

CORE LABORATORIES N V

Form 10-Q/A

April 07, 2003

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

**FORM 10-Q/A**

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(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, 2002**

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)

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

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

The number of common shares of the Registrant, par value EUR 0.01 per share, outstanding at November 11, 2002 was 33,273,821.

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**EXPLANATORY NOTE**

Core Laboratories N.V. ( Core Laboratories , we , our or us ) is filing this amendment to its Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 to reflect the restatement of certain previously reported information. Portions of Part I, Item 1 Financial Statements and Part I, Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations have been amended to reflect this restatement. The remaining information in this amended Form 10-Q has not been updated to reflect any changes in information that may have occurred subsequent to the date of the reporting period to which this Form 10-Q relates. Additional information relating to the restatement is contained in Note 10 of the Notes to the Consolidated Financial Statements.

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

	September 30, 2002	December 31, 2001
	(Unaudited)	
	(Restated) Note 10	
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 14,100	\$ 14,456
Accounts receivable, less allowance for doubtful accounts of \$10,389 and \$7,829 in 2002 and 2001, respectively	86,400	104,933
Inventories	37,692	41,109
Prepaid expenses and other current assets	13,088	9,728
Deferred tax asset	9,597	9,123
	<u>160,877</u>	<u>179,349</u>
PROPERTY, PLANT AND EQUIPMENT, net	96,022	97,615
INTANGIBLES, GOODWILL AND OTHER LONG-TERM ASSETS, net	150,147	162,536
	<u>407,046</u>	<u>439,500</u>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current maturities of long-term debt	\$ 823	\$ 454
Accounts payable	15,821	19,721
Other accrued expenses	15,708	19,832
	<u>32,352</u>	<u>40,007</u>
LONG-TERM DEBT	88,000	95,089
OTHER LONG-TERM LIABILITIES	21,945	27,983
MINORITY INTEREST	611	815
<b>SHAREHOLDERS EQUITY:</b>		
Preference shares, EUR 0.01 par value; 3,000,000 shares authorized, no shares issued or outstanding		
Common shares, EUR 0.01 par value; 100,000,000 shares authorized, 33,273,821 and 33,204,571 issued and outstanding in 2002 and 2001, respectively	546	546
Additional paid-in capital	187,349	186,751
Retained earnings	76,243	88,309
	<u>264,138</u>	<u>275,606</u>
Total liabilities and shareholders equity	<u>\$ 407,046</u>	<u>\$ 439,500</u>

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,	
	2002	2001
	(Unaudited)	
	(Restated) Note 10	
SERVICES	\$77,575	\$77,321
SALES	14,857	19,776
	92,432	97,097
OPERATING EXPENSES:		
Cost of services	61,579	57,107
Cost of sales	13,290	15,337
General and administrative expenses	4,943	4,259
Depreciation and amortization	5,237	4,808
Goodwill amortization		1,062
Other, net	125	(55)
	85,174	82,518
INCOME FROM OPERATIONS	7,258	14,579
INTEREST EXPENSE	1,857	2,000
	5,401	12,579
INCOME BEFORE INCOME TAX EXPENSE	5,401	12,579
INCOME TAX EXPENSE	2,269	3,522
	\$ 3,132	\$ 9,057
NET INCOME	\$ 3,132	\$ 9,057
PER SHARE INFORMATION:		
BASIC EARNINGS PER SHARE	\$ 0.09	\$ 0.27
	WEIGHTED AVERAGE BASIC COMMON SHARES OUTSTANDING	33,266
	33,266	33,165
	DILUTED EARNINGS PER SHARE	\$ 0.09
	\$ 0.09	\$ 0.27
	WEIGHTED AVERAGE DILUTED COMMON SHARES OUTSTANDING	33,465
	33,465	33,796

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,	
	2002	2001
	(Unaudited)	
	(Restated) Note 10	
SERVICES	\$ 219,444	\$ 224,956
SALES	43,722	54,747
	263,166	279,703
OPERATING EXPENSES:		
Cost of services	177,692	170,413
Cost of sales	39,767	43,429
General and administrative expenses	14,777	11,803
Depreciation and amortization	15,169	13,761
Goodwill amortization		3,128
Other, net	2,025	(637)
	249,430	241,897
INCOME FROM OPERATIONS	13,736	37,806
INTEREST EXPENSE	5,760	5,921
	INCOME BEFORE INCOME TAX EXPENSE AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	31,885
	7,976	31,885
INCOME TAX EXPENSE	3,350	8,928
	INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	22,957
	4,626	22,957
	CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(16,692)
	(16,692)	
NET (LOSS) INCOME	\$ (12,066)	\$ 22,957
PER SHARE INFORMATION:		
BASIC EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$ 0.14	\$ 0.69
	CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	
	(0.50)	
BASIC (LOSS) EARNINGS PER SHARE	\$ (0.36)	\$ 0.69
WEIGHTED AVERAGE BASIC COMMON SHARES OUTSTANDING	33,241	33,033
DILUTED EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$ 0.14	\$ 0.68



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CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(0.50)	
DILUTED (LOSS) EARNINGS PER SHARE	\$ (0.36)	\$ 0.68
WEIGHTED AVERAGE DILUTED COMMON SHARES OUTSTANDING	33,241	34,006

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,	
	2002	2001
	(Unaudited)	
	(Restated) Note 10	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net cash provided by operating activities	\$ 27,311	\$ 17,145
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(13,952)	(20,817)
Acquisitions, net of cash acquired	(7,991)	(12,735)
Proceeds from sale of fixed assets	1,153	201
Other	(467)	(90)
Net cash used in investing activities	(21,257)	(33,441)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments of long-term debt	(18,829)	(6,124)
Borrowings under long-term debt	11,803	20,716
Capital lease obligation, net	(24)	(203)
Exercise of stock options	598	2,720
Other	42	(24)
Net cash (used in) provided financing activities	(6,410)	17,085
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(356)	789
CASH AND CASH EQUIVALENTS, beginning of period	14,456	12,519
CASH AND CASH EQUIVALENTS, end of period	\$ 14,100	\$ 13,308

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

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**CORE LABORATORIES N.V.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)**

**1. BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES**

***Principles of Consolidation***

The accompanying unaudited consolidated financial statements include the accounts of Core Laboratories N.V. and have been prepared in accordance with United States of America ( 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, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. Balance sheet information at December 31, 2001 was derived from the 2001 annual audited consolidated financial statements. These financial statements should be read in conjunction with the consolidated financial statements and the summary of significant accounting policies and notes thereto included in our Form 10-K for the year ended December 31, 2001. Certain prior year amounts have been reclassified to conform to the current year presentation.

***Recent Pronouncements***

In August 2001, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standard ( SFAS ) 144, Accounting for the Impairment or Disposal of Long-Lived Assets. SFAS 144 addresses the financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 supersedes SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed of. SFAS 144 provides updated guidance concerning the recognition and measurement of an impairment loss for certain types of long-lived assets and modifies the accounting and reporting of discontinued operations. SFAS 144 is effective for fiscal years beginning after December 31, 2001. We do not expect SFAS 144 to have a material adverse effect on our financial position or results of operations.

In May 2002, the FASB issued SFAS No. 145 Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. Due to the nature of our business, FASB 44, 64 and Amendment of FASB 13 are not applicable. SFAS 145 eliminates SFAS No. 4 Reporting Gains and Losses from Extinguishment of Debt and states that gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in APB Opinion No. 30 Reporting the Results of Operations-Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. APB Opinion No. 30 defines extraordinary items as events and transactions that are distinguished by their unusual nature and by the infrequency of their occurrence. The provisions of SFAS 145 related to the classification of gains or losses attributable to debt extinguishments are effective for fiscal years beginning after May 15, 2002. We do not expect the implementation of SFAS 145 to have a material impact on our results of operations.

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In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. SFAS 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. We will adopt SFAS 146 for all exit or disposal activities initiated after December 31, 2002.

**2. ACQUISITIONS**

On July 1, 2002, we acquired certain assets of Advanced Data Solutions ( ADS ) for approximately \$8.0 million. The transaction resulted in an increase in goodwill of approximately \$5.7 million. In accordance with SFAS 142, goodwill relating to this purchase will not be amortized. In the event certain contingent goals are achieved at year-end 2002, additional consideration in an amount up to \$8.0 million may be due and an adjustment would subsequently be made to goodwill reflecting the amount of the additional consideration.

**3. INVENTORIES**

Inventories consist of manufactured goods, materials and supplies used for sales or services provided to customers. Inventories are stated at the lower of average or standard cost (includes direct material, labor and overhead) or estimated net realizable value and are reflected net of valuation reserves. Inventories consisted of the following (in thousands):

	September 30, 2002	December 31, 2001
	(Unaudited) (Restated) Note 10	
Finished goods	\$29,888	\$31,967
Parts and materials	5,497	6,561
Work in process	4,150	4,428
Valuation reserves	(1,843)	(1,847)
	<u>          </u>	<u>          </u>
Total inventories	\$37,692	\$41,109

**4. BUSINESS COMBINATIONS, INTANGIBLES AND GOODWILL**

Intangibles include patents, trademarks, service marks and trade names. Goodwill represents the excess of purchase price over the fair value of the net assets and individual intangibles acquired in acquisitions accounted for under the purchase method of accounting. Intangibles are charged to expense in equal amounts over their estimated useful lives.

In June 2001, the FASB issued two statements, SFAS 141, Business Combinations, and SFAS 142, Goodwill and Other Intangible Assets, that amend Accounting Principles Board ( APB ) Opinion No. 16, Business Combinations, and supersede APB Opinion No. 17, Intangible Assets. SFAS 141 eliminates the pooling-of-interests method of accounting for business combinations and establishes the purchase method of accounting as the only acceptable method for all business combinations initiated after June 30, 2001. This statement requires that goodwill resulting from a business combination after June 30, 2001 be recognized as an asset but not amortized, while goodwill existing at June 30, 2001 was amortized through December 31, 2001. Beginning January 1, 2002, we no longer amortize goodwill but will test for impairment annually or more frequently if circumstances indicate a potential impairment. We determined our reporting unit level to be our operating units.

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Using the discounted cash flow method under the requirements of SFAS 142, we have reflected impairment of goodwill of approximately \$16.7 million related to our Reservoir Management Segment as a result of adoption of SFAS 142 on January 1, 2002. This impairment was recorded in the first quarter of 2002 and is reflected in the statement of operations as a cumulative effect of change in accounting principle. The cessation of goodwill amortization under the guidelines will result in a reduction of approximately \$4.2 million in annual operating expenses, assuming no additional impairment of goodwill. Proforma information relating to goodwill amortization is presented in the following tables:

Net Income (in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	(Unaudited)			
	2002 (Restated) Note 10	2001	2002 (Restated) Note 10	2001
Reported net income (loss)	\$ 3,132	\$ 9,057	\$(12,066)	\$22,957
Add back: Goodwill amortization		1,062		3,128
Adjusted net income (loss)	\$ 3,132	\$ 10,119	\$(12,066)	\$26,085

Basic Earnings per Share	Three Months Ended September 30,		Nine Months Ended September 30,	
	(Unaudited)			
	2002 (Restated) Note 10	2001	2002 (Restated) Note 10	2001
Reported net income (loss)	\$ 0.09	\$ 0.27	\$ (0.36)	\$ 0.69
Add back: Goodwill amortization		0.03		0.09
Adjusted net income (loss)	\$ 0.09	\$ 0.30	\$ (0.36)	\$ 0.78

Diluted Earnings per Share	Three Months Ended September 30,		Nine Months Ended September 30,	
	(Unaudited)			
	2002 (Restated) Note 10	2001	2002 (Restated) Note 10	2001
Reported net income (loss)	\$ 0.09	\$ 0.27	\$ (0.36)	\$ 0.68
Add back: Goodwill amortization		0.03		0.09
Adjusted net income (loss)	\$ 0.09	\$ 0.30	\$ (0.36)	\$ 0.77

**5. LONG-TERM DEBT**

Long-term debt is summarized in the following table (in thousands):

September 30, 2002	December 31, 2001
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	(Unaudited)	
Credit Facility with a bank group:		
\$100,000 revolving debt facilities	\$ 13,000	\$ 20,000
Senior Notes	75,000	75,000
Other indebtedness	823	543
	<u>          </u>	<u>          </u>
Total debt	88,823	95,543
Less current maturities	823	454
	<u>          </u>	<u>          </u>
Total long-term debt	\$ 88,000	\$ 95,089
	<u>          </u>	<u>          </u>

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In July 1999, we entered into a \$100 million Credit Facility which provides for (i) a committed revolving debt facility of \$95 million and (ii) a Euro denominated revolving debt facility with U.S. dollar equivalency of \$5 million. At September 30, 2002, approximately \$87 million was available for borrowing under the revolving Credit Facility. Loans under the Credit Facility bear interest from LIBOR plus 1.25% to a maximum of LIBOR plus 1.75%. The average interest rate in effect at September 30, 2002 was 3.13%, and the average for the nine months ended September 30, 2002 was 3.15%. The revolving Credit Facility requires interest payments only, until maturity in June 2004.

In July 1999, we issued \$75 million in Senior Notes which bear an average interest rate of 8.16% and require annual principal payments beginning in July 2005 and continuing through July 2011.

The terms of the Credit Facility and Senior Notes require us to meet certain financial covenants, including certain minimum equity and cash flow tests. We believe that we are in compliance with all such covenants contained in our credit agreements. All of our material wholly owned subsidiaries are guarantors or co-borrowers under both credit agreements.

**6. RESTRUCTURING CHARGES**

During the fourth quarter of 2001, we had several transactions which impacted certain operations that were not viewed as ongoing. We restructured certain operations in Mexico, the United Kingdom, the U.S. and other countries to improve operating efficiencies. This restructuring expense included write-offs of assets and leasehold improvements and an accrual for facility restoration, severance benefits and lease termination costs. Approximately 100 field employees were terminated. In the second quarter of 2002, we relocated a facility from Mexico City, Mexico to Villahermosa, Mexico and we intend to relocate one of our operations from Dallas to the Houston Advanced Technology Center in the fourth quarter of 2002. This charge of approximately \$3.0 million affected each of our operating segments as follows: Reservoir Description \$0.8 million; Production Enhancement \$0.1 million; Reservoir Management \$2.1 million. Substantially all employee terminations were completed by the end of the first quarter of 2002. Total cash required for this restructuring charge of \$2.1 million will be funded from operating activities. Cash required for the costs incurred through September 30, 2002 was \$1.5 million. This charge is summarized in the following table:

**Restructuring Charges**

(in thousands)

	<u>Lease Obligations</u>	<u>Severance</u>	<u>Restoration</u>	<u>Asset Write-offs<sup>1</sup></u>	<u>Other</u>	<u>Total</u>
Total restructuring charges	\$ 598	\$ 951	\$ 380	\$ 862	\$ 184	\$ 2,975
Less: Costs incurred through December 31, 2001	38	394	—	862	40	1,334
Accrual remaining at December 31, 2001	560	557	380	—	144	1,641
Less: Costs incurred through September 30, 2002 (Unaudited)	116	557	230	—	85	988
Accrual remaining at September 30, 2002 (Unaudited)	\$ 444	\$ —	\$ 150	\$ —	\$ 59	\$ 653

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1) The fixed assets and leasehold improvements were disposed of by the end of December 2001. The write-off approximates the carrying amount as these assets were abandoned or sold for salvage value. Depreciation expense was reduced by approximately \$20 in 2001 and will be reduced by \$82 in 2002 and \$281 thereafter. The asset write-offs of \$862 were attributable to the Reservoir Management segment.

**7. SEGMENT REPORTING**

Our business units have been aggregated into three complementary segments which provide products and services for improving reservoir performance and increasing oil and gas recovery from new and existing fields.

*Reservoir Description:* Encompasses the characterization of petroleum reservoir rock, fluid and gas samples. We provide analytical and field services to characterize properties of crude oil and petroleum products to the oil and gas industry.

*Production Enhancement:* Includes products and services relating to reservoir well completions, perforations, stimulations and production. We provide integrated services to evaluate the effectiveness of well completions and to develop solutions aimed at increasing the effectiveness of enhanced oil recovery projects.

*Reservoir Management:* Combines and integrates information from reservoir description and production enhancement services to increase production and improve recovery of oil and gas from our clients' reservoirs.

**Segment Analysis**

We manage our business segments separately due to the different technologies each segment utilizes and requires. Results of these segments are presented below using the same accounting policies as used to prepare the Consolidated Balance Sheets and Statements of Operations. We evaluate performance based on income or loss from operations before income tax, interest and other non-operating income (expense). Summarized financial information concerning our segments is shown in the following table (in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
	(Restated) Note 10		(Unaudited) (Restated) Note 10	
<b>Revenues:</b>				
Reservoir Description	\$ 55,261	\$ 55,842	\$ 159,022	\$ 156,131
Production Enhancement	22,802	28,307	67,307	81,229
Reservoir Management	14,369	12,948	36,837	42,343
Consolidated	\$ 92,432	\$ 97,097	\$ 263,166	\$ 279,703
<b>Income (Loss) Before Interest Expense and Income Tax Expense:</b>				
Reservoir Description	\$ 7,049	\$ 10,468	\$ 16,943	\$ 24,845
Production Enhancement	890	5,119	1,383	13,691
Reservoir Management	(203)	(993)	(2,793)	(682)
Corporate and Other <sup>1</sup>	(478)	(15)	(1,797)	(48)
Consolidated	\$ 7,258	\$ 14,579	\$ 13,736	\$ 37,806



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1) Corporate and Other represents non-operational charges.

**8. EARNINGS PER SHARE**

We present earnings per share in accordance with SFAS No. 128, Earnings per Share which requires dual presentation of both basic and diluted earnings per share on the Consolidated Statement of Operations. Basic earnings per common share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflects the net additional shares which would be issued if all dilutive stock options outstanding were exercised.

The following table summarizes the calculation of weighted average common shares outstanding used in the computation of earnings per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2002	2001	2002	2001
			(Unaudited)	
Weighted average basic common shares outstanding	33,266,451	33,165,470	33,240,828	33,032,668
Effect of dilutive stock options <sup>1</sup>	199,030	630,067		973,240
Weighted average diluted common shares outstanding	33,465,481	33,795,537	33,240,828	34,005,908

1) Options totaling 3,280,710 and 1,071,551 equivalent common shares for the three months ended September 30, 2002 and 2001, and 3,479,740 and 51,801 for the nine months ended September 30, 2002 and 2001, respectively, were not included in the computation of weighted average diluted common shares because the impact of these options was anti-dilutive.

**9. SUBSEQUENT EVENT**

On October 10, 2002, Core Laboratories announced that it will activate a share repurchase program as approved by shareholders at our last annual meeting in May 2002, authorizing the purchase of up to 10% of our outstanding shares through November 29, 2003. The repurchase of the shares will take place in the open market and will be at the discretion of management. It is expected that funding of the program will come from operating cash flow. As of November 11, 2002, we repurchased approximately 213,000 shares of Core Laboratories common stock for an aggregate purchase price of approximately \$2,025,000.

**10. RESTATEMENT OF FINANCIALS**

We have restated our previously reported Consolidated Balance Sheet as of September 30, 2002 and our Consolidated Statement of Operations and Consolidated Statement of Cash Flows for the three and nine months ended September 30, 2002. In connection with our 2002 year-end audit, we determined that certain items of revenues and expenses had been accounted for in the incorrect

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quarter. The following table summarizes the impact and explanation of the adjustments on our previously reported quarterly results (in thousands, except per share data):

	Three Months Ended September 30, 2002		Nine Months Ended September 30, 2002	
	Previously Reported	(Unaudited) Restated	Previously Reported	Restated
Service and sales revenues	\$ 93,341	\$92,432 a	\$265,869	\$263,166 a
Cost of services and sales	74,667	74,869 b,c	214,022	217,459 b,c
Other operating expenses	9,472	10,305 d,e,f	29,542	31,971 d,e,f
Operating income	9,202	7,258	22,305	13,736
Interest expense	1,849	1,857	5,737	5,760
Income before income tax expense	7,353	5,401	16,568	7,976
Income tax expense	2,059	2,269 g	4,639	3,350 g
Income before cumulative effect of change in accounting principle	5,294	3,132	11,929	4,626
Cumulative effect of change in accounting principle			(16,692)	(16,692)
Net income (loss)	\$ 5,294	\$ 3,132	\$ (4,763)	\$ (12,066)
Per share data:				
Basic earnings (loss) per share	\$ 0.16	\$ 0.09	\$ (0.14)	\$ (0.36)
Weighted average basic common shares outstanding	33,266	33,266	33,241	33,241
Diluted earnings (loss) per share	\$ 0.16	\$ 0.09	\$ (0.14)	\$ (0.36)
Weighted average diluted common shares outstanding	33,465	33,465	33,670	33,241

- a. Adjusts revenues by \$909 and \$2,703 for the three and nine months ended September 30, 2002, respectively, as a result of untimely processing of credit memos.
- b. Record additional provision for doubtful accounts of \$188 and \$2,877 for the three and nine months ended September 30, 2002, respectively, based on our historical experience.
- c. Adjustment for cost of sales of \$14 and \$560 for the three and nine months ended September 30, 2002, respectively, as a result of reconciliation of account balances primarily in Mexico and Venezuela.
- d. Record adjustment for expense of \$173 and \$518 for the three and nine months ended September 30, 2002, respectively, to correct depreciation expense based on estimated useful life of related assets.
- e. Additional general and administrative expense of \$265 and \$458 for the three and nine months ended September 30, 2002, respectively, primarily for compensation expense.
- f. Additional expense of \$395 and \$1,453 for the three and nine months ended September 30, 2002, respectively, for correction of foreign exchange adjustment in Venezuela.
- g. Income tax effect of all adjustments above.

The following table summarizes the impact of these adjustments on our previously reported quarterly financial position (in thousands):

	<b>September 30, 2002</b>	
	<b>(Unaudited)</b>	
<b>Consolidated Balance Sheets</b>	<b>Previously Reported</b>	<b>Restated</b>
Cash	\$ 14,581	\$ 14,100
Accounts receivable	\$ 92,187	\$ 86,400
Inventories	\$ 38,004	\$ 37,692
Prepaid expenses and other current assets	\$ 13,827	\$ 13,088
Property, plant and equipment, net	\$ 96,132	\$ 96,022
Intangibles, goodwill and other assets	\$ 150,269	\$ 150,147
Accounts payable	\$ 15,563	\$ 15,821
Other current liabilities	\$ 16,218	\$ 15,708
Other liabilities and minority interest	\$ 22,551	\$ 22,556
Retained earnings	\$ 83,546	\$ 76,243

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**CORE LABORATORIES N.V.  
MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**General**

This discussion includes forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. We have based the forward-looking statements relating to our operations on our current expectations, estimates and projections. We caution you that these statements are not guarantees of future performance and involve risks and uncertainties that we cannot predict. In addition, we have based many of these forward-looking statements on assumptions about future events that may prove to be inaccurate. Accordingly, our actual outcomes and results may differ materially from what we have expressed or forecast in the forward-looking statements. Our forward-looking statements are based on assumptions that we believe to be reasonable but that may not prove to be accurate. All of our forward-looking information is, therefore, subject to risks and uncertainties that could cause actual results to differ materially from the results expected. Although it is not possible to identify all factors, these risks and uncertainties include the risk factors discussed below.

***Industry risks***

The oil and gas industry is highly cyclical and there are numerous factors affecting the supply of and demand for oil and natural gas, which include:

- market prices of oil and gas;
- cost of producing oil and natural gas;
- the level of drilling and production activity;
- mergers, consolidations and downsizing among our clients;
- coordination by OPEC; and
- the impact of commodity prices on the expenditure levels of our customers.

***Business risks***

Our results of operations could be adversely affected by risks and uncertainties in the business environment in which we operate, including:

- competition in our markets;
- the realization of anticipated synergies from acquired businesses and future acquisitions;
- our ability to continue to develop or acquire new and useful technology; and
- access to capital, interest rates and the cost of capital.

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***International risks***

We conduct our business in over 50 countries and are subject to political and economic instability and the laws and regulations in the countries in which we operate. These include:

global economic conditions;

political actions and requirements of national governments including trade restrictions and embargos and expropriations of assets;

potential income tax liabilities in multiple jurisdictions;

war;

civil unrest;

fluctuations and changes in currency exchange rates; and

the impact of inflation.

***Other risks***

The events of September 11, 2001, the economic downturn and political, corporate and credit events that followed and continue to unfold could result in lower demand for our products and services. Our client base could be impacted by events we cannot predict or we could be impacted by a change in the conduct of business, transportation and security measures. In addition, we are subject to other risk factors such as the impact of environmental regulations and litigation risks, as well as the dependence on the oil and gas industry. Many of these risks are beyond our control. In addition, future trends for pricing, margins, revenues and profitability remain difficult to predict in the industries we serve and under current economic and political conditions. We do not assume any responsibility to publicly update any of our forward-looking statements regardless of whether factors change as a result of new information, future events or for any other reason.

Our operations are subject to various risk and other factors including, but not limited to:

our ability to continue to develop or acquire new and useful technology;

the realization of anticipated synergies from acquired businesses and future acquisitions;

our dependence on the oil and gas industry, and the impact of commodity prices on the expenditure levels of our customers;

competition in our markets; and

the risks and uncertainties attendant to adverse industry, political, economic and financial market conditions, including stock prices, government regulations, interest rates and credit availability.

Core Laboratories was established in 1936 and is one of the world's leading providers of proprietary and patented reservoir description, production enhancement and reservoir management services to the oil and gas industry. These services are directed toward enabling our clients to improve reservoir performance and increase oil and gas recovery from their producing fields. We have over 70 offices in more than 50 countries and have approximately 4,450 employees.

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**Results of Operations**

We have restated our previously reported Consolidated Balance Sheet as of September 30, 2002 and our Consolidated Statement of Operations and Consolidated Statement of Cash Flows for the three and nine months ended September 30, 2002. In connection with our 2002 year-end audit, we determined that certain items of revenues and expenses had been accounted for in the incorrect quarter. For additional information about restatements, see Note 10 of the Notes to Consolidated Financial Statements.

Service revenues for the third quarter of 2002 were consistent with the same period in the prior year. Service revenues for the nine month period ended September 30, 2002 decreased \$5.5 million, a 2.5% decrease from the same period last year, primarily due to continued weak activity levels of our clients in North America.

Cost of services expressed as a percentage of service revenue were 79% and 74% in the third quarter of 2002 and the same period last year, respectively, and 81% and 76% in the nine month period ended September 30, 2002 and in the same period last year, respectively. The increase in the cost of services percentage is primarily due to the completion of international projects with lower margins coupled with a decrease in higher margin projects in the North American Production Enhancement business.

Sales revenues decreased to \$14.9 million in the third quarter of 2002 from \$19.8 million in the third quarter of 2001, a 25% decrease. Sales revenue for the nine month period ended September 30, 2002 decreased \$11.0 million to \$43.7 million from \$54.7 million in the same period in 2001, a 20% decrease. These decreases were caused, in most part, to the deep decline in drilling for natural gas in the North American markets. Consequently, there was lower demand for our well completion products. Sequentially, revenues in the third quarter of 2002 increased \$1.1 million, or 8%, from the second quarter of 2002 as the rig count and related activity levels in North America improved slightly.

Cost of sales in the third quarter of 2002 was 89% of sales revenue as compared to 78% for the same period last year. For the nine month period ended September 30, 2002, cost of sales was 91% as compared to 79% in the prior year. Although cost reduction efforts have been made during the year, including this quarter, to minimize our cost structure, the deep decline in drilling for natural gas in North American markets has caused significantly lower demand for our products. Consequently, cost of sales as a percentage of revenues continues to run at higher than desired levels.

General and administrative expenses are comprised of corporate management and centralized administrative services which benefit our operating subsidiaries. Although general and administrative expenses are generally more fixed in nature as a percentage of revenues, we did experience an increase of \$0.7 million and \$3.0 million for the three and nine month periods ended September 30, 2002, respectively, as compared to the corresponding periods in 2001. These increases were largely attributable to growth in the number of people necessary to support increases in the scope of our operations as well as an increase in our direct marketing effort focused on providing integrated solutions to our clients, as well as continuing the implementation of the company-wide financial system.

Depreciation and amortization expense for the third quarter of 2002 increased \$0.4 million and \$1.4 million for the nine month period ended September 30, 2002, as compared to the corresponding

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periods in 2001. These increases were due to the purchase of certain assets from Advanced Data Solutions ( ADS ) as well as additional capital investments, which include additions to the Houston facility.

As a result of adoption of SFAS 142 beginning January 1, 2002, we no longer amortize goodwill but will test for impairment annually or more frequently if circumstances indicate a potential impairment. Under the requirements, in the first quarter we reflected impairment of goodwill of approximately \$16.7 million related to our Reservoir Management segment. This impairment is reflected in the consolidated statement of operations as a cumulative effect of change in accounting principle. The cessation of goodwill amortization under the guidelines resulted in a reduction in operating expenses of approximately \$1.0 million and \$3.1 million for the three and nine month periods ended September 30, 2002, respectively, and will result in a reduction of approximately \$4.2 million in annual operating expenses, assuming no additional impairment of goodwill.

The 2002 effective income tax rate increased to 42% of income before cumulative effect of change in accounting principle from the 2001 rate of 28%. This increase is the result of an increase in expenses that are not deductible for tax purposes and an increased valuation allowance on Venezuela deferred tax assets.

During the fourth quarter of 2001, we had several transactions which impacted certain operations that were not viewed as ongoing. We restructured certain operations in Mexico, the United Kingdom, the U.S. and other countries to improve operating efficiencies. This restructuring expense included write-offs of assets and leasehold improvements and an accrual for facility restoration, severance benefits and lease termination costs. Approximately 100 field employees were terminated. In the second quarter of 2002, we relocated a facility from Mexico City, Mexico to Villahermosa, Mexico and we intend to relocate one of our operations from Dallas to the Houston Advanced Technology Center in the fourth quarter of 2002. This charge of approximately \$3.0 million affected each of our operating segments as follows: Reservoir Description \$0.8 million; Production Enhancement \$0.1 million; Reservoir Management \$2.1 million. Substantially all employee terminations were completed by the end of the first quarter of 2002. Total cash required for this restructuring charge of \$2.1 million will be funded from operating activities. Cash required for the costs incurred through September 30, 2002 was \$1.5 million. This charge is summarized in the following table:

**Restructuring Charges**

(in thousands)

	<u>Lease Obligations</u>	<u>Severance</u>	<u>Restoration</u>	<u>Asset Write-offs<sup>1</sup></u>	<u>Other</u>	<u>Total</u>
Total restructuring charges	\$ 598	\$ 951	\$ 380	\$ 862	\$ 184	\$ 2,975
Less: Costs incurred through December 31, 2001	38	394	—	862	40	1,334
Accrual remaining at December 31, 2001	560	557	380	—	144	1,641
Less: Costs incurred through September 30, 2002 (Unaudited)	116	557	230	—	85	988
Accrual remaining at September 30, 2002 (Unaudited)	\$ 444	\$ —	\$ 150	\$ —	\$ 59	\$ 653

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1) The fixed assets and leasehold improvements were disposed of by the end of December 2001. The write-off approximates the carrying amount as these assets were abandoned or sold for salvage value. Depreciation expense was reduced by approximately \$20 in 2001 and will be reduced by \$82 in 2002 and \$281 thereafter. The asset write-offs of \$862 were attributable to the Reservoir Management segment.

**Segment Analysis**

(in thousands)

	Three months ended September 30,		Nine months ended September 30,	
	2002	2001	2002	2001
	(Restated) Note 10		(Unaudited) (Restated) Note 10	
<b>Revenues:</b>				
Reservoir Description	\$55,261	\$55,842	\$159,022	\$156,131
Production Enhancement	22,802	28,307	67,307	81,229
Reservoir Management	14,369	12,948	36,837	42,343
Consolidated	\$92,432	\$97,097	\$263,166	\$279,703
<b>Income (Loss) Before Interest Expense and Income Tax Expense:</b>				
Reservoir Description	\$ 7,049	\$10,468	\$ 16,943	\$ 24,845
Production Enhancement	890	5,119	1,383	13,691
Reservoir Management	(203)	(993)	(2,793)	(682)
Corporate and Other <sup>1</sup>	(478)	(15)	(1,797)	(48)
Consolidated	\$ 7,258	\$14,579	\$ 13,736	\$ 37,806

1) Corporate and Other represents non-operational charges.

**Reservoir Description**

Revenues from the Reservoir Description segment increased to \$55.3 million in the third quarter of 2002 from \$55.8 million in the same period in the prior year. Revenues for the nine month period ended September 30, 2002 increased \$2.9 million. Increased international demand for our existing services and deepwater services, as well as the introduction of new technologies into international arenas bolstered revenue in this segment. Earnings before interest and taxes decreased by \$3.4 million in the third quarter of 2002 and \$7.9 million in the nine month period ended September 30, 2002, compared to the same periods in the prior year due to decreased margins relating primarily to reduced activity levels in the North American natural gas markets. Sequentially, revenues in the third quarter of 2002 increased \$1.0 million, or 2%, from the second quarter of 2002 while earnings before interest and taxes in the third quarter of 2002 increased \$0.9 million, or 14%, from the second quarter of 2002. Although international activity levels have been flat, as indicated by drilling activity, we have been able to increase revenue and earnings on a sequential basis through the addition of new services and increases in market penetration.



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### **Production Enhancement**

Revenues from the Production Enhancement segment were \$22.8 million in the third quarter of 2002 compared to \$28.3 million in the same period in the prior year, a decrease of 19%. For the nine month period ended September 30, 2002, revenues decreased \$13.9 million to \$67.3 million, a decrease of 17% from the same period in the prior year. Due to lower industry activity levels, we continued to experience decreased demand for our well completion and stimulation technologies, primarily in North American markets in the third quarter. Earnings before interest and taxes decreased \$4.2 million in the third quarter and \$12.3 million in the nine month period ended September 30, 2002 compared to the same periods in 2001. Sequentially, Production Enhancement revenues in the third quarter of 2002 increased \$1.7 million, or 8%, from the second quarter of 2002 while earnings before interest and taxes in the third quarter of 2002 increased \$1.0 million from the second quarter of 2002 as the rig count and related activity in North America has improved slightly.

### **Reservoir Management**

Revenues from the Reservoir Management segment in the third quarter of 2002 were \$14.4 million, an increase of \$1.4 million compared to the same period in the prior year, while revenues for the nine month period ended September 30, 2002 decreased \$5.5 million compared to the same period in 2001. The increase in the third quarter of 2002 was primarily the additional activity resulting from the purchase of the ADS assets and due to the completion of large projects in Mexico.

### **Liquidity and Capital Resources**

We have historically financed our activities through cash flows from operating activities, bank credit facilities, equity financing and the issuance of debt.

For the nine month period ended September 30, 2002, cash flows from operating activities were \$27.3 million, an increase of \$10.2 million from the same period in 2001. At September 30, 2002, we had working capital of \$128.5 million and a current ratio of 5.0 to 1.0, compared to working capital of \$139.3 million and a current ratio of 4.5 to 1.0 at December 31, 2001. We are a Netherlands holding company and we conduct substantially all of our operations through subsidiaries. Consequently, our cash flow is dependent upon the ability of our subsidiaries to pay cash dividends or otherwise distribute or advance funds to us.

For the nine month period ended September 30, 2002, our investing activities used \$21.3 million compared to \$33.4 million in the same period in 2001. Included in the capital expenditures is a new lab and office facility in Moscow, Russia. We also acquired certain assets from ADS for approximately \$8.0 million. For the nine month period ended September 30, 2002 our financing activities used \$6.4 million and provided \$17.1 million in the same period in 2001. The use of cash in 2002 financing activities was due to a net reduction of approximately \$7.0 million in the balance outstanding under the Credit Facility.

Our ability to maintain and grow our operating income and cash flows is dependent upon continued investing activities. We believe our future cash flows from operating activities, supplemented, if necessary, by our borrowing capacity and issuances of additional equity, should be sufficient to fund debt requirements, capital expenditures, working capital and future acquisitions.

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**CORE LABORATORIES N.V.  
QUANTITATIVE AND QUALITATIVE DISCLOSURES OF MARKET RISK**

**Market Risk**

We are exposed to market risk, which is the potential loss arising from adverse changes in market prices and rates. We do not enter, or intend to enter, into derivative financial instruments for trading or speculative purposes. We do not believe that our exposure to market risks, which are primarily related to interest rate changes and fluctuations in foreign exchange rates, are material. During 1999, we issued fixed rate Senior Notes denominated in U.S. dollars. The proceeds were used to pay off variable rate term loans. This significantly reduced our exposure to market risk. This section should be read in conjunction with Note 5 Long-Term Debt of the Notes to Consolidated Financial Statements.

**Interest Rate Risk**

We are exposed to interest rate risk on our Credit Facility debt that carries a variable interest rate. At September 30, 2002, our variable rate debt outstanding of \$13.0 million approximated its fair value. A one percent change in the interest rate would not cause a material change in interest expense on an annual basis. We attempt to balance the benefit of variable rate debt that has inherent increased risk with fixed rate debt that has less market risk.

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**CORE LABORATORIES N.V.  
CONTROLS AND PROCEDURES**

Within the 90 days prior to the date of this report, the Company carried out an evaluation of the effectiveness of the design and operation of the issuer's disclosure controls and procedures (as defined in 17 CFR §§240.13a-14(c) and 240.15d-14(c)). Such evaluation was carried out under the supervision and with the participation of the issuer's management, including the issuer's chief executive officer and chief financial officer; and it is the conclusion of the chief executive officer and chief financial officer that such disclosure controls and procedures operate such that important information flows to appropriate collection and disclosure points in a timely manner and are effective in ensuring that material information is accumulated and communicated to management of the issuer, and made known to the chief executive officer and chief financial officer particularly during the period in which this report was prepared, as appropriate to allow timely decisions regarding required disclosure.

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**CORE LABORATORIES N.V.  
PART II OTHER INFORMATION**

**Item 1. *Legal Proceedings.***

We are from time to time subject to legal proceedings and claims that arise in the ordinary course of business. We believe that the outcome of current legal actions will not have a material adverse effect upon our consolidated financial position or results of operations.

**Item 2. *Changes in Securities.***

None

**Item 3. *Defaults Upon Senior Securities.***

None

**Item 4. *Submission of Matters to a Vote of Security Holders.***

None

**Item 5. *Other Information.***

All references to the nominal value of EUR 0.01 (formerly NLG 0.03) of each share in the share capital of Core Laboratories N.V. is made with reference to article 2:67c of the Dutch Civil Code.

**Item 6. *Exhibits and Reports on Form 8-K.***

(a) Exhibits

None

(b) Reports on Form 8-K

None

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant, Core Laboratories N.V., has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

CORE LABORATORIES N.V.  
by: Core Laboratories International B.V.

Dated: November 13, 2002

By: /s/ Richard L. Bergmark

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Richard L. Bergmark  
Chief Financial Officer

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**Certification**

I, David M. Demshur, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Core Laboratories N.V.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 4, 2003

By:           /s/ David M. Demshur          

David M. Demshur  
Chief Executive Officer

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I, Richard L. Bergmark, certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of Core Laboratories N.V.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the Evaluation Date); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 4, 2003

By:           /s/ Richard L. Bergmark          

Richard L. Bergmark  
Chief Financial Officer