

CORE LABORATORIES N V

Form 10-Q/A

April 07, 2003

Table of Contents

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

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended June 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 August 8, 2002 was 33,264,821.

TABLE OF CONTENTS

CONSOLIDATED BALANCE SHEETS

CONSOLIDATED STATEMENTS OF OPERATIONS

CONSOLIDATED STATEMENTS OF OPERATIONS

CONSOLIDATED STATEMENTS OF CASH FLOWS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND

RESULTS OF OPERATIONS

QUANTITATIVE AND QUALITATIVE DISCLOSURES OF MARKET RISK

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

Item 2. Changes in Securities.

Item 3. Defaults Upon Senior Securities.

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

Item 5. Other Information.

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

SIGNATURE

CERTIFICATION

Table of Contents

**CORE LABORATORIES N.V.
FORM 10-Q/A FOR THE QUARTER ENDED JUNE 30, 2002**

INDEX

	Page
Part I Financial Information	
Item 1 - Financial Statements	
Consolidated Balance Sheets at June 30, 2002 and December 31, 2001	1
Consolidated Statements of Operations for the Three Months Ended June 30, 2002 and 2001	2
Consolidated Statements of Operations for the Six Months Ended June 30, 2002 and 2001	3
Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2002 and 2001	4
Notes to Consolidated Financial Statements	5
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3 - Quantitative & Qualitative Disclosures of Market Risk	19
Part II Other Information	
Item 1 - Legal Proceedings	20
Item 2 - Changes in Securities	20
Item 3 - Defaults Upon Senior Securities	20
Item 4 - Submission of Matters to a Vote of Security Holders	20
Item 5 - Other Information	20
Item 6 - Exhibits and Reports on Form 8-K	20
Signature	21

Table of Contents

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 June 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 9 of the Notes to the Consolidated Financial Statements.

(iii)

Table of Contents

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

	June 30, 2002	December 31, 2001
	(Unaudited) (Restated) Note 9	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 16,964	\$ 14,456
Accounts receivable, less allowance for doubtful accounts of \$9,986 and \$7,829 in 2002 and 2001, respectively	83,637	104,933
Inventories	39,106	41,109
Prepaid expenses and other current assets	12,841	9,728
Deferred tax asset	9,691	9,123
Total current assets	162,239	179,349
PROPERTY, PLANT AND EQUIPMENT, net	97,579	97,615
INTANGIBLES, GOODWILL AND OTHER LONG-TERM ASSETS, net	143,608	162,536
Total assets	\$ 403,426	\$ 439,500
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Current maturities of long-term debt	\$ 30	\$ 454
Accounts payable	15,601	19,721
Other accrued expenses	15,866	19,832
Total current liabilities	31,497	40,007
LONG-TERM DEBT	89,000	95,089
OTHER LONG-TERM LIABILITIES	21,175	27,983
MINORITY INTEREST	794	815
SHAREHOLDERS' EQUITY:		
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, 33,264,821 and 33,204,571 issued and outstanding in 2002 and 2001, respectively	546	546
Additional paid-in capital	187,303	186,751
Retained earnings	73,111	88,309
Total shareholders' equity	260,960	275,606
Total liabilities and shareholders' equity	\$ 403,426	\$ 439,500

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

Table of Contents

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

	Three Months Ended June 30,	
	2002	2001
	(Unaudited)	
	(Restated) Note 9	
SERVICES	\$72,691	\$74,110
SALES	13,760	17,150
	<u>86,451</u>	<u>91,260</u>
OPERATING EXPENSES:		
Cost of services	58,993	56,881
Cost of sales	12,613	13,017
General and administrative expenses	5,106	3,984
Depreciation and amortization	5,010	4,569
Goodwill amortization		1,033
Other, net	630	(982)
	<u>82,352</u>	<u>78,502</u>
INCOME FROM OPERATIONS	4,099	12,758
INTEREST EXPENSE	1,927	1,943
	<u>2,172</u>	<u>10,815</u>
INCOME BEFORE INCOME TAX EXPENSE	2,172	10,815
INCOME TAX EXPENSE	912	3,028
	<u>\$ 1,260</u>	<u>\$ 7,787</u>
NET INCOME		
PER SHARE INFORMATION:		
BASIC EARNINGS PER SHARE	\$ 0.04	\$ 0.24
	<u>33,246</u>	<u>33,044</u>
WEIGHTED AVERAGE BASIC COMMON SHARES OUTSTANDING		
	<u>\$ 0.04</u>	<u>\$ 0.23</u>
DILUTED EARNINGS PER SHARE		
	<u>33,866</u>	<u>34,192</u>
WEIGHTED AVERAGE DILUTED COMMON SHARES OUTSTANDING		

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

Table of Contents

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

	Six Months Ended June 30,	
	2002	2001
	(Restated) Note 9	(Unaudited)
SERVICES	\$ 141,869	\$ 147,635
SALES	28,865	34,971
	170,734	182,606
OPERATING EXPENSES:		
Cost of services	116,113	113,305
Cost of sales	26,477	28,093
General and administrative expenses	9,834	7,543
Depreciation and amortization	9,932	8,953
Goodwill amortization		2,066
Other, net	1,900	(582)
	164,256	159,378
INCOME FROM OPERATIONS	6,478	23,228
INTEREST EXPENSE	3,903	3,921
INCOME BEFORE INCOME TAX EXPENSE AND CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	2,575	19,307
INCOME TAX EXPENSE	1,081	5,406
INCOME BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	1,494	13,901
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(16,692)	
NET (LOSS) INCOME	\$ (15,198)	\$ 13,901
PER SHARE INFORMATION:		
BASIC EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	\$ 0.04	\$ 0.42
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(0.50)	
BASIC (LOSS) EARNINGS PER SHARE	\$ 0.46	\$ 0.42
WEIGHTED AVERAGE BASIC COMMON SHARES OUTSTANDING	33,228	32,965

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

DILUTED EARNINGS PER SHARE BEFORE CUMULATIVE EFFECT		
OF CHANGE IN ACCOUNTING PRINCIPLE	\$ 0.04	\$ 0.41
	<u> </u>	<u> </u>
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	(0.50)	
	<u> </u>	<u> </u>
DILUTED (LOSS) EARNINGS PER SHARE	\$ (0.46)	\$ 0.41
	<u> </u>	<u> </u>
WEIGHTED AVERAGE DILUTED COMMON SHARES OUTSTANDING	33,228	34,124
	<u> </u>	<u> </u>

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

Table of Contents

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

	Six Months Ended June 30,	
	2002	2001
	(Unaudited) (Restated) Note 9	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net cash provided by operating activities	\$ 18,996	\$ 12,981
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(11,159)	(13,781)
Proceeds from sale of fixed assets	1,037	79
Other	(467)	15
Net cash used in investing activities	(10,589)	(13,687)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments of long-term debt	(10,443)	(4,100)
Borrowings under long-term debt	4,003	5,070
Capital lease obligation, net	(18)	(161)
Exercise of stock options	552	2,576
Other	7	(37)
Net cash used in financing activities	(5,899)	3,348
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,508	2,642
CASH AND CASH EQUIVALENTS, beginning of period	14,456	12,519
CASH AND CASH EQUIVALENTS, end of period	\$ 16,964	\$ 15,161

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

Table of Contents

**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 six-month period ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. Balance sheet information as of 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 FASB issued 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.

Table of Contents**2. 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 of approximately \$1,695,000 and \$1,847,000 at June 30, 2002 and December 31, 2001, respectively. Inventories consisted of the following (in thousands):

	June 30, 2002	December 31, 2001
	(Unaudited) (Restated) Note 9	
Finished goods	\$ 28,508	\$ 30,120
Parts and materials	5,744	6,561
Work in process	4,854	4,428
Total inventories	\$ 39,106	\$ 41,109

3. 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 on 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. 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 June 30,		Six Months Ended June 30,	
	(Unaudited) 2002 (Restated) Note 9		(Unaudited) 2002 (Restated) Note 9	
		2001		2001
Reported net income (loss)	\$ 1,260	\$ 7,787	\$(15,198)	\$ 13,901
Add back: Goodwill amortization		1,033		2,066
Adjusted net income (loss)	\$ 1,260	\$ 8,820	\$(15,198)	\$ 15,967

4. LONG-TERM DEBT

	June 30, 2002	December 31, 2001
	(Unaudited)	
Credit Facility with a bank group:		
\$100,000 revolving debt facilities	\$ 14,000	\$ 20,000
Senior Notes	75,000	75,000
Other indebtedness	30	543
Total debt	89,030	95,543
Less current maturities	30	454
Total long-term debt	\$ 89,000	\$ 95,089

Table of Contents

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

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

Table of Contents

such covenants contained in our credit agreements. All of our material wholly owned subsidiaries are guarantors or co-borrowers under both credit agreements.

5. 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 second half 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 June 30, 2002 was \$1.3 million. This charge is summarized in the following table:

Restructuring Charges (in thousands)						
	Lease Obligations	Severance	Restoration	Asset Write-offs ¹	Other	Total
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 June 30, 2002 (unaudited)	78	557	230		6	871
Accrual remaining at June 30, 2002 (unaudited)	\$ 482	\$	\$ 150	\$	\$ 138	\$ 770

- 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.

6. 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

Table of Contents

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 June 30,		Six months ended June 30,	
	2002	2001	2002	2001
	(Unaudited) (Restated) Note 9		(Unaudited) (Restated) Note 9	
Revenues:				
Reservoir Description	\$ 54,282	\$ 52,123	\$ 103,761	\$ 100,289
Production Enhancement	21,103	26,163	44,505	52,922
Reservoir Management	11,066	12,974	22,468	29,395
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Consolidated	\$ 86,451	\$ 91,260	\$ 170,734	\$ 182,606
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Income (Loss) Before Interest Expense and Income Tax Expense:				
Reservoir Description	\$ 6,180	\$ 8,260	\$ 9,894	\$ 14,376
Production Enhancement	(61)	4,795	493	8,572
Reservoir Management	(1,138)	(314)	(2,590)	311
Corporate and Other ¹	(882)	17	(1,319)	(31)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Consolidated	\$ 4,099	\$ 12,758	\$ 6,478	\$ 23,228
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

1) Corporate and Other represents non-operational charges.

Table of Contents**7. 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 June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(Unaudited)			
Weighted average basic common shares outstanding	33,245,618	33,044,424	33,227,805	32,965,168
Effect of dilutive stock options ¹	619,883	1,147,938		1,158,485
Weighted average diluted common shares outstanding	33,865,501	34,192,362	33,227,805	34,123,653

- 1) Options totaling 1,871,051 and 41,801 equivalent common shares for the three months ended June 30, 2002 and 2001, and 2,428,868 and 41,801 for the six months ended June 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.

8. SUBSEQUENT EVENT

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.

9. RESTATEMENT OF FINANCIALS

We have restated our previously reported Consolidated Balance Sheet as of June 30, 2002 and our Consolidated Statement of Operations and Consolidated Statement of Cash Flows for the three and six months ended June 30, 2002. In connection with our year-end audit, we determined that certain items of revenues and expenses had been accounted for in the incorrect quarter. The following table summarizes the impact and explanation of the adjustments on our previously reported quarterly results (in thousands, except per share data):

Table of Contents

	Three Months Ended June 30, 2002		Six Months Ended June 30, 2002	
	Previously Reported	Restated	Previously Reported	Restated
(Unaudited)				
Service and sales revenues	\$ 87,464	\$ 86,451 a	\$ 172,528	\$ 170,734 a
Cost of services and sales	70,417	71,606 b,c	139,355	142,590 b,c
Other operating expenses	10,095	10,746 d,e,f	20,070	21,666 d,e,f
Operating income	6,952	4,099	13,103	6,478
Interest expense	1,920	1,927	3,888	3,903
Income before income tax expense	5,032	2,172	9,215	2,575
Income tax expense	1,409	912 g	2,580	1,081 g
Income before cumulative effect of change in accounting principle	3,623	1,260	6,635	1,494
Cumulative effect of change in accounting principle			(16,692)	(16,692)
Net income (loss)	\$ 3,623	\$ 1,260	\$ (10,057)	\$ (15,198)
Per share data:				
Basic earnings (loss) per share	\$ 0.11	\$ 0.04	\$ (0.30)	\$ (0.46)
Weighted average basic common shares outstanding	33,246	33,246	33,228	33,228
Diluted earnings (loss) per share	\$ 0.11	\$ 0.04	\$ (0.30)	\$ (0.46)
Weighted average diluted common shares outstanding	33,866	33,866	33,228	33,228

- a. Adjusts revenues by \$1,013 and \$1,794 for the three and six months ended June 30, 2002, respectively, as a result of untimely processing of credit memos.
- b. Record additional provision for doubtful accounts of \$1,127 and \$2,689 for the three and six months ended June 30, 2002, respectively, based on the Company's historical experience.
- c. Adjustment for cost of sales of \$62 and \$546 for the three and six months ended June 30, 2002, respectively, as a result of reconciliation of account balances primarily in Mexico and Venezuela.
- d. Record adjustment for expense of \$172 and \$345 for the three and six months ended June 30, 2002, respectively, to correct depreciation expense based on estimated useful life of related assets.
- e. Additional general and administrative expense of \$130 and \$193 for the three and six months ended June 30, 2002 primarily for compensation expense.
- f. Additional expense of \$349 and \$1,058 for the three and six months ended June 30, 2002, respectively, for correction of foreign exchange adjustments in Venezuela.

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

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):

Consolidated Balance Sheets	June 30, 2002	
	Previously Reported	Restated
	(Unaudited)	
Cash	\$ 17,535	\$ 16,964
Accounts receivable	\$ 88,030	\$ 83,637
Inventories	\$ 39,364	\$ 39,106
Prepaid expenses and other current assets	\$ 13,380	\$ 12,841
Property, plant and equipment, net	\$ 97,620	\$ 97,579
Intangibles, goodwill and other assets	\$ 143,737	\$ 143,608
Accounts payable	\$ 15,339	\$ 15,601
Other current liabilities and minority interest	\$ 16,691	\$ 15,866
Other liabilities	\$ 22,195	\$ 21,969
Retained earnings	\$ 78,252	\$ 73,111

Table of Contents

**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 the 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
- interest rates and the cost of capital.

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:

Table of Contents

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;

civil unrest;

fluctuations and changes in currency exchange rates; and

the impact of inflation.

Other risks

The events of September 11, 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 feel obligated to publicly update any of our forward-looking statements.

Our operations are subject to various risks 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 4,200 employees.

Results of Operations

We have restated our previously reported Consolidated Balance Sheet as of June 30, 2002 and our Consolidated Statement of Operations and Consolidated Statement of Cash Flows for the three and six months ended June 30, 2002. In connection with our 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 9 of the Notes to Consolidated Financial Statements.

Service revenues for the second quarter of 2002 decreased \$1.4 million, or 2% from the same period last year, primarily due to decreased worldwide oilfield activities. Service revenues for the six

Table of Contents

month period ended June 30, 2002 decreased \$5.8 million a 4% decrease from the same period last year.

Cost of services expressed as a percentage of service revenue were 81% and 77% in the second quarter of 2002 and the same period last year, respectively, and 82% and 77% in the six month period ended June 30, 2002 and in the same period last year, respectively. Our relatively fixed cost structure for our services caused our cost of services, in relation to revenues, to rise in 2002 compared to the same time period in the prior year.

Sales revenues decreased to \$13.8 million in the second quarter of 2002 from \$17.2 million in the second quarter of 2001, a 20% decrease. Sales revenue for the six month period ended June 30, 2002 decreased \$6.1 million to \$28.9 million from \$35.0 million in the same period in 2001, an 17% 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.

Cost of sales in the second quarter of 2002 was 92% of sales revenue as compared to 76% for the same period last year. For the six month period ended June 30, 2002, cost of sales was 92% as compared to 80% in the prior year. Our actual cost of sales have decreased year over year, due in part to our efforts to reduce costs. However, the reduction is not evidenced in our margin due to the reduction in our sales revenue in 2002.

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 \$1.1 million and \$2.3 million for the three and six month periods ended June 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 second quarter of 2002 increased \$0.4 million and \$1.0 million for the three and six month periods ended June 30, 2002, as compared to the corresponding periods in 2001. These increases were due to 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 \$2.1 million for the three and six month periods ended June 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

Table of Contents

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 second half 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 June 30, 2002 was \$1.3 million. This charge is summarized in the following table:

Restructuring Charges

(in thousands)

	Lease Obligations	Severance	Restoration	Asset Write-offs ¹	Other	Total
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 June 30, 2002 (Unaudited)	78	557	230		6	871
Accrual remaining at June 30, 2002 (Unaudited)	\$ 482	\$	\$ 150	\$	\$ 138	\$ 770

- 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 June 30,		Six months ended June 30,	
	2002	2001	2002	2001
	(Unaudited) (Restated)		(Unaudited) (Restated)	
Revenues:				
Reservoir Description	\$ 54,282	\$ 52,123	\$ 103,761	\$ 100,289
Production Enhancement	21,103	26,163	44,505	52,922
Reservoir Management	11,066	12,974	22,468	29,395
Consolidated	\$ 86,451	\$ 91,260	\$ 170,734	\$ 182,606
Income (Loss) Before Interest Expense and Income Tax Expense:				
Reservoir Description	\$ 6,180	\$ 8,260	\$ 9,894	\$ 14,376
Production Enhancement	(61)	4,795	493	8,572

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

Reservoir Management	(1,138)	(314)	(2,590)	311
Corporate and Other ¹	(882)	17	(1,319)	(31)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Consolidated	\$ 4,099	\$ 12,758	\$ 6,478	\$ 23,228
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

1) Corporate and Other represents non-operational charges.

15

Table of Contents

Reservoir Description

Revenues from the Reservoir Description segment increased \$2.2 million in the second quarter of 2002 compared to the same period in the prior year. Revenues for the six month period ended June 30, 2002 increased \$3.5 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 \$2.1 million in the second quarter of 2002 and \$4.5 million in the six month period ended June 30, 2002, compared to the same periods in the prior year due to decreased margins relating primarily to slowness in the activity levels in the North American natural gas markets.

Production Enhancement

Revenues from the Production Enhancement segment were \$21.1 million in the second quarter of 2002 compared to \$26.2 million in the same period in the prior year, a decrease of 19%. For the six month period ended June 30, 2002, revenues decreased \$8.4 million to \$44.5 million, a decrease of 16% 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 second quarter. Earnings before interest and taxes decreased \$4.9 million in the second quarter and \$8.1 million in the six month period ended June 30, 2002 compared to the same periods in 2001.

Reservoir Management

Revenues from the Reservoir Management segment in the second quarter of 2002 were \$11.1 million, a decrease of \$1.9 million compared to the same period in the prior year, while revenues for the six month period ended June 30, 2002 decreased \$6.9 million compared to the same period in 2001. As part of our refocus effort in this group, we have elected to no longer bid on projects that could earn lower than acceptable margins. Consequently, our revenues have decreased; however, our earnings have improved. Further, we have been able to significantly reduce our cost structure in this unit after taking the restructuring charge in the fourth quarter of 2001.

Liquidity and Capital Resources

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

For the six month period ended June 30, 2002, cash flows from operating activities were \$19.0 million, an increase of \$6.0 million from the same period in 2001. At June 30, 2002, we had working capital of \$130.7 million and a current ratio of 5.2 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

Table of Contents

cash flow is dependent upon the ability of our subsidiaries to pay cash dividends or otherwise distribute or advance funds to us.

For the six month period ended June 30, 2002, our investing activities used \$10.6 million compared to \$13.7 million in the same period in 2001 due to a reduction in our capital expenditure program. Included in the capital expenditures is a new lab and office facility in Moscow, Russia. For the six month period ended June 30, 2002 our financing activities used \$5.9 million and provided \$3.3 million in the same period in 2001. The use of cash in 2002 financing activities was due to a net reduction of approximately \$6.4 million in 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 operations, supplemented by our borrowing capacity and issuances of additional equity should be sufficient to fund debt requirements, capital expenditures, working capital and future acquisitions.

Table of Contents

**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 4 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 June 30, 2002, our variable rate debt outstanding of \$14.0 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.

Table of Contents

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.

Stockholders voting at the Annual Meeting on May 30, 2002 and by proxy, elected eight members (each, a Supervisory Director) to the Board of Supervisory Directors of the Company (the Supervisory Board), consisting of (i) David M. Demshur, (ii) Rene R. Joyce; (iii) Jacobus Schouten, as Class I Supervisory Directors, (i) D. John Ogren, (ii) Joseph R. Perna, (iii) Timothy J. Probert as Class II Supervisory Directors and (i) Richard L. Bergmark, (ii) Alexander Vriesendorp, to serve until the annual meeting of shareholders in 2005, 2004 and 2003, respectively, and until their successors shall have been duly elected and qualified.

The vote tabulation for the individual Supervisory Directors was as follows:

Director	Shares for	Shares Withheld
David M. Demshur	20,607,680	34,212
Rene R. Joyce	20,607,680	34,212
Timothy J. Probert	20,607,680	34,212
Jacobus Schouten	20,607,680	34,212
D. John Ogren	20,607,680	34,212
Joseph R. Perna	20,607,680	34,212
Richard L. Bergmark	20,607,680	34,212
Alexander Vriesendorp	20,607,680	34,212

Shareholders also confirmed the Dutch Statutory Annual Accounts for the year ended December 31, 2001. The proposal was approved by 20,608,275 votes for, 18,130 votes against, with 15,487 abstentions.

Shareholders approved the extension of the authority of the Management Board of the Company to repurchase up to 10% of the outstanding share capital of the Company until November 29, 2003. The proposal was approved by 20,611,475 votes in favor, 16,452 votes against, with 13,965 abstentions.

Table of Contents

Shareholders approved the extension of the authority of the Supervisory Board to issue and/or to grant rights (including options to purchase) of common and/or preferred shares of the Company until May 29, 2007. The proposal was approved by 20,023,751 votes in favor, 591,169 votes against, with 26,972 abstentions.

Shareholders approved the extension of the authority of the Supervisory Board to limit or to exclude the preemptive right of holders of common shares of the Company until May 29, 2007. The proposal was approved by 18,091,463 votes in favor, 2,517,674 votes against, with 32,755 abstentions.

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

- 99.1 Certification by Chief Executive Officer
- 99.2 Certification by Chief Financial Officer

(b) Reports on Form 8-K

None

Table of Contents

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: April 4, 2003

By: /s/ Richard L. Bergmark

Richard L. Bergmark
Chief Financial Officer

Table of Contents

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

Table of Contents

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