CORE LABORATORIES N V
Form 10-Q
October 22, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from ________________ to ______________

Commission File Number: 001-14273

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

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

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

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

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

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

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

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

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

The number of common shares of the registrant, par value EUR 0.04 per share, outstanding at October 21, 2009 was 22,981,112.

CORE LABORATORIES N.V.
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2009

INDEX

		Page
	PART I - FINANCIAL INFORMATION	
Item 1.	Financial Statements	
	Consolidated Balance Sheets (Unaudited) at September 30, 2009 and December 31, 2008	1
	Consolidated Statements of Operations (Unaudited) for the Three Months Ended September 30, 2009 and 2008	2
	Consolidated Statements of Operations (Unaudited) for the Nine Months Ended September 30, 2009 and 2008	3
	Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2009 and 2008	4
	Notes to the Unaudited Consolidated Interim Financial Statements	5
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	19
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	27
Item 4.	Controls and Procedures	27
	PART II - OTHER INFORMATION	
Item 1.	Legal Proceedings	28
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 6.	Exhibits	29
	Signature	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 30, 2009		December 31, 2008
ASSETS		(Unaudited)		
CURRENT ASSETS:				
Cash and cash equivalents	$	137,225	$	36,138
Accounts receivable, net of allowance for doubtful accounts of $4,544 and $3,535 at 2009 and 2008, respectively		117,981		144,293
Inventories, net		34,317		34,838
Prepaid expenses and other current assets		18,759		20,376
TOTAL CURRENT ASSETS		308,282		235,645
PROPERTY, PLANT AND EQUIPMENT, net		97,966		103,463
INTANGIBLES, net		6,637		6,992
GOODWILL		148,600		148,600
DEFERRED TAX ASSET		17,123		17,708
OTHER ASSETS		12,191		9,127
TOTAL ASSETS	$	590,799	$	521,535
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	27,981	$	41,588
Accrued payroll and related costs		25,174		28,637
Taxes other than payroll and income		7,766		7,949
Unearned revenues		6,615		7,932
Income tax payable		7,140		-
Other accrued expenses		10,938		9,584
TOTAL CURRENT LIABILITIES		85,614		95,690
LONG-TERM DEBT		205,377		194,568
DEFERRED COMPENSATION		16,124		12,815
OTHER LONG-TERM LIABILITIES		33,625		30,177
COMMITMENTS AND CONTINGENCIES				
EQUITY:				
Preference shares, EUR 0.04 par value; 3,000,000 shares authorized, none issued or outstanding		-		-
Common shares, EUR 0.04 par value; 100,000,000 shares authorized, 25,519,956 issued and 22,980,612 outstanding at 2009				

and 25,519,956 issued and 23,020,033 outstanding at 2008		1,430			1,430	
Additional paid-in capital		50,134			53,019	
Retained earnings		448,136			382,266	
Accumulated other comprehensive (loss)		(4,751	)		(4,927	)
Treasury shares (at cost), 2,539,344 at 2009 and 2,499,923 at 2008		(247,133	)		(245,661	)
Total Core Laboratories N.V. shareholders' equity		247,816			186,127	
Non-controlling interest		2,243			2,158	
TOTAL EQUITY		250,059			188,285	
TOTAL LIABILITIES AND EQUITY	$	590,799		$	521,535	

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

Return to index

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

	Three Months Ended September 30, 2009	2008
	(Unaudited)	
REVENUES:		
Services	$ 133,819	$ 154,297
Product sales	33,983	48,226
	167,802	202,523
OPERATING EXPENSES:		
Cost of services, exclusive of depreciation expense shown below	85,792	100,264
Cost of product sales, exclusive of depreciation expense shown below	26,383	33,941
General and administrative expenses	6,637	6,857
Depreciation	5,840	5,355
Amortization	183	207
Other expense (income), net	(1,232)	726
OPERATING INCOME	44,199	55,173
Interest expense	3,895	4,593
Income before income tax expense	40,304	50,580
Income tax expense	9,189	13,643
Net income	31,115	36,937
Net income attributable to non-controlling interest	127	103
Net income attributable to Core Laboratories N.V.	$ 30,988	$ 36,834
EARNINGS PER SHARE INFORMATION:		
Basic earnings per share attributable to Core Laboratories N.V.	$ 1.35	$ 1.60
Diluted earnings per share attributable to Core Laboratories N.V.	$ 1.33	$ 1.53
Cash dividends per share	$ 0.85	$ 1.10
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	22,969	23,034
Diluted	23,250	24,082

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

Return to index

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

	Nine Months Ended September 30,	
	2009	2008
	(Unaudited)	
REVENUES:		
Services	$ 410,182	$ 446,700
Product sales	103,758	132,948
	513,940	579,648
OPERATING EXPENSES:		
Cost of services, exclusive of depreciation expense shown below	258,489	291,315
Cost of product sales, exclusive of depreciation expense shown below	78,715	93,273
General and administrative expenses	22,595	22,305
Depreciation	17,091	15,569
Amortization	546	508
Other expense (income), net	(6,002)	2,038
OPERATING INCOME	142,506	154,640
Interest expense	11,535	17,375
Income before income tax expense	130,971	137,265
Income tax expense	40,653	41,034
Net income	90,318	96,231
Net income attributable to non-controlling interest	331	283
Net income attributable to Core Laboratories N.V.	$ 89,987	$ 95,948
EARNINGS PER SHARE INFORMATION:		
Basic earnings per share attributable to Core Laboratories N.V.	$ 3.92	$ 4.17
Diluted earnings per share attributable to Core Laboratories N.V.	$ 3.88	$ 3.97
Cash dividends per share	$ 1.05	$ 1.10
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	22,965	23,004
Diluted	23,211	24,164

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

Return to index

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

	Nine Months Ended September 30, 2009	2008
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 90,318	$ 96,231
Adjustments to reconcile net income to net cash provided by operating activities:		
Net provision for (recoveries of) doubtful accounts	1,487	(158)
Provisions for inventory obsolescence	362	252
Equity in earnings of affiliates	(103)	(297)
Stock-based compensation	4,261	3,886
Depreciation and amortization	17,637	16,077
Non-cash interest expense	10,917	16,577
Gain on sale of assets	(312)	(1,719)
Realization of pension obligation	176	59
(Increase) decrease in value of life insurance policies	(1,640)	2,027
Deferred income taxes	3,853	(12,761)
Changes in assets and liabilities:		
Accounts receivable	24,825	(11,068)
Inventories	159	(3,148)
Prepaid expenses and other current assets	(1,434)	7,472
Other assets	(246)	(473)
Accounts payable	(13,607)	(1,021)
Accrued expenses	2,409	(1,713)
Other long-term liabilities	5,852	(86)
Net cash provided by operating activities	144,914	110,137
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(9,994)	(21,603)
Patents and other intangibles	(191)	(255)
Acquisitions, net of cash acquired	-	(11,536)
Non-controlling interest - contributions	-	370
Proceeds from sale of assets	522	3,314
Premiums on life insurance	(1,183)	(1,175)
Net cash used in investing activities	(10,846)	(30,885)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt borrowings	-	(8,024)
Proceeds from debt borrowings	-	5,000
Capital lease obligations	-	(130)
Stock options exercised	399	690

Excess tax benefits from stock-based compensation		127		11,037
Non-controlling interest - dividends		(246)		-
Dividends paid		(24,117)		(25,342)
Repurchase of common shares		(9,144)		(29,825)
Net cash used in financing activities		(32,981)		(46,594)
NET CHANGE IN CASH AND CASH EQUIVALENTS		101,087		32,658
CASH AND CASH EQUIVALENTS, beginning of period		36,138		25,617
CASH AND CASH EQUIVALENTS, end of period	$	137,225	$	58,275
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 index

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

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Core Laboratories N.V. and its subsidiaries for which we have a controlling voting interest and/or a controlling financial interest. These financial statements have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") for interim financial information using the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all of the information and footnote disclosures required by U.S. GAAP and should be read in conjunction with the financial statements and the summary of significant accounting policies and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2008.

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 a fair presentation 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, 2009 may not necessarily be indicative of the results that may be expected for the year ending December 31, 2009. We have performed an evaluation of subsequent events through October 22, 2009, which is the date the financial statements were issued.

Core Laboratories N.V.'s balance sheet information for the year ended December 31, 2008 was derived from the 2008 audited consolidated financial statements as revised for the recently adopted accounting principles, but does not include all disclosures in accordance with GAAP.

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

2. INVENTORIES

Inventories consist of the following (in thousands):

	September 30, 2009 (Unaudited)	December 31, 2008
Finished goods	$ 22,080	$ 26,785
Parts and materials	10,981	7,190
Work in progress	1,256	863
Total inventories, net	$ 34,317	$ 34,838

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 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 did not identify a triggering event; therefore, we have determined that goodwill is not impaired. We amortize intangible assets with a defined term on a straight-line basis over their respective useful lives.

There were no other significant changes relating to our intangible assets for the nine months ended September 30, 2009. The remaining composition of goodwill by business segment at September 30, 2009 is consistent with the amounts disclosed in our Annual Report on Form 10-K as of December 31, 2008.

Return to index

4. DEBT AND CAPITAL LEASE OBLIGATIONS

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

	September 30, 2009	December 31, 2008
	(Unaudited)	
Senior exchangeable notes	$ 238,658	$ 238,658
Discount on senior exchangeable notes	(33,281)	(44,090)
Net senior exchangeable notes	$ 205,377	$ 194,568

In 2006, Core Laboratories LP, a wholly owned subsidiary of Core Laboratories N.V., issued $300 million aggregate principal amount of Senior Exchangeable Notes ("Notes") which are fully and unconditionally guaranteed by Core Laboratories N.V. and due November 2011. The Notes bear interest at a rate of 0.25% per year paid on a semi-annual basis resulting in interest payments of $0.1 million and $0.2 million for the three months ended September 30, 2009 and 2008, respectively, and $0.4 million and $0.6 million for the nine months ended September 30, 2009 and 2008, respectively.

On January 1, 2009, we adopted the accounting guidance issued for debt with conversion and other options, which specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The adoption of these accounting standards on January 1, 2009 impacted the historical accounting for our Notes and resulted in an increase to Additional Paid in Capital of $51.9 million and Deferred Tax Liabilities of $16.1 million with an offset to Retained Earnings of $23.9 million and a discount on the Notes of $44.1 million. The impact to net income and to diluted earnings per share was a decrease of $2.7 million and $6.6 million and $0.11 and $0.27 for the three and nine months ended September 30, 2008, respectively. The discount will be amortized into interest expense through November 2011.

With the additional amortization of the discount on the Notes, the effective interest rate is 7.48% for the period ended September 30, 2009, which resulted in additional non-cash interest expense of $3.7 million and $4.3 million for the three months ended September 30, 2009 and 2008, respectively, and $10.8 million and $12.6 million for the nine months ended September 30, 2009 and 2008, respectively. Each Note carries a $1,000 principal amount and is exchangeable into shares of Core Laboratories N.V. under certain circumstances at a conversion rate of $92.67 or 10.7904 per Note. Upon exchange, holders will receive cash up to the principal amount, and any excess exchange value will be delivered in Core Laboratories N.V. common shares. The carrying value of the equity component of the Notes was $84.4 million at September 30, 2009 and December 31, 2008. At September 30, 2009, the Notes were trading at 120.6% of their face value. There are 238,658 Notes outstanding at September 30, 2009.

As part of the issuance of the Notes, we entered into an exchangeable senior note hedge transaction in October 2006 (the "Call Option") through one of our subsidiaries with Lehman Brothers OTC Derivatives Inc. ("Lehman OTC") whereby Lehman OTC is obligated to deliver to us an amount of shares required to cover the shares issuable upon conversion of the Notes. On October 3, 2008, Lehman OTC filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Although we may not retain the benefit of the Call Option if Lehman OTC fails to perform under the contract, we believe the impact will not be material and would not affect our income statement presentation. In addition, we do not expect Lehman OTC's default to result in a significant impact on our balance sheet as the Call Option was initially recorded as an equity transaction. On September 3, 2009, the subsidiary involved in the Call Option filed a proof of claim in the Lehman OTC bankruptcy case related to the Call Option hedge transaction in the amount of $90.1 million; however, we are currently unable to ascertain what value will be established for our unsecured position or how this will ultimately be resolved through Lehman OTC’s bankruptcy proceedings.

Separate from the Call Option, we also sold to Lehman OTC warrants, for which we received consideration, to purchase up to 3.2 million common shares at an exercise price of $124.76. The warrants become exercisable beginning in late December 2011 and expire in January 2012. The warrants have subsequently been purchased from Lehman OTC by a third party.

The derivative transactions described above do not affect the terms of the outstanding Notes.

In addition, 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. 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 unsecured letters of credit and performance guarantees and bonds arranged under the Credit Facility which total $11.5 million at September 30, 2009 and relate to certain projects in progress. Our available borrowing capacity under the Credit Facility at September 30, 2009 was $88.5 million. As of September 30, 2009, we had $25.1 million of outstanding unsecured letters of credit and performance guarantees and bonds in addition to those under the Credit Facility.

Return to index

5. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

We provide a noncontributory defined benefit pension plan covering substantially all of our Dutch employees, payouts under which are determined 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 this plan by purchasing investment contracts from a large insurance company. We make annual premium payments, based on each employee's age and current salary, to the insurance company.

The following table summarizes the components of net periodic pension cost under this plan for the three and nine months ended September 30, 2009 and 2008 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Unaudited)		(Unaudited)	
Service cost	$ 278	$ 296	$ 796	$ 884
Interest cost	356	347	1,019	1,042
Expected return on plan assets	(196)	(317)	(560)	(945)
Amortization of transition asset	(22)	(28)	(66)	(79)
Amortization of prior service cost	40	48	120	138
Amortization of net loss	61	-	183	-
Net periodic pension cost	$ 517	$ 346	$ 1,492	$ 1,040

During the nine months ended September 30, 2009, we contributed approximately $2.5 million, as determined by the insurance company, to fund the estimated 2009 premiums on investment contracts held by the plan.

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):

(Unaudited)		Fair Value Measurement at September 30, 2009		
	Total	Level 1	Level 2	Level 3
Assets:				
Other investment fund assets	$ 5,542	$ -	$ 5,542	$ -
Liabilities:				
Deferred compensation plan	$ 8,401	$ 1,118	$ 7,283	$ -

		Fair Value Measurement at December 31, 2008		
	Total	Level 1	Level 2	Level 3
Assets:				
Money market and other investment fund assets	$ 14,576	$ 10,954	$ 3,622	$ -

Liabilities:				
Deferred compensation plan	$ 5,746	$ 478	$ 5,268	$ -

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 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.

Return to index

6. COMMITMENTS AND CONTINGENCIES

From time to time, we may be subject to legal proceedings and claims that arise in the ordinary course of business. We believe that the resolution of all litigation currently pending or threatened against us or any of our subsidiaries should not have a material adverse effect on our consolidated financial condition, results of operations or liquidity; however, because of the inherent uncertainty of litigation, we cannot provide assurance that the resolution of any particular claim or proceeding to which we or any of our subsidiaries is a party will not have a material adverse effect on our consolidated results of operations or liquidity for the period in which that resolution occurs.

During the first quarter of 2008 we revised our estimate of a contingent liability associated with non-income related taxes, and as a result, a charge to income of $5.0 million was recorded in the Consolidated Statements of Operations to Other Expense (Income), net. The contingent liability is included in Other Long-term Liabilities in the Consolidated Balance Sheet. As a result of finalizing a settlement agreement, we released $2.5 million of the contingent liability, to Other Expense (Income), net in the Consolidated Statements of Operations during the second quarter of 2009.

7. EQUITY

During the three months ended September 30, 2009, we repurchased 2,547 of our common shares for $0.3 million 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 this plan. During the nine months ended September 30, 2009, we repurchased 136,871 of our common shares for $9.1 million. Included in this total were rights to 18,871 shares valued at $1.5 million that were surrendered to the Company 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 this plan. Such common shares, unless cancelled, may be reissued for a variety of purposes such as future acquisitions, settlement of employee stock awards, or possible conversion of the Notes.

During the nine months ended September 30, 2009, we recognized tax benefits of $0.1 million, 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.

On March 2, May 27 and August 24, 2009, we paid a dividend of $0.10 per share of common stock, and on August 24, 2009, a special dividend of $0.75 per share of common stock was paid. In addition, on October 13, 2009, we declared a quarterly dividend of $0.10 per share of common stock for shareholders of record on October 23, 2009 and payable on November 23, 2009.

Return to index

The following table summarizes our changes in equity for the nine months ended September 30, 2009 (in thousands):

(Unaudited)	Common Shares	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-Controlling Interest	Total Equity
December 31, 2008	$1,430	$53,019	$382,266	$ (4,927)	$(245,661)	$2,158	$188,285
Stock options exercised	-	(1,736)	-	-	2,135	-	399
Stock based-awards	-	(1,276)	-	-	5,538	-	4,262
Tax benefit of stock-based awards issued	-	127	-	-	-	-	127
Repurchase of common shares	-	-	-	-	(9,145)	-	(9,145)
Dividends paid	-	-	(24,117)	-	-	-	(24,117)
Non-controlling interest dividend	-	-	-	-	-	(246)	(246)
Comprehensive income:							
Amortization of pension, net of tax	-	-	-	176	-	-	176
Net income	-	-	89,987	-	-	331	90,318
Total comprehensive income							90,494
September 30, 2009	$1,430	$50,134	$448,136	$ (4,751)	$(247,133)	$2,243	$250,059

Comprehensive Income

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

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
	(Unaudited)		(Unaudited)	
Net income	$ 31,115	$ 36,937	$ 90,318	$ 96,231
Realization of pension obligation	59	20	176	59
Total comprehensive income	$ 31,174	$ 36,957	$ 90,494	$ 96,290

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

	September 30, 2009 (Unaudited)	December 31, 2008
Prior service cost	$ (1,000)	$ (1,089)
Transition asset	405	454
Unrecognized net actuarial loss	(4,156)	(4,292)
Total accumulated other comprehensive loss	$ (4,751)	$ (4,927)

Non-controlling Interests

On January 1, 2009, we adopted the accounting standards related to non-controlling interests, which requires companies with non-controlling interests to disclose such interests clearly as a portion of equity separate from the parent's equity and the amount of consolidated net income attributable to these non-controlling interests must also be clearly presented on the Consolidated Statements of Operations. In addition, when a subsidiary is deconsolidated, any retained non-controlling equity investment in the former subsidiary will be initially measured at fair value and recorded as a gain or loss. Upon adopting this accounting standard, we revised our historical presentation of non-controlling interests to be included as part of the total equity and presented the net income relating to non-controlling interests as a separate component of total net income.

Return to index

8. EARNINGS PER SHARE

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Unaudited)		(Unaudited)	
Weighted average basic common shares outstanding	22,969	23,034	22,965	23,004
Effect of dilutive securities:				
Stock options	44	112	62	139
Contingent shares	20	13	16	29
Restricted stock and other	217	190	168	173
Senior exchangeable notes and warrants	-	733	-	819
Weighted average diluted common and potential common shares outstanding	23,250	24,082	23,211	24,164

In 2006, we sold warrants that give the holder the right to acquire up to approximately 3.2 million of our common shares above an exercise price of $124.76 per share. Included in the Senior exchangeable notes and warrants line in the table above, these warrants had no dilutive impact on our earnings per share for the three and nine months ended September 30, 2009, as the average share price did not exceed the strike price of the warrants for the periods. On October 3, 2008, the dealer of the warrants filed for bankruptcy protection and subsequently sold the warrants to a third-party dealer.

9. OTHER EXPENSE (INCOME), NET

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Unaudited)		(Unaudited)	
(Gain) loss on sale of assets	$ 33	$ (125)	$ (312)	$ (1,719)
Foreign exchange loss (gain)	(859)	2,364	(1,868)	1,885
Interest income	(17)	(392)	(115)	(685)
Non-income tax accrual	-	-	(2,500)	5,030
Other, net	(389)	(1,121)	(1,207)	(2,473)

Total other expense (income), net	$ (1,232)	$ 726	$ (6,002)	$ 2,038

During the first quarter of 2008, we revised our estimate of a contingent liability associated with non-income related taxes, and as a result, a charge to income of $5.0 million was recorded. During the second quarter of 2009 we released $2.5 million of the contingent liability as a result of finalizing a settlement agreement. Additionally in 2008, we recorded a gain of $1.1 million in connection with the sale of a small office building.

Return to index

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
	(Unaudited)		(Unaudited)	
Australian Dollar	$ (168)	$ 384	$ (446)	$ 353
British Pound	105	308	(127)	320
Canadian Dollar	(815)	498	(1,582)	774
Euro	35	241	(178)	(153)
Mexican Peso	(2)	195	-	102
Russian Ruble	(35)	283	189	22
Other currencies, net	21	455	276	467
Total loss (gain)	$ (859)	$ 2,364	$ (1,868)	$ 1,885

10. INCOME TAX EXPENSE

The effective tax rates for the three months ended September 30, 2009 and 2008 were 22.8% and 27.0%, respectively. The lower effective tax rate reflects the change in activity levels between jurisdictions with different tax rates in addition to an adjustment to correctly state income tax expense and deferred tax liabilities associated with monetary assets and liabilities of our foreign subsidiaries. The adjustment decreased Income Tax Expense by $2.2 million, increased Net Income by $2.2 million and increased Earnings per Diluted Share by $0.10 for the three months ending September 30, 2009. The impact to prior periods and to estimated income for the full fiscal year is immaterial for the effect of the adjustment.

The effective tax rates for the nine months ended September 30, 2009 and 2008 were 31.0% and 29.9%, respectively. The slight increase is attributable to the change in activity levels between jurisdictions with different tax rates, the establishment of valuation allowances in 2009 against deferred tax assets in tax jurisdictions where we no longer anticipate having sufficient taxable income to fully utilize these deferred tax assets, the recording of discrete tax benefits and liabilities and the aforementioned adjustment in 2009.

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):

Return to index

(Unaudited)	Reservoir Description	Production Enhancement	Reservoir Management	Corporate & Other 1	Consolidated
Three Months Ended September 30, 2009					
Revenues from unaffiliated customers	$ 101,475	$ 54,398	$ 11,929	$ -	$ 167,802
Inter-segment revenues	332	317	636	(1,285)	-
Segment operating 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 amortization	3,659	1,492	175	697	6,023
Three Months Ended September 30, 2008					
Revenues from unaffiliated customers	$ 112,037	$ 78,848	$ 11,638	$ -	$ 202,523
Inter-segment revenues	173	275	430	(878)	-
Segment operating income (loss)	25,531	26,649	3,089	(96)	55,173
Total assets	267,369	177,279	17,068	82,009	543,725
Capital expenditures	5,524	2,029	181	212	7,946
Depreciation and amortization	3,302	1,349	156	755	5,562
Nine Months Ended September 30, 2009					
Revenues from unaffiliated customers	$ 307,477	$ 169,512	$ 36,951	$ -	$ 513,940
Inter-segment revenues	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
Nine Months Ended September 30, 2008					
Revenues from unaffiliated	$ 326,695	$ 217,578	$ 35,375	$ -	$ 579,648

customers					
Inter-segment revenues	702	831	1,096	(2,629)	-
Segment operating income (loss)	77,608	71,758	10,278	(5,004)	154,640
Total assets	267,369	177,279	17,068	82,009	543,725
Capital expenditures	13,131	6,283	370	1,819	21,603
Depreciation and amortization	9,272	4,107	455	2,243	16,077

(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 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, 2009 and December 31, 2008, statements of operations for each of three and nine months ended September 30, 2009 and 2008 and the statements of cash flows for each of the nine months ended September 30, 2009 and 2008 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 index

Condensed Consolidating Balance Sheets
(Unaudited)

(In thousands)	September 30, 2009				
	Core Laboratories N.V. (Parent/ Guarantor)	Core Laboratories LP (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 44,110	$ 77,490	$ 15,625	$ -	$ 137,225
Accounts receivable, net	1	26,155	91,825	-	117,981
Inventories, net	-	2,850	31,467	-	34,317
Prepaid expenses and other current assets	6,250	3,252	9,257	-	18,759
Total current assets	50,361	109,747	148,174	-	308,282
PROPERTY, PLANT AND EQUIPMENT, net	-	22,192	75,774	-	97,966
GOODWILL AND INTANGIBLES, net	46,986	8,030	100,221	-	155,237
INTERCOMPANY RECEIVABLES	60,621	233,311	402,043	(695,975)	-
INVESTMENT IN AFFILIATES	508,368	-	1,344,523	(1,852,554)	337
DEFERRED TAX ASSET	2,744	9,100	5,279	-	17,123
OTHER ASSETS	2,737	7,504	1,613	-	11,854
TOTAL ASSETS	$ 671,817	$ 389,884	$ 2,077,627	$ (2,548,529)	$ 590,799
LIABILITIES AND EQUITY					
CURRENT LIABILITIES:					
Accounts payable	$ 516	$ 4,955	$ 22,510	$ -	$ 27,981
Other accrued expenses	3,492	27,753	26,388	-	57,633
Total current liabilities	4,008	32,708	48,898	-	85,614
LONG-TERM DEBT	-	205,377	-	-	205,377
DEFERRED COMPENSATION	6,398	9,043	683	-	16,124
INTERCOMPANY PAYABLES	398,250	28,247	269,478	(695,975)	-
OTHER LONG-TERM LIABILITIES	15,345	10,981	7,299	-	33,625
SHAREHOLDERS' EQUITY	247,816	103,528	1,749,026	(1,852,554)	247,816
	-	-	2,243	-	2,243

NON-CONTROLLING INTEREST					
TOTAL EQUITY	247,816	103,528	1,751,269	(1,852,554)	250,059
TOTAL LIABILITIES AND EQUITY	$ 671,817	$ 389,884	$ 2,077,627	$ (2,548,529)	$ 590,799

Return to index

Condensed Consolidating Balance Sheets
(Unaudited)

(In thousands)	December 31, 2008				
	Core Laboratories N.V. (Parent/ Guarantor)	Core Laboratories LP (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 13,347	$ 11,027	$ 11,764	$ -	$ 36,138
Accounts receivable, net	232	34,346	109,715	-	144,293
Inventories, net	-	3,683	31,155	-	34,838
Prepaid expenses and other current assets	4,989	6,630	8,757	-	20,376
Total current assets	18,568	55,686	161,391	-	235,645
PROPERTY, PLANT AND EQUIPMENT, net	-	24,072	79,391	-	103,463
GOODWILL AND INTANGIBLES, net	46,986	8,303	100,303	-	155,592
INTERCOMPANY RECEIVABLES	108,491	318,780	456,421	(883,692)	-
INVESTMENT IN AFFILIATES	389,500	-	1,147,137	(1,536,296)	341
DEFERRED TAX ASSET	3,283	10,179	4,246	-	17,708
OTHER ASSETS	2,319	5,215	1,252	-	8,786
TOTAL ASSETS	$ 569,147	$ 422,235	$ 1,950,141	$ (2,419,988)	$ 521,535
LIABILITIES AND EQUITY					
CURRENT LIABILITIES:					
Accounts payable	$ 626	$ 8,364	$ 32,598	$ -	$ 41,588
Other accrued expenses	4,221	20,940	28,941	-	54,102
Total current liabilities	4,847	29,304	61,539	-	95,690
LONG-TERM DEBT	-	194,568	-	-	194,568
DEFERRED COMPENSATION					