CORE LABORATORIES N V
Form 10-Q
July 24, 2009

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 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 [X] 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 (S232.405 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 [X] Accelerated filer [ ] Non-accelerated filer [ ] 9; 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 [X]

The number of common shares of the registrant, par value EUR 0.04 per share, outstanding at July 22, 2009 was 22,964,559.

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

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2009	December 31, 2008
ASSETS	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 103,246	$ 36,138
Accounts receivable, net of allowance for doubtful accounts of $3,450 and $3,535 at 2009 and 2008, respectively	123,946	144,293
Inventories, net	36,858	34,838
Prepaid expenses and other current assets	24,490	20,376
TOTAL CURRENT ASSETS	288,540	235,645
PROPERTY, PLANT AND EQUIPMENT, net	100,289	103,463
INTANGIBLES, net	6,780	6,992
GOODWILL	148,600	148,600
DEFERRED TAX ASSET	21,015	17,708
OTHER ASSETS	10,650	9,127
TOTAL ASSETS	$ 575,874	$ 521,535
LIABILITIES AND EQUITY		

CURRENT LIABILITIES:		
Accounts payable	$ 26,840	$ 41,588
Accrued payroll and related costs	21,957	28,637
Taxes other than payroll and income	7,440	7,949
Unearned revenues	7,573	7,932
Income tax payable	9,004	-
Other accrued expenses	12,042	9,584
TOTAL CURRENT LIABILITIES	84,856	95,690
LONG-TERM DEBT	201,709	194,568
DEFERRED COMPENSATION	14,467	12,815
OTHER LONG-TERM LIABILITIES	37,916	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 22,964,559 outstanding at 2009 and 25,519,956 issued and 23,020,033 outstanding at 2008	1,430	1,430
Additional paid-in capital	49,873	53,019
Retained earnings	436,668	382,266
Accumulated other comprehensive (loss)	(4,810)	(4,927)
Treasury shares (at cost), 2,555,397 at 2009 and 2,499,923 at 2008	(248,351)	(245,661)
Total Core Laboratories N.V. shareholders' equity	234,810	186,127
Non-controlling interest	2,116	2,158
TOTAL EQUITY	236,926	188,285
TOTAL LIABILITIES AND EQUITY	$ 575,874	$ 521,535

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

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

Three Months Ended June 30,

	2009	2008
	(Unaudited)	
REVENUES:		
Services	$ 134,671	$ 153,994
Product sales	32,591	43,694
	167,262	197,688
OPERATING EXPENSES:		
Cost of services, exclusive of depreciation expense shown below	84,401	99,892
Cost of sales, exclusive of depreciation expense shown below	24,596	31,018
General and administrative expenses	6,684	7,159
Depreciation	5,724	5,117
Amortization	182	159
Other income, net	(6,013)	(753)
OPERATING INCOME	51,688	55,096
Interest expense	3,840	8,000
Income before income tax expense	47,848	47,096
Income tax expense	17,884	14,652
Net income	29,964	32,444
Net income attributable to non-controlling interest	157	77
Net income attributable to Core Laboratories N.V.	$ 29,807	$ 32,367
EARNINGS PER SHARE INFORMATION:		
Basic earnings per share attributable to Core Laboratories N.V.	$ 1.30	$ 1.41
Diluted earnings per share attributable to Core Laboratories N.V.	$ 1.29	$ 1.32
Cash dividends per share	$ 0.10	$ -
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	22,955	22,995
Diluted	23,179	24,452

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

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

	Six Months Ended June 30, 2009	2008
	(Unaudited)	
REVENUES:		
Services	$ 276,363	$ 292,403
Product sales	69,775	84,722
	346,138	377,125
OPERATING EXPENSES:		
Cost of services	172,697	191,051
Cost of sales	52,332	59,332
General and administrative expenses	15,958	15,448
Depreciation	11,251	10,214
Amortization	363	301
Other expense (income), net	(4,770)	1,312
OPERATING INCOME	98,307	99,467
Interest expense	7,640	12,782
Income before income tax expense	90,667	86,685
Income tax expense	31,464	27,391
Net income	59,203	59,294
Net income attributable to non-controlling interest	204	180
Net income attributable to Core Laboratories N.V.	$ 58,999	$ 59,114
EARNINGS PER SHARE INFORMATION:		
Basic earnings per share	$ 2.57	$ 2.57
Diluted earnings per share	$ 2.54	$ 2.44
Cash dividends per share	$ 0.20	$ -
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	22,963	22,989
Diluted	23,192	24,206

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

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

	Six Months Ended June 30, 2009	2008
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 59,203	$ 59,294
Adjustments to reconcile income to net cash provided by operating activities:		
Net provision for doubtful accounts	319	75
Provisions for inventory obsolescence	103	178
Equity in earnings of affiliates	(78)	(114)
Stock-based compensation	2,624	2,135
Depreciation and amortization	11,614	10,515
Non-cash interest expense	7,213	12,251
Gain on sale of assets	(345)	(1,594)
Realization of pension obligation	117	39
(Increase) decrease in value of life insurance policies	(421)	300
Deferred income taxes	(8,145)	1,449
Changes in assets and liabilities:		
Accounts receivable	20,028	(11,986)
Inventories	(2,123)	(2,463)
Prepaid expenses and other current assets	724	(425)
Other assets	(252)	15
Accounts payable	(14,748)	(1,178)
Accrued expenses	1,948	(4,308)
Other long-term liabilities	8,486	9,220
Net cash provided by operating activities	86,267	73,403
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(5,320)	(13,657)
Patents and other intangibles	(151)	(152)
Acquisitions, net of cash acquired	-	(13,000)
Non-controlling interest - contributions	-	370
Proceeds from sale of assets	459	3,090
Premiums on life insurance	(844)	(704)
Net cash used in investing activities	(5,856)	(24,053)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt borrowings	-	(7,257)
Proceeds from debt borrowings	-	5,000
Capital lease obligations	-	(3)
Stock options exercised	302	690
	127	11,011

Excess tax benefits from stock-based compensation		
Non-controlling interest - dividends	(246)	-
Dividends paid	(4,597)	-
Repurchase of common shares	(8,889)	(29,780)
Net cash used in financing activities	(13,303)	(20,339)
NET CHANGE IN CASH AND CASH EQUIVALENTS	67,108	29,011
CASH AND CASH EQUIVALENTS, beginning of period	36,138	25,617
CASH AND CASH EQUIVALENTS, end of period	$ 103,246	$ 54,628
Non-cash investing and financing activities:		
Financed capital expenditures	$ 2,871	$ -

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

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

1. BASIS OF PRESENTATION

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

Core Laboratories N.V. uses the equity method of accounting for all 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 six months ended June 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 July 23, 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):

	June 30, 2009 (Unaudited)	December 31, 2008
Finished goods	$ 21,619	$ 26,785
Parts and materials	13,337	7,190
Work in progress	1,902	863
Total inventories, net	$ 36,858	$ 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 Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", 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 six months ended June 30, 2009. The remaining composition of goodwill by business segment at June 30, 2009 is consistent with the amounts disclosed in our Annual Report on Form 10-K as of December 31, 2008.

4. DEBT AND CAPITAL LEASE OBLIGATIONS

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

	June 30, 2009		December 31, 2008
		(Unaudited)	
Senior exchangeable notes	$ 238,658		$ 238,658

Discount on senior exchangeable notes	36,949	44,090
Net senior exchangeable notes	$ 201,709	$ 194,568

On January 1, 2009, we adopted FASB Staff Position ("FSP") No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement)" ("APB 14-1"). APB 14-1 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 APB 14-1 on January 1, 2009 impacted the historical accounting for our Senior Exchangeable Notes ("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 $1.3 million and $3.9 million and $0.06 and $0.16 for the three and six months ended June 30, 2008, respectively. The discount will be amortized into interest expense through November 2011.

In 2006, Core Laboratories LP, a wholly owned subsidiary of Core Laboratories N.V., issued $300 million aggregate principal amount of the Notes due 2011. The Notes bear interest at a rate of 0.25% per year paid on a semi-annual basis and are fully and unconditionally guaranteed by Core Laboratories N.V. resulting in interest expense of $0.1 million and $0.2 million for the three months ended June 30, 2009 and 2008, respectively, and $0.3 million and $0.4 million for the six months ended June 30, 2009 and 2008, respectively. With the additional amortization of the discount on the Notes, the effective interest rate is 7.48% for the period ended June 30, 2009, which resulted in additional non-cash interest expense of $3.6 million and $4.2 million for the three months ended June 30, 2009 and 2008, respectively, and $7.1 million and $8.4 million for the six months ended June 30, 2009 and 2008, respectively. The Notes are exchangeable into shares of Core Laboratories N.V. under certain circumstances at a conversion rate of $93.61 or 10.6825 per $1,000 principal amount of the 238,658 Notes outstanding at June 30, 2009. 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 June 30, 2009 and December 31, 2008. At June 30, 2009, the Notes were trading at 103.0% of their face value.

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 direct impact on our balance sheet as the Call Option was initially recorded as an equity transaction. We are currently unable to ascertain whether any value would be established for our unsecured position or how this will ultimately be resolved through their bankruptcy proceedings.

Separate from the Call Option, we also sold Lehman OTC warrants, for which we received consideration, to purchase up to 3.2 million common shares at an exercise price of $126.02. The warrants become exercisable beginning in late December 2011 and expire in January 2012. The warrants have been purchased from Lehman OTC by a third party.

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

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 capacity is reduced by outstanding unsecured letters of credit and performance guarantees and bonds totaling $9.8 million at June 30, 2009 relating to certain projects in progress. Our available borrowing capacity under the Credit Facility at June 30, 2009 was $90.2 million.

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 six months ended June 30, 2009 and 2008 (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(Unaudited)		(Unaudited)	
Service cost	$ 265	$ 302	$ 518	$ 588
Interest cost	339	357	663	695
Expected return on plan assets	(186)	(322)	(364)	(628)
Amortization of transition asset	(22)	(26)	(44)	(51)
Amortization of prior service cost	40	45	80	90
Amortization of net loss	61	-	122	-
Net periodic pension cost	$ 497	$ 356	$ 975	$ 694

During the six months ended June 30, 2009, we contributed approximately $2.4 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 June 30, 2009		
	Total	Level 1	Level 2	Level 3
Assets:				
Money market and other investment fund assets	$ 4,549	$ -	$ 4,549	$ -
Liabilities:				

Deferred compensation plan	$ 7,018	$ 950	$ 6,068	$ -

	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.

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 June 30, 2009, we repurchased 12,719 of our common shares for $1.0 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 six months ended June 30, 2009, we repurchased 134,324 of our common shares for $8.9 million. Included in this total were rights to 16,324 shares valued at $1.3 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 three and six months ended June 30, 2009, we recognized tax benefits of $0.1 million and $0.1 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.

On April 16, 2009, we declared a quarterly $0.10 per share of common stock dividend that was paid on May 27, 2009. In addition on July 13, 2009, we declared a quarterly dividend of $0.10 per share of common stock and a special non-recurring cash dividend of $0.75 per share of common stock for shareholders of record on July 24, 2009 and payable on August 24, 2009.

The following table summarizes our changes in equity for the six months ended June 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	$ &nbs						