CORE LABORATORIES N V
Form 10-Q
October 25, 2011

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2011
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 Q 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 Q 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 Q	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The number of common shares of the registrant, par value EUR 0.02 per share, outstanding at October 24, 2011 was 46,626,678.

CORE LABORATORIES N.V.
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2011

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PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

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, 2011 (Unaudited)	December 31, 2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$17,021	$133,880
Accounts receivable, net of allowance for doubtful accounts of $3,461 and $3,396 at 2011 and 2010, respectively	157,594	154,726
Inventories	52,536	33,979
Prepaid expenses and other current assets	27,272	26,735
TOTAL CURRENT ASSETS	254,423	349,320
PROPERTY, PLANT AND EQUIPMENT, net	110,025	104,223
INTANGIBLES, net	7,969	8,660
GOODWILL	162,326	154,217
DEFERRED TAX ASSETS, net	6,586	—
OTHER ASSETS	21,572	19,622
TOTAL ASSETS	$562,901	$636,042
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$46,776	$44,710
Accrued payroll and related costs	30,470	28,621
Taxes other than payroll and income	7,656	7,796
Unearned revenue	18,912	20,181
Income tax payable	10,250	21,004
Short-term debt and capital lease obligations	84,493	147,543
Other accrued expenses	11,562	9,498
TOTAL CURRENT LIABILITIES	210,119	279,353
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	155,093	—
DEFERRED COMPENSATION	22,307	21,241
DEFERRED TAX LIABILITIES, net	—	2,198
OTHER LONG-TERM LIABILITIES	36,823	32,046
COMMITMENTS AND CONTINGENCIES (Note 6)		
EQUITY COMPONENT OF SHORT-TERM DEBT – SENIOR EXCHANGEABLE NOTES	509	8,864
EQUITY:		
Preference shares, EUR 0.02 par value; 6,000,000 shares authorized, none issued or outstanding	—	—
Common shares, EUR 0.02 par value; 200,000,000 shares authorized, 49,037,806 issued and 46,667,158 outstanding at 2011 and 49,739,912 issued and 45,521,186 outstanding at 2010	1,376	1,397
Additional paid-in capital	—	—
Retained earnings	296,172	536,991
Accumulated other comprehensive income (loss)	(5,979)	(6,207)
Treasury shares (at cost), 2,370,648 at 2011 and 4,218,726 at 2010	(157,187)	(242,690)
Total Core Laboratories N.V. shareholders' equity	134,382	289,491

Non-controlling interests	3,668	2,849
TOTAL EQUITY	138,050	292,340
TOTAL LIABILITIES AND EQUITY	$562,901	$636,042

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

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

	Three Months Ended September 30, 2011	2010
	(Unaudited)	
REVENUE:		
Services	$172,770	$151,671
Product sales	58,574	47,550
Total revenue	231,344	199,221
OPERATING EXPENSES:		
Cost of services, exclusive of depreciation expense shown below	108,601	92,914
Cost of product sales, exclusive of depreciation expense shown below	41,711	32,858
General and administrative expenses, exclusive of depreciation expense shown below	11,182	8,416
Depreciation	5,460	5,496
Amortization	278	318
Other (income) expense, net	548	(998)
OPERATING INCOME	63,564	60,217
Loss on exchange of Senior Exchangeable Notes	31	675
Interest expense	3,825	4,015
Income before income tax expense	59,708	55,527
Income tax expense	14,599	16,764
Net income	45,109	38,763
Net income (loss) attributable to non-controlling interests	242	209
Net income attributable to Core Laboratories N.V.	$44,867	$38,554
EARNINGS PER SHARE INFORMATION:		
Basic earnings per share attributable to Core Laboratories N.V.	$0.96	$0.86
Diluted earnings per share attributable to Core Laboratories N.V.	$0.93	$0.79
Cash dividends per share	$0.25	$0.71
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	46,606	44,736
Diluted	48,030	48,955

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

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

	Nine Months Ended September 30,	
	2011	2010
	(Unaudited)	
REVENUE:		
Services	$495,640	$448,123
Product sales	168,222	138,337
Total revenue	663,862	586,460
OPERATING EXPENSES:		
Cost of services, exclusive of depreciation expense shown below	321,334	284,682
Cost of product sales, exclusive of depreciation expense shown below	118,001	95,595
General and administrative expenses, exclusive of depreciation expense shown below	30,463	24,007
Depreciation	16,507	16,345
Amortization	867	989
Other (income) expense, net	(1,176)	(508)
OPERATING INCOME	177,866	165,350
Loss on exchange of Senior Exchangeable Notes	870	675
Interest expense	8,684	12,188
Income before income tax expense	168,312	152,487
Income tax expense	36,827	47,076
Net income	131,485	105,411
Net income (loss) attributable to non-controlling interests	(123)	436
Net income attributable to Core Laboratories N.V.	$131,608	$104,975
EARNINGS PER SHARE INFORMATION:		
Basic earnings per share attributable to Core Laboratories N.V.	$2.87	$2.35
Diluted earnings per share attributable to Core Laboratories N.V.	$2.71	$2.19
Cash dividends per share	$0.75	$0.83
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	45,930	44,741
Diluted	48,634	47,923

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

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

	Nine Months Ended September 30, 2011	2010
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$131,485	$105,411
Adjustments to reconcile net income to net cash provided by operating activities:		
Net (recovery) provision for doubtful accounts	(105)	787
Provisions for inventory obsolescence	483	513
Equity in earnings of affiliates	(190)	(342)
Stock-based compensation	13,341	6,016
Depreciation and amortization	17,374	17,334
Non-cash interest expense	5,841	11,590
(Gain) loss on sale of assets	(416)	(80)
Gain on insurance recovery	(779)	—
Loss on exchange of Senior Exchangeable Notes	870	675
Realization of pension obligation	228	257
(Increase) decrease in value of life insurance policies	(93)	(575)
Deferred income taxes	(9,928)	(5,315)
Changes in assets and liabilities:		
Accounts receivable	707	(8,142)
Inventories	(14,204)	1,134
Prepaid expenses and other current assets	703	25,185
Other assets	1,692	(436)
Accounts payable	1,370	5,500
Accrued expenses	(7,393)	13,304
Other long-term liabilities	5,843	(3,687)
Net cash provided by operating activities	146,829	169,129
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(18,203)	(19,661)
Patents and other intangibles	(177)	(180)
Business acquisitions, net of cash acquired	(21,000)	(9,000)
Proceeds from sale of assets	683	406
Proceeds from insurance recovery	884	—
Premiums on life insurance	(1,661)	(1,357)
Net cash used in investing activities	(39,474)	(29,792)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(229,467)	(24,366)
Proceeds from debt	313,000	—
Stock options exercised	295	336
Excess tax benefits from stock-based compensation	2,315	798
Debt financing costs	(1,997)	—
Settlement of warrants	(219,451)	—
Non-controlling interests - contributions	1,193	156
Non-controlling interests - dividends	(251)	(181)
Dividends paid	(34,356)	(37,095)

Repurchase of common shares	(55,495)	(92,077)
Net cash used in financing activities	(224,214)	(152,429)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(116,859)	(13,092)
CASH AND CASH EQUIVALENTS, beginning of period	133,880	181,045
CASH AND CASH EQUIVALENTS, end of period	$17,021	$167,953

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, 2010.

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 interests have been recorded to reflect outside ownership attributable to consolidated subsidiaries that are less than 100% owned. In the opinion of management, all adjustments considered necessary for the periods presented have been included in these financial statements. Furthermore, the operating results presented for the three and nine months ended September 30, 2011 may not necessarily be indicative of the results that may be expected for the year ended December 31, 2011.

Core Laboratories N.V.'s balance sheet information for the year ended December 31, 2010 was derived from the 2010 audited consolidated financial statements but does not include all disclosures in accordance with U.S. GAAP.

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 and nine month periods ended September 30, 2011.

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, 2011 (Unaudited)	December 31, 2010
Finished goods	$32,650	$24,476
Parts and materials	16,590	6,727
Work in progress	3,296	2,776
Total inventories	$52,536	$33,979

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.

In September 2011, we acquired a business providing additional manufacturing capacity for our Canadian operations for $21 million in cash. We have accounted for this acquisition by allocating the purchase price to the net assets acquired based on their estimated fair values at the date of acquisition, resulting in an increase to goodwill of $8.1 million. The acquisition was recorded in the Production Enhancement business segment. The purchase price allocation is preliminary and based on information currently available to us, and is therefore subject to change when we obtain final asset and liability valuations.

In 2010, we acquired fracture diagnostics assets for $9 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.

4. DEBT AND CAPITAL LEASE OBLIGATIONS

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

	September 30, 2011 (Unaudited)	December 31, 2010
Senior exchangeable notes	$84,940	$156,407
Discount on senior exchangeable notes	(504)	(8,864)
Net senior exchangeable notes	84,436	147,543
Senior notes	150,000	—
Credit facility	5,000	—
Capital lease obligations	150	—
Total debt	239,586	147,543
Less - current maturities of long-term debt and capital lease obligations	84,493	147,543
Long-term debt and capital lease obligations, net	$155,093	$—

In 2006, Core Laboratories LP, an entity 100% indirectly owned by Core Laboratories N.V., issued $300 million aggregate principal amount of Senior Exchangeable Notes (the "Exchangeable Notes") which are fully and unconditionally guaranteed by Core Laboratories N.V. and mature on October 31, 2011. The Exchangeable 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 Exchangeable Notes, the effective interest rate is 7.48% for the three and nine month period ended September 30, 2011, which resulted in additional non-cash interest expense of $1.5 million and $3.8 million for the three months ended September 30, 2011 and 2010, respectively, and $5.5 million and $11.5 million for the nine months ended September 30, 2011 and 2010, respectively. Each Exchangeable 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 $45.41 per share, or 22.0221 shares per Exchangeable 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 our Exchangeable Note Indenture agreement. At September 30, 2011, the Exchangeable Notes were trading at 208% of their face value which is equivalent to $91.7 million of value in excess of the aggregate principal amount. At December 31, 2010, the Exchangeable Notes were trading at 197% of their face value which was equivalent to $151.7 million of value in excess of the aggregate principal amount. There were 84,940 and 156,407 Exchangeable Notes outstanding at September 30, 2011 and December 31, 2010, respectively.

Under the terms of the Exchangeable Notes, defined criteria were met which allowed the Exchangeable Notes to be early exchanged during the third quarter of 2011, as it was during the second quarter of 2011, and as a result, the equity component of the Exchangeable Notes at September 30, 2011 was classified as temporary equity. This balance combined with the debt amount reflects the amount that could result in cash settlement upon exchange. We received eight requests to exchange 6,990 Exchangeable Notes which were settled during the third quarter for $7.0 million in cash and 89,316 shares of our common stock, all of which were treasury shares, resulting in a loss of $31 thousand. We also received five requests during the third quarter to exchange 16,900 Exchangeable Notes which we will settle during the fourth quarter upon completion of the requisite holding period per the Note Indenture agreement.

In September 2011, we issued two series of senior notes with an aggregate principal amount of $150 million ("Senior Notes") in a private placement transaction. Series A consists of $75 million in aggregate principal amount of notes that bear interest at a fixed rate of 4.01% and are due in full on September 30, 2021. Series B consists of $75 million in aggregate principal amount of notes that bear interest at a fixed rate of 4.11% and are due in full on September 30, 2023. Interest on each series of the Senior Notes is payable semi-annually on March 30 and September 30.

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On September 28, 2011, we entered into an agreement to amend our revolving credit facility (the "Credit Facility") that allowed for an aggregate borrowing capacity of $300 million at September 30, 2011. The Credit Facility also provided an option to increase the commitment under the Credit Facility to $350 million, if certain conditions were met. The Credit Facility bears interest at variable rates from LIBOR plus 1.50% to a maximum of LIBOR plus 2.25%. Any outstanding balance under the Credit Facility is due September 28, 2016 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 letters of credit and performance guarantees and bonds totaling $15.6 million at September 30, 2011 relating to certain projects in progress. Our available borrowing capacity under the Credit Facility at September 30, 2011 was $279.4 million. As of September 30, 2011, we had $11.1 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 and the Senior Notes require us to meet certain financial and operational covenants. We believe that we were in compliance with all such covenants at September 30, 2011. 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. The benefits earned by the employees are immediately vested. 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, 2011 and 2010 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
Service cost	$340	$294	$1,027	$921
Interest cost	438	341	1,324	1,069
Expected return on plan assets	(204)	(108)	(616)	(338)
Amortization of transition asset	(21)	(22)	(65)	(66)
Amortization of prior service cost	39	40	119	120
Amortization of net loss	84	94	252	283
Net periodic pension cost	$676	$639	$2,041	$1,989

During the nine months ended September 30, 2011, we contributed approximately $1.9 million, as determined by the insurance company, to fund the estimated 2011 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. A participant's plan benefits include the participant's deferrals, the vested portion of the employer's contributions, and deemed investment gains and losses on such amounts. 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

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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):

(Unaudited)		Fair Value Measurement at September 30, 2011		
	Total	Level 1	Level 2	Level 3
Assets:				
Deferred compensation plan trust assets	$8,789	$—	$8,789	$—
Liabilities:				
Deferred compensation plan	$13,197	$2,611	$10,586	$—

		Fair Value Measurement at December 31, 2010		
	Total	Level 1	Level 2	Level 3
Assets:				
Deferred compensation plan trust assets	$8,802	$—	$8,802	$—
Liabilities:				
Deferred compensation plan	$13,063	$2,275	$10,788	$—

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.

7. EQUITY

During the three months ended September 30, 2011, we repurchased 30,798 of our common shares for $3.4 million. Included in this total were rights to 10,798 shares valued at $1.2 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. During the nine months ended September 30, 2011, we repurchased 604,972 of our common shares for $55.5 million. Included in this total were rights to 40,478 shares valued at $4.1 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 canceled, may be reissued for a variety of purposes such as future acquisitions, employee stock awards, exchange of the Exchangeable Notes, or settlement of outstanding warrants.

At the annual meeting of shareholders on May 19, 2011 the shareholders approved the cancellation of 702,106 shares of our common stock currently held as treasury stock at a cost of $40.9 million. These treasury shares were canceled on September 2, 2011, after the expiration of the waiting period required under Dutch law. In accordance with ASC

505-30-30-8, 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 2011, we paid a quarterly dividend of $0.25 per share of common stock. In addition, on October 11, 2011, we declared a quarterly dividend of $0.25 per share of common stock for shareholders of record on October 21, 2011 and payable on November 22, 2011.

In 2006, we sold warrants on our common shares, which had an adjusted exercise price in the third quarter of $61.14 per share, with an initial 20-day settlement period beginning in December 2011 through January 2012. The warrant agreement called for the net value of these warrants to be settled with Core Laboratories N.V. common shares. During 2011, the settlement of all of the warrants was accelerated through a series of agreements with the holder of the warrants. The warrants were settled in four substantially equal 20-day tranches during May, June, August and September of 2011. In each of the four tranches, the exercise price was adjusted based on the daily volume weighted average price of our common stock. These agreements also gave us the option of settling in either cash or our common stock. During the three months ended September 30, 2011, we settled 3.4 million warrants at an average exercise price of $59.79 for $153.7 million in cash and 37,959 shares of our treasury stock. During the nine months ended September 30, 2011, we settled 6.6 million warrants at an average exercise price of $59.84 for $219.5 million in cash and 706,395 shares of our treasury stock.

The following table summarizes our changes in equity for the nine months ended September 30, 2011 (in thousands):

	Common	Additional Paid-In	Retained	Accumulated Other Comprehensive	Treasury	Non-Controlling	Total
(Unaudited)	Shares	Capital	Earnings	Income (Loss)	Stock	Interests	Equity
December 31, 2010	$1,397	$—	$536,991	$(6,207)	$(242,690)	$2,849	$292,340
Stock options exercised	—	(1,658)	—	—	1,953	—	295
Stock based-awards	—	6,007	(744)	—	8,078	—	13,341
Tax benefit of stock-based awards issued	—	2,315	—	—	—	—	2,315
Repurchase of common shares	—	—	—	—	(55,495)	—	(55,495)
Dividends paid	—	—	(34,356)	—	—	—	(34,356)
Cancellation of common shares	(21)	—	(40,894)	—	40,915	—	—
Equity component of short-term debt	—	8,355	—	—	—	—	8,355
Exchange of Senior Exchangeable Notes	—	(8,425)	(40,394)	—	46,870	—	(1,949)
Settlement of warrants	—	(6,594)	(256,039)	—	43,182	—	(219,451)
Non-controlling interests contribution	—	—	—	—	—	1,193	1,193
Non-controlling interests dividends	—	—	—	—	—	(251)	(251)
Comprehensive income:							
Amortization of deferred pension costs, net of tax	—	—	—	228	—	—	228
Net income (loss)	—	—	131,608	—	—	(123)	131,485
							131,713

Total comprehensive income September 30, 2011	$1,376	$—	$296,172	$(5,979)	$(157,187)	$3,668	$138,050

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Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011 (Unaudited)	2010	2011 (Unaudited)	2010
Net income	$45,109	$38,763	$131,485	$105,411
Amortization of deferred pension costs, net of tax	76	86	228	257
Total comprehensive income	$45,185	$38,849	$131,713	$105,668

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

	September 30, 2011 (Unaudited)	December 31, 2010
Prior service cost	$(764)	$(853)
Transition asset	276	324
Unrecognized net actuarial loss	(5,491)	(5,678)
Total accumulated other comprehensive income (loss)	$(5,979)	$(6,207)

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,	
	2011 (Unaudited)	2010	2011 (Unaudited)	2010
Weighted average basic common shares outstanding	46,606	44,736	45,930	44,741
Effect of dilutive securities:				
Stock options	12	55	20	58
Contingent shares	80	38	69	37
Restricted stock and other	249	591	266	564
Senior exchangeable notes	1,083	2,030	1,144	1,735
Warrants	—	1,505	1,205	788
Weighted average diluted common and potential common shares outstanding	48,030	48,955	48,634	47,923

Included in the table above are 0 and 1,505,000 shares which were added to the share count for the three months ended September 30, 2011 and 2010, respectively, and 1,205,000 and 788,000 shares which were added to the share count for the nine months ended September 30, 2011 and 2010, respectively, 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, 2011 and 2010.

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9. OTHER (INCOME) EXPENSE, NET

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

	Three Months Ended September 30,			Nine Months Ended September 30,	
	2011		2010	2011	2010
	(Unaudited)			(Unaudited)	
(Gain) loss on sale of assets	$(278)		$(88)	$(416)	$(80)
Foreign exchange (gain) loss	1,522		(547)	1,001	1,074
Interest income	(11)		—	(96)	(142)
Rents and royalties	(440)		(352)	(1,273)	(1,052)
(Gain) loss on insurance recovery	—		—	(779)	—
Legal entity realignment	—	711	—	711	—
Other, net	(245)		(11)	(324)	(308)
Total other (income) expense, net	$548		$(998)	$(1,176)	$(508)

During the third quarter of 2010, an office and laboratory facility was damaged by fire, resulting in the loss of the laboratory portion of the building, as well as some of the laboratory equipment. The final settlement was reached in the first quarter of 2011, which resulted in a gain of $0.8 million.

Foreign exchange (gain) loss by currency are summarized in the following table (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
	(Unaudited)		(Unaudited)	
Australian Dollar	$206	$(213)	$62	$(110)
British Pound	177	(133)	130	283
Canadian Dollar	1,146	(102)	603	(338)
Euro	151	76	126	1,665
Mexican Peso	(161)	(22)	(19)	72
Russian Ruble	(195)	(18)	(414)	(33)
Other currencies, net	198	(135)	513	(465)
Total (gain) loss	$1,522	$(547)	$1,001	$1,074

10. INCOME TAX EXPENSE

The effective tax rates for the three months ended September 30, 2011 and 2010 were 24.5% and 30.2%, respectively. The effective tax rates for year to date 2011 and 2010 were 21.9% and 30.9%, respectively. Included in income tax expense is the reversal in the nine months ended September 30, 2011 of $10.4 million in tax liabilities provided over the period of 2007-2010 as a result of recently concluded audits of prior year returns. The decrease in income tax expense also reflects the change in activity levels among 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,

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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). All interest and other non-operating income (expense) is attributable to the Corporate & Other area and is not allocated to specific business segments. Summarized financial information concerning our segments is shown in the following table (in thousands):

(Unaudited)	Reservoir Description	Production Enhancement	Reservoir Management	Corporate & Other [1]	Consolidated
Three Months Ended September 30, 2011					
Revenues from unaffiliated customers	$119,853	$97,407	$14,084	$—	$231,344
Inter-segment revenues	446	232	377	(1,055)	—
Segment operating income (loss)	28,780	30,728	3,502	554	63,564
Total assets	267,425	235,152	16,211	44,113	562,901
Capital expenditures	2,940	2,410	204	665	6,219
Depreciation and amortization	3,521	1,563	164	490	5,738
Three Months Ended September 30, 2010					
Revenues from unaffiliated customers	$106,485	$78,992	$13,744	$—	$199,221
Inter-segment revenues	441	390	319	(1,150)	—
Segment operating income (loss)	28,014	26,260	5,535	408	60,217
Total assets	261,582	189,481			