

CORE LABORATORIES N V
Form 10-Q
October 26, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

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Large accelerated filer [X] Accelerated filer [] Non-accelerated filer []

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 October 25, 2007 was 23,346,996.

CORE LABORATORIES N.V.
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2007

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CORE LABORATORIES N.V.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	September 30, 2007 (Unaudited)	December 31, 2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 42,168	\$ 54,223
Accounts receivable, net of allowance for doubtful accounts of \$3,975 and \$4,340 at 2007 and 2006, respectively	138,882	112,055
Inventories, net	30,273	30,199
Prepaid expenses and other current assets	34,268	29,075
TOTAL CURRENT ASSETS	245,591	225,552
PROPERTY, PLANT AND EQUIPMENT, net	88,863	87,734
INTANGIBLES, net	7,221	6,602
GOODWILL	136,415	132,618
DEFERRED TAX ASSETS	40,002	33,032
OTHER ASSETS	16,254	15,677
TOTAL ASSETS	\$ 534,346	\$ 501,215
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt and capital lease obligations	\$ 5	\$ 2,762
Accounts payable	45,598	37,460
Accrued payroll and related costs	27,448	24,707
Taxes other than payroll and income	8,238	8,714

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Unearned revenues	6,569	6,853
Income taxes payable	3,673	-
Other accrued expenses	23,426	8,424
TOTAL CURRENT LIABILITIES	114,957	88,920
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	300,001	300,002
DEFERRED COMPENSATION	13,822	10,413
OTHER LONG-TERM LIABILITIES	35,507	28,598
COMMITMENTS AND CONTINGENCIES	-	-
MINORITY INTEREST	1,599	1,446
SHAREHOLDERS' 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, 24,109,006 issued and 23,452,635 outstanding at 2007 and 25,608,511 issued and 23,225,121 outstanding at 2006	1,360	1,450
Additional paid-in capital	21,324	23,182
Retained earnings	116,848	224,110
Accumulated other comprehensive income	(2,018)	(2,072)
Treasury shares (at cost), 656,371 at 2007 and 2,383,390 at 2006	(69,054)	(174,834)
TOTAL SHAREHOLDERS' EQUITY	68,460	71,836
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 534,346	\$ 501,215

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,	
		2007	2006
		(Unaudited)	
REVENUES:			
	Services	\$ 131,060	\$ 109,950
	Product Sales	39,005	35,576
		170,065	145,526
OPERATING EXPENSES:			

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Cost of services	84,863	74,240
Cost of sales	27,684	26,282
General and administrative expenses	7,039	6,250
Depreciation	4,806	4,423
Amortization	229	94
Other expense (income), net	(514)	447
OPERATING INCOME	45,958	33,790
Interest expense	614	1,930
Income before income tax expense	45,344	31,860
Income tax expense	13,830	9,476
NET INCOME	\$ 31,514	\$ 22,384

EARNINGS PER SHARE INFORMATION:

Basic earnings per share	\$ 1.34	\$ 0.88
Diluted earnings per share	\$ 1.29	\$ 0.83

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:

Basic	23,556	25,304
Diluted	24,377	26,951

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,	
		2007	2006
		(Unaudited)	
REVENUES:			
Services		\$ 374,212	\$ 315,423
Product Sales		119,969	107,455
		494,181	422,878
OPERATING EXPENSES:			
Cost of services		249,140	221,768

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Cost of sales	84,005	79,097
General and administrative expenses	24,798	25,458
Depreciation	14,094	12,473
Amortization	416	256
Other income, net	(2,850)	(2,969)
OPERATING INCOME	124,578	86,795
Interest expense	1,881	4,785
Income before income tax expense	122,697	82,010
Income tax expense	37,118	24,521
NET INCOME	\$ 85,579	\$ 57,489

EARNINGS PER SHARE INFORMATION:

Basic earnings per share	\$ 3.62	\$ 2.25
Diluted earnings per share	\$ 3.51	\$ 2.11

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:

Basic	23,642	25,551
Diluted	24,371	27,304

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,	September 30,
	2007	2006
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 85,579	\$ 57,489
Adjustments to reconcile income to net cash provided by operating activities:		
Net provision for (recoveries of) doubtful accounts	15	577
Inventory obsolescence	121	1,553
Equity in loss of affiliates	222	53

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Minority interest	153	151
Stock-based compensation	3,499	3,611
Depreciation and amortization	14,510	12,729
Debt issuance costs amortization	1,352	86
Gain on sale of assets	(249)	(782)
Realization of pension obligation	54	-
Gain on insurance recovery	-	(492)
Increase in value of life insurance policies	(852)	(132)
Deferred income taxes	(7,106)	(5,792)
Changes in assets and liabilities, net of effect of dispositions:		
Accounts receivable	(26,316)	(13,765)
Inventories	246	(5,770)
Prepaid expenses and other current assets	(5,378)	(584)
Other assets	96	(42)
Accounts payable	7,910	(1,237)
Accrued expenses	6,982	21,514
Other long-term liabilities	6,977	10,911
Net cash provided by operating activities	87,815	80,078
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(15,285)	(16,347)
Patents and other intangibles	(252)	(103)
Acquisition, net of cash acquired	(5,012)	-
Deposit on sale of asset	13,475	-
Proceeds from sale of assets	488	2,222
Premiums on life insurance	(1,199)	(753)
Net cash used in investing activities	(7,785)	(14,981)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(2,754)	(23,439)
Proceeds from debt borrowings	-	42,000
Capital lease obligations	(4)	(24)
Stock options exercised	18,184	13,859
Tax benefits from stock-based compensation	20,328	5,671
Debt issuance costs	(162)	-
Repurchase of common shares	(127,677)	(104,451)
Net cash used in financing activities	(92,085)	(66,384)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(12,055)	(1,287)
CASH AND CASH EQUIVALENTS, beginning of period	54,223	13,743
	\$	
CASH AND CASH EQUIVALENTS, end of period	42,168	\$ 12,456
Non-cash investing and financing activities:		
	\$	
Change in par value of common stock	-	\$ 977
	\$	
Financial capital expenditures	-	\$ 2,350

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 GAAP for complete financial statements.

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. Minority 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 have been included in these financial statements. Furthermore, the operating results presented for the three and nine month periods ended September 30, 2007 may not necessarily be indicative of the results that may be expected for the year ending December 31, 2007.

Core Laboratories N.V.'s balance sheet information for the year ended December 31, 2006 was derived from the 2006 audited consolidated financial statements 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.

These financial statements 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, 2006.

2. INVENTORIES, NET

Inventories consist of the following (in thousands):

	September 30, 2007 (Unaudited)	December 31, 2006
Finished goods	\$ 21,387	\$ 22,930
Parts and materials	7,655	6,031
Work in progress	1,231	1,238
Total inventories, net	\$ 30,273	\$ 30,199

We include freight costs incurred for shipping inventory to customers in the Cost of Sales line of the Consolidated Statement 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, management determined that goodwill was not impaired. We amortize intangible assets with a defined term on a straight-line basis over their respective useful lives.

In September 2007, we acquired all of the outstanding common shares of Temco, Inc., a Tulsa-based core analysis and reservoir fluids instrument manufacturing business, for \$5.5 million dollars. The acquisition resulted in goodwill of \$3.8 million and intangibles of \$0.8 million which was recorded in the Reservoir Description business segment. There were no other significant changes relating to our intangible assets for the nine months ended September 30, 2007. The remaining composition of goodwill by business segment at September 30, 2007 is consistent with the amounts disclosed in our Annual Report on Form 10-K as of December 31, 2006.

4. DEBT AND CAPITAL LEASE OBLIGATIONS

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

	September 30, 2007 (Unaudited)	December 31, 2006
Senior exchangeable notes	\$ 300,000	\$ 300,000
Capital lease obligations	6	10
Other indebtedness	-	2,754
Total debt and capital leases obligations	300,006	302,764
Less - short-term debt included in other indebtedness	-	2,654
Less - current maturities of long-term debt and capital lease obligations	5	108
Long-term debt and capital lease obligations	\$ 300,001	\$ 300,002

In November 2006, Core Laboratories LP, a wholly owned subsidiary of Core Laboratories N.V., issued \$300 million aggregate principal amount of Senior Exchangeable Notes due 2011 (the "Notes") to qualified institutional buyers. The Notes bear interest at a rate of 0.25% per year and are fully and unconditionally guaranteed by Core Laboratories N.V. The Notes are exchangeable into shares of Core Laboratories N.V. under certain circumstances at an initial conversion rate of 10.5533 per \$1,000 principal amount of notes. 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. On December 22, 2006 we filed a registration statement on Form S-3, which became effective pursuant to the Securities Act of 1933, as amended; to register the resale of the Notes and shares received in exchange for the Notes.

We maintain a revolving credit facility (the "Credit Facility") that allows for an aggregate borrowing capacity of \$100.0 million. As amended, this 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 and only requires bi-annual interest payments until maturity. Interest payment dates are based on the interest period selected. Our available capacity is reduced by outstanding unsecured letters of credit and performance guarantees and bonds totaling \$8.7 million at September 30, 2007 relating to certain projects in progress. Our available borrowing capacity under the Credit Facility at September 30, 2007 was \$91.3 million.

5. PENSIONS AND OTHER POST-RETIREMENT 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 the net periodic pension cost under this plan for the three and nine month periods ended September 30, 2007 and 2006 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
	(Unaudited)		(Unaudited)	
Service cost	\$ 306	\$ 295	\$ 895	\$ 905
Interest cost	281	221	821	678
Expected return on plan assets	(256)	(214)	(749)	(657)
Unrecognized pension obligation, net	18	34	54	105
Net periodic pension cost	\$ 349	\$ 336	\$ 1,021	\$ 1,031

6. COMMITMENTS AND CONTINGENCIES

Legal Proceedings

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 Core Lab or any of its subsidiaries should not have a material adverse effect on its 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 Core Lab or any of its subsidiaries is a party will not have a material adverse effect on its consolidated results of operations or liquidity for the period in which that resolution occurs.

7. SHAREHOLDERS' EQUITY

During the three months ended September 30, 2007, we repurchased 485,571 of our common shares for \$52.3 million, at an average price of \$107.65 per share.

During the nine months ended September 30, 2007, we repurchased 1,400,021 of our common shares for \$127.7 million, at an average price of \$91.20 per share which included rights to 602,148 shares valued at \$48.4 million, or \$80.30 per share, that were surrendered to the Company pursuant to the terms of a stock-based compensation plan, in consideration of the exercise price of their stock options and their personal tax burdens that may result from the issuance of common shares under this plan.

For the three and nine months ended September 30, 2007, we issued 76,277 and 1,405,885 of our common shares associated with stock option exercises for which we received proceeds of approximately \$1.0 million and \$18.2

million.

At our Annual Shareholders' Meeting on April 2, 2007 (the "Meeting"), our shareholders approved the cancellation of 3,127,040 treasury shares we had repurchased or otherwise acquired prior to the date of the Meeting. These 3,127,040 treasury shares were cancelled in April 2007 at historical cost, totaling \$233.5 million, or \$74.73 per share, resulting in a decrease in treasury shares and a corresponding decrease in additional paid-in-capital, retained earnings and common shares. Our shareholders also approved the extension of the authority of our Management Board to repurchase up to 10% of the Company's outstanding share capital up through October 2, 2008.

Comprehensive Income

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

	Three months ended September 30, 2007 (Unaudited)	Nine months ended September 30, 2007 (Unaudited)
Net income	\$ 31,514	\$ 85,579
Realization of pension obligation	18	54
Total comprehensive income	\$ 31,532	\$ 85,633

Accumulated Other Comprehensive Income consisted of the following (in thousands):

	September 30, 2007 (Unaudited)	December 31, 2006
Pension obligation - prior service cost	\$ 1,273	\$ 1,327
Pension obligation - unrecognized net actuarial loss	745	745
Total accumulated other comprehensive income	\$ 2,018	\$ 2,072

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, 2007 2006 (Unaudited)		Nine Months Ended September 30, 2007 2006 (Unaudited)	
Weighted average basic common shares outstanding	23,556	25,304	23,642	25,551

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Effect of dilutive securities:				
Stock options	207	1,421	381	1,498
Contingent shares	88	159	98	146
Restricted stock and other	108	67	109	109
Senior exchangeable notes	418	-	141	-
Weighted average diluted common and potential common shares outstanding	24,377	26,951	24,371	27,304

In 2006, we sold warrants that give the holders the right to acquire approximately 3.2 million of our common shares at a strike price of \$127.56 per share. These warrants could have a dilutive impact on our earnings per share if the share price exceeds the strike price of the warrants.

9. OTHER EXPENSE (INCOME)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007 (Unaudited)	2006	2007 (Unaudited)	2006
Minority interest	\$ 122	\$ 77	\$ 153	\$ 151
Gain on sale of assets	(30)	(76)	(249)	(782)
Foreign exchange loss (gain)	(352)	430	(827)	(1,032)
Interest income	(136)	(54)	(1,047)	(161)
Gain on insurance recovery	-	-	-	(492)
Other	(118)	70	(880)	(653)
Total other expense (income), net	\$ (514)	\$ 447	\$ (2,850)	