which are fully and unconditionally guaranteed by Core Laboratories N.V. and mature on October 31, 2011.

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 principal 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.

[Return to Table of Contents](#)



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 extensions. Interest payment terms are variable depending upon the specific type of borrowing under this facility. Our available borrowing capacity under the Credit Facility is reduced by outstanding letters of credit and performance guarantees and bonds arranged under the Credit Facility which totaled \$12.6 million at September 30, 2010 and related 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.

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.

Our ability to maintain and grow our operating income and cash flow depends, to a large extent, on continued investing activities. We are a Netherlands holding company and substantially all of our operations are conducted through subsidiaries. Consequently, our cash flow depends upon the ability of our subsidiaries to pay cash dividends or otherwise distribute or advance funds to us. We believe our future cash flows from operations, supplemented by our borrowing capacity and issuances of additional equity, should be sufficient to fund our debt requirements, capital expenditures, working capital, dividend payments and future acquisitions.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in market risk from the information provided in Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

### Item 4. Controls and Procedures

A complete discussion of our controls and procedures is included in our Annual Report on Form 10-K for the year ended December 31, 2009.

#### 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, 2010 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 our fiscal quarter ended September 30, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

[Return to Table of Contents](#)

CORE LABORATORIES N.V.

## PART II - OTHER INFORMATION

## Item 1. Legal Proceedings

See Note 6 of Consolidated Interim Financial Statements in Part I, Item 1.

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

During the quarter ended September 30, 2010, we issued 224,338 shares of our common stock upon conversion by holders of \$24.4 million aggregate principal amount of our Senior Exchangeable Notes. Such shares were issued in transactions exempt from registration under Section 3(a)(9) of the Securities Act of 1933, as amended.

The following table provides information about purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the quarter ended September 30, 2010:

| Period                   | Total Number<br>of<br>Shares<br>Purchased | Average Price<br>Paid<br>Per Share | Total Number<br>of Shares<br>Purchased as<br>Part of a<br>Publicly<br>Announced<br>Program | Maximum<br>Number of<br>Shares That May<br>Yet be Purchased<br>Under the<br>Program (3) |
|--------------------------|---|------------------------------------|--|---|
| July 1-31, 2010 (1)      | 625                                       | \$ 77.96                           | 625  | 6,703,820   |
| August 1-31, 2010<br>(2) | 4,364                                     | 78.31                              | 4,364  | 6,724,213   |
| September 1-30,<br>2010  | -   | -                                  | -  | 7,917,510   |
| Total                    | 4,989                                     | \$ 78.27                           | 4,989  |   |

(1) Contains 625 shares valued at approximately \$48 thousand, or \$77.96 per share, surrendered to us by participants in a stock-based compensation plan to settle any personal tax liabilities which may result from the award in July 2010.

(2) Contains 4,364 shares valued at approximately \$0.3 million, or \$78.31 per share, surrendered to us by participants in a stock-based compensation plan to settle any personal tax liabilities which may result from the award in August 2010.

(3) In connection with our initial public offering in September 1995, our shareholders authorized our Management Board to repurchase up to 10% of our issued share capital, the maximum allowed under Dutch law at the time, for a period of 18 months. This authorization was renewed at subsequent annual or special shareholder meetings. At our annual shareholders' meeting on June 10, 2010, following a change in Dutch law that permitted us to repurchase up to 50% of our issued share capital in open market purchases, subject to shareholder approval, our shareholders authorized an extension through December 10, 2011 to purchase up to 25.6% of our issued share capital, consisting of 10% of our issued shares and an additional 15.6% of our issued shares to fulfill obligations relating to the Notes or warrants. The repurchase of shares in the open market is at the discretion of management pursuant to this shareholder authorization.

[Return to Table of Contents](#)

| Exhibit No. | Exhibit Title  | Incorporated by reference from the following documents            |
|-------------|--|---|
| 3.1         | - Articles of Association of Core Laboratories N.V., as amended (including English translation)  | Exhibit 3.1 filed on July 26, 2010 with 10-Q (File No. 001-14273) |
| 31.1        | - Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith  |
| 31.2        | - Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith  |
| 32.1        | - Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                | Furnished herewith  |
| 32.2        | - Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                | Furnished herewith  |

[Return to Table of Contents](#)

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.

By: Core Laboratories International  
B.V., its  
Managing Director

Date: October 25, 2010

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

[Return to Table of Contents](#)

