

CORE LABORATORIES N V  
Form 10-Q  
October 27, 2008

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, 2008

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

Edgar Filing: CORE LABORATORIES N V - Form 10-Q

Large accelerated filer  9; Accelerated filer  Non-accelerated filer  9; Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of common shares of the Registrant, par value EUR 0.04 per share, outstanding at October 23, 2008 was 23,044,573.

CORE LABORATORIES N.V.  
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2008

INDEX

	Page
PART I - FINANCIAL INFORMATION	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Consolidated Balance Sheets at September 30, 2008 (Unaudited) and December 31, 2007</u>
	1
	<u>Consolidated Statements of Operations (Unaudited) for the Three Months Ended</u>
	<u>September 30, 2008 and 2007</u>
	2
	<u>Consolidated Statements of Operations (Unaudited) for the Nine Months Ended</u>
	<u>September 30, 2008 and 2007</u>
	3
	<u>Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended</u>
	<u>September 30, 2008 and 2007</u>
	4
	<u>Notes to Unaudited Consolidated Interim Financial Statements</u>
	5
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	19
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures of Market Risk</u>
	27
<u>Item 4.</u>	<u>Controls and Procedures</u>
	27
PART II - OTHER INFORMATION	

<u>Item 1.</u>	<u>Legal Proceedings</u>	28
<u>Item 1A.</u>	<u>Risk Factors</u>	28
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 6.</u>	<u>Exhibits</u>	29
	<u>Signature</u>	30

## 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, 2008 (Unaudited)	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 58,275	\$ 25,617
Accounts receivable, net of allowance for doubtful accounts of \$3,838 and \$4,199 at 2008 and 2007, respectively	150,260	137,231
Inventories, net	32,259	29,363
Prepaid expenses and other current assets	22,637	28,488
TOTAL CURRENT ASSETS	263,431	220,699
PROPERTY, PLANT AND EQUIPMENT, net	99,798	93,038
INTANGIBLES, net	7,096	7,040
GOODWILL	148,600	138,800
DEFERRED TAX ASSET	32,913	26,024
OTHER ASSETS	13,892	19,189
TOTAL ASSETS	\$ 565,730	\$ 504,790
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt and capital lease obligations	\$ 223	\$ 3,027
Accounts payable	39,113	39,861
Accrued payroll and related costs	27,972	25,689
Taxes other than payroll and income	7,246	8,820
Unearned revenues	8,325	9,130
Other accrued expenses	11,496	11,513

TOTAL CURRENT LIABILITIES	94,375	98,040
LONG-TERM DEBT	300,000	300,000
DEFERRED COMPENSATION	14,205	14,080
OTHER LONG-TERM LIABILITIES	29,821	29,041
COMMITMENTS AND CONTINGENCIES		
MINORITY INTEREST	2,122	1,486
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, 25,519,956 issued and 23,044,573 outstanding at 2008 and 23,080,949 issued and 23,065,949 outstanding at 2007	1,430	1,300
Additional paid-in capital	461	-
Retained earnings	367,471	62,496
Accumulated other comprehensive income	285	226
Treasury shares (at cost), 2,475,383 at 2008 and 15,000 at 2007	(244,440)	(1,879)
TOTAL SHAREHOLDERS' EQUITY	125,207	62,143
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 565,730	\$ 504,790

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

[Return to Index](#)

## CORE LABORATORIES N.V.

### CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Three Months Ended	
	2008	September 30, 2007 (Unaudited)
REVENUES:		
Services	\$ 154,297	\$ 131,060
Product sales	48,226	39,005
	202,523	170,065
OPERATING EXPENSES:		
Cost of services	100,264	84,863
Cost of sales	33,941	27,684
General and administrative expenses	6,857	7,039
Depreciation	5,355	4,806
Amortization	207	229

Edgar Filing: CORE LABORATORIES N V - Form 10-Q

Other expense (income), net	829	(514)
OPERATING INCOME	55,070	45,958
Interest expense	303	614
Income before income tax expense	54,767	45,344
Income tax expense	15,252	13,830
NET INCOME	\$ 39,515	\$ 31,514

EARNINGS PER SHARE INFORMATION:

Basic earnings per share	\$ 1.72	\$ 1.34
Diluted earnings per share	\$ 1.64	\$ 1.29

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:

Basic	23,034	23,556
Diluted	24,082	24,377

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

[Return to Index](#)

CORE LABORATORIES N.V.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Nine Months Ended	
	September 30,	September 30,
	2008	2007
	(Unaudited)	
REVENUES:		
Services	\$ 446,700	\$ 374,212
Product sales	132,948	119,969
	579,648	494,181
OPERATING EXPENSES:		
Cost of services	291,315	249,140
Cost of sales	93,273	84,005
General and administrative expenses	22,305	24,798
Depreciation	15,569	14,094
Amortization	508	416
Other expense (income), net	2,321	(2,850)
OPERATING INCOME	154,357	124,578
Interest expense	6,023	1,881
Income before income tax expense	148,334	122,697
Income tax expense	45,775	37,118

NET INCOME	\$	102,559	\$	85,579
EARNINGS PER SHARE INFORMATION:				
Basic earnings per share	\$	4.46	\$	3.62
Diluted earnings per share	\$	4.24	\$	3.51
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic		23,004		23,642
Diluted		24,164		24,371

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

[Return to Index](#)

CORE LABORATORIES N.V.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Nine Months Ended			
	September 30, 2008	2007		
	(Unaudited)			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$	102,559	\$	85,579
Adjustments to reconcile income to net cash provided by operating activities:				
Net (recoveries) provision for doubtful accounts		(158)		15
Inventory obsolescence		252		121
Equity in loss (income) of affiliates		(297)		222
Minority interest		283		153
Stock-based compensation		3,886		3,499
Depreciation and amortization		16,077		14,510
Debt issuance costs amortization		5,225		1,352
Gain on sale of assets		(1,719)		(249)
Realization of pension obligation		59		54
Decrease (increase) in value of life insurance policies		2,027		(852)
Deferred income taxes		(8,020)		(7,106)
Changes in assets and liabilities, net of effect of dispositions:				
Accounts receivable		(11,068)		(26,316)
Inventories		(3,148)		246
Prepaid expenses and other current assets		7,472		(5,378)
Other assets		(473)		96
Accounts payable		(1,021)		7,910

Edgar Filing: CORE LABORATORIES N V - Form 10-Q

Accrued expenses	(1,713)	6,982
Other long-term liabilities	(86)	6,977
Net cash provided by operating activities	110,137	87,815
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	(21,603)	(15,285)
Patents and other intangibles	(255)	(252)
Acquisition, net of cash acquired	(11,536)	(5,012)
Minority interest - contribution	370	-
Deposit on sale of asset	-	13,475
Proceeds from sale of assets	3,314	488
Premiums on life insurance	(1,175)	(1,199)
Net cash used in investing activities	(30,885)	(7,785)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of debt	(8,024)	(2,754)
Proceeds from debt borrowings	5,000	-
Capital lease obligations	(130)	(4)
Stock options exercised	690	18,184
Excess tax benefits from stock-based compensation	11,037	20,328
Debt issuance costs	-	(162)
Dividends paid	(25,342)	-
Repurchase of common shares	(29,825)	(127,677)
Net cash used in financing activities	(46,594)	(92,085)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>32,658</b>	<b>(12,055)</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>25,617</b>	<b>54,223</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$ 58,275</b>	<b>\$ 42,168</b>

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

[\*\*Return to Index\*\*](#)

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 for the periods presented have been included in these financial statements. Furthermore, the operating results presented for the three and nine months periods ended September 30, 2008 may not

necessarily be indicative of the results that may be expected for the year ending December 31, 2008.

Core Laboratories N.V.'s balance sheet information for the year ended December 31, 2007 was derived from the 2007 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, 2007.

## 2. INVENTORIES

Inventories consist of the following (in thousands):

	September 30, 2008 (Unaudited)	December 31, 2007
Finished goods	\$ 22,384	\$ 21,795
Parts and materials	8,520	6,433
Work in progress	1,355	1,135
Total inventories, net	\$ 32,259	\$ 29,363

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 July 2008, we acquired all of the shares of Catoni Persa for \$15.0 million, a Turkey based petroleum testing laboratory specializing in the characterization of crude oil and its derivative products. The acquisition resulted in goodwill of \$9.8 million which was recorded in the Reservoir Description business segment and includes a \$2.0 million holdback provision. There were no other significant changes relating to our intangible assets for the nine months ended September 30, 2008. The remaining composition of goodwill by business segment at September 30, 2008 is consistent with the amounts disclosed in our Annual Report on Form 10-K as of December 31, 2007.

## 4. DEBT AND CAPITAL LEASE OBLIGATIONS



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

	September 30, 2008 (Unaudited)	December 31, 2007
Senior exchangeable notes	\$ 300,000	\$ 300,000
Capital lease obligations	223	3
Other indebtedness	-	3,024
Total debt and capital leases obligations	300,223	303,027
Less - short-term debt included in other indebtedness	-	3,024
Less - current maturities of capital lease obligations	223	3
Long-term debt	\$ 300,000	\$ 300,000

In 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"). The Notes bear interest at a rate of 0.25% per year paid on a bi-annual basis 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 a conversion rate of 10.6398 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.

The Notes include an early conversion option that is tested quarterly to determine if the Notes can be early converted during the subsequent quarter. During the second quarter of 2008, the early conversion option for the holders of the Notes was enabled. As a result, the Notes could have been converted during the third quarter and were reclassified from a long-term liability to a short-term liability, however, no Note holder exercised their early conversion option before the conversion period ended on September 30, 2008. The related debt acquisition costs of \$4.8 million were recorded to interest expense in the three month period ended June 30, 2008. The criteria for the early conversion option was not met during the third quarter and thus the Notes cannot be converted during the fourth quarter, and accordingly, the Notes are classified as a long-term liability.

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. Interest payment terms are variable depending upon the specific type of borrowing under this facility. Our available capacity is reduced by outstanding unsecured letters of credit and performance guarantees and bonds totaling \$8.9 million at September 30, 2008 relating to certain projects in progress. Our available borrowing capacity under the Credit Facility at September 30, 2008 was \$91.1 million.

## 5. PENSIONS AND OTHER POSTRETIREMENT BENEFITS

We provide a noncontributory defined benefit pension plan covering substantially all of our Dutch employees, payouts under which are determined based on years of service and final pay or career average pay, depending on when the employee began participating. Employees are immediately vested in the benefits earned. We fund the future obligations of this plan by purchasing investment contracts from a large insurance company. We make annual premium payments, based on each employee's age and current salary, to the insurance company.

The following table summarizes the components of net periodic pension cost under this plan for the three and nine month periods ended September 30, 2008 and 2007 (in thousands):

Edgar Filing: CORE LABORATORIES N V - Form 10-Q

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Service cost	\$ 296	\$ 306	\$ 884	\$ 895
Interest cost	347	281	1,042	821
Expected return on plan assets	(317)	(256)	(945)	(749)
Unrecognized pension obligation (asset), net	(28)	(23)	(79)	(67)
Prior service cost	48	41	138	121
Net periodic pension cost	\$ 346	\$ 349	\$ 1,040	\$ 1,021

During the nine month period ended September 30, 2008, we contributed approximately \$1.1 million, as determined by the insurance company, to fund the estimated 2008 premiums on investment contracts held by the plan.

On January 1, 2008, we adopted Statement of Financial Accounting Standards No. 157 ("SFAS 157") Fair Value Measurements for financial assets and liabilities. We have not adopted SFAS 157 for nonfinancial assets and nonfinancial liabilities for those measured on a nonrecurring basis as the adoption date has been deferred until January 1, 2009 pursuant to Financial Accounting Standards Board Staff Position No. 157-2. The application of SFAS 157 to the Company's nonfinancial assets and liabilities will primarily be limited to asset impairments, including Goodwill, and this application is not expected to have a material impact to the Company. This new standard addresses how companies should measure fair value when they are required to use a fair value measure for recognition or disclosure purposes. On a recurring basis, we use the market approach to value certain liabilities at fair value at quoted prices in an active market (Level 1) and certain assets and liabilities using significant other observable inputs (Level 2). We do not have any assets or liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3). Gains and losses related to the fair value changes in the deferred compensation assets and liabilities are recorded in General and Administrative Expenses in the Consolidated Statement of Operations. The following table summarizes the fair value balances (in thousands):

	Total	Fair Value Measurement at September 30, 2008		
		Level 1	Level 2	Level 3
<b>Assets:</b>				
Equity and other investment fund assets	\$ 4,346	\$ -	\$ 4,346	\$ -
<b>Liabilities:</b>				
Deferred compensation plan	\$ 7,096	\$ 697	\$ 6,399	\$ -

We have adopted a non-qualified deferred compensation plan that allows certain highly compensated employees to defer a portion of their salary, commission and bonus, as well as the amount of any reductions in their deferrals under the deferred compensation plan for employees in the United States (the "Deferred Compensation Plan"), due to certain limitations imposed by the U.S. Internal Revenue Code of 1986, as amended. The Deferred Compensation Plan also provides for employer contributions to be made on behalf of participants equal in amount to certain forfeitures of, and/or reductions in, employer contributions that participants could have received under the 401(k) Plan in the absence of certain limitations imposed by the Internal Revenue Code. Employer contributions to the deferred compensation plan vest ratably over a period of five years. Contributions to the plan are invested in equity and other investment fund assets, and carried on the balance sheet at fair value. The benefits under these contracts are fully vested and payment of benefits generally commences as soon as practicable after the last day of the calendar quarter during which the participant terminated employment

## 6. COMMITMENTS AND CONTINGENCIES

From time to time, we may be subject to legal proceedings and claims that arise in the ordinary course of business. We believe that the resolution of all litigation currently pending or threatened against us or any of our subsidiaries should not have a material adverse effect on our consolidated financial condition, results of operations or liquidity; however, because of the inherent uncertainty of litigation, we cannot provide assurance that the resolution of any particular claim or proceeding to which we or any of our subsidiaries is a party will not have a material adverse effect on its consolidated results of operations or liquidity for the period in which that resolution occurs.

During the first quarter of 2008, we revised our estimate of a contingent liability associated with non-income related taxes, and as a result a charge to income of \$5.0 million was recorded in the Consolidated Statement of Operations to Other Expense (Income), net. This adjustment requires judgment, assumptions and estimations to quantify the uncertainties related to this contingent liability. Management has concluded the adjustment relates to prior periods, however as the amounts are not material, no prior periods have been restated. The contingent liability is included in Other Long-term Liabilities in the Consolidated Balance Sheet. Management will continue to assess on a quarterly basis the probable outcome of the settlement of these taxes. The ultimate settlement amount and timing of this contingent liability is uncertain, and could possibly expose the Company to expenses of approximately \$20.0 million in excess of our current estimate. As of September 30, 2008, there has not been a change in the status of this liability.

## 7. SHAREHOLDERS' EQUITY

During the nine months ended September 30, 2008, we repurchased 260,915 of our common shares for \$29.8 million, at an average price of \$114.31 per share. Included in this total were rights to 52,048 shares valued at \$6.0 million, or \$115.30 per share, that were surrendered to the Company pursuant to the terms of a stock-based compensation plan, in consideration of the participants tax burdens that may result from the issuance of common shares under this plan. Such common shares, unless cancelled, may be reissued for a variety of purposes such as to use for future acquisitions, for settlement of employee stock awards as they vest, or possible conversion of the Notes.

For the three and nine month periods ended September 30, 2008, we issued 39,579 and 84,989, respectively, of our common shares associated with exercised stock options for which we received proceeds of approximately \$0.5 million and \$1.1 million.

During the nine month period ended September 30, 2008, we recognized tax benefits of \$11.0 million, relating to tax deductions in excess of book expense for stock-based compensation awards. These tax benefits are recorded to additional paid-in capital to the extent deductions reduce current taxable income.

In July 2008, we declared a quarterly \$0.10 per share of common stock dividend that was paid on August 25, 2008. In addition to the quarterly cash dividend, a special non-recurring cash dividend of \$1.00 per share of common stock was also paid on August 25, 2008. The total dividends paid August 25, 2008 were \$25.3 million.

During the nine month period ended September 30, 2008, we recorded an immaterial correcting adjustment relating to previously reported treasury share cancellations in 2007. This adjustment was the result of the Company conforming to Dutch administrative procedures for determining outstanding share count. By making this adjustment, the share count for our US GAAP presented financial statements will be identical to that used in our Dutch statutory filings. Although this adjustment resulted in balances being reclassified within equity, our total equity balance was unchanged. We do not believe this adjustment is material to the consolidated financial statements for the year ended December 31, 2007 or for the period ended September 30, 2008, and as such, we have not restated our consolidated

Edgar Filing: CORE LABORATORIES N V - Form 10-Q

financial statements for the year ended December 31, 2007. The following table summarizes the correcting adjustment.

	Common Shares Number of Shares	Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock Number of Shares	Amount	Total Shareholders' Equity
Reported balance at December 31, 2007	23,080,949	\$ 1,300	\$ -	\$ 62,496	\$ 226	15,000	\$ (1,879)	\$ 62,143
Adjustment in second quarter of 2008 to previously reported treasury shares	3,919,047	224	58,116	279,377	-	3,919,047	(337,717)	-
2008 activity in equity	(1,480,040)	(94)	(57,655)	25,598	59	(1,458,664)	95,156	63,064
Balance at September 30, 2008	25,519,956	\$ 1,430	\$ 461	\$ 367,471	\$ 285	2,475,383	\$ (244,440)	\$ 125,207

During April 2008, 1,350,000 treasury shares were canceled at historical cost, totaling \$96.9 million, or \$71.80 per share, and during August 2008, 305,000 treasury shares were canceled at historical cost, totaling \$23.3 million, or \$76.40 per share. Both of these cancellations resulted in a decrease in treasury shares and a corresponding decrease in Additional Paid-in-Capital, Retained Earnings and Common Shares.

### Comprehensive Income

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

	Three months ended		Nine months ended	
	September 30, 2008 (Unaudited)	September 30, 2007 (Unaudited)	September 30, 2008 (Unaudited)	September 30, 2007 (Unaudited)
Net income	\$ 39,515	\$ 31,514	\$ 102,559	\$ 85,579
Realization of pension obligation	20	18	59	54
Total comprehensive income	\$ 39,535	\$ 31,532	\$ 102,618	\$ 85,633

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

	September 30, 2008 (Unaudited)	December 31, 2007
Prior service cost	\$ (1,070)	\$ (1,208)
Transition asset	440	519
Unrecognized net actuarial loss	915	915
Total accumulated other comprehensive income	\$ 285	\$ 226

## 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, 2008		Nine Months Ended September 30, 2008	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Weighted average basic common shares outstanding	23,034	23,556	23,004	23,642
Effect of dilutive securities:				
Stock options	112	207	139	381
Contingent shares	13	88	29	98
Restricted stock and other	190	108	173	109
Senior exchangeable notes and warrants	733	418	819	141
Weighted average diluted common and potential common shares outstanding	24,082	24,377	24,164	24,371

In 2006, we sold warrants that give the holder the right to acquire approximately 3.2 million of our common shares at an exercise price of \$126.52 per share. Included in the Senior Exchangeable Notes line in the table above, these warrants had no dilutive impact on our earnings per share for the three and nine month period ended September 30, 2008, as the average share price did not exceed the strike price of the warrants for the nine month period. On October 3, 2008, the dealer of the warrants filed for bankruptcy protection. See Note 14 Subsequent Event for additional information.

## 9. OTHER EXPENSE (INCOME), NET

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

Edgar Filing: CORE LABORATORIES N V - Form 10-Q

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Minority interest	\$ 102	\$ 122	\$ 283	\$ 153
Gain on sale of assets	(125)	(30)	(1,719)	(249)
Foreign exchange loss (gain)	2,364	(352)	1,885	(827)
Interest income	(392)	(136)	(685)	(1,047)
Non-income tax accrual	-	-	5,030	-
Other, net	(1,120)	(118)	(2,473)	(880)
Total other expense (income), net	\$ 829	\$ (514)	\$ 2,321	\$ (2,850)

During the first quarter of 2008, we revised our estimate of a contingent liability associated with non-income related taxes, and as a result, a charge to income of \$5.0 million was recorded. Additionally, we recorded a gain of \$1.1 million in connection with the sale of a small office building.

Foreign exchange losses (gains) by currency are summarized in the following table (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Australian Dollar	\$ 384	\$ (26)	\$ 353	\$ (56)
British Pound	308	(8)	320	(9)
Canadian Dollar	498	(199)	774	(443)
Euro	241	(198)	(153)	(282)
Russian Ruble	283	(152)	22	(223)
Other currencies, net	650	231	569	186
Total loss (gain)	\$ 2,364	\$ (352)	\$ 1,885	\$ (827)

## 10. INCOME TAXES

The effective tax rates for the third quarter of 2008 and 2007 were 27.8% and 30.5%, respectively. The decrease in the effective tax rate for the third quarter of 2008 yields a projected annual tax rate of 31.2%. The reduction in the effective tax rate relates to favorable adjustments to amounts previously recognized as a result of completion of tax returns filed in various tax jurisdictions for prior periods and favorable adjustments related to assessments from ongoing tax audits for years 1998 thru 2004.

During the third quarter of 2008, anticipated payments were made to certain tax jurisdictions, resulting in a reduction to the unrecognized tax benefits. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

	2008 (Unaudited)
Unrecognized tax benefits at January 1,	\$ 17,864
Tax positions, prior period	486
Settlements with taxing authorities	(12,453)
Unrecognized tax benefits at September 30,	\$ 5,897

Changes in our estimate of unrecognized tax benefits would affect our effective tax rate. The amounts included in the table above for settlements with tax authorities primarily represent cash payments.

## 11. 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 each of our business segments separately to reflect the different services and technologies provided and required by each segment. We use the same accounting policies to account for our business segments as those used to prepare our Consolidated Balance Sheets and Consolidated Statements of Operations. We evaluate the performance of our business segments on the basis of operating income.

Summarized financial information relating to our business segments is shown in the following tables (in thousands):

(Unaudited)	Reservoir Description	Production Enhancement	Reservoir Management	Corporate & Other <sup>1</sup>	Consolidated
Three Months Ended September 30, 2008					
Revenues from unaffiliated customers	\$ 112,037	\$ 78,848	\$ 11,638	\$ -	\$ 202,523
Inter-segment revenues	173	275	430	(878)	-
Segment operating income (loss)	25,455	26,622	3,089	(96)	55,070
Total assets	267,369	177,279	17,068	104,014	565,730
Capital expenditures	5,524	2,029	181	212	7,946
Depreciation and amortization	3,302	1,349	156	755	5,562
Three Months Ended September 30, 2007					
	\$ 97,476	\$ 61,998	\$ 10,591	\$ -	\$ 170,065

Revenues from unaffiliated customers					
Inter-segment revenues	233	252	318	(803)	-
Segment operating income	26,108	17,426	2,357	67	45,958
Total assets	251,170	161,972	19,446	101,758	534,346
Capital expenditures	4,252	1,809	181	491	6,733
Depreciation and amortization	2,645	1,288	121	981	5,035

## Nine Months Ended September 30, 2008

Revenues from unaffiliated customers	\$ 326,695	\$ 217,578	\$ 35,375	\$ -	\$ 579,648
Inter-segment revenues	702	831	1,096	(2,629)	-
Segment operating income (loss)	77,441	71,745	10,278	(5,107)	154,357
Total assets	267,369	177,279	17,068	104,014	565,730
Capital expenditures	13,131	6,283	370	1,819	21,603
Depreciation and amortization	9,272	4,107	455	2,243	16,077

## Nine Months Ended September 30, 2007

Revenues from unaffiliated customers	\$ 274,437	\$ 181,566	\$ 38,178	\$ -	\$ 494,181
Inter-segment revenues	635	619	953	(2,207)	-
Segment operating income	64,307	49,678	10,171	422	124,578
Total assets	251,170	161,972	19,446	101,758	534,346
Capital expenditures	10,202	3,689	433	961	15,285
Depreciation and amortization	7,648	3,874	369	2,619	14,510

(1) "Corporate & Other" represents those items that are not directly related to a particular segment and eliminations.

## 12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Core Laboratories N.V. has fully and unconditionally guaranteed all of the Notes issued by Core Laboratories LP in 2006. Core Laboratories LP is a 100% indirectly owned affiliate of Core Laboratories N.V.

The following condensed consolidating financial information is included so that separate financial statements of Core Laboratories LP are not required to be filed with the U.S. Securities and Exchange Commission. The condensed consolidating financial statements present investments in both consolidated and unconsolidated affiliates using the equity method of accounting.

The following condensed consolidating financial information presents: condensed consolidating balance sheets as of September 30, 2008 and December 31, 2007, statements of income and the consolidating statements of cash flows for each of the quarters and nine months ended September 30, 2008 and 2007 of (a) Core Laboratories N.V., parent/guarantor, (b) Core Laboratories LP, issuer of public debt securities guaranteed by Core Laboratories N.V. and (c) the non-guarantor subsidiaries, (d) consolidating adjustments necessary to consolidate Core Laboratories N.V. and its subsidiaries and (e) Core Laboratories N.V. on a consolidated basis.



Edgar Filing: CORE LABORATORIES N V - Form 10-Q

Condensed Consolidating Balance  
Sheets

(In thousands)	September 30, 2008				
	Core Laboratories N.V. (Parent/ Guarantor)	Core Laboratories LP (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 9,545	\$ 34,763	\$ 13,967	\$ -	\$ 58,275
Accounts receivable, net	210	37,408	112,642	-	150,260
Inventories, net	-	3,260	28,999	-	32,259
Prepaid expenses and other current assets	1,839	10,240	10,558	-	22,637
	11,594	85,671	166,166	-	263,431
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>					
	-	23,500	76,298	-	99,798
<b>GOODWILL AND INTANGIBLES, net</b>					
	46,986	8,399	100,311	-	155,696
<b>INTERCOMPANY RECEIVABLES</b>					
	65,801	317,954	400,328	(784,083)	-
<b>INVESTMENT IN AFFILIATES</b>					
	377,285	-	1,233,368	(1,610,122)	531
<b>DEFERRED TAX ASSET</b>					
	2,691	17,805	15,951	(3,534)	32,913
<b>OTHER ASSETS</b>					
	2,898	5,481	4,982	-	13,361
<b>TOTAL ASSETS</b>	<b>\$ 507,255</b>	<b>\$ 458,810</b>	<b>\$ 1,997,404</b>	<b>\$ (2,397,739)</b>	<b>\$ 565,730</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
<b>Current maturities of long-term debt</b>					
and capital lease obligations	\$ -	\$ -	\$ 223	\$ -	\$ 223
Accounts payable	711	5,753	32,649	-	39,113
Other accrued expenses	3,139	19,907	31,993	-	55,039
	3,850	25,660	64,865	-	94,375
<b>LONG-TERM DEBT</b>					
	-	300,000	-	-	300,000
<b>DEFERRED COMPENSATION</b>					
	6,262	7,426	517	-	14,205
<b>DEFERRED TAX LIABILITY</b>					
	-	-	3,534	(3,534)	-
<b>INTERCOMPANY PAYABLES</b>					
	355,732	41,324	387,027	(784,083)	-
<b>OTHER LONG-TERM LIABILITIES</b>					
	16,204	8,928	4,689	-	29,821
<b>MINORITY INTEREST</b>					
	-	-	2,122	-	2,122
	125,207	75,472	1,534,650	(1,610,122)	125,207

**TOTAL SHAREHOLDERS'  
EQUITY**
**TOTAL LIABILITIES  
AND**
**SHAREHOLDERS'  
EQUITY**

\$	507,255	\$	458,810	\$	1,997,404	\$	(2,397,739)	\$	565,730
----	---------	----	---------	----	-----------	----	-------------	----	---------

**Condensed Consolidating Balance  
Sheets**

(In thousands)

December 31, 2007

	Core Laboratories N.V. (Parent/ Guarantor)	Core Laboratories LP (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
<b>ASSETS</b>					
<b>CURRENT ASSETS:</b>					
Cash and cash equivalents	\$ 6,712	\$ 7,818	\$ 11,087	\$ -	\$ 25,617
Accounts receivable, net	114	28,782	108,335	-	137,231
Inventories, net	-	2,681	26,682	-	29,363
Prepaid expenses and other current assets	887	9,901	17,700	-	28,488
	7,713	49,182	163,804	-	220,699
<b>PROPERTY, PLANT AND EQUIPMENT, net</b>	-	21,288	71,750	-	93,038
<b>GOODWILL AND INTANGIBLES, net</b>	46,986	8,652	90,202	-	145,840
<b>INTERCOMPANY RECEIVABLES</b>	25,828	334,793	327,791	(688,412)	-
<b>INVESTMENT IN AFFILIATES</b>	267,943	-	914,018	(1,181,727)	234
<b>DEFERRED TAX ASSET</b>	2,507	25,925	1,726	(4,134)	26,024
<b>OTHER ASSETS</b>	3,634	11,456	3,865	-	18,955
<b>TOTAL ASSETS</b>	\$ 354,611	\$ 451,296	\$ 1,573,156	\$ (1,874,273)	\$ 504,790
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>					
<b>CURRENT LIABILITIES:</b>					
Current maturities of long-term debt and					
capital lease obligations	\$ 3,024	\$ -	\$ 3	\$ -	\$ 3,027
Accounts payable	2,417	4,581	32,863	-	39,861
Other accrued expenses	1,325	21,057	32,770	-	55,152
	6,766	25,638	65,636	-	98,040

Edgar Filing: CORE LABORATORIES N V - Form 10-Q

LONG-TERM DEBT	-	300,000	-	-	300,000
DEFERRED COMPENSATION	5,688	7,980	412	-	14,080
DEFERRED TAX LIABILITY	4,134	-	-	(4,134)	-
INTERCOMPANY PAYABLES	264,976	66,550	356,886	(688,412)	-
OTHER LONG-TERM LIABILITIES	10,904	8,716	9,421	-	29,041
MINORITY INTEREST	-	-	1,486	-	1,486
TOTAL SHAREHOLDERS' EQUITY	62,143	42,412	1,139,315	(1,181,727)	62,143
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 354,611	\$ 451,296	\$ 1,573,156	\$ (1,874,273)	\$ 504,790

Condensed Consolidating Statements of Operations

	(In thousands)				
	Three Months Ended September 30, 2008				
	Core Laboratories N.V. (Parent/ Guarantor)	Core Laboratories LP (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
<b>REVENUES</b>					
Operating revenues	\$ -	\$ 48,168	\$ 154,355	\$ -	\$ 202,523
Intercompany revenues	410	4,553	39,361	(44,324)	-
Earnings from consolidated affiliates	42,187	-	99,432	(141,619)	-
Total revenues	42,597	52,721	293,148	(185,943)	202,523
<b>OPERATING EXPENSES</b>					
Operating costs	371	26,894	106,940	-	134,205
General and administrative expenses	2,476	4,378	3	-	6,857
Depreciation and amortization	-	1,330	4,232	-	5,562
Other expense (income), net	(1,526)	2,483	30,447	(30,575)	829
Operating income	41,276	17,636	151,526	(155,368)	55,070
Interest expense	-	268	35	-	303
Income before income tax expense	41,276	17,368	151,491	(155,368)	54,767
Income tax expense (benefit)	1,761	3,652	9,839	-	15,252
NET INCOME	\$ 39,515	\$ 13,716	\$ 141,652	\$ (155,368)	\$ 39,515

Condensed Consolidating Statements of  
Operations

(In thousands)	Nine Months Ended September 30, 2008				
	Core Laboratories N.V. (Parent/ Guarantor)	Core Laboratories LP (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
<b>REVENUES</b>					
Operating revenues	\$ -	\$ 132,753	\$ 446,895	\$ -	\$ 579,648
Intercompany revenues	1,021	13,462	106,798	(121,281)	-
Earnings from consolidated affiliates	116,277	-	258,661	(374,938)	-
Total revenues	117,298	146,215	812,354	(496,219)	579,648
<b>OPERATING EXPENSES</b>					
Operating costs	1,002	73,567	310,019	-	384,588
General and administrative expenses	8,970	13,284	51	-	22,305
Depreciation and amortization	-	4,030	12,047	-	16,077
Other expense (income), net	1,708	5,459	79,822	(84,668)	2,321
Operating income	105,618	49,875	410,415	(411,551)	154,357
Interest expense	57	5,931	35	-	6,023
Income before income tax expense	105,561	43,944	410,380	(411,551)	148,334
Income tax expense (benefit)	3,002	10,883	31,890	-	45,775
<b>NET INCOME</b>	<b>\$ 102,559</b>	<b>\$ 33,061</b>	<b>\$ 378,490</b>	<b>\$ (411,551)</b>	<b>\$ 102,559</b>

Condensed Consolidating Statements of Cash  
Flows

(In thousands)	Nine Months Ended September 30, 2008				
	Core Laboratories N.V. (Parent/ Guarantor)	Core Laboratories LP (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
Net cash provided by operating activities	\$ 49,297	\$ 34,286	\$ 26,554	\$ -	\$ 110,137

**CASH FLOWS FROM INVESTING  
ACTIVITIES:**

Capital expenditures	-	(8,446)	(13,157)	-	(21,603)
Patents and other intangibles	-	(37)	(218)	-	(255)
Acquisition, net of cash acquired	-	-	(11,536)	-	(11,536)
Minority interest - contribution	-	-	370	-	370
Proceeds from sale of assets	-	2,317	997	-	3,314
Premiums on life insurance	-	(1,175)	-	-	(1,175)
Net cash used in investing activities	-	(7,341)	(23,544)	-	(30,885)

**CASH FLOWS FROM FINANCING  
ACTIVITIES:**

Repayment of debt	(3,024)	(5,000)	-	-	(8,024)
Proceeds from debt borrowings	-	5,000	-	-	5,000
Capital lease obligations	-	-	(130)	-	(130)
Stock options exercised	690	-	-	-	690
Excess tax benefit from stock-based payments	11,037	-	-	-	11,037
Dividends paid	(25,342)	-	-	-	(25,342)
Repurchase of common shares	(29,825)	-	-	-	(29,825)
Net cash used in financing activities	(46,464)	-	(130)	-	(46,594)

**NET CHANGE IN CASH AND  
CASH**

<b>EQUIVALENTS</b>	2,833	26,945	2,880	-	32,658
<b>CASH AND CASH EQUIVALENTS,</b>					
beginning of period	6,712	7,818	11,087	-	25,617
<b>CASH AND CASH EQUIVALENTS,</b>					
end of period	\$ 9,545	\$ 34,763	\$ 13,967	\$ -	\$ 58,275

**Condensed Consolidating Statements of  
Operations**

(In thousands)

Three Months Ended September 30, 2007

Core Laboratories N.V. (Parent/ Guarantor)	Core Laboratories LP (Issuer)	Other Subsidiaries (Non- Guarantors)	Consolidating Adjustments	Consolidated Total
---	-------------------------------------	---	------------------------------	-----------------------

Edgar Filing: CORE LABORATORIES N V - Form 10-Q

REVENUES

Operating revenues	\$ -	\$ 34,806	\$ 135,259	\$ -	\$ 170,065
Intercompany revenues	302	4,366	29,884	(34,552)	-
Earnings from consolidated affiliates	35,324	-	73,253	(108,577)	-
Total revenues	35,626	39,172	238,396	(143,129)	170,065

OPERATING EXPENSES

Operating costs	257	20,717	91,573	-	112,547
General and administrative expenses	1,758	5,247	34	-	7,039
Depreciation and amortization	-	1,300	3,735	-	5,035
Other expense (income), net	(950)	2,191	22,223	(23,978)	(514)
Operating income	34,561	9,717	120,831	(119,151)	45,9588
Interest expense	5	577	32	-	614
Income before income tax expense	34,556	9,140	120,799	(119,151)	45,344
Income tax expense (benefit)	3,042	3,554	7,234	-	13,830
NET INCOME	\$ 31,514	\$ 5,586	\$ 113,565	\$ (119,151)	\$ 31,514

Condensed Consolidating Statements of Operations

(In thousands)

Nine Months Ended September 30, 2007

	Core Laboratories N.V. (Parent/ Guarantor)	Core Laboratories LP (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
<b>REVENUES</b>					
Operating revenues	\$ -	\$ 99,662	\$ 394,519	\$ -	\$ 494,181
Intercompany revenues	908	13,174	91,455	(105,537)	-
Earnings from consolidated affiliates	94,917	-	150,550	(245,467)	-
Total revenues	95,825	112,836	636,524	(351,004)	494,181
<b>OPERATING EXPENSES</b>					
Operating costs	809	59,503	272,833	-	333,145
General and administrative expenses	6,033	18,731	34	-	24,798
Depreciation and amortization	-	3,927	10,583	-	14,510
Other expense (income), net	(2,244)	6,389	64,439	(71,434)	(2,850)

Edgar Filing: CORE LABORATORIES N V - Form 10-Q

Operating income	91,227	24,286	288,635	(279,570)	124,578
Interest expense	63	1,782	36	-	1,881
Income before income tax expense	91,164	22,504	288,599	(279,570)	122,697
Income tax expense (benefit)	5,585	8,704	22,829	-	37,118
<b>NET INCOME</b>	<b>\$ 85,579</b>	<b>\$ 13,800</b>	<b>\$ 265,770</b>	<b>\$ (279,570)</b>	<b>\$ 85,579</b>

Condensed Consolidating Statements of Cash Flows

(In thousands)	Nine Months Ended September 30, 2007				
	Core Laboratories N.V. (Parent/ Guarantor)	Core Laboratories LP (Issuer)	Other Subsidiaries (Non-Guarantors)	Consolidating Adjustments	Consolidated Total
Net cash provided by (used in) operating activities	\$ 106,407	\$ (16,573)	\$ (2,019)	\$ -	\$ 87,815
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>					
Capital expenditures	-	(3,685)	(11,600)	-	(15,285)
Patents and other intangibles	-	(57)	(195)	-	(252)
Acquisitions, net of cash acquired	-	(5,012)	-	-	(5,012)
Deposit on sale of asset	-	-	13,475	-	13,475
Proceeds from sale of assets	-	30	458	-	488
Premiums on life insurance	-	(1,199)	-	-	(1,199)
Net cash used in investing activities	-	(9,923)	2,138	-	(7,785)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>					
Repayment of debt	(2,654)	(100)	-	-	(2,754)
Capital lease obligations	-	-	(4)	-	(4)
Stock options exercised	18,184	-	-	-	18,184
Tax benefits from stock-based compensation	20,328	-	-	-	20,328
Debt issuance costs	-	(162)	-	-	(162)
Repurchase of common shares	(127,677)	-	-	-	(127,677)
Net cash used in financing activities	(91,819)	(262)	(4)	-	(92,085)
<b>NET CHANGE IN CASH AND CASH</b>	<b>14,588</b>	<b>(26,758)</b>	<b>115</b>	<b>-</b>	<b>(12,055)</b>

EQUIVALENTS						
C A S H	A N D	C A S H				
EQUIVALENTS,						
beginning of period		1,572	35,385	17,266	-	54,223
C A S H	A N D	C A S H				
EQUIVALENTS,						
end of period		\$ 16,160	\$ 8,627	\$ 17,381	\$ -	\$ 42,168

### 13. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations ("SFAS 141R") which replaces SFAS No.141, Business Combination. SFAS 141R retains the fundamental requirements of SFAS 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. In addition, SFAS 141R's scope is broader in that it applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008 and early adoption is not allowed. We are currently evaluating the effects that SFAS 141R may have on any future business combinations.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51 ("SFAS 160"). SFAS 160 requires companies with noncontrolling interests to disclose such interests clearly as a portion of equity separate from the parent's equity and the amount of consolidated net income attributable to these noncontrolling interests must also be clearly presented on the Consolidated Statement of Operations. In addition, when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary will be initially measured at fair value and recorded as a gain or loss. SFAS 160 is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the effects that SFAS 160 may have on our financial position and results of operations.

In May 2008, the FASB issued FASB Staff Position ("FSP") No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) ("APB 14-1"). APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, interim periods within those fiscal years, and is applied retrospectively to all periods presented. Based on our preliminary assessment of this pronouncement, on January 1, 2009 we expect to record a discount on our Notes of \$55.4 million with an offsetting increase recorded to Shareholders' Equity. The discount will be amortized into interest expense over the remaining expected life of the Notes, and increase interest expense by approximately \$18.3 million in 2009, \$19.6 million in 2010, and \$17.5 million in 2011.

### 14. SUBSEQUENT EVENT



As part of the issuance of the Notes, we entered into an exchangeable senior note hedge transaction in October 2006 (the "Call Option") through one of our subsidiaries with Lehman Brothers OTC Derivatives Inc. ("Lehman OTC") whereby Lehman OTC is obligated to deliver to us an amount of shares required to cover the shares issuable upon conversion of the Notes. On October 3, 2008, Lehman OTC filed for protection under Chapter 11 of the U.S. Bankruptcy Code. Although we may not retain the benefit of the Call Option, if Lehman OTC fails to perform under the contract, we believe the impact will not be material and would not affect our income statement presentation. In accordance with U.S. GAAP, our reported fully diluted earnings per share include the issuance of shares upon the conversion of the Notes without giving effect to the shares that may be received from Lehman OTC under the Call Option, which is considered anti-dilutive. In addition, we do not expect Lehman OTC's default to result in a direct impact on our balance sheet as the Call Option was initially recorded as an equity transaction. We are currently unable to ascertain whether any value would be established for our unsecured position or how this will ultimately be resolved through the bankruptcy proceedings.

Separate from the Call Option, we also sold Lehman OTC a warrant, for which we received consideration, to purchase up to 3.2 million common shares at an exercise price of \$126.52. The warrant becomes exercisable beginning in late December 2011 and expires in January 2012. We are continuing to assess our options under the warrant agreement as a result of Lehman OTC's bankruptcy filing, but we do not believe it will have a direct material impact to our financial results.

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

[Return to Index](#)

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion summarizes the financial position of Core Laboratories N.V. and its subsidiaries as of September 30, 2008 and should be read in conjunction with (i) the unaudited consolidated interim financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (ii) the consolidated financial statements and accompanying notes to our Annual Report on Form 10-K for the fiscal year ended December 31, 2007.

### General

Core Laboratories N.V. is a Netherlands limited liability company. It was established in 1936 and is one of the world's leading providers of proprietary and patented reservoir description, production enhancement and reservoir management products and services to the oil and gas industry. These products and services can enable our clients to improve reservoir performance and increase oil and gas recovery from their producing fields. Core Laboratories N.V. has over 70 offices in more than 50 countries and employs approximately 5,000 people worldwide.

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 affiliates.

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.

**Cautionary Statement Regarding Forward Looking Statements**

This quarterly report contains 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. Certain of the statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations section, including those under the headings "Outlook" and "Liquidity and Capital Resources", and in other parts of this Form 10-Q, are forward looking. In addition, from time to time, we may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. Forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "believe", "expect", "anticipate", "estimate", "continue", or other similar words, including statements as to the intent, belief, or current expectations of our directors, officers, and management with respect to our future operations, performance, or positions or which contain other forward-looking information. These forward-looking statements are predictions. No assurances can be given that the future results indicated, whether expressed or implied, will be achieved. Our actual results may differ significantly from the results discussed in the forward-looking statements. While we believe that these statements are and will be accurate, a variety of factors could cause our actual results and experience to differ materially from the anticipated results or other expectations expressed in our statements. Such factors include, but are not limited to, the risks and uncertainties summarized below:

- general and economic business conditions;
- prices of oil and natural gas and industry expectations about future prices;
- foreign exchange controls and currency fluctuations;
- political stability in the countries in which we operate;
- the business opportunities (or lack thereof) that may be presented to and pursued by us;
- changes in laws or regulations;
- the validity of the assumptions used in the design of our disclosure controls and procedures; and
- the financial condition of our client base and their ability to fund capital expenditures.

Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a more detailed discussion of some of the foregoing risks and uncertainties, see "Item 1A - Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, as well as the other reports filed by us with the SEC.

## Outlook

We continue our efforts to expand our market presence by opening facilities in strategic areas and realizing synergies within our business lines. We believe our market presence provides us a unique opportunity to service customers who have global operations in addition to the national oil companies.

We have established internal earnings targets for 2008 that are based primarily on market conditions existing at the time our targets are established. Based on discussions in the Spring of 2008 with our clients and our view of the industry, we anticipated that in 2008 spending by our international clients would increase approximately 20% while we expected North American spending to increase approximately 10%. Attaining our internal targets is dependent on, among other things, commodity prices and oilfield activity sustained at those levels. However, given the recent sharp declines in commodity prices and announced reductions in capital expenditure programs by certain of our clients, oilfield activity levels may not grow at the same rate as earlier expected, and could perhaps decrease on a year-over-year basis. It is too early to determine the impact of these recently announced changes in capital programs by certain of our clients.

## Results of Operations

Unaudited results of operations as a percentage of applicable revenue were as follows (in thousands):

	Three Months Ended September 30,				% Change
	2008		2007		2008/2007
<b>REVENUES:</b>					
Service	\$ 154,297	76%	\$ 131,060	77%	18%
Product sale	48,226	24%	39,005	23%	24%
Total revenue	202,523	100%	170,065	100%	19%
<b>OPERATING EXPENSES:</b>					
Cost of services*	100,264	65%	84,863	65%	18%
Cost of sales*	33,941	70%	27,684	71%	23%
Total cost of services and sales	134,205	66%	112,547	66%	19%
General and administrative expenses	6,857	4%	7,039	4%	(3%)
Depreciation and amortization	5,562	3%	5,035	3%	10%
Other expense (income), net	829	-	(514)	-	(261%)
Operating income	55,070	27%	45,958	27%	20%
Interest expense	303	-	614	-	(51%)
Income before income tax expense	54,767	27%	45,344	27%	21%
Income tax expense	15,252	7%	13,830	8%	10%
NET INCOME	\$ 39,515	20%	\$ 31,514	19%	25%

\*Percentage based on applicable revenue rather than total revenue

	Nine Months Ended September 30,				% Change
	2008		2007		2008/2007
<b>REVENUES:</b>					

Edgar Filing: CORE LABORATORIES N V - Form 10-Q

Service	\$ 446,700	77%	\$ 374,212	76%	19%
Product sale	132,948	23%	119,969	24%	11%
Total revenue	579,648	100%	494,181	100%	17%
OPERATING EXPENSES:					
Cost of services*	291,315	65%	249,140	67%	17%
Cost of sales*	93,273	70%	84,005	70%	11%
Total cost of services and sales	384,588	66%	333,145	67%	15%
General and administrative expenses	22,305	4%	24,798	5%	(10%)
Depreciation and amortization	16,077	3%	14,510	3%	11%
Other expense (income), net	2,321	-	(2,850)	(1%)	(181%)
Operating income	154,357	27%	124,578	25%	24%
Interest expense	6,023	1%	1,881	-	220%
Income before income tax expense	148,334	26%	122,697	25%	21%
Income tax expense	45,775	8%	37,118	8%	23%
NET INCOME	\$ 102,559	18%	\$ 85,579	17%	20%

\*Percentage based on applicable revenue rather than total revenue

Operating Results for the Three and Nine Months Ended September 30, 2008 Compared to the Three and Nine Months Ended September 30, 2007 (unaudited)

#### Service Revenues

Service revenues increased to \$154.3 million for the third quarter of 2008, up 18% when compared to \$131.1 million for the third quarter of 2007. For the nine months ended September 30, 2008, service revenues increased 19% to \$446.7 million compared to \$374.2 million for the respective period in 2007. This increase in revenue was largely attributable to an increase in worldwide oilfield activities, acceptance of recently introduced services to our customers and continued demand for our reservoir optimizing technologies in several North American projects related to oil sands, tight-gas sands, and shale reservoirs. The revenue growth was also driven, in part, by our continued expansion in West Africa, the Middle East and Asia along with our worldwide deepwater evaluation projects.

#### Product Sale Revenues

Revenues associated with product sales increased to \$48.2 million for the third quarter of 2008, up 24% from \$39.0 million for the third quarter of 2007, exceeding the 13% increase in the North American rig count. For the nine months ended September 30, 2008, product sale revenues increased 11% to \$132.9 million compared to \$120.0 million for the same period in 2007. These increases were primarily the result of continued market penetration and acceptance of new reservoir optimizing technologies introduced in 2007 and 2008 coupled with the continued increase in drilling activity on a global basis, but more specifically for natural gas in the North American markets.

#### Cost of Services

Cost of services expressed as a percentage of service revenue was 65% for the quarter ended September 30, 2008, which was comparable to the corresponding quarter in 2007. For the nine-month period ending September 30, 2008, cost of services expressed as a percentage of service revenue was 65% as compared to 67% for the same period for 2007. The decline in the cost of services relative to service revenue was primarily as a result of higher incremental

margins earned on increased revenues over our relatively fixed cost structure. Incremental margins are calculated as the change in operating income divided by the change in revenues.

#### Cost of Sales

Cost of sales as a percentage of product sale revenues was 70% for the quarter ended September 30, 2008, which improved slightly from the 71% for the same period in 2007. For the nine month period ending September 30, 2008, cost of product sales expressed as a percentage of sales revenue was 70% which was comparable with the same period in 2007. The continuation of improved margins is due to an increased demand for recently introduced higher margin products and from a continued improvement in our manufacturing efficiencies and improved inventory management of our well completion and perforating systems.

#### General and Administrative Expenses

General and administrative expenses totaled \$6.9 million for the third quarter of 2008, a slight improvement when compared to \$7.0 million for the third quarter of 2007. For the nine-month periods ended September 30, 2008 and 2007, general and administrative expenses were \$2.5 million lower, at \$22.3 million from \$24.8 million, the result of lower compensation benefits for certain members of management in 2008 compared to 2007.

#### Depreciation and Amortization Expense

Depreciation and amortization expense of \$5.6 million for the third quarter of 2008, an increase of \$0.6 million from \$5.0 million for the third quarter of 2007. For the nine-month period ended September 30, 2008, depreciation and amortization expense was \$16.1 million, an increase of \$1.6 million from the nine-month period ended September 30, 2007. This increase in depreciation and amortization expense was due to the expansion of our capital expenditure program to fund operational growth.

#### Other Expense (Income), Net

Other expense (income), net consisted of the following at September 30, 2008 and 2007 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Minority interest	\$ 102	\$ 122	\$ 283	\$ 153
Gain on sale of assets	(125)	(30)	(1,719)	(249)
Foreign exchange loss (gain)	2,364	(352)	1,885	(827)
Interest income	(392)	(136)	(685)	(1,047)
Non-income tax accrual	-	-	5,030	-
Other, net	(1,120)	(118)	(2,473)	(880)
Total other expense (income), net	\$ 829	\$ (514)	\$ 2,321	\$ (2,850)

During the first quarter of 2008, we revised our estimate of a contingent liability associated with non-income related taxes, and as a result, a charge to income of \$5.0 million was recorded. Additionally, we recorded a gain of \$1.1 million in connection with the sale of a small office building.

Foreign exchange losses (gains) by currency are summarized in the following table (in thousands):

Edgar Filing: CORE LABORATORIES N V - Form 10-Q

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Australian Dollar	\$ 384	\$ (26)	\$ 353	\$ (56)
British Pound	308	(8)	320	(9)
Canadian Dollar	498	(199)	774	(443)
Euro	241	(198)	(153)	(282)
Russian Ruble	283	(152)	22	(223)
Other currencies, net	650	231	569	186
Total loss (gain)	\$ 2,364	\$ (352)	\$ 1,885	\$ (827)

#### Income Tax Expense

The effective tax rates for the third quarter of 2008 and 2007 were 27.8% and 30.5%, respectively. The decrease in the effective tax rate for the third quarter of 2008 yields a projected annual tax rate of 31.2% and relates to assessments from ongoing tax audits for years 1998 thru 2004 that were less than the amount that had been previously reserved in addition to adjustments to prior reserves upon the completion of 2007 tax returns filed in various tax jurisdictions.

#### Segment Analysis

Our operations are managed primarily in three complementary segments - Reservoir Description, Production Enhancement and Reservoir Management. The following table summarizes our results by operating segment for the three and nine month periods ended September 30, 2008 and 2007 (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(Unaudited)		(Unaudited)	
Revenues:				
Reservoir Description	\$ 112,037	\$ 97,476	\$ 326,695	\$ 274,437
Production Enhancement	78,848	61,998	217,578	181,566
Reservoir Management	11,638	10,591	35,375	38,178
Consolidated	\$ 202,523	\$ 170,065	\$ 579,648	\$ 494,181
Operating income:				
Reservoir Description	\$ 25,455	\$ 26,108	\$ 77,441	\$ 64,307
Production Enhancement	26,622	17,426	71,745	49,678
Reservoir Management	3,089	2,357	10,278	10,171
Corporate and Other <sup>1</sup>	(96)	67	(5,107)	422
Consolidated	\$ 55,070	\$ 45,958	\$ 154,357	\$ 124,578

1) "Corporate and Other" represents those items that are not directly related to a particular segment

#### Reservoir Description

Revenues from the Reservoir Description segment increased \$14.5 million to \$112.0 million in the third quarter of 2008, compared to \$97.5 million in the third quarter of 2007. For the nine months ended September 30, 2008 revenues increased \$52.3 million to \$326.7 million from \$274.4 million for the nine months ended September 30, 2007. The

revenue increase resulted from continued expansion of and several new reservoir rock and reservoir fluids characterization projects in the Middle East and Asia-Pacific. The revenue growth was also driven, in part, by the continued expansion of worldwide deepwater projects in West Africa.

Operating income in the third quarter of 2008 decreased by 3%, or \$0.6 million, to \$25.5 million compared to \$26.1 million for the third quarter of 2007. Operating income for the nine-month period ended September 30, 2008 increased by 20%, or \$13.1 million, to \$77.4 million. The decrease in operating income for the quarter was primarily due to high foreign exchange expense and power outages along the Texas and Louisiana Gulf Coast region following Hurricanes Gustav and Ike, causing several facilities to be offline for more than a week as well as affecting our clients' operations. The increase in operating income for the year was primarily due to higher incremental margins earned from increased sales over our relatively fixed cost structure offset by high foreign exchange expense in the third quarter of 2008. Operating margins for the quarter and nine months ended September 30, 2008 were 23% and 24%, respectively, compared to 27% and 23% for the same periods in 2007, respectively.

#### Production Enhancement

Revenues from the Production Enhancement segment increased \$16.8 million to \$78.8 million in the third quarter of 2008 as compared to \$62.0 million in the third quarter in 2007, and revenues increased \$36.0 million to \$217.6 million for the nine months ended September 30, 2008 as compared to \$181.6 million for the same period in 2007. The primary reason for the increase in our revenues in this segment continues to be the market penetration and client acceptance of our well perforating and completion products and our fracture diagnostic services.

Operating income in the third quarter of 2008 increased by 53%, or \$9.2 million, to \$26.6 million from \$17.4 million for the third quarter of 2007. Operating margins increased to 34% in the third quarter of 2008 compared to 28% for the same period in 2007. For the nine months ended September 30, 2008, operating income increased to \$71.7 million, an increase of 44% over the same period in 2007. These margin improvements were primarily due to increased market penetration of higher-margin services and products including our proprietary and patented fracture diagnostic technologies, such as our SpectraScan™ and SpectraChem™ tracer service and our new SuperHERO Plus+™ perforating charges and gun systems.

#### Reservoir Management

Revenues from the Reservoir Management segment increased \$1.0 million in the third quarter of 2008 as compared to the third quarter of 2007. Revenues for the nine-month period ended September 30, 2008 were \$35.4 million, a decrease of 7% from \$38.2 million from the same period in 2007. The increase in revenue for the quarter was due to continued interest in several of our existing multi-client reservoir studies. During the quarter a new study was initiated in response to recent discoveries of crude oil and natural gas offshore of Vietnam. The decrease in revenue for the year was a result of the culmination of several large Venezuela based projects for reservoir monitoring systems in the second quarter of 2007 which offset the continued expansion of the multi-client reservoir study sales in the U.S. and new studies being performed.

Operating income in the third quarter of 2008 increased 31% to \$3.1 million from \$2.4 million for the third quarter of 2007. For the nine-month period ended September 30, 2008, operating income was \$10.3 million, as compared to operating income of \$10.2 million from the same period in 2007. The increase in operating income was primarily related to new licenses of several of our existing multi-client studies. The increase in operating income for the year was primarily due to the continued expansion of the multi-client reservoir study sales and new studies being performed. This increase in operating income for the nine months ended September 30, 2008 was partially offset by

the culmination of several large products in the second quarter of 2007.

## Liquidity and Capital Resources

### General

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

We utilize the non-GAAP financial measure of free cash flow to evaluate our cash flows and results of operations. Free cash flow is defined as net cash provided by operating activities (which is the most directly comparable GAAP measure) less capital expenditures. Management believes that free cash flow provides useful information to investors as it represents the cash that was available in the period which was in excess of our needs to fund our capital expenditures and operate the business. Free cash flow is not a measure of operating performance under GAAP, and should not be considered in isolation nor construed as an alternative to operating profit, net income (loss) or cash flows from operating, investing or financing activities, each as determined in accordance with GAAP. Moreover, since free cash flow is not a measure determined in accordance with GAAP and thus is susceptible to varying interpretations and calculations, free cash flow as presented, may not be comparable to similarly titled measures presented by other companies. The following table reconciles this non-GAAP financial measure to the most directly comparable measure calculated and presented in accordance with GAAP for the nine month period ended September 30, 2008 and 2007 (in thousands):

	Nine Months Ended	
	September 30,	September 30,
	2008	2007
Free cash flow calculation:	(unaudited)	
Net cash provided by operating activities	\$ 110,137	\$ 87,815
Less: capital expenditures	21,603	15,285
Free cash flow	\$ 88,534	\$ 72,530

The increase in free cash flow in 2008 compared to 2007 was due to a higher net income, which was partially offset by an increase in capital expenditures. Additionally, working capital, excluding cash, increased at a reduced rate in the third quarter of 2008 as compared to third quarter of 2007, and therefore had less of an impact on cash flow in the current year. At September 30, 2008, we had working capital of \$169.1 million. At December 31, 2007 we had working capital of \$122.7 million.

### Cash Flows

The following table summarizes cash flows for the nine months ended September 30, 2008 and 2007 (in thousands):

	Nine Months Ended	
	September 30,	September 30,
	2008	2007
Cash provided by/(used in):	(unaudited)	
Operating activities	\$ 110,137	\$ 87,815



Edgar Filing: CORE LABORATORIES N V - Form 10-Q

Investing activities	(30,885)	(7,785)
Financing activities	(46,594)	(92,085)
Net change in cash and cash equivalents	\$ 32,658	\$ (12,055)

The increase in cash flows provided by operating activities was primarily attributable to an increase in net income along with a decrease in the growth of accounts receivable offset by a reduction in liabilities.

The increase in cash flows used in investing activities was due to an increase in capital expenditures for the period of \$6.3 million, a larger acquisition in 2008 and less cash received from asset sales.

The decrease in cash flows used in financing activities related primarily to a decrease in the number of shares repurchased under our common share repurchase program. In the first nine months of 2008, we repurchased 260,915 shares for an aggregate price of \$29.8 million compared to 1.4 million shares for an aggregate price of \$127.7 million during the same period in 2007. In addition, fewer stock options were exercised and less excess tax benefits from stock-based compensation were recognized in 2008 offset by dividends of \$25.3 million paid in 2008.

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. Interest payment terms are variable depending upon the specific type of borrowing under this facility. Our available capacity is reduced by outstanding unsecured letters of credit and performance guarantees and bonds totaling \$8.9 million at September 30, 2008 relating to certain projects in progress. Our available borrowing capacity under the Credit Facility at September 30, 2008 was \$91.1 million.

The terms of the Credit Facility require us to meet certain financial and operational covenants. We believe that we are in compliance with all such covenants at September 30, 2008. All of our material, wholly owned subsidiaries are guarantors or co-borrowers under the Credit Facility.

Our ability to maintain and grow our operating income and cash flow depends, to a large extent, on continued investing activities. We are a Netherlands holding company and substantially all of our operations are conducted through subsidiaries. Consequently, our cash flow depends upon the ability of our subsidiaries to pay cash dividends or otherwise distribute or advance funds to us. We believe our future cash flows from operations, supplemented by our borrowing capacity and issuances of additional equity should be sufficient to fund our debt requirements, capital expenditures, working capital, dividend payments and future acquisitions.

#### Recent Accounting Pronouncements

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141 (revised 2007), Business Combinations ("SFAS 141R") which replaces SFAS No.141, Business Combination. SFAS 141R retains the fundamental requirements of SFAS 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. In addition, SFAS 141R's scope is broader in that it applies to all transactions and other events in which one entity obtains control over one or more other businesses. SFAS 141R is effective on a prospective basis for all business combinations for which the acquisition date is on or after the beginning of the first annual period subsequent to December 15, 2008 and early adoption is not allowed. We are currently evaluating the effects that SFAS 141R may have on any future business combinations.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51 ("SFAS 160"). SFAS 160 requires companies

with noncontrolling interests to disclose such interests clearly as a portion of equity separate from the parent's equity and the amount of consolidated net income attributable to these noncontrolling interests must also be clearly presented on the Consolidated Statement of Operations. In addition, when a subsidiary is deconsolidated, any retained noncontrolling equity investment in the former subsidiary will be initially measured at fair value and recorded as a gain or loss. SFAS 160 is effective for fiscal years beginning after December 15, 2008. We are currently evaluating the effects that SFAS 160 may have on our financial position and results of operations.

In May 2008, the FASB issued FASB Staff Position ("FSP") No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement) ("APB 14-1"). APB 14-1 specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, interim periods within those fiscal years, and is applied retrospectively to all periods presented. Based on our preliminary assessment of this pronouncement, on January 1, 2009 we expect to record a discount on our Notes for \$55.4 million with and offset recorded against Additional Paid-In Capital. The discount will be amortized into interest expense over the remaining expected life of the Notes, and increase interest expense by approximately \$18.3 million in 2009, \$19.6 million in 2010, and \$17.5 million in 2011.

### Item 3. Quantitative and Qualitative Disclosures of Market Risk

There have been no material changes in market risk from the information provided in Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K as of December 31, 2007.

**[Return to Index](#)**

### Item 4. Controls and Procedures

A complete discussion of our controls and procedures is included in our Annual Report on Form 10-K for the year ended December 31, 2007.

#### Disclosure Controls and Procedures

Our management, under the supervision of and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Core Laboratories N.V.'s disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2008 at the reasonable assurance level. Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. Further, the design of disclosure controls and internal control over financial reporting must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.

Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during our fiscal quarter ended

September 30, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

[Return to Index](#)

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note 6 of Consolidated Interim Financial Statements in Part I, Item 1.

[Return to Index](#)

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. The risks described in this report and in our Annual Report on Form 10-K are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition or future results. An additional risk factor to those listed in our Annual Report on Form 10-K is listed below.

Recent decreases in the market price of oil and natural gas and disruptions in the global financial markets may decrease demand for our oilfield products and services and cause downward pressure on the prices we charge.

During the third quarter of 2008, the market price of oil and natural gas decreased significantly. In addition, recent disruptions and instability in the global financial markets have resulted in a significant reduction in the availability of funds from equity and debt capital markets and other credit markets. As a result of these developments, many of our customers may be unable to implement their development plans and may be forced to significantly reduce their capital expenditures. This may result in diminished demand for our oilfield products and services and cause downward pressure on the prices we charge or the level of work that we do for our clients. A significant or prolonged reduction in demand for oilfield services could adversely affect our operating results.

[Return to Index](#)

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information about purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the quarter ended September 30, 2008:

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of a Publicly Announced Program	Maximum Number of Shares That May Yet be Purchased Under the Program

Edgar Filing: CORE LABORATORIES N V - Form 10-Q

July 1-31, 2008	-	-	-	-
August 1-31, 2008				37,034
(1)	374	\$ 119.88	-	
September 1-30, 2008	-	-	-	37,034
Total	374	\$ 119.88	-	

(1) Shares valued at \$44,835, or \$119.88 per share, surrendered to us by participants in a stock-based compensation plan to settle any required withholding of personal tax that may result from the award in August 2008.

Under recently amended Dutch law, and subject to certain Dutch statutory provisions, and with shareholder approval we will be permitted to repurchase up to 50% of our issued share capital in open market purchases. In connection with our initial public offering in September 1995 and Dutch law in effect at the time, our shareholders authorized our Management Board to repurchase up to 10% of our issued share capital for a period of 18 months. At each annual shareholders' meeting subsequent to 1995, our shareholders have renewed that authorization.

[\*\*Return to Index\*\*](#)

Item 6. Exhibits

Exhibit No.	Exhibit Title	Incorporated by reference from the following documents
3.1	- Articles of Association of Core Laboratories N.V., as amended (including English translation)	Form F-1, September 20, 1995 (File No. 000-26710)
3.2	- Amendments to the Articles of Association of Core Laboratories N.V.	Proxy Statement dated May 17, 2006 for Annual Meeting of Shareholders
31.1	- Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
31.2	- Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith
32.1	- Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith
32.2	- Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Furnished herewith

[\*\*Return to Index\*\*](#)

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.,  
its  
Managing Director

Date: October 24, 2008

By: /s/ Richard L. Bergmark  
Richard L. Bergmark  
Chief Financial Officer  
Duly Authorized Officer and  
Principal Financial Officer

**[Return to Index](#)**