

CORE LABORATORIES N V
Form 10-Q
October 25, 2018

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

FORM 10-Q
(Mark One)

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

For the quarterly period ended
September 30, 2018
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 Not
 Applicable
 (I.R.S.
(State or other Employer
jurisdiction of Identification
 No.)

incorporation or organization)

Strawinskylaan

913

Tower A, Level 9

1077 XX

Amsterdam

The Netherlands Not Applicable

(Address of principal executive(Zip Code) offices)

(31-20) 420-3191

(Registrant's telephone number, including area code)

None

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

(Do not check if a smaller reporting company)

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of common shares of the registrant, par value EUR 0.02 per share, outstanding at October 24, 2018 was 44,220,731.

CORE LABORATORIES N.V.
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2018

INDEX

PART I - FINANCIAL INFORMATION

	Page
<u>Item 1. Financial Statements</u>	
<u>Consolidated Balance Sheets (Unaudited) at September 30, 2018 and December 31, 2017</u>	<u>1</u>
<u>Consolidated Statements of Operations (Unaudited) for the Three Months Ended September 30, 2018 and 2017</u>	<u>2</u>
<u>Consolidated Statements of Operations (Unaudited) for the Nine Months Ended September 30, 2018 and 2017</u>	<u>3</u>
<u>Consolidated Statements of Comprehensive Income (Unaudited) for the Three and Nine Months Ended September 30, 2018 and 2017</u>	<u>4</u>
<u>Consolidated Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2018 and 2017</u>	<u>5</u>
<u>Notes to the Unaudited Consolidated Interim Financial Statements</u>	<u>6</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>28</u>
<u>Item 4. Controls and Procedures</u>	<u>28</u>
PART II - OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	<u>30</u>
<u>Item 1A. Risk Factors</u>	<u>30</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>30</u>
<u>Item 6. Exhibits</u>	<u>31</u>
<u>Signature</u>	<u>32</u>

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CORE LABORATORIES N.V.

CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

	September 30, 2018	December 31, 2017
	(Unaudited)	
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 14,100	\$ 14,400
Accounts receivable, net of allowance for doubtful accounts of \$2,841 and \$2,590 at 2018 and 2017, respectively	143,325	133,097
Inventories	47,215	33,317
Prepaid expenses	13,308	12,592
Income taxes receivable	9,061	7,508
Other current assets	12,116	6,513
TOTAL CURRENT ASSETS	239,125	207,427
PROPERTY, PLANT AND EQUIPMENT, net	121,945	123,098
INTANGIBLES, net	9,724	9,396
GOODWILL	222,876	179,044
DEFERRED TAX ASSETS	12,977	10,719
OTHER ASSETS	59,950	55,128
TOTAL ASSETS	\$ 666,597	\$ 584,812
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 41,012	\$ 41,697
Accrued payroll and related costs	25,603	28,887
Taxes other than payroll and income	6,976	7,313
Unearned revenue	15,265	12,627
Income taxes payable	2,569	825
Other current liabilities	12,084	9,227
TOTAL CURRENT LIABILITIES	103,509	100,576
LONG-TERM DEBT, net	295,745	226,989
CONTRACT LIABILITIES	2,378	4,442
DEFERRED COMPENSATION	56,819	52,786
DEFERRED TAX LIABILITIES	7,229	5,323
OTHER LONG-TERM LIABILITIES	39,505	45,964
COMMITMENTS AND CONTINGENCIES (Note 8)		
EQUITY:		
Preference shares, EUR 0.02 par value; 6,000,000 shares authorized, none issued or outstanding	—	—
Common shares, EUR 0.02 par value; 200,000,000 shares authorized, 44,796,252 issued and 44,220,731 outstanding at 2018 and 44,796,252 issued and 44,184,205 outstanding at 2017	1,148	1,148
Additional paid-in capital	61,649	54,463
Retained earnings	171,617	173,855
Accumulated other comprehensive income (loss)	(7,277)	(8,353)
Treasury shares (at cost), 575,521 at 2018 and 612,047 at 2017	(69,699)	(76,269)
Total Core Laboratories N.V. shareholders' equity	157,438	144,844

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

Non-controlling interest	3,974	3,888
TOTAL EQUITY	161,412	148,732
TOTAL LIABILITIES AND EQUITY	\$ 666,597	\$ 584,812

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

1

[Return to Index](#)

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

	Three Months Ended September 30,	
	2018	2017
	(Unaudited)	
REVENUE:		
Services	\$124,145	\$117,285
Product sales	58,001	45,602
Total revenue	182,146	162,887
OPERATING EXPENSES:		
Cost of services, exclusive of depreciation expense shown below	88,435	83,715
Cost of product sales, exclusive of depreciation expense shown below	39,744	34,646
General and administrative expense, exclusive of depreciation expense shown below	13,278	11,887
Depreciation	5,436	5,743
Amortization	244	250
Other (income) expense, net	130	(23)
OPERATING INCOME	34,879	26,669
Interest expense	3,278	2,707
Income from continuing operations before income tax expense	31,601	23,962
Income tax expense	9,404	3,595
Income from continuing operations	22,197	20,367
Income from discontinued operations, net of income taxes	208	686
Net income	22,405	21,053
Net income (loss) attributable to non-controlling interest	(7)	(33)
Net income attributable to Core Laboratories N.V.	\$22,412	\$21,086
EARNINGS (LOSS) PER SHARE INFORMATION:		
Basic earnings per share from continuing operations	\$0.50	\$0.46
Basic earnings per share from discontinued operations	\$0.01	\$0.02
Basic earnings per share attributable to Core Laboratories N.V.	\$0.51	\$0.48
Diluted earnings per share from continuing operations	\$0.50	\$0.46
Diluted earnings per share from discontinued operations	\$—	\$0.02
Diluted earnings per share attributable to Core Laboratories N.V.	\$0.50	\$0.48
Cash dividends per share	\$0.55	\$0.55
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:		
Basic	44,216	44,141
Diluted	44,591	44,332

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

2

[Return to Index](#)

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

	Nine Months Ended September 30, 2018 (Unaudited)		2017
REVENUE:			
Services	\$	366,025	\$ 354,827
Product sales		161,614	122,881
Total revenue		527,639	477,708
OPERATING EXPENSES:			
Cost of services, exclusive of depreciation expense shown below		258,482	247,357
Cost of product sales, exclusive of depreciation expense shown below		112,788	97,659
General and administrative expense, exclusive of depreciation expense shown below		38,189	35,743
Depreciation		16,646	17,802
Amortization		720	684
Other (income) expense, net		170	900
OPERATING INCOME		100,644	77,563
Interest expense		9,694	8,017
Income from continuing operations before income tax expense		90,950	69,546
Income tax expense		19,697	10,233
Income from continuing operations		71,253	59,313
Income (loss) from discontinued operations, net of income taxes	(466)	2,131
Net income		70,787	61,444
Net income attributable to non-controlling interest		96	10
Net income attributable to Core Laboratories N.V.	\$	70,691	\$ 61,434
EARNINGS (LOSS) PER SHARE INFORMATION:			
Basic earnings per share from continuing operations	\$	1.61	\$ 1.34
	\$	(0.01) \$ 0.05

Basic earnings (loss) per share from discontinued operations				
Basic earnings per share attributable to Core Laboratories N.V.	\$	1.60	\$	1.39
Diluted earnings per share from continuing operations	\$	1.60	\$	1.34
Diluted earnings (loss) per share from discontinued operations	\$	(0.01)	\$	0.05
Diluted earnings per share attributable to Core Laboratories N.V.	\$	1.59	\$	1.39
Cash dividends per share	\$	1.65	\$	1.65
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:				
Basic		44,199		44,155
Diluted		44,613		44,335

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

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

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2018	
	2017		2017	
	(Unaudited)		(Unaudited)	
Net income	\$22,405	\$21,053	\$70,787	\$61,444
Other comprehensive income:				
Derivatives				
Gain (loss) in fair value of interest rate swaps	205	(47)	1,086	(244)
Interest rate swap amounts reclassified to interest expense	4	112	93	419
Income taxes on derivatives	(44)	(23)	(248)	(61)
Total derivatives	165	42	931	114
Pension and other postretirement benefit plans				
Prior service cost				
Amortization to net income of prior service cost	(19)	(20)	(58)	(58)
Amortization to net income of actuarial loss	84	110	252	330
Income taxes on pension and other postretirement benefit plans	(16)	(22)	(49)	(68)
Total pension and other postretirement benefit plans	49	68	145	204
Total other comprehensive income	214	110	1,076	318
Comprehensive income	22,619	21,163	71,863	61,762
Comprehensive income (loss) attributable to non-controlling interest	(7)	(33)	96	10
Comprehensive income attributable to Core Laboratories N.V.	\$22,626	\$21,196	\$71,767	\$61,752

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

4

[Return to Index](#)

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

	Nine Months Ended September 30, 2018 2017 (Unaudited)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Income from continuing operations	\$71,253	\$59,313
Income (loss) from discontinued operations, net of tax	(466)	2,131
Net income	70,787	61,444
Adjustments to reconcile net income to net cash provided by operating activities:		
Stock-based compensation	18,533	17,323
Depreciation and amortization	17,366	18,486
Changes to value of life insurance policies	(3,459)	(4,541)
Deferred income taxes	(311)	3,914
Other non-cash items	1,114	(362)
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(11,972)	(15,488)
Inventories	(12,121)	(796)
Prepaid expenses and other current assets	(935)	(1,545)
Other assets	(451)	1,960
Accounts payable	(2,571)	2,307
Accrued expenses	(1,452)	(10,676)
Unearned revenues	742	(1,393)
Other long-term liabilities	(1,344)	7,722
Net cash provided by operating activities	73,926	78,355
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(16,063)	(14,264)
Patents and other intangibles	(970)	(282)
Business acquisitions, net of cash acquired	(47,314)	—
Proceeds from sale of assets	270	643
Premiums on life insurance	(788)	(1,351)
Net cash used in investing activities	(64,865)	(15,254)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of debt borrowings	(80,000)	(89,000)
Proceeds from debt borrowings	150,000	106,000
Debt financing costs	(1,645)	—
Non-controlling interest-dividends	(10)	(27)
Dividends paid	(72,929)	(72,861)
Repurchase of common shares	(4,777)	(8,197)
Net cash used in financing activities	(9,361)	(64,085)
NET CHANGE IN CASH AND CASH EQUIVALENTS	(300)	(984)
CASH AND CASH EQUIVALENTS, beginning of period	14,400	14,764
CASH AND CASH EQUIVALENTS, end of period	\$14,100	\$13,780

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

5

[Return to Index](#)

CORE LABORATORIES N.V.
NOTES TO THE UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Core Laboratories N.V. and its subsidiaries for which we have a controlling voting interest and/or a controlling financial interest. These financial statements have been prepared in accordance with United States ("U.S.") generally accepted accounting principles ("GAAP") for interim financial information using the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all of the information and footnote disclosures required by U.S. GAAP and should be read in conjunction with the audited financial statements and the summary of significant accounting policies and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2017 (the "2017 Annual Report").

Core Laboratories N.V. uses the equity method of accounting for investments in which it has less than a majority interest and over which it does not exercise control but does exert significant influence. We use the cost method to record certain other investments in which we own less than 20% of the outstanding equity and do not exercise control or exert significant influence. Non-controlling interests have been recorded to reflect outside ownership attributable to consolidated subsidiaries that are less than 100% owned. In the opinion of management, all adjustments considered necessary for a fair statement of the results for the interim periods presented have been included in these financial statements. Furthermore, the operating results presented for the three and nine months ended September 30, 2018 may not necessarily be indicative of the results that may be expected for the year ending December 31, 2018.

Core Laboratories N.V.'s balance sheet information for the year ended December 31, 2017 was derived from the 2017 audited consolidated financial statements but does not include all disclosures in accordance with U.S. GAAP.

References to "Core Lab", the "Company", "we", "our" and similar phrases are used throughout this Quarterly Report on Form 10-Q and relate collectively to Core Laboratories N.V. and its consolidated subsidiaries.

We operate our business in two reportable segments. These complementary segments provide different services and products and utilize different technologies 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 to increase production and improve recovery of oil and gas from our clients' reservoirs. We provide laboratory based analytical and field services to characterize properties of crude oil and petroleum products to the oil and gas industry. We also provide proprietary and joint industry studies based on these types of analysis.

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

Certain reclassifications were made to prior period amounts in order to conform to the current period presentation. These reclassifications had no impact on the reported net income or cash flows for the three and nine months ended September 30, 2017.

2. INVENTORIES

Inventories consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Finished goods	\$ 27,067	\$ 21,668
Parts and materials	13,058	10,613
Work in progress	7,090	1,036
Total inventories	\$ 47,215	\$ 33,317

We include freight costs incurred for shipping inventory to our clients in the Cost of product sales caption in the accompanying Consolidated Statements of Operations.

6

[Return to Index](#)

3. SIGNIFICANT ACCOUNTING POLICIES UPDATE

Our significant accounting policies are detailed in "Note 1: Summary of Significant Accounting Policies" of our Annual Report on Form 10-K for the year ended December 31, 2017. Significant changes to our accounting policies as a result of adopting Topic 606 - Revenue From Contracts with Customers are discussed below:

Revenue Recognition

All of our revenue is derived from contracts with clients and is reported as revenue in the Consolidated Statements of Operations. Our contracts generally include standard commercial payment terms generally acceptable in each region, and do not include financing with extended payment terms. We have no significant obligations for refunds, warranties, or similar obligations. Our revenue does not include taxes collected from our customers. In certain circumstances we apply the guidance in Accounting Standards Codification Topic 606 - Revenue From Contracts with Customers ("Topic 606") to a portfolio of contracts with similar characteristics. We use estimates and assumptions when accounting for a portfolio that reflect the size and composition of the portfolio of contracts.

A performance obligation is a promise in a contract to transfer a distinct service or good to a client, and is the unit of account under Topic 606. We have contracts with two general groups of performance obligations: those that require us to perform analysis and/or diagnostic tests in our laboratory or at the client's wellsite and those from the sale of tools, diagnostic and equipment products and related services. We recognize revenue at an amount that reflects the consideration expected to be received in exchange for such services or goods as described below by applying the five-step method to: (1) identify the contract(s) with clients; (2) identify the performance obligation(s) in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation(s) in the contract; and (5) recognize revenue when (or as) we satisfy the performance obligation(s).

Services Revenue: We provide a variety of services to clients in the oil and gas industry. Where services are provided related to the testing and analysis of rock and fluids, we recognize revenue upon the provision of the test results or analysis to the client. For our design, field engineering and completion diagnostic services, we recognize revenue upon the delivery of those services at the well site or delivery of diagnostic data. In the case of our consortia studies, we have multiple performance obligations and revenue is recognized at the point in time when the testing and analysis results on each contributed core are made available to our consortia members. We conduct testing and provide analysis services in support of our consortia studies recognizing revenue as the testing and analysis results are made available to our consortia members.

Product Sales Revenue: We manufacture equipment that we sell to our clients in the oil and gas industry. Revenue is recognized when title to that equipment passes to the client, which is typically when the product is shipped to the client or picked up by the client at our facilities, as set out in the contract.

For arrangements that include multiple performance obligations, we allocate revenue to each performance obligation based on estimates of the price that we would charge the client for each promised service or product if it were sold on a standalone basis.

To a lesser extent in all of our business segments, we enter into other types of contracts including service arrangements and non-subscription software and licensing agreements. We recognize revenue for these arrangements over time or at a point in time depending on our evaluation of when the client obtains control of the promised services or products.

Contract Assets and Liabilities

Contract assets and liabilities result due to the timing of revenue recognition, billings and cash collections.

Contract assets include our right to payment for goods and services already transferred to a customer when the right to payment is conditional on something other than the passage of time, for example contracts where we recognize revenue over time but do not have a contractual right to payment until we complete the performance obligations. Contract assets are included in our accounts receivable and are not material as of September 30, 2018.

Contract liabilities consist of advance payments received and billings in excess of revenue recognized. We generally receive up-front payments relating to our consortia studies; we recognize revenue over the life of the study as the testing and analysis results are made available to our consortia members. We record billings in excess of revenue recognized for contracts with a duration less than twelve months as unearned revenue. We classify contract liabilities for contracts with a duration greater than twelve months as current or non-current based on the timing of when we expect to recognize revenue. The current portion of contract liabilities is included in unearned revenue and the non-current portion of contract liabilities is included in long-term

7

[Return to Index](#)

contract liabilities in our consolidated balance sheet. The total balance of our contract liabilities at September 30, 2018 and December 31, 2017 was \$7.2 million and \$6.7 million, respectively.

Disaggregation of Revenue

We contract with clients for service revenue and/or product sales revenue. We present revenue disaggregated by services and product sales in our Consolidated Statements of Operations. For revenue disaggregated by reportable segment, please see Note 16, Segment Reporting.

4. CONTRACT ASSETS AND CONTRACT LIABILITIES

The balance of contract assets and contract liabilities consisted of the following (in thousands):

	September 30, December 31,	
	2018	2017
Contract assets		
Current	\$ 679	\$ 325
Non-Current	245	—
	\$ 924	\$ 325
Contract Liabilities		
Current	\$ 4,843	\$ 2,252
Non-current	2,378	4,442
	\$ 7,221	\$ 6,694

	September 30, 2018
Estimate of when contract liabilities will be recognized	
within 12 months	\$ 4,843
within 12 to 24 months	1,994
greater than 24 months	384

We did not recognize any impairment losses on our receivables and contract assets for the three and nine months ended September 30, 2018.

5. ACQUISITIONS

In September 2018, we acquired a business providing downhole technologies associated with perforating systems for \$49.1 million in cash. These downhole technologies will significantly enhance Core Lab's Production Enhancement operations and its ability to bring new and innovative product offerings to our clients. We have accounted for this acquisition by allocating the purchase price to the net assets acquired based on their estimated fair values at the date of acquisition which resulted in an increase to goodwill of \$44.8 million. We have not finalized the assessment of the fair values of assets acquired and liabilities assumed; estimates of certain assets and liabilities require significant judgments and assumptions, and our estimates of acquisition date fair value will be determined upon finalization of our analysis. The fair value estimates are subject to adjustment during the measurement period subsequent to the acquisition date, not to exceed one year. The acquisition is included in the Production Enhancement business segment.

Acquisition-related costs totaling \$0.7 million that were incurred and expensed in the third quarter of 2018 are included in Other expenses. These costs consisted of various advisory fees, and other direct incremental costs.

The acquisition of this business did not have a material impact on our Consolidated Balance Sheet or Consolidated Statements of Operations.

8

[Return to Index](#)

6. DISCONTINUED OPERATIONS

In the first quarter of 2018, in a continuing effort to streamline our business and align our business strategy for further integration of services and products, the Company committed to divest the business of our full range of permanent downhole monitoring systems and related services, which had been part of our Production Enhancement segment. We anticipate the sale of this business line will occur by the end of the first quarter of 2019.

The associated results of operations are separately reported as Discontinued Operations for all periods presented on the Consolidated Statements of Operations. Balance sheet items for this discontinued business, including an allocation of goodwill from the Production Enhancement segment, have been reclassified to Other current assets and Other current liabilities in the Consolidated Balance Sheet. Cash flows from this discontinued business are shown in the table below. As such, the results from continuing operations for the Company and segment highlights for Production Enhancement, exclude these discontinued operations.

Selected data for this discontinued business consisted of the following (in thousands):

	Three Months Ended	
	September 30,	September 30,
	2018	2017
Service revenue	\$167	\$ 265
Sales revenue	2,058	3,095
Total revenue	2,225	3,360
Cost of services, exclusive of depreciation expense shown below	87	91
Cost of product sales, exclusive of depreciation expense shown below	1,944	2,438
Depreciation and Amortization	14	98
Other Expense	(1)	(74)
Operating Income	181	807
Income tax expense (benefit)	(27)	121
Income (loss) from discontinued operations, net of income taxes	\$208	\$ 686
	Nine Months Ended	
	September 30,	September 30,
	2018	2017
Service revenue	\$1,069	\$ 898
Sales revenue	3,768	9,351
Total revenue	4,837	10,249
Cost of services, exclusive of depreciation expense shown below	961	482
Cost of product sales, exclusive of depreciation expense shown below	4,124	7,082
Depreciation and Amortization	115	334
Other Expense (income)	22	(148)
Operating Income (loss)	(385)	2,499
Income tax expense	81	368
Income (loss) from discontinued operations, net of income taxes	\$(466)	\$ 2,131
	September 30,	
	2018	2017
Current assets	\$3,262	\$ 2,549
Non-current assets	1,847	1,048

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

Total assets	\$5,109	\$ 3,597
Current liabilities	\$740	\$ 221
Non-current liabilities	77	75
Total liabilities	\$817	\$ 296

9

[Return to Index](#)

Net cash provided by (used in) operating activities of discontinued operations for the three and nine months ended September 30, 2018 was \$(0.8) million and \$(0.5) million, respectively.

7. LONG-TERM DEBT

We have no capital lease obligations. Long-term debt is as follows (in thousands):

	September 30, December 31,	
	2018	2017
Senior notes	\$ 150,000	\$ 150,000
Credit facility	148,000	78,000
Total long-term debt	298,000	228,000
Less: Debt issuance costs	(2,255)	(1,011)
Long-term debt, net	\$ 295,745	\$ 226,989

We have two series of senior notes outstanding with an aggregate principal amount of \$150 million ("Senior Notes") issued 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.

On June 19, 2018, we entered into an agreement to amend our revolving credit facility ("Credit Facility"). To appropriately size the facility, the aggregate borrowing commitment has been reduced from \$400 million to \$300 million. The Credit Facility provides an option to increase the commitment under the Credit Facility by an additional \$100 million to bring the total borrowings available to \$400 million if certain prescribed conditions are met by the Company. The Credit Facility bears interest at variable rates from LIBOR plus 1.375% to a maximum of LIBOR plus 2.00%. Any outstanding balance under the Credit Facility is due June 19, 2023, when the Credit Facility matures. Our available capacity at any point in time is reduced by borrowings outstanding at the time and outstanding letters of credit which totaled \$16.5 million at September 30, 2018, resulting in an available borrowing capacity under the Credit Facility of \$135.5 million. In addition to those items under the Credit Facility, we had \$13.9 million of outstanding letters of credit and performance guarantees and bonds from other sources as of September 30, 2018.

The terms of the Credit Facility, which remained substantially the same, and Senior Notes require us to meet certain covenants, including, but not limited to, an interest coverage ratio (consolidated EBITDA divided by interest expense) and a leverage ratio (consolidated net indebtedness divided by consolidated EBITDA), where consolidated EBITDA (as defined in each agreement) and interest expense are calculated using the most recent four fiscal quarters. The Credit Facility has the more restrictive covenants with a minimum interest coverage ratio of 3.0 to 1.0 and a maximum leverage ratio of 2.5 to 1.0. 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.

In 2014, we entered into two interest rate swap agreements for a total notional amount of \$50 million. See Note 14 - Derivative Instruments and Hedging Activities.

The estimated fair value of total debt at September 30, 2018 and December 31, 2017 approximated the book value of total debt. The fair value was estimated using Level 2 inputs by calculating the sum of the discounted future interest and principal payments through the date of maturity.

8. PENSION

Defined Benefit Plan

We provide a noncontributory defined benefit pension plan covering substantially all of our Dutch employees ("Dutch Plan") who were hired prior to 2007. The pension benefit is based on years of service and final pay or career average pay, depending on when the employee began participating. The benefits earned by the employees are immediately vested.

10

[Return to Index](#)

The following table summarizes the components of net periodic pension cost under the Dutch Plan (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Service cost	\$359	\$401	\$1,100	\$1,142
Interest cost	308	295	944	838
Expected return on plan assets	(266)	(249)	(815)	(709)
Amortization of prior service cost	(19)	(20)	(58)	(58)
Amortization of actuarial loss	84	110	252	330
Net periodic pension cost	\$466	\$537	\$1,423	\$1,543

Upon adoption of ASU 2017-07 ("Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost") on January 1, 2018, the service cost component of net periodic pension cost is included in cost of sales and cost of services; the interest cost component of net periodic pension cost is included in the line item "interest expense" in the income statement and all other components of net periodic pension cost are included in the line item "other (income) expense, net" in the income statement. During the nine months ended September 30, 2018, we contributed \$1.3 million to fund the estimated 2018 premiums on investment contracts held by the Dutch Plan.

9. COMMITMENTS AND CONTINGENCIES

We have been and may from time to time be named as a defendant in legal actions that arise in the ordinary course of business. These include, but are not limited to, employment-related claims and contractual disputes or claims for personal injury or property damage which occur in connection with the provision of our services and products. Management does not currently believe that any of our pending contractual, employment-related, personal injury or property damage claims and disputes will have a material effect on our future results of operations, financial position or cash flow.

10. EQUITY

During the three and nine months ended September 30, 2018, we repurchased 6,736 and 42,994 of our common shares for \$0.8 million and \$4.8 million, respectively. These included rights to 6,736 and 22,994 shares valued at \$0.8 million and \$2.5 million, respectively, which were surrendered to us pursuant to the terms of a stock-based compensation plan in consideration of the participants' tax burdens that may result from the issuance of common shares under that plan. Such common shares, unless canceled, may be reissued for a variety of purposes such as future acquisitions, non-employee director stock awards or employee stock awards. We distributed 23,931 and 79,520 treasury shares upon vesting of stock-based awards during the three and nine months ended September 30, 2018, respectively.

In February, May and August 2018, we paid a quarterly dividend of \$0.55 per share of common stock. In addition, on October 9, 2018, we declared a quarterly dividend of \$0.55 per share of common stock for shareholders of record on October 19, 2018 and payable on November 20, 2018.

[Return to Index](#)

The following table summarizes our changes in equity for the nine months ended September 30, 2018 (in thousands):

	Common Shares	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non-Controlling Interest	Total Equity
December 31, 2017	\$ 1,148	\$ 54,463	\$ 173,855	\$ (8,353)	\$(76,269)	\$ 3,888	\$ 148,732
Stock based-awards	—	7,186	—	—	11,347	—	18,533
Repurchase of common shares	—	—	—	—	(4,777)	—	(4,777)
Dividends paid	—	—	(72,929)	—	—	—	(72,929)
Non-controlling interest additions	—	—	—	—	—	(10)	(10)
Amortization of deferred pension costs, net of tax	—	—	—	145	—	—	145
Interest rate swaps, net of tax	—	—	—	931	—	—	931
Net income	—	—	70,691	—	—	96	70,787
September 30, 2018	\$ 1,148	\$ 61,649	\$ 171,617	\$ (7,277)	\$(69,699)	\$ 3,974	\$ 161,412

Accumulated other comprehensive income (loss) consisted of the following (in thousands):

	September 30, 2018	December 31, 2017
Prior service cost	\$ 497	\$ 541
Unrecognized net actuarial loss	(8,514)	(8,703)
Fair value of derivatives, net of tax	740	(191)
Total accumulated other comprehensive income (loss)	\$ (7,277)	\$ (8,353)

11. EARNINGS PER SHARE

We compute basic earnings per common share by dividing net income attributable to Core Laboratories N.V. by the weighted average number of common shares outstanding during the period. Diluted earnings per common and potential common shares include additional shares in the weighted average share calculations associated with the incremental effect of dilutive restricted stock awards and contingently issuable shares, as determined using the treasury stock method. The following table summarizes the calculation of weighted average common shares outstanding used in the computation of diluted earnings per share (in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017	
Weighted average basic common shares outstanding	44,216	44,141	44,199	44,155
Effect of dilutive securities:				
Performance shares	221	159	269	148
Restricted stock	154	32	145	32
Weighted average diluted common and potential common shares outstanding	44,591	44,332	44,613	44,335

12. 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,	
	2018	2017	2018	2017
Sale of assets	\$(136)	\$(12)	\$(643)	\$(314)
Results of non-consolidated subsidiaries	(57)	(112)	(126)	(287)
Foreign exchange	1,135	139	2,221	707
Rents and royalties	(264)	(99)	(500)	(329)
Return on pension assets and other pension costs	(201)	(159)	(621)	(437)
Severance, compensation and other charges	—	—	—	1,145
Acquisition-related costs	623	—	623	—
Other, net	(970)	220	(784)	415
Total other (income) expense, net	\$130	\$(23)	\$170	\$900

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Gains) losses by currency	2018	2017	2018	2017
Angolan Kwanza	\$33	\$(2)	\$194	\$(6)
Australian Dollar	50	(13)	161	—
British Pound	89	(27)	65	(82)
Canadian Dollar	(113)	(119)	244	(82)
Euro	108	431	92	1,266
Indonesian Rupiah	206	54	384	29
Turkish Lira	172	(7)	300	—
Other currencies, net	590	(178)	781	(418)
Total loss, net	\$1,135	\$139	\$2,221	\$707

13. INCOME TAX EXPENSE

The effective tax rates for the three months ended September 30, 2018 and 2017 were 29.8% and 15.0%, respectively, and for the nine months ended September 30, 2018 and 2017 were 21.7% and 14.7%, respectively. Income tax expense of \$9.4 million in the third quarter of 2018 increased by \$5.8 million compared to \$3.6 million in the same period in 2017, due to the result of several items discrete to each quarter, along with changes in activity levels in jurisdictions with differing tax rates.

14. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We are exposed to market risks related to fluctuations in interest rates. To mitigate these risks, we utilize derivative instruments in the form of interest rate swaps. We do not enter into derivative transactions for speculative purposes.

Interest Rate Risk

Our Credit Facility bears interest at variable rates from LIBOR plus 1.375% to a maximum of LIBOR plus 2.00%. As a result of two interest rate swap agreements, we are subject to interest rate risk on debt in excess of \$50 million drawn on our Credit Facility.

13

[Return to Index](#)

In 2014, we entered into two interest rate swap agreements for a total notional amount of \$50 million to hedge changes in the variable rate interest expense on \$50 million of our existing or replacement LIBOR-priced debt. Under the first swap agreement of \$25 million, we have fixed the LIBOR portion of the interest rate at 1.73% through August 29, 2019, and under the second swap agreement of \$25 million, we have fixed the LIBOR portion of the interest rate at 2.5% through August 29, 2024. Each swap is measured at fair value and recorded in our Consolidated Balance Sheet as an asset or liability. They are designated and qualify as cash flow hedging instruments and are highly effective. Unrealized losses are deferred to shareholders' equity as a component of accumulated other comprehensive gain (loss) and are recognized in income as an increase or decrease to interest expense in the period in which the related cash flows being hedged are recognized in expense.

At September 30, 2018, we had fixed rate long-term debt aggregating \$200 million and variable rate long-term debt aggregating \$98 million, after taking into account the effect of the swaps.

The fair values of outstanding derivative instruments are as follows (in thousands):

	Fair Value of Derivatives		Balance Sheet Classification
	September 30, 2018	December 31, 2017	
Derivatives designated as hedges:			
5 year interest rate swap	\$ 196	\$ 70	Other long-term assets
10 year interest rate swap	561	(492)	Other long-term assets (liabilities)
	\$ 757	\$ (422)	

The fair value of all outstanding derivatives was determined using a model with inputs that are observable in the market (Level 2) or can be derived from or corroborated by observable data.

The effect of the interest rate swaps on the Consolidated Statement of Operations was as follows (in thousands):

	Three Months Ended September 30, 2018		Nine Months Ended September 30, 2017		Income Statement Classification
	2018	2017	2018	2017	
Derivatives designated as hedges:					
5 year interest rate swap	\$(23)	\$31	\$(27)	\$136	Increase (decrease) to interest expense
10 year interest rate swap	27	81	120	283	Increase to interest expense
	\$4	\$112	\$93	\$419	

15. FINANCIAL INSTRUMENTS

The Company's only financial assets and liabilities which are measured at fair value on a recurring basis relate to certain aspects of the Company's benefit plans and our derivative instruments. We use the market approach to value certain assets and liabilities at fair value using significant other observable inputs (Level 2) with the assistance of a third-party specialist. We do not have any assets or liabilities measured at fair value on a recurring basis using quoted prices in an active market (Level 1) or significant unobservable inputs (Level 3). Gains and losses related to the fair value changes in the deferred compensation assets and liabilities are recorded in General and administrative expense in the Consolidated Statements of Operations. Gains and losses related to the fair value of the interest rate swaps are recorded in Other comprehensive income. The following table summarizes the fair value balances (in thousands):

	Fair Value Measurement at September 30, 2018		
	Total	Level 1	Level 2 Level 3
Assets:			
Deferred compensation assets ⁽¹⁾	\$49,443	\$—	\$—
5 year interest rate swap	196	—	196
10 year interest rate swap	562	—	562
	50,201	—	50,201
Liabilities:			
Deferred compensation plan	\$40,452	\$—	\$—
	\$40,452	\$—	\$—

	Fair Value Measurement at December 31, 2017		
	Total	Level 1	Level 2 Level 3
Assets:			
Deferred compensation assets ⁽¹⁾	\$46,145	\$—	\$—
5 year interest rate swap	70	—	70
	\$46,215	\$—	\$—
Liabilities:			
Deferred compensation plan	\$37,280	\$—	\$—
10 year interest rate swap	492	—	492
	\$37,772	\$—	\$—

(1) Deferred compensation assets consist of the cash surrender value of life insurance policies and are intended to assist in the funding of the deferred compensation agreements.

16. SEGMENT REPORTING

We operate our business in two reportable segments. These complementary segments provide different services and products and utilize different technologies 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 to increase production and improve recovery of oil and gas from our clients' reservoirs. We provide laboratory based analytical and field services to characterize properties of crude oil and petroleum products to the oil and gas industry. We also provide proprietary and joint industry studies based on these types of analysis.

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

15

[Return to Index](#)

Results for these segments are presented below. We use the same accounting policies to prepare our segment results as are used to prepare our Consolidated Financial Statements. All interest and other non-operating income (expense) is attributable to Corporate & Other and is not allocated to specific segments. Summarized financial information concerning our segments is shown in the following table (in thousands):

	Reservoir Description	Production Enhancement	Corporate & Other ¹	Consolidated
Three Months Ended September 30, 2018				
Revenue from unaffiliated clients	\$ 103,609	\$ 78,537	\$ —	\$ 182,146
Inter-segment revenue	58	141	(199)	—
Segment operating income	14,956	19,243	680	34,879
Total assets (at end of period)	321,025	276,345	69,227	666,597
Capital expenditures	2,437	1,680	31	4,148
Depreciation and amortization	4,138	1,037	505	5,680
Three Months Ended September 30, 2017				
Revenue from unaffiliated clients	\$ 101,442	\$ 61,445	\$ —	\$ 162,887
Inter-segment revenue	54	87	(141)	—
Segment operating income (loss)	14,621	12,165	(117)	26,669
Total assets (at end of period)	315,346	203,413	63,985	582,744
Capital expenditures	2,930	1,605	367	4,902
Depreciation and amortization	4,383	1,092	518	5,993
Nine Months Ended September 30, 2018				
Revenue from unaffiliated clients	\$ 306,525	\$ 221,114	\$ —	\$ 527,639
Inter-segment revenue	178	293	(471)	—
Segment operating income	44,473	55,357	814	100,644
Total assets	321,025	276,345	69,227	666,597
Capital expenditures	10,002	5,465	596	16,063
Depreciation and amortization	12,675	3,045	1,646	17,366
Nine Months Ended September 30, 2017				
Revenue from unaffiliated clients	\$ 310,650	\$ 167,058	\$ —	\$ 477,708
Inter-segment revenue	275	537	(812)	—
Segment operating income (loss) ²	49,231	28,633	(301)	77,563
Total assets	315,346	203,413	63,985	582,744
Capital expenditures	7,605	5,394	1,265	14,264
Depreciation and amortization	13,531	3,398	1,557	18,486

(1) "Corporate & Other" represents those items that are not directly related to a particular segment, eliminations and the assets and liabilities of discontinued operations.

(2) Reclassification of \$682,000 from Corporate & Other to Production Enhancement related to general and administrative overhead costs of discontinued operations.

17. RECENT ACCOUNTING PRONOUNCEMENTS

Pronouncements Adopted in 2018

In May 2014, the FASB issued ASU 2014-09 ("Revenue from Contracts with Customers"), which provides guidance on revenue recognition. The core principle of this guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance requires entities to apply a five-step method to (1) identify the contract(s) with customers; (2) identify the performance obligation(s) in the contract; (3)

determine the transaction price; (4) allocate the transaction price to the performance obligation(s) in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. We adopted this standard and all related amendments on January 1, 2018. The adoption of this standard did not result in any material changes to our revenue recognition policies and procedures nor to our financial

16

[Return to Index](#)

statements. Upon adoption we used the modified retrospective approach; this approach resulted in no cumulative adjustment to retained earnings or net income and no adjustments to prior periods.

In March 2017, the FASB issued ASU 2017-07 ("Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost"), which requires that an employer report the service cost component of net periodic pension cost in the same line item as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. We adopted this standard on January 1, 2018. We used the practical expedient method which allows us to use the amounts disclosed in our pension footnote for the three and nine months ended September 30, 2017 as the estimation basis for applying the retrospective presentation requirements. The adoption of this standard did not result in any material changes to our consolidated financial statements.

Pronouncements Not Yet Effective

In February 2016, the FASB issued ASU 2016-02 ("Leases"), which introduces the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. The new standard is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years with early adoption permitted. In July 2018, the FASB issued ASU 2018-11 ("Targeted Improvements to Leases"), which provides companies with an additional transition method that allows the effects of the adoption of the new standard to be recognized as a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. We are evaluating this optional transition method for adoption and anticipate the adoption of this standard will have a material impact on our Consolidated Balance Sheets, increasing both asset balances and liability balances; however, there should not be a material impact to our Consolidated Statement of Operations.

In June 2016, the FASB issued ASU 2016-13 ("Measurement of Credit Losses on Financial Instruments") which replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years with early adoption permitted in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We are evaluating the impact that the adoption of this standard will have on our consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02 ("Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income"), which provides companies with an option to reclassify stranded tax effects resulting from enactment of the Tax Cuts and Jobs Act ("TCJA") from accumulated other comprehensive income to retained earnings. The new standard is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years with early adoption permitted, and would be applied either in the period of adoption or retrospectively to each period (or periods) in which the effect of the change in the tax rate as a result of TCJA is recognized. We do not expect the adoption of this standard to have a material impact on our consolidated financial statements.

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, 2018 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 ("Quarterly Report") and (ii) the audited consolidated financial statements and accompanying notes to our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 (the "2017 Annual Report").

General

Core Laboratories N.V. is a limited liability company incorporated and domiciled in the Netherlands. It was established in 1936 and is one of the world's leading providers of proprietary and patented reservoir description and production enhancement services and products to the oil and gas industry. These services and products 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 4,600 people worldwide.

References to "Core Lab", the "Company", "we", "our" and similar phrases are used throughout this Quarterly Report and relate collectively to Core Laboratories N.V. and its consolidated affiliates.

We operate our business in two reportable segments: Reservoir Description and Production Enhancement. These complementary segments provide different services and products and utilize different technologies 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 to increase production and improve recovery of oil and gas from our clients' reservoirs. We provide laboratory based analytical and field services to characterize properties of crude oil and petroleum products to the oil and gas industry. We also provide proprietary and joint industry studies based on these types of analysis.

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

Cautionary Statement Regarding Forward-Looking Statements

This Quarterly Report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Certain 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 Quarterly Report, 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.

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 2017 Annual Report and in Part II of this Quarterly Report, as well as the other reports filed by us with the Securities and Exchange Commission ("SEC").

18

[Return to Index](#)

Outlook

As part of our long-term growth strategy, we continue our efforts to expand our market presence by opening or expanding facilities in strategic areas and realizing synergies within our business lines subject to client demand and market conditions. We believe our market presence provides us a unique opportunity to service clients who have global operations whether they are international oil companies, national oil companies, or independent oil companies.

We are encouraged by the increased focus of our major clients regarding capital management, return on invested capital ("ROIC"), free cash flow, and returning capital back to their shareholders, as opposed to a focus on production growth at any cost. The companies adopting value versus volume metrics tend to be the more technologically sophisticated operators and form the foundation of Core's worldwide client base. We expect to benefit from our clients' shift in focus from strictly production growth to employing higher technological solutions in their efforts to maximize economic production growth and estimated ultimate recovery ("EUR").

Crude oil prices began to recover and become more stable during 2017, especially during the first nine months of 2017. On average, pricing for crude oil improved over 16% for 2017 when compared to 2016. This trend has continued in 2018, with crude oil prices improving 23% since the end of 2017, and as a result, land-based activity associated with the exploitation and production of oil in the United States continued to increase during the first nine months of 2018.

North America completion activity levels continued to expand in the first nine months of 2018. According to Baker Hughes, the U.S. land-based rig count at September 30, 2018 was 14% higher than at the end of 2017. We believe this increase is in response to the improved pricing of crude oil as the average price of crude oil for the nine months ended September 30, 2018 was approximately \$69.55 per barrel while the average price of crude oil for 2017 was approximately \$52.46 per barrel. We expect the average U.S. rig count and associated activities to remain at similar levels for the remainder of 2018, with completion activity levels showing modest growth. However, the U.S. completion growth rate appears to be moderating until certain logistical bottlenecks are addressed (e.g. for the industry to hire and train new frac crews, acquire and/or update pressure pumping equipment, and supply chain logistics and take-away restrictions are resolved in the Permian Basin). In addition, an emerging trend to larger pad drilling sites, increasing from six to eight wells up to 24 wells, will create an increase in drilled but uncompleted wells over the next several quarters. Combined, these issues could impact the rate of revenue growth opportunity for any company that is reliant on completions as a catalyst for growth.

We continue to focus on large-scale core analyses and reservoir fluid characterization studies in the Eagle Ford, the Permian Basin and the Gulf of Mexico, along with Guyana, Malaysia and other international locations such as offshore South America, and the Middle East, including Kuwait and the United Arab Emirates. We also focus on complex completions in unconventional tight-oil reservoirs, technological solutions and services for increasing daily productions and EURs.

Additionally, renewed investment at a global level is critical in order to meet future supply needs. Oil company recognition of the need for investment is evidenced by the approximately 25 - 30 final investment decision ("FIDs") estimated to be announced in 2018, with 22 already announced year-to-date. These FIDs would follow the more than 20 FIDs announced in 2017. However, the delays in the recovery of international field development activity are impacting and deferring revenue opportunities for the Company in 2018.

Results of Operations

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

	Three Months Ended September 30,		Change			
	2018	2017	\$	%		
REVENUE:						
Services	\$124,145	68 %	\$117,285	72 %	\$6,860	6 %
Product sales	58,001	32 %	45,602	28 %	12,399	27 %
Total revenue	182,146	100 %	162,887	100 %	19,259	12 %
OPERATING EXPENSES:						
Cost of services, exclusive of depreciation expense shown below*	88,435	71 %	83,715	71 %	4,720	6 %
Cost of product sales, exclusive of depreciation expense shown below*	39,744	69 %	34,646	76 %	5,098	15 %
Total cost of services and product sales	128,179	70 %	118,361	73 %	9,818	8 %
General and administrative expense	13,278	7 %	11,887	7 %	1,391	12 %
Depreciation and amortization	5,680	3 %	5,993	4 %	(313)	(5)%
Other (income) expense, net	130	— %	(23)	— %	153	NM
Operating income	34,879	19 %	26,669	16 %	8,210	31 %
Interest expense	3,278	2 %	2,707	2 %	571	21 %
Income before income tax expense	31,601	17 %	23,962	15 %	7,639	32 %
Income tax expense	9,404	5 %	3,595	2 %	5,809	162 %
Income from continuing operations	22,197	12 %	20,367	13 %	1,830	9 %
Income from discontinued operations, net of tax	208	— %	686	— %	(478)	(70)%
Net Income	22,405	12 %	21,053	13 %	1,352	6 %
Net income (loss) attributable to non-controlling interest	(7)	— %	(33)	— %	26	NM
Net income attributable to Core Laboratories N.V.	\$22,412	12 %	\$21,086	13 %	\$1,326	6 %

"NM" means not meaningful

* Percentage based on applicable revenue rather than total revenue.

	Three Months Ended				Change	
	September 30, 2018		June 30, 2018		\$	%
REVENUE:						
Services	\$124,145	68 %	\$122,094	70 %	\$2,051	2 %
Product sales	58,001	32 %	53,381	30 %	4,620	9 %
Total revenue	182,146	100%	175,475	100%	6,671	4 %
OPERATING EXPENSES:						
Cost of services, exclusive of depreciation expense shown below*	88,435	71 %	86,759	71 %	1,676	2 %
Cost of product sales, exclusive of depreciation expense shown below*	39,744	69 %	37,014	69 %	2,730	7 %
Total cost of services and product sales	128,179	70 %	123,773	71 %	4,406	4 %
General and administrative expense	13,278	7 %	12,202	7 %	1,076	9 %
Depreciation and amortization	5,680	3 %	5,868	3 %	(188)	(3)%
Other (income) expense, net	130	— %	183	— %	(53)	(29)%
Operating income	34,879	19 %	33,449	19 %	1,430	4 %
Interest expense	3,278	2 %	3,296	2 %	(18)	(1)%
Income before income tax expense	31,601	17 %	30,153	17 %	1,448	5 %
Income tax expense	9,404	5 %	5,020	3 %	4,384	87 %
Income from continuing operations	22,197	12 %	25,133	14 %	(2,936)	(12)%
Income (loss) from discontinued operations	208	— %	(328)	— %	536	NM
Net income	22,405	12 %	24,805	14 %	(2,400)	(10)%
Net income (loss) attributable to non-controlling interest	(7)	— %	53	— %	(60)	NM
Net income attributable to Core Laboratories N.V.	\$22,412	12 %	\$24,752	14 %	\$(2,340)	(9)%

"NM" means not meaningful

* Percentage based on applicable revenue rather than total revenue.

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

	Nine Months Ended September 30,		Change			
	2018	2017	\$	%		
REVENUE:						
Services	\$366,025	69 %	\$354,827	74 %	\$11,198	3 %
Product sales	161,614	31 %	122,881	26 %	38,733	32 %
Total revenue	527,639	100 %	477,708	100 %	49,931	10 %
OPERATING EXPENSES:						
Cost of services, exclusive of depreciation expense shown below*	258,482	71 %	247,357	70 %	11,125	4 %
Cost of product sales, exclusive of depreciation expense shown below*	112,788	70 %	97,659	79 %	15,129	15 %
Total cost of services and product sales	371,270	70 %	345,016	72 %	26,254	8 %
General and administrative expense	38,189	7 %	35,743	7 %	2,446	7 %
Depreciation and amortization	17,366	3 %	18,486	4 %	(1,120)	(6) %
Other (income) expense, net	170	— %	900	— %	(730)	(81) %
Operating income	100,644	19 %	77,563	16 %	23,081	30 %
Interest expense	9,694	2 %	8,017	2 %	1,677	21 %
Income before income tax expense	90,950	17 %	69,546	15 %	21,404	31 %
Income tax expense	19,697	4 %	10,233	2 %	9,464	92 %
Income from continuing operations	71,253	14 %	59,313	12 %	11,940	20 %
Income (loss) from discontinued operations	(466)	— %	2,131	— %	(2,597)	NM
Net income	70,787	13 %	61,444	13 %	9,343	15 %
Net income attributable to non-controlling interest	96	— %	10	— %	86	NM
Net income attributable to Core Laboratories N.V.	\$70,691	13 %	\$61,434	13 %	\$9,257	15 %

"NM" means not meaningful

* Percentage based on applicable revenue rather than total revenue.

Operating Results for the Three Months Ended September 30, 2018 Compared to the Three Months Ended September 30, 2017 and June 30, 2018 and for the Nine Months Ended September 30, 2018 Compared to the Nine Months Ended September 30, 2017

Services Revenue

Services revenue of \$124.1 million in the third quarter of 2018 increased 6% year-over-year from \$117.3 million, mainly driven by the increases in North America land-based activity levels compared to last year. Services revenue increased 2% sequentially to \$124.1 million for the third quarter of 2018 from \$122.1 million for the second quarter of 2018, which is also attributable to the improvement in North American land-based activity, while international activity has remained relatively flat. Services revenue increased 3% to \$366.0 million for the nine months ended September 30, 2018 from \$354.8 million for the nine months ended September 30, 2017, which is primarily attributable to increases in North America exploration and production activity levels in 2018 compared with 2017. International activity has remained effectively flat as most international development projects continue to be funded largely from operating budgets. We continue to focus on large-scale core analyses and reservoir fluids characterization studies in the Eagle Ford, the Permian Basin and the Gulf of Mexico, along with Guyana, Malaysia and other international locations such as offshore South America, and the Middle East, including Kuwait and the United Arab Emirates. Additionally, we have client interest in our existing multi-client reservoir studies such as the Tight Oil Reservoirs of the Midland Basin study and the Deepwater Gulf of Mexico - Phase II as well as several major enhanced oil recovery ("EOR") projects for unconventional reservoirs such as the newly initiated Unconventional EOR in the Eagle Ford Formation joint industry project and similar proprietary EOR projects for tight-oil developments in other basins. Core Lab has also received sufficient client support to initiate a new joint industry project Enhanced Oil

Recoveries of the Wolf Camp in the Permian Basin.

22

[Return to Index](#)

Product Sales Revenue

Revenue associated with product sales of \$58.0 million in the third quarter of 2018, increased 27% year-over-year from \$45.6 million in the third quarter of 2017 and increased 9% from \$53.4 million for the second quarter of 2018. Revenue associated with product sales increased 32% to \$161.6 million for the nine months ended September 30, 2018 from \$122.9 million for the nine months ended September 30, 2017. Our product sales revenue is primarily driven by completions of wells in the North American market and, more specifically, the activity associated with the completion of each stage in a wellbore. We continue to benefit from increasing completion activity in the U.S. and our clients' acceptance of new products which were led by our newly introduced technologies, including our HERO® PerFRAC perforating system.

Cost of Services, excluding depreciation

Cost of services expressed as a percentage of services revenue remained consistent at 71% for the three months ended September 30, 2018, September 30, 2017 and June 30, 2018. Cost of services expressed as a percentage of services revenue is primarily reflective of how our fixed cost structure is being absorbed by revenue. Cost of services expressed as a percentage of service revenue showed a slight increase to 71% for the nine months ended September 30, 2018, compared to 70% for the nine months ended September 30, 2017. Cost of services for the nine months ended September 30, 2018, included additional costs to expand operations in certain locations associated with deployment of new laboratory technology and infrastructure for upcoming international projects.

Cost of Product Sales, excluding depreciation

Cost of product sales expressed as a percentage of product sales revenue improved to 69% for the three months ended September 30, 2018, compared to 76% for the three months ended September 30, 2017 and consistent with the three months ended June 30, 2018. Cost of product sales expressed as a percentage of product sales revenue improved to 70% for the nine months ended September 30, 2018, compared to 79% for the nine months ended September 30, 2017. The improvement in cost of product sales as a percentage of product sales revenue was primarily due to the improved absorption rates of our fixed costs.

General and Administrative Expense

General and administrative ("G&A") expense includes corporate management and centralized administrative services that benefit our operations. G&A expense for the three months ended September 30, 2018 was \$13.3 million compared to \$11.9 million and \$12.2 million for the three months ended September 30, 2017 and June 30, 2018, respectively. G&A expense for the nine months ended September 30, 2018 was \$38.2 million, compared to \$35.7 million for the nine months ended September 30, 2017. The variances are primarily due to changes in compensation expense during those periods.

Depreciation and Amortization Expense

Depreciation and amortization expense for the three months ended September 30, 2018 was \$5.7 million compared to \$6.0 million and \$5.9 million for the three months ended September 30, 2017 and June 30, 2018, respectively. Depreciation and amortization expense for the nine months ended September 30, 2018 was \$17.4 million, compared to \$18.5 million for the nine months ended September 30, 2017. Reduced capital expenditures during 2016 and 2017 in response to the industry downturn has led to lower depreciation expense in the first nine months of 2018.

[Return to Index](#)

Other (Income) Expense, Net

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

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Sale of assets	\$(136)	\$(12)	\$(643)	\$(314)
Results of non-consolidated subsidiaries	(57)	(112)	(126)	(287)
Foreign exchange	1,135	139	2,221	707
Rents and royalties	(264)	(99)	(500)	(329)
Return on pension assets and other pension costs	(201)	(159)	(621)	(437)
Severance, compensation and other charges	—	—	—	1,145
Acquisition-related costs	623	—	623	—
Other, net	(970)	220	(784)	415
Total other (income) expense, net	\$130	\$(23)	\$170	\$900

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

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Angolan Kwanza	\$33	\$(2)	\$194	\$(6)
Australian Dollar	50	(13)	161	—
British Pound	89	(27)	65	(82)
Canadian Dollar	(113)	(119)	244	(82)
Euro	108	431	92	1,266
Indonesian Rupiah	206	54	384	29
Turkish Lira	172	(7)	300	—
Other currencies, net	590	(178)	781	(418)
Total loss, net	\$1,135	\$139	\$2,221	\$707

Interest Expense

Interest expense for the three months ended September 30, 2018 was \$3.3 million compared to \$2.7 million and \$3.3 million for the three months ended September 30, 2017 and June 30, 2018, respectively. Interest expense for the nine months ended September 30, 2018 was \$9.7 million, compared to \$8.0 million for the nine months ended September 30, 2017. The variances are primarily due to reclassification of the interest cost components of net periodic pension cost to interest expense in 2018.

Income Tax Expense

The effective tax rates for the three months ended September 30, 2018 was 29.8% compared to 15.0% and 16.6% for the three months ended to September 30, 2017 and June 30, 2018, respectively. Income tax expense was \$9.4 million in the third quarter of 2018 compared to \$3.6 million and \$5.0 million for the three months ended September 30, 2017 and June 30, 2018, respectively, due to the result of several items discrete to each quarter, along with changes in activity levels in jurisdictions with differing tax rates. Income tax expense was \$19.7 million for the nine months ended September 30, 2018, compared to \$10.2 million for the nine months ended September 30, 2017.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "Tax Act") was signed into law reducing the U.S. corporate income tax rate to 21%, effective January 1, 2018. The Tax Act included changes to tax laws which will have an impact on income tax related to our U.S. operations. The Internal Revenue Service ("IRS") has 18 months from the date of enactment to issue final regulations with regard to the Tax Act. Provisions within the new law have been included in our estimate of the annual effective tax rate used in determining income tax expense. We expect to refine the current year income tax estimate for the new tax law throughout the year as regulations are issued by the IRS. Among the items included within the Tax Act that

24

[Return to Index](#)

have the largest impact to Core Lab are the foreign derived intangible income deduction and 100% fixed asset expensing. We have analyzed other provisions of the Tax Act and determined there are no other material impacts to the current year income tax estimate.

Discontinued Operations

In the first quarter of 2018, in a continuing effort to streamline our business and align our business strategy for further integration of services and products, the Company committed to divest the business of our full range of permanent downhole monitoring systems and related services, which have been part of our Production Enhancement segment. We anticipate the sale of this business line will occur by the end of the first quarter of 2019.

See Note 6, Discontinued Operations for additional information.

Segment Analysis

We operate our business in two reportable segments. These complementary segments provide different services and products and utilize different technologies for improving reservoir performance and increasing oil and gas recovery from new and existing fields. The following tables summarize our results by segment (in thousands):

	Three Months Ended 2018/2017				Three Months Ended Q3 / Q2		
	September 30,		\$ Change	% Change	June 30,		% Change
	2018	2017			2018	\$ Change	
Revenue:							
Reservoir Description	\$ 103,609	\$ 101,442	\$ 2,167	2%	\$ 102,107	\$ 1,502	1%
Production Enhancement	78,537	61,445	17,092	28%	73,368	5,169	7%
Consolidated	\$ 182,146	\$ 162,887	\$ 19,259	12%	\$ 175,475	\$ 6,671	4%
Operating income (loss):							
Reservoir Description	\$ 14,956	\$ 14,621	\$ 335	2%	\$ 14,760	\$ 196	1%
Production Enhancement	19,243	12,165	7,078	58%	18,427	816	4%
Corporate and Other ¹	680	(117)	797	NM	262	418	160%
Consolidated	\$ 34,879	\$ 26,669	\$ 8,210	31%	\$ 33,449	\$ 1,430	4%

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

	Nine Months Ended September 30,			
	2018	2017	\$ Change	% Change
Revenue:				
Reservoir Description	\$ 306,525	\$ 310,650	\$ (4,125)	(1)%
Production Enhancement	221,114	167,058	54,056	32%
Consolidated	\$ 527,639	\$ 477,708	\$ 49,931	10%
Operating income (loss):				
Reservoir Description	\$ 44,473	\$ 49,231	\$ (4,758)	(10)%
Production Enhancement	55,357	28,633	26,724	93%
Corporate and Other ¹	814	(301)	1,115	NM
Consolidated	\$ 100,644	\$ 77,563	\$ 23,081	30%

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

"NM" means not meaningful

25

[Return to Index](#)

Reservoir Description

Revenue from the Reservoir Description segment of \$103.6 million for the third quarter of 2018 increased 2% from \$101.4 million in the third quarter of 2017, and increased 1% from \$102.1 million in the second quarter of 2018. Revenue from the Reservoir Description segment decreased 1% to \$306.5 million for the nine months ended September 30, 2018, compared to \$310.7 million for the nine months ended September 30, 2017. Although this segment improved in the latest quarter, the decrease in revenue year-over-year is primarily attributable to delays in the recovery of international field development activity primarily in the North Sea, Middle East and Asia-Pacific regions as well as various deepwater plays. During the third quarter of 2018, Core continued to provide their clients with on-site sample collection services and pressure-volume-temperature ("PVT") laboratory measurements that allowed clients to calculate the economic value of their reservoirs under primary production. Furthermore, these data form the criteria necessary to determine when secondary, and possibly tertiary, recovery techniques might best be applied to optimize the EUR from these reservoirs. New fluid phase behavior projects were initiated in the Eagle Ford, the Permian Basin and the Gulf of Mexico, along with Kuwait, Malaysia and other international locations. In addition to these PVT services, Core Lab performed customized reservoir condition EOR studies. These include the determination of minimum miscibility pressures, physical measurements of crude oil properties following gas injection and thermodynamic testing for reservoir simulation models. These test results allow Core's clients to calculate the economic viability of miscible enhanced recovery processes, which could extend reservoir life and improve incremental hydrocarbon production.

Operating income of \$15.0 million in the third quarter of 2018 increased 2% year-over-year compared to \$14.6 million in the third quarter of 2017 and a slight increase of 1% sequentially from \$14.8 million in the second quarter of 2018. The increase was primarily due to maintaining consistent operating margins on slightly higher revenue during the third quarter of 2018. Operating income was \$44.5 million for the nine months ended September 30, 2018, compared to \$49.2 million for the nine months ended September 30, 2017. This decrease was primarily due to lower international activity levels during the nine months of 2018 compared to the prior periods and increased costs associated with the deployment of new laboratory technology and infrastructure to service markets, such as new client-driven labs in Qatar and Indonesia which impacted third quarter operating margins.

Operating margins were over 14% in the third quarter of 2018, flat from the third quarter of 2017 and from the second quarter of 2018. Year-to-date operating margins were 15% for the nine months ended September 30, 2018, compared to 16% for the nine months ended September 30, 2017.

Production Enhancement

Revenue from the Production Enhancement segment, largely focused on North American unconventional tight-oil reservoirs and complex completions and stimulations, was \$78.5 million in the third quarter of 2018, an increase of 28% year-over-year from \$61.4 million in the third quarter of 2017 and an increase of 7% sequentially from \$73.4 million in the second quarter of 2018. Revenue from the Production Enhancement segment increased 32% to \$221.1 million for the nine months ended September 30, 2018, compared to \$167.1 million for the nine months ended September 30, 2017. Our clients continue to seek technological solutions for increasing daily production and estimated ultimate recoveries from their reservoirs. We continue to benefit from the increasing completion activity in the U.S. and our clients' acceptance of new services and products which were led by the FLOWPROFILER EDSTM and HERO[®] PerFRAC technologies.

Operating income in the third quarter of 2018 was \$19.2 million, an increase from \$12.2 million, or 58%, in the third quarter of 2017 and an increase from \$18.4 million, or 4%, in the second quarter of 2018. Operating income for the nine months ended September 30, 2018 increased 93% to \$55.4 million, compared to \$28.6 million for the nine months ended September 30, 2017. The increased profitability is due to increased demand for our higher margin

services and products and impact of higher revenue on our fixed-cost structure.

Operating margins were 25% in the third quarter of 2018, up from 20% in the third quarter of 2017 as we benefited from increased activity, increased demand for higher margin services and products and realized improved absorption rates of our fixed costs across higher revenues and level with the second quarter of 2018. Year-to-date operating margins were 25% for the nine months ended September 30, 2018, compared to 17% for the nine months ended September 30, 2017.

26

[Return to Index](#)

Liquidity and Capital Resources

General

We have historically financed our activities through cash on hand, cash flows from operations, bank credit facilities, equity financing and the issuance of debt. Cash flows from operating activities provides the primary source of funds to finance operating needs, capital expenditures, our dividend and share repurchase program. As we are a Netherlands holding company, we conduct substantially all of our operations through subsidiaries. Our cash availability is largely dependent upon the ability of our subsidiaries to pay cash dividends or otherwise distribute or advance funds to us. There are no restrictions preventing any of our subsidiaries from repatriating earnings, and there are no restrictions or income taxes associated with distributing cash to the parent company through loans or advances. As of September 30, 2018, \$10.1 million of our \$14.1 million of cash was held by our foreign subsidiaries.

Cash Flows

The following table summarizes cash flows (in thousands):

	Nine Months Ended September 30,		2018 / 2017
	2018	2017	% Change
Cash flows provided by/(used in):			
Operating activities	\$73,926	\$78,355	(6)%
Investing activities	(64,865)	(15,254)	325 %
Financing activities	(9,361)	(64,085)	(85)%
Net change in cash and cash equivalents	\$(300)	\$(984)	(70)%

Cash flows provided by operating activities for the first nine months of 2018 compared to the same period in 2017 decreased primarily due to changes in working capital, offset by increased net income.

The increase in cash flows used in investing activities during the first nine months of 2018 compared to the same period in 2017 was primarily attributable to the funding of business acquisitions in the third quarter of 2018.

Cash flows used in financing activities decreased for the first nine months of 2018 compared to the same period in 2017. During the first nine months of 2018, we increased our debt by \$70 million, as compared to increasing it by \$17 million during the first nine months of 2017. In the first nine months of 2018, we repurchased 42,994 shares of our common stock for an aggregate purchase price of \$4.8 million compared to the repurchase of 77,832 shares for an aggregate purchase price of \$8.2 million during the same period in 2017. During the first nine months of 2018, we used \$73 million to pay dividends, which is consistent with the amount paid for the same period in 2017.

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 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 (in thousands):

	Nine Months Ended September 30,		2018 / 2017	% Change
	2018	2017		
Free cash flow calculation:				
Net cash provided by operating activities	\$73,926	\$78,355	(6)%	
Less: cash paid for capital expenditures	(16,063)	(14,264)	13 %	
Free cash flow	\$57,863	\$64,091	(10)%	

27

[Return to Index](#)

The decrease in free cash flow for the first nine months of 2018 compared to the same period in 2017 was primarily due to increased net income offset by changes in working capital.

Notes, Credit Facilities and Available Future Liquidity

We have two series of senior notes outstanding with an aggregate principal amount of \$150 million ("Senior Notes") issued 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.

On June 19, 2018, we entered into an agreement to amend our revolving credit facility ("Credit Facility"). To appropriately size the facility, the aggregate borrowing commitment has been reduced from \$400 million to \$300 million. The Credit Facility provides an option to increase the commitment under the Credit Facility by an additional \$100 million to bring the total borrowings available to \$400 million if certain prescribed conditions are met by the Company. The Credit Facility bears interest at variable rates from LIBOR plus 1.375% to a maximum of LIBOR plus 2.00%. Any outstanding balance under the Credit Facility is due June 19, 2023, when the Credit Facility matures. Our available capacity at any point in time is reduced by borrowings outstanding at the time and outstanding letters of credit which totaled \$16.5 million at September 30, 2018, resulting in an available borrowing capacity under the Credit Facility of \$135.5 million. In addition to those items under the Credit Facility, we had \$13.9 million of outstanding letters of credit and performance guarantees and bonds from other sources as of September 30, 2018.

The terms of the Credit Facility, which remained substantially the same, and Senior Notes require us to meet certain covenants, including, but not limited to, an interest coverage ratio (consolidated EBITDA divided by interest expense) and a leverage ratio (consolidated net indebtedness divided by consolidated EBITDA), where consolidated EBITDA (as defined in each agreement) and interest expense are calculated using the most recent four fiscal quarters. The Credit Facility has the more restrictive covenants with a minimum interest coverage ratio of 3.0 to 1.0 and a maximum leverage ratio of 2.5 to 1.0. 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.

In 2014, we entered into two interest rate swap agreements for a total notional amount of \$50 million. See Note 14 - Derivative Instruments and Hedging Activities.

Our ability to maintain and grow our operating income and cash flow depends, to a large extent, on continued investing activities. We believe our future cash flows from operations, supplemented by our borrowing capacity and the ability to issue additional equity, should be sufficient to fund our debt requirements, capital expenditures, working capital, dividend payments and future acquisitions.

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 2017 Annual Report.

Item 4. Controls and Procedures

A complete discussion of our controls and procedures is included in our 2017 Annual Report.

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

28

[Return to Index](#)

have concluded that our disclosure controls and procedures were effective as of September 30, 2018 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 the fiscal quarter ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

29

[Return to Index](#)

CORE LABORATORIES N.V.
PART II - OTHER INFORMATION

Item 1. Legal Proceedings

See Note 9 to our Consolidated Interim Financial Statements in Part I, Item 1 of this Quarterly Report.

Item 1A. Risk Factors

Our business faces many risks. Any of the risks discussed in this Quarterly Report or our other SEC filings could have a material impact on our business, financial position or results of operations. Additional risks and uncertainties not presently known to us or that we currently believe to be immaterial may also impair our business operations. For a detailed discussion of the risk factors that should be understood by any investor contemplating investment in our securities, please refer to "Item 1A - Risk Factors" in our 2017 Annual Report.

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

Unregistered Sales of Equity Securities

None.

Issuer Repurchases of Equity Securities

The following table provides information about purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act:

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 (2)(3)
July 1 - 31, 2018 (1)	3,782	\$126.21	—	3,896,213
August 1 - 31, 2018 (1)	216	111.91	—	3,896,803
September 1 - 30, 2018 (1)	2,738	114.55	—	3,904,100
Total	6,736	\$121.01	—	

(1) During the quarter 6,736 shares were surrendered to us by participants in a stock-based compensation plan to settle any personal tax liabilities which may result from the award.

(2) 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. The repurchase of shares in the open market is at the discretion of management pursuant to this shareholder authorization.

(3) We distributed 23,931 treasury shares upon vesting of stock-based awards during the three months ended September 30, 2018.

Item 6. Exhibits

Exhibit No.	Exhibit Title	Incorporated by reference from the following documents
31.1	<u>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</u>	Filed herewith
31.2	<u>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</u>	Filed herewith
32.1	<u>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</u>	Furnished herewith
32.2	<u>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</u>	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

31

[Return to Index](#)

SIGNATURE

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

CORE LABORATORIES N.V.

Date: October 25, 2018 By: /s/ Christopher S. Hill
Christopher S. Hill
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)