

CORE LABORATORIES N V
Form 10-Q
October 19, 2012

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, 2012

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 Not Applicable
(Zip Code)
(Address of principal executive offices)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§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

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reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

The number of common shares of the registrant, par value EUR 0.02 per share, outstanding at October 18, 2012 was 46,657,774.

CORE LABORATORIES N.V.
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2012

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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, 2012 (Unaudited)	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$24,658	\$29,332
Accounts receivable, net of allowance for doubtful accounts of \$4,044 and \$3,762 at 2012 and 2011, respectively	180,398	170,805
Inventories	53,807	53,214
Prepaid expenses and other current assets	42,267	33,197
TOTAL CURRENT ASSETS	301,130	286,548
PROPERTY, PLANT AND EQUIPMENT, net	125,697	115,295
INTANGIBLES, net	8,458	8,221
GOODWILL	163,337	162,787
DEFERRED TAX ASSETS, net	12,172	13,662
OTHER ASSETS	27,738	24,360
TOTAL ASSETS	\$638,532	\$610,873
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$45,778	\$57,639
Accrued payroll and related costs	30,180	34,028
Taxes other than payroll and income	8,490	8,566
Unearned revenue	12,833	19,154
Income tax payable	6,512	6,527
Short-term debt and capital lease obligations	45	2,344
Other accrued expenses	15,044	14,937
TOTAL CURRENT LIABILITIES	118,882	143,195
LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS	213,044	223,075
DEFERRED COMPENSATION	27,971	24,117
DEFERRED TAX LIABILITIES, net	5,334	5,531
OTHER LONG-TERM LIABILITIES	36,469	33,300
COMMITMENTS AND CONTINGENCIES (Note 6)		
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, 47,899,584 issued and 47,100,374 outstanding at 2012 and 49,037,806 issued and 47,629,472 outstanding at 2011	1,233	1,262
Additional paid-in capital	1,762	2,126
Retained earnings	326,058	283,660
Accumulated other comprehensive income (loss)	(1,699)	(1,739)
Treasury shares (at cost), 799,210 at 2012 and 1,408,334 at 2011	(94,380)	(107,406)
Total Core Laboratories N.V. shareholders' equity	232,974	177,903
Non-controlling interests	3,858	3,752
TOTAL EQUITY	236,832	181,655

TOTAL LIABILITIES AND EQUITY	\$638,532	\$610,873
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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,	
	2012	2011
	(Unaudited)	
REVENUE:		
Services	\$174,465	\$160,542
Product sales	70,963	70,802
Total revenue	245,428	231,344
OPERATING EXPENSES:		
Cost of services, exclusive of depreciation expense shown below	102,935	99,770
Cost of product sales, exclusive of depreciation expense shown below	52,406	50,542
General and administrative expenses, exclusive of depreciation expense shown below	10,504	11,182
Depreciation	6,170	5,460
Amortization	289	278
Other (income) expense, net	(2,256)	) 548
OPERATING INCOME	75,380	63,564
Loss on exchange of Senior Exchangeable Notes	—	31
Interest expense	2,160	3,825
Income before income tax expense	73,220	59,708
Income tax expense	18,671	14,599
Net income	54,549	45,109
Net income (loss) attributable to non-controlling interests	146	242
Net income attributable to Core Laboratories N.V.	\$54,403	\$44,867
EARNINGS PER SHARE INFORMATION:		
Basic earnings per share attributable to Core Laboratories N.V.	\$1.15	\$0.96
Diluted earnings per share attributable to Core Laboratories N.V.	\$1.14	\$0.93
Cash dividends per share	\$0.28	\$0.25
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	47,232	46,606
Diluted	47,528	48,030

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, 2012 2011 (Unaudited)	
REVENUE:		
Services	\$512,883	\$458,875
Product sales	213,742	204,987
Total revenue	726,625	663,862
OPERATING EXPENSES:		
Cost of services, exclusive of depreciation expense shown below	304,871	295,112
Cost of product sales, exclusive of depreciation expense shown below	155,990	144,223
General and administrative expenses, exclusive of depreciation expense shown below	30,883	30,463
Depreciation	16,554	16,507
Amortization	865	867
Other (income) expense, net	(3,950)	(1,176)
OPERATING INCOME	221,412	177,866
Loss on exchange of Senior Exchangeable Notes	—	870
Interest expense	6,528	8,684
Income before income tax expense	214,884	168,312
Income tax expense	53,454	36,827
Net income	161,430	131,485
Net income (loss) attributable to non-controlling interests	160	(123)
Net income attributable to Core Laboratories N.V.	\$161,270	\$131,608
EARNINGS PER SHARE INFORMATION:		
Basic earnings per share attributable to Core Laboratories N.V.	\$3.40	\$2.87
Diluted earnings per share attributable to Core Laboratories N.V.	\$3.38	\$2.71
Cash dividends per share	\$0.84	\$0.75
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	47,436	45,930
Diluted	47,754	48,634

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

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CORE LABORATORIES N.V.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(Unaudited)		(Unaudited)	
Net income	\$54,549	\$45,109	\$161,430	\$131,485
Pension and other postretirement benefit plans				
Prior service cost				
Amortization to net income of transition asset	(21	) (21	) (65	) (65
Amortization to net income of prior service cost	39	39	119	119
Amortization to net income of net loss	—	84	—	252
Income taxes on pension and other postretirement benefit plans	(5	) (26	) (14	) (78
Comprehensive income	54,562	45,185	161,470	131,713
Comprehensive income (loss) attributable to non-controlling interests	146	242	160	(123
Comprehensive income attributable to Core Laboratories N.V.	\$54,416	\$44,943	\$161,310	\$131,836

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,	
	2012	2011
	(Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 161,430	\$ 131,485
Adjustments to reconcile net income to net cash provided by operating activities:		
Net (recovery) provision for doubtful accounts	614	(105)
Provisions for inventory obsolescence	303	483
Equity in earnings of affiliates	(481)	(190)
Dividends received from investments	31	—
Stock-based compensation	13,503	13,341
Depreciation and amortization	17,419	17,374
Non-cash interest expense	360	5,841
(Gain) loss on sale of assets	(383)	(416)
(Gain) on insurance recovery	(101)	(779)
Loss on exchange of Senior Exchangeable Notes	—	870
Realization of pension obligation	40	228
(Increase) decrease in value of life insurance policies	(1,659)	(93)
Deferred income taxes	(811)	(9,928)
Changes in assets and liabilities:		
Accounts receivable	(12,395)	707
Inventories	(896)	(14,204)
Prepaid expenses and other current assets	(8,916)	703
Other assets	51	1,692
Accounts payable	(11,975)	1,370
Accrued expenses	(3,284)	(6,124)
Unearned revenue	(6,321)	(1,269)
Other long-term liabilities	5,621	5,843
Net cash provided by operating activities	152,150	146,829
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(24,154)	(18,203)
Patents and other intangibles	(1,096)	(177)
Business acquisitions, net of cash acquired	(556)	(21,000)
Cash (advanced)/settled for acquisition	2,188	—
Proceeds from sale of assets	499	683
Proceeds from insurance recovery	101	884
Premiums on life insurance	(1,727)	(1,661)
Net cash used in investing activities	(24,745)	(39,474)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt	(53,330)	(229,467)
Proceeds from debt	41,000	313,000
Stock options exercised	5	295
Excess tax benefits from stock-based compensation	3,479	2,315
Debt financing costs	(7)	(1,997)
Settlement of warrants	—	(219,451)

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Non-controlling interests - contributions	—	1,193
Non-controlling interests - dividends	—	(251)
Dividends paid	(39,876)	(34,356)
Repurchase of common shares	(83,350)	(55,495)
Net cash used in financing activities	(132,079)	(224,214)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(4,674)	(116,859)
CASH AND CASH EQUIVALENTS, beginning of period	29,332	133,880
CASH AND CASH EQUIVALENTS, end of period	\$24,658	\$17,021

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, 2011 (the "2011 Annual Report").

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, 2012 may not necessarily be indicative of the results that may be expected for the year ended December 31, 2012.

Core Laboratories N.V.'s balance sheet information for the year ended December 31, 2011 was derived from the 2011 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.

Additionally, revision adjustments were made between Services Revenue and Product Sales Revenue and between Cost of Services and Cost of Product Sales in the Consolidated Statements of Operations for 2011 which did not affect total revenues, operating income or net income for the period.

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, 2012 (Unaudited)	December 31, 2011
Finished goods	\$39,875	\$32,604
Parts and materials	12,030	18,004
Work in progress	1,902	2,606
Total inventories	\$53,807	\$53,214

We include freight costs incurred for shipping inventory to customers in the Cost of product 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 2011, we acquired a business providing additional manufacturing capacity for our Canadian operations for \$18.8 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 \$8.6 million and an increase of \$0.5

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million in intangible assets. In 2012, a post-closing adjustment was recorded that increased the purchase price and goodwill by \$0.6 million. The acquisition was recorded in the Production Enhancement business segment.

4. DEBT AND CAPITAL LEASE OBLIGATIONS

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

	September 30, 2012 (Unaudited)	December 31, 2011
Senior notes	150,000	150,000
Credit facility	63,000	73,000
Capital lease obligations	89	132
Financing of corporate insurance	—	2,287
Total debt	213,089	225,419
Less - current maturities of long-term debt and capital lease obligations	45	2,344
Long-term debt and capital lease obligations, net	\$213,044	\$223,075

In 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.

We maintain a credit facility (the "Credit Facility") with an aggregate borrowing capacity of \$300 million at September 30, 2012. The Credit Facility provides an option to increase the commitment under the Credit Facility to \$350 million, if certain conditions are 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 at any point in time is reduced by borrowings outstanding at the time and outstanding letters of credit which totaled \$17.0 million at September 30, 2012, resulting in an available borrowing capacity under the Credit Facility of \$220.0 million. In addition to those items under the Credit Facility, we had \$26.4 million of outstanding letters of credit and performance guarantees and bonds from other sources as of September 30, 2012.

The terms of the Credit Facility and the Senior Notes require us to meet certain financial and operational covenants, including, but not limited to, certain operational and minimum equity and cash flow ratios. We believe that we are in compliance with all such covenants contained in our credit agreements. Certain of our material, wholly-owned subsidiaries are guarantors or co-borrowers under the Credit Facility and Senior Notes.

The estimated fair value of total debt at September 30, 2012 and December 31, 2011 approximated the book value of total debt. The fair value was estimated using Level 2 inputs including rates on similar debt recently issued by our peer group.

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, 2012 and 2011 (in thousands):

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
	(Unaudited)		(Unaudited)	
Service cost	\$273	\$340	\$845	\$1,027
Interest cost	409	438	1,262	1,324
Expected return on plan assets	(292	) (204	) (902	) (616
Amortization of transition asset	(21	) (21	) (65	) (65
Amortization of prior service cost	39	39	119	119
Amortization of net loss	—	84	—	252
Net periodic pension cost	\$408	\$676	\$1,259	\$2,041

During the nine months ended September 30, 2012, we contributed approximately \$1.6 million, as determined by the insurance company, to fund the estimated 2012 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 within life insurance policies, 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 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) with the assistance of a third party specialist. 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)	Total	Fair Value Measurement at		
		September 30, 2012		
		Level 1	Level 2	Level 3
Assets:				
Deferred compensation trust assets	\$12,043	\$—	\$12,043	\$—