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
(State or other jurisdiction of	(I.R.S. Employer Identification No.)

incorporation or
organization)
Strawinskylaan
913
Tower A, Level 9
1077 XX
Amsterdam
The Netherlands Not Applicable
(Address of principal executive offices) (Zip Code)

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

None
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes Q 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 Q 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 Q	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o	Emerging growth company o

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. o

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

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

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PART I - FINANCIAL INFORMATION

PART II - OTHER INFORMATION

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 (Unaudited)	December 31, 2017
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

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.

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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.

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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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	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.

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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.

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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.

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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 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, 2018	December 31, 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.

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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, 2018	September 30, 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, 2018	September 30, 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	December 31, 2017
Current assets	$3,262	$ 2,549
Non-current assets	1,847	1,048

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

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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, 2018	December 31, 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.

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

	Three Months Ended		Nine Months Ended	
	September 30,		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.

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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,		Nine Months Ended September 30,	
	2018	2017	2018	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):

(Gains) losses by currency	Three Months Ended September 30, 2018	2017	Nine Months Ended September 30, 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.

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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		
	September 30, 2018	December 31, 2017	Balance Sheet Classification
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,		Nine Months Ended September 30,		
	2018	2017	2018	2017	Income Statement Classification
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	

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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	$—	$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	$ —
	$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	$—	$46,145	$ —
5 year interest rate swap	70	—	70	—
	$46,215	$—	$46,215	$ —
Liabilities:				
Deferred compensation plan	$37,280	$—	$37,280	$ —
10 year interest rate swap	492	—	492	—
	$37,772	$—	$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.

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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			