PNM RESOURCES INC
Form CT ORDER
April 04, 2014

-family:inherit;font-size:10pt;">297,151

$
62,750

$
—

$
726,625

Inter-segment revenues
1,934

2,055

1,099

(5,088
)

—

Segment operating income (loss)
107,271

95,434

21,057

(2,350
)

221,412

Total assets
289,830

247,907

28,194

72,601

638,532

Capital expenditures
10,594

6,150

730

6,680

24,154

Depreciation and amortization
10,549

4,374

530

1,966

17,419

Nine Months Ended September 30, 2011

| | | | | | |
|---|---|---|---|---|---|
| Revenues from unaffiliated customers | $ 346,232 | $ 268,292 | $ 49,338 | $ — | $ 663,862 |
| Inter-segment revenues | 1,262 | 897 | 1,331 | (3,490 ) | — |
| Segment operating income (loss) | 81,847 | 78,490 | 17,473 | 56 | 177,866 |

Total assets
267,425

235,152

16,211

44,113

562,901

Capital expenditures
10,322

5,713

595

1,573

18,203

Depreciation and amortization
10,520

4,780

513

1,561

17,374

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

12. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2011, the FASB issued ASU 2011-04 relating to fair value measurement (FASB ASC Topic 820), which amends current guidance to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International



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Financial Reporting Standards. The amendments generally represent clarification of FASB ASC Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We adopted this pronouncement for our fiscal year beginning January 1, 2012. The adoption of this pronouncement did not have a material effect on our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05 which provides new guidance on the presentation of comprehensive income (FASB ASC Topic 220) in financial statements. Entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. Under the single-statement approach, entities must include the components of net income, a total for net income, the components of other comprehensive income and a total for comprehensive income. Under the two-statement approach, entities must report an income statement and, immediately following, a statement of other comprehensive income. Under either method, entities must display adjustments for items reclassified from other comprehensive income to net income in both net income and other comprehensive income. The provisions for this pronouncement are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. We adopted this pronouncement for our fiscal year beginning January 1, 2012. The adoption of this pronouncement did not have a material effect on our consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08 relating to testing goodwill for impairment (FASB ASC Topic 350), which amends current guidance to simplify how entities test goodwill for impairment. The amendments permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. Under this amendment, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. This pronouncement is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We adopted this pronouncement for our fiscal year beginning January 1, 2012. The adoption of this pronouncement did not have a material effect on our consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, which defers changes in Update 2011-05 that relate to the presentation of reclassification of adjustments for entities that report items of other comprehensive income. This pronouncement is effective at the same time as ASU 2011-05 for fiscal years beginning after December 15, 2011. We adopted this pronouncement for our fiscal year beginning January 1, 2012. The adoption of this pronouncement did not have a material effect on our consolidated financial statements.

In July 2012, the FASB issued ASU 012-02, relating to testing intangible assets and long-lived assets for impairment (FASB ASC Topic 350), which amends current guidance to simplify how entities test indefinite-lived intangible assets for impairment. The amendments permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step impairment test described in Topic 350. Under this amendment, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. This pronouncement is effective for annual and interim impairment tests performed for fiscal years beginning after December 15, 2011. We adopted this pronouncement for our fiscal year beginning September 15, 2012. The adoption of this pronouncement will not have a material effect on our consolidated financial statements.

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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, 2012 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, 2011 (the "2011 Annual Report").

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 on Form 10-Q 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 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 based on our current expectations and beliefs concerning future developments and their potential effect on us. While management believes that these forward-looking statements are reasonable as and when made, no assurances can be given that the future results indicated, whether expressed or implied, will be achieved. While we believe that these statements are and will be accurate, our actual results and experience may differ materially from the anticipated results or other expectations expressed in our statements due to a variety of risks and uncertainties.

The oil and gas industry is highly cyclical and demand for the majority of our oilfield products and services is substantially dependent on the level of expenditures by the oil and gas industry for the exploration, development and production of crude oil and natural gas reserves, which are sensitive to oil and natural gas prices and generally dependent on the industry's view of future oil and gas prices. There are numerous factors affecting the supply of and demand for our products and services, which are summarized as:



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- general and economic business conditions;
- market prices of oil and gas and expectations about future prices;
- cost of producing and the ability to deliver oil and natural gas;
- the level of drilling and production activity;
- mergers, consolidations and downsizing among our clients;
- coordination by OPEC;
- the impact of commodity prices on the expenditure levels of our clients;
- financial condition of our client base and their ability to fund capital expenditures;
- the physical effects of climatic change, including adverse weather or geologic/geophysical conditions;
- the adoption of legal requirements or taxation relating to climate change that lower the demand for petroleum-based fuels;
- civil unrest or political uncertainty in oil producing or consuming countries;
- level of consumption of oil, gas and petrochemicals by consumers;
- changes in existing laws, regulations, or other governmental actions;
- the business opportunities (or lack thereof) that may be presented to and pursued by us;
- availability of services and materials for our clients to grow their capital expenditures; and
- availability of materials and equipment from key suppliers
- cyber attacks on our network that disrupt operations or result in lost critical data.

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 2011 Annual Report and in Part II of this document, as well as the other reports filed by us with the Securities and Exchange Commission (“SEC”).

Outlook

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

We have established internal earnings targets that are based on market conditions existing at the time our targets were established.  Based on recent activity levels, we believe that the current level of activities, workflows, and operating margins within North America will remain similar to third quarter levels, while international activity continues moderate increases during the remainder of 2012.

Results of Operations

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

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| (Unaudited) | Three Months Ended September 30, | | | | | | % Change | |
|---|---|---|---|---|---|---|---|---|
| | 2012 | | | 2011 | | | 2012/2011 | |
| REVENUE: | | | | | | | | |
| Services | $174,465 | 71 | % | $160,542 | 69 | % | 9 | % |
| Product sales | 70,963 | 29 | % | 70,802 | 31 | % | — | % |
| Total revenue | 245,428 | 100 | % | 231,344 | 100 | % | 6 | % |
| OPERATING EXPENSES: | | | | | | | | |
| Cost of services, exclusive of depreciation expense shown below* | 102,935 | 59 | % | 99,770 | 62 | % | 3 | % |
| Cost of product sales, exclusive of depreciation expense shown below* | 52,406 | 74 | % | 50,542 | 71 | % | 4 | % |
| Total cost of services and product sales | 155,341 | 63 | % | 150,312 | 65 | % | 3 | % |
| General and administrative expenses | 10,504 | 4 | % | 11,182 | 5 | % | (6 | )% |
| Depreciation and amortization | 6,459 | 3 | % | 5,738 | 2 | % | 13 | % |
| Other (income) expense, net | (2,256 ) | (1 | )% | 548 | — | % | (512 | )% |
| Operating income | 75,380 | 31 | % | 63,564 | 27 | % | 19 | % |
| Loss on exchange of Senior Exchangeable Notes | — | — | % | 31 | — | % | (100 | )% |
| Interest expense | 2,160 | 1 | % | 3,825 | 2 | % | (44 | )% |
| Income before income tax expense | 73,220 | 30 | % | 59,708 | 26 | % | 23 | % |
| Income tax expense | 18,671 | 8 | % | 14,599 | 6 | % | 28 | % |
| Net income | 54,549 | 22 | % | 45,109 | 19 | % | 21 | % |
| Net income (loss) attributable to non-controlling interests | 146 | — | % | 242 | — | % | (40 | )% |
| Net income attributable to Core Laboratories N.V. | $54,403 | 22 | % | $44,867 | 19 | % | 21 | % |

* Percentage based on applicable revenue rather than total revenue

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| (Unaudited) | Nine Months Ended September 30, | | | | % Change |
|---|---|---|---|---|---|
| | 2012 | | 2011 | | 2012/2011 |
| REVENUE: | | | | | |
| Services | $ 512,883 | 71 % | $ 458,875 | 69 % | 12 % |
| Product sales | 213,742 | 29 % | 204,987 | 31 % | 4 % |
| Total revenue | 726,625 | 100 % | 663,862 | 100 % | 9 % |
| OPERATING EXPENSES: | | | | | |
| Cost of services, exclusive of depreciation expense shown below* | 304,871 | 59 % | 295,112 | 64 % | 3 % |
| Cost of product sales, exclusive of depreciation expense shown below* | 155,990 | 73 % | 144,223 | 70 % | 8 % |
| Total cost of services and product sales | 460,861 | 63 % | 439,335 | 66 % | 5 % |
| General and administrative expenses | 30,883 | 4 % | 30,463 | 5 % | 1 % |
| Depreciation and amortization | 17,419 | 2 % | 17,374 | 3 % | — % |
| Other (income), net | (3,950 ) | (1 )% | (1,176 ) | — % | 236 % |
| Operating income | 221,412 | 30 % | 177,866 | 27 % | 24 % |
| Loss on exchange of Senior Exchangeable Notes | — | — % | 870 | — % | (100 )% |
| Interest expense | 6,528 | 1 % | 8,684 | 1 % | (25 )% |
| Income before income tax expense | 214,884 | 30 % | 168,312 | 25 % | 28 % |
| Income tax expense | 53,454 | 7 % | 36,827 | 6 % | 45 % |
| Net income | 161,430 | 22 % | 131,485 | 20 % | 23 % |
| Net income (loss) attributable to non-controlling interests | 160 | — % | (123 ) | — % | (230 )% |
| Net income attributable to Core Laboratories N.V. | $ 161,270 | 22 % | $ 131,608 | 20 % | 23 % |

* Percentage based on applicable revenue rather than total revenue

Operating Results for the Three and Nine Months Ended September 30, 2012 Compared to the Three and Nine Months Ended September 30, 2011 (unaudited)

Services Revenue

Services revenue increased to $174.5 million for the third quarter of 2012, up 9% when compared to $160.5 million for the third quarter of 2011. For the nine months ended September 30, 2012, services revenue increased to $512.9 million, up 12% when compared to $458.9 million for the same period of 2011. The increase in services revenue was primarily due to our continued focus on worldwide crude-oil related and large natural gas for liquefaction projects, especially those related to the development of deepwater fields offshore West and East Africa, the eastern Mediterranean, and the Gulf of Mexico.

Product Sales Revenue

Revenue associated with product sales was up slightly to $71.0 million for the third quarter of 2012, compared to $70.8 million for the third quarter of 2011. For the nine months ended September 30, 2012, product sales revenues increased to $213.7 million, up 4% from $205.0 million for the same period of 2011 despite declining drilling activity in North America. Land rig count declined by 6% in the U.S. during the third quarter of 2012 while the Canadian rig count is 30% below prior year levels.

Cost of Services

Cost of services expressed as a percentage of services revenue was 59% for the quarter ended September 30, 2012, an improvement from 62% in the same period in 2011. For the nine months ended September 30, 2012, cost of services expressed as a percentage of services revenue was 59%, an improvement when compared to 64% in the same period in 2011. The margin improvement is a result of higher sales, including a better mix of projects aimed at more complex reservoirs, over the fixed cost structure.

Cost of Product Sales

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Cost of product sales expressed as a percentage of product sales revenue was 74% for the quarter ended September 30, 2012, up from 71% during the same period in 2011. For the nine months ended September 30, 2012, cost of product sales expressed as a percentage of product sales revenue was 73%, up from 70% during the same period in 2011. The cost of raw materials, especially specialty steel, increased substantially in the second half of 2011 which increased our cost of sales in 2012 as these raw materials are converted to finished goods and sold.

General and Administrative Expenses

General and administrative expenses include corporate management and centralized administrative services that benefit our operations. General and administrative expenses were $10.5 million for the third quarter of 2012, which represents 4% of revenue, a decrease from the third quarter of 2011 when general and administrative expenses represented 5% of revenue. For the nine months ended September 30, 2012, general and administrative expenses were $30.9 million, which represents 4% of revenue, a decrease from 5% of revenue for the same period of 2011.

Depreciation and Amortization Expense

Depreciation and amortization expense was $6.5 million for the third quarter of 2012 compared to $5.7 million in the third quarter of 2011, reflecting the timing of capital expenditures in 2012. For the nine months ended September 30, 2012, depreciation and amortization expense was $17.4 million compared to $17.4 million in the same period of 2011.

Other (Income) Expense, Net

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 (Unaudited) | 2011 | 2012 (Unaudited) | 2011 |
| (Gain) loss on sale of assets | $(70) | $(278) | $(383) | $(416) |
| Foreign exchange (gain) loss | (610) | 1,522 | (280) | 1,001 |
| Rents and royalties | (214) | (440) | (809) | (1,273) |
| (Gain) loss on insurance recovery | (1,023) | — | (4,490) | (779) |
| Legal entity realignment | — | — | 1,860 | 711 |
| NYSE Euronext Amsterdam listing | — | — | 923 | — |
| Other, net | (339) | (256) | (771) | (420) |
| Total other (income) expense, net | $(2,256) | $548 | $(3,950) | $(1,176) |

During the second quarter of 2012, we incurred legal, accounting and other fees in connection with the realignment of certain of our legal entities into a more cost effective structure and the listing of our shares on the NYSE Euronext Amsterdam Stock Exchange.

As a result of a supply disruption in 2011 from a key vendor that provided certain high performance specialty steel tubulars used with the Company's perforating systems, we filed a claim under our business interruption insurance policy which was fully settled during 2012 for $4.4 million. We recorded a gain of $3.4 million in the first quarter of 2012 for the initial payment and a gain of $1.0 million in the third quarter of 2012 when the claim was settled and closed.

As a result of reaching a settlement on a fire damage claim we filed in 2010, we recorded insurance recovery gains of $0.1 million and $0.8 million for the nine months ended September 30, 2012 and 2011, respectively.

Foreign exchange (gain) loss by currency is summarized in the following table (in thousands):

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| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2012 | 2011 | 2012 | 2011 |
| | (Unaudited) | | (Unaudited) | |
| Australian Dollar | $47 | $206 | $32 | $62 |
| British Pound | (127) | 10 | (68) | (37) |
| Canadian Dollar | (581) | 1,125 | (599) | 582 |
| Euro | (59) | 172 | (66) | 98 |
| Malaysian Ringgit | (33) | 123 | 46 | 107 |
| Mexican Peso | (179) | (161) | (140) | (19) |
| Russian Ruble | 164 | (202) | 108 | (427) |
| Other currencies, net | 158 | 249 | 407 | 635 |
| Total (gain) loss | $(610) | $1,522 | $(280) | $1,001 |

Interest Expense

Interest expense for the three months ended September 30, 2012 and 2011 was $2.2 million and $3.8 million, respectively. Interest expense for the nine months ended September 30, 2012 and 2011 was $6.5 million and $8.7 million, respectively.

Our Exchangeable Notes were fully repaid during the fourth quarter of 2011 and were replaced by our $150 million Senior Notes (the "Senior Notes") which carry a lower interest expense.

Income Tax Expense

The effective tax rates for the three months ended September 30, 2012 and 2011 were 25.5% and 24.5%, respectively. The effective tax rates for the nine months ended September 30, 2012 and 2011 were 24.9% and 21.9%, respectively.

Included in the three and nine months ended September 30, 2011 is the reversal of $10.4 million in tax liabilities provided over the period of 2007-2010 as a result of audits of prior year returns offset by $6.0 million in other discrete items. The change in income tax expense also reflects the change in activity levels among jurisdictions with different tax rates.

Segment Analysis

Our operations are managed primarily in three complementary segments - Reservoir Description, Production Enhancement and Reservoir Management. The following tables summarize our results by operating segment for the three and nine months ended September 30, 2012 and 2011 (in thousands):

| | Three Months Ended September 30, | | % Change |
|---|---|---|---|
| | 2012 | 2011 | 2012/2011 |
| Revenue: | (Unaudited) | | |
| Reservoir Description | $124,156 | $119,853 | 4% |
| Production Enhancement | 100,871 | 97,407 | 4% |
| Reservoir Management | 20,401 | 14,084 | 45% |
| Consolidated | $245,428 | $231,344 | 6% |
| Operating income (loss): | | | |
| Reservoir Description | $36,780 | $28,780 | 28% |

| | | | | |
|---|---|---|---|---|
| Production Enhancement | 32,339 | 30,728 | 5 | % |
| Reservoir Management | 6,029 | 3,502 | 72 | % |
| Corporate and Other[1] | 232 | 554 | NM | |
| Consolidated | $75,380 | $63,564 | 19 | % |

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

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| | Nine Months Ended September 30, | | % Change |
|---|---|---|---|
| | 2012 | 2011 | 2012/2011 |
| Revenue: | (Unaudited) | | |
| Reservoir Description | $366,724 | $346,232 | 6 % |
| Production Enhancement | 297,151 | 268,292 | 11 % |
| Reservoir Management | 62,750 | 49,338 | 27 % |
| Consolidated | $726,625 | $663,862 | 9 % |
| Operating income (loss): | | | |
| Reservoir Description | $107,271 | $81,847 | 31 % |
| Production Enhancement | 95,434 | 78,490 | 22 % |
| Reservoir Management | 21,057 | 17,473 | 21 % |
| Corporate and Other[1] | (2,350) | 56 | NM |
| Consolidated | $221,412 | $177,866 | 24 % |

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

Reservoir Description

Revenue from the Reservoir Description segment increased 4%, or $4.3 million, to $124.2 million in the third quarter of 2012, compared to $119.9 million in the third quarter of 2011. For the nine months ended September 30, 2012, revenues increased 6%, or $20.5 million, to $366.7 million, compared to $346.2 million in the same period of 2011. This segment's operations, which focus on international crude-oil related products, continued to benefit from increased activity in large-scale core analyses and reservoir fluids characterization studies in the Asia-Pacific areas, offshore West and East Africa, the Eastern Mediterranean region and the Middle East, including Iraq, Kuwait, and the United Arab Emirates.

Operating income in the third quarter of 2012 increased by 28%, or $8.0 million, to $36.8 million compared to $28.8 million for the third quarter of 2011. Operating income for the nine months ended September 30, 2012 increased by 31%, or $25.4 million, to $107.3 million compared to $81.8 million for the same period of 2011. Operating margin for the quarter ended September 30, 2012 was 30%, compared to 24% for the same period in 2011. This increase is a result of higher sales, including a better mix of projects aimed at more complex reservoirs, over the fixed cost structure.

Production Enhancement

Revenue from the Production Enhancement segment increased by 4%, or $3.5 million, to $100.9 million in the third quarter of 2012 compared to $97.4 million in the third quarter of 2011. Revenues increased by 11%, or $28.9 million, to $297.2 million for the nine months ended September 30, 2012, compared to $268.3 million in the same period of 2011. The revenue increase was primarily due to demand for our stimulation diagnostic services both for fracture diagnostics in North America and flood diagnostics internationally.

Operating income in the third quarter of 2012 increased by 5%, or $1.6 million, to $32.3 million from $30.7 million for the third quarter of 2011. For the nine months ended September 30, 2012, operating income increased by 22%, to $95.4 million over the same period of 2011. Operating margins remained constant at 32% in the third quarter of 2012 compared to the same period in 2011. The increase in operating income from 2011 to 2012 was primarily driven by increased demand for the company's proprietary and patented hydraulic fracture and field-flood diagnostic technologies such as SpectraChem™, ZeroWash™, and SpectraFlood™ tracers in North America and internationally.

Reservoir Management

Revenue from the Reservoir Management segment increased by 45% to $20.4 million in the third quarter of 2012 compared to $14.1 million for the third quarter of 2011. Revenues for the nine months ended September 30, 2012 increased by 27% to $62.8 million compared to $49.3 million for the same period of 2011. The increase in revenue was due to ongoing interest in several of our existing multi-client reservoir studies such as the Duvernay Shale Project in Canada and the Tight Oil Reservoirs of the Midland Basin study.

Operating income in the third quarter of 2012 increased 72% to $6.0 million from $3.5 million for the third quarter of 2011.



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For the nine months ended September 30, 2012, operating income was $21.1 million compared to $17.5 million for the same period of 2011. Operating margins increased to 30% in the third quarter of 2012 compared to 25% for the same period in 2011. The higher margin in the third quarter of 2012 was primarily a result of increased revenue over a predominantly fixed cost structure.

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 cash paid for capital expenditures. Management believes that free cash flow provides useful information to investors regarding the cash that was available in the period that was in excess of our needs to fund our capital expenditures and operating activities. 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. Free cash flow does not represent residual cash available for distribution because we may have other non-discretionary expenditures that are not deducted from the measure. 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 months ended September 30, 2012 and 2011 (in thousands):

| | Nine Months Ended September 30, | | % Change |
|---|---|---|---|
| | 2012 | 2011 | 2012/2011 |
| Free cash flow calculation: | (Unaudited) | | |
| Net cash provided by operating activities | $152,150 | $146,829 | 4 % |
| Less: cash paid for capital expenditures | 24,154 | 18,203 | 33 % |
| Free cash flow | $127,996 | $128,626 | — % |

Free cash flow for the first nine months of 2012 was unchanged when compared to the same period in 2011 as the increase in net income for the period was offset by decreases in current and long-term liabilities. In addition, capital expenditures were higher in the first nine months of 2012 compared to the same period in 2011.

Cash Flows

The following table summarizes cash flows for the nine months ended September 30, 2012 and 2011 (in thousands):

| | Nine Months Ended September 30, | | % Change |
|---|---|---|---|
| | 2012 | 2011 | 2012/2011 |
| Cash provided by/(used in): | (Unaudited) | | |
| Operating activities | $152,150 | $146,829 | 4 % |
| Investing activities | (24,745) | (39,474) | (37)% |
| Financing activities | (132,079) | (224,214) | (41)% |
| Net change in cash and cash equivalents | $(4,674) | $(116,859) | (96)% |

The increase in cash flows from operating activities for the first nine months of 2012 compared to the same period in 2011 was primarily attributable to increased net income offset by increases in current assets and decreases in current liabilities.

Cash flows used in investing activities were lower during 2012 when compared to 2011 primarily due to the $21 million acquisition in 2011, offset by an increase in capital expenditures of $24.2 million up from $18.2 million for the nine month periods ended September 30, 2012 and 2011, respectively.



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The decrease in cash flows used in financing activities for the first nine months of 2012 when compared to the same period in 2011 was due to decreases of $219.5 million in the amount used for settlement of warrants and $95.9 million in the amount of net debt reduction offset by an increase of $27.9 million in the amount paid for the repurchase of our common shares. In the first nine months of 2011, we settled warrants in the amount of $219.5 million. All of these warrants were settled during 2011. During the first nine months of 2012, we repurchased 686,896 shares for an aggregate price of $83.4 million compared to 604,972 shares for an aggregate price of $55.5 million during the same period in 2011. In the first nine months of 2012, we used $12.3 million of cash to reduce our net debt, as compared to receiving $83.5 million of cash during the first nine months of 2011 as a result of issuing the Senior Notes and increasing the drawings on our Credit Facility offset by the settlement of the Exchangeable Notes.

Notes, Credit Facilities and Available Future Liquidity

In September 2011, we issued two series of senior notes with an aggregate principal amount of $150 million ("Senior Notes") in a private placement transaction. Series A consists of $75 million in aggregate principal amount of notes that bear interest at a fixed rate of 4.01% and are due in full on September 30, 2021. Series B consists of $75 million in aggregate principal amount of notes that bear interest at a fixed rate of 4.11% and are due in full on September 30, 2023. Interest on each series of the Senior Notes is payable semi-annually on March 30 and September 30.

We maintain a credit facility (the "Credit Facility") with an aggregate borrowing capacity of $300 million at September 30, 2012. The Credit Facility provides an option to increase the commitment under the Credit Facility to $350 million, if certain conditions are met. The Credit Facility bears interest at variable rates from LIBOR plus 1.50% to a maximum of LIBOR plus 2.25%. Any outstanding balance under the Credit Facility is due September 28, 2016 when the Credit Facility matures. Interest payment terms are variable depending upon the specific type of borrowing under the Credit Facility. Our available capacity at any point in time is reduced by borrowings outstanding at the time and outstanding letters of credit which totaled $17.0 million at September 30, 2012, resulting in an available borrowing capacity under the Credit Facility of $220.0 million. In addition to those items under the Credit Facility, we had $26.4 million of outstanding letters of credit and performance guarantees and bonds from other sources as of September 30, 2012.

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

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 May 2011, the FASB issued ASU 2011-04 relating to fair value measurement (FASB ASC Topic 820), which amends current guidance to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards. The amendments generally represent clarification of FASB ASC Topic 820, but also include instances where a particular principle or requirement for measuring fair value or disclosing information about fair value measurements has changed. This pronouncement is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. We adopted this pronouncement for our fiscal year beginning January 1, 2012. The adoption of this pronouncement did not have a material effect on our consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05 which provides new guidance on the presentation of comprehensive income (FASB ASC Topic 220) in financial statements. Entities are required to present total comprehensive income either in a single, continuous statement of comprehensive income or in two separate, but consecutive, statements. Under the single-statement approach, entities must include the components of net income, a total for net income, the components of other comprehensive income and a total for comprehensive income. Under the two-statement approach, entities must report an income statement and, immediately following, a statement of other comprehensive income. Under either method, entities must display adjustments for items reclassified from other comprehensive income to net income in both net income and other comprehensive income. The provisions for this pronouncement are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. We adopted this pronouncement for our fiscal year beginning January



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1, 2012. The adoption of this pronouncement did not have a material effect on our consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08 relating to testing goodwill for impairment (FASB ASC Topic 350), which amends current guidance to simplify how entities test goodwill for impairment. The amendments permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. Under this amendment, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. This pronouncement is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We adopted this pronouncement for our fiscal year beginning January 1, 2012. The adoption of this pronouncement did not have a material effect on our consolidated financial statements.

In December 2011, the FASB issued ASU 2011-12, which defers changes in Update 2011-05 that relate to the presentation of reclassification of adjustments for entities that report items of other comprehensive income. This pronouncement is effective at the same time as ASU 2011-05 for fiscal years beginning after December 15, 2011. We adopted this pronouncement for our fiscal year beginning January 1, 2012. The adoption of this pronouncement did not have a material effect on our consolidated financial statements.

In July 2012, the FASB issued ASU 012-02, relating to testing intangible assets and long-lived assets for impairment (FASB ASC Topic 350), which amends current guidance to simplify how entities test indefinite-lived intangible assets for impairment. The amendments permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step impairment test described in Topic 350. Under this amendment, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. This pronouncement is effective for annual and interim impairment tests performed for fiscal years beginning after December 15, 2011. We adopted this pronouncement for our fiscal year beginning September 15, 2012. The adoption of this pronouncement will not have a material effect on our consolidated financial statements.



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## Item 3. Quantitative and Qualitative Disclosures About 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 for the fiscal year ended December 31, 2011.

## 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, 2011.

### 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 our 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 SEC. 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, 2012 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 been no changes in our system of 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, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



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CORE LABORATORIES N.V.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1(a). Risk Factors

The statements in this section describe the known material risks to our business and should be considered carefully. The risk factor discussed below is in addition to the risk factors previously discussed in our 2011 Annual Report on Form 10-K.

Our operations are subject to the risk of cyber attacks that could have a material adverse effect on our consolidated results of operations and consolidated financial condition.

Our information technology systems are subject to possible breaches and other threats that could cause us harm. If our systems for protecting against cyber security risks prove not to be sufficient, we could be adversely affected by loss or damage of intellectual property, proprietary information, or customer data; interruption of business operations; or additional costs to prevent, respond to, or mitigate cyber security attacks. These risks could have a material adverse effect on our business, consolidated results of operations, and consolidated financial condition.

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, 2012:

| 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 (3) |
|---|---|---|---|---|
| July 31, 2012 (1) | 122,427 | $110.50 | 122,427 | 3,124,183 |
| August 31, 2012 (2) | 71,086 | 117.28 | 71,086 | 4,080,748 |
| September 30, 2012 | 90,000 | 125.84 | 90,000 | 3,990,748 |
| Total | 283,513 | $117.07 | 283,513 | |

(1) Contains 2,427 shares valued at approximately $0.3 million, or $114.45 per share, surrendered to us by participants in a stock-based compensation plan to settle any personal tax liabilities which may result from the award in July 2012.
(2) Contains 1,086 shares valued at approximately $0.1 million, or $113.17 per share, surrendered to us by participants in a stock-based compensation plan to settle any personal tax liabilities which may result from the award in August 2012.
(3) In connection with our initial public offering in September 1995, our shareholders authorized our Management Board to repurchase up to 10% of our issued share capital for a period of 18 months. This authorization was renewed at subsequent annual or special shareholder meetings. At our annual shareholders' meeting on May 16, 2012, our

shareholders authorized an extension to repurchase 10% of our issued share capital through November 16, 2013. The repurchase of shares in the open market is at the discretion of management pursuant to this shareholder authorization.



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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) | Exhibit 3.1 filed on July 26, 2010 with 10-Q (File No. 001-14273) |
| 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 |
| 101.INS | - | XBRL Instance Document | Filed herewith |
| 101.SCH | - | XBRL Schema Document | Filed herewith |
| 101.CAL | - | XBRL Calculation Linkbase Document | Filed herewith |
| 101.LAB | - | XBRL Label Linkbase Document | Filed herewith |
| 101.PRE | - | XBRL Presentation Linkbase Document | Filed herewith |
| 101.DEF | - | XBRL Definition Linkbase Document | Filed herewith |



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SIGNATURE

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

CORE LABORATORIES N.V.

Date: October 19, 2012

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



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