

CORE LABORATORIES N V  
Form 10-Q  
October 26, 2007

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2007

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-14273

CORE LABORATORIES N.V.

(Exact name of registrant as specified in its charter)

The Netherlands  
(State of other jurisdiction of  
incorporation or organization)

Not Applicable  
(I.R.S. Employer Identification No.)

Herengracht 424  
1017 BZ Amsterdam  
The Netherlands  
(Address of principal executive offices)

Not Applicable  
(Zip Code)

(31-20) 420-3191

(Registrant's telephone number, including area code)

None

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

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

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

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Large accelerated filer [ X ] Accelerated filer [ ] Non-accelerated filer [ ]

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

The number of common shares of the Registrant, par value EUR 0.04 per share, outstanding at October 25, 2007 was 23,346,996.

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CORE LABORATORIES N.V.  
FORM 10-Q FOR THE QUARTER ENDED SEPTEMBER 30, 2007

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## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

## CORE LABORATORIES N.V.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share data)

|   | September<br>30,<br>2007<br>(Unaudited) | December<br>31,<br>2006 |
|---|---|-------------------------|
| ASSETS  |   |                         |
| CURRENT ASSETS:   |   |                         |
| Cash and cash equivalents   | \$ 42,168                               | \$ 54,223               |
| Accounts receivable, net of allowance for doubtful accounts of \$3,975 and \$4,340 at 2007 and 2006, respectively | 138,882                                 | 112,055                 |
| Inventories, net  | 30,273                                  | 30,199                  |
| Prepaid expenses and other current assets   | 34,268                                  | 29,075                  |
| <b>TOTAL CURRENT ASSETS</b>   | <b>245,591</b>                          | <b>225,552</b>          |
| PROPERTY, PLANT AND EQUIPMENT, net  | 88,863                                  | 87,734                  |
| INTANGIBLES, net  | 7,221                                   | 6,602                   |
| GOODWILL  | 136,415                                 | 132,618                 |
| DEFERRED TAX ASSETS   | 40,002                                  | 33,032                  |
| OTHER ASSETS  | 16,254                                  | 15,677                  |
| <b>TOTAL ASSETS</b>   | <b>\$ 534,346</b>                       | <b>\$ 501,215</b>       |
| LIABILITIES AND SHAREHOLDERS' EQUITY  |   |                         |
| CURRENT LIABILITIES:  |   |                         |
| Current maturities of long-term debt and capital lease obligations  | \$ 5                                    | \$ 2,762                |
| Accounts payable  | 45,598                                  | 37,460                  |
| Accrued payroll and related costs   | 27,448                                  | 24,707                  |
| Taxes other than payroll and income   | 8,238                                   | 8,714                   |

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|   |                   |                   |
|---|-------------------|-------------------|
| Unearned revenues   | 6,569             | 6,853             |
| Income taxes payable  | 3,673             | -                 |
| Other accrued expenses  | 23,426            | 8,424             |
| <b>TOTAL CURRENT LIABILITIES</b>  | <b>114,957</b>    | <b>88,920</b>     |
| LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS  | 300,001           | 300,002           |
| DEFERRED COMPENSATION   | 13,822            | 10,413            |
| OTHER LONG-TERM LIABILITIES   | 35,507            | 28,598            |
| COMMITMENTS AND CONTINGENCIES   | -                 | -                 |
| MINORITY INTEREST   | 1,599             | 1,446             |
| SHAREHOLDERS' EQUITY:   |                   |                   |
| Preference shares, EUR 0.04 par value;  |                   |                   |
| 3,000,000 shares authorized, none issued or<br>outstanding  | -                 | -                 |
| Common shares, EUR 0.04 par value;  |                   |                   |
| 100,000,000 shares authorized, 24,109,006<br>issued and 23,452,635 outstanding at 2007<br>and 25,608,511 issued and 23,225,121<br>outstanding at 2006 | 1,360             | 1,450             |
| Additional paid-in capital  | 21,324            | 23,182            |
| Retained earnings   | 116,848           | 224,110           |
| Accumulated other comprehensive income  | (2,018)           | (2,072)           |
| Treasury shares (at cost), 656,371 at 2007 and 2,383,390 at 2006  | (69,054)          | (174,834)         |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>   | <b>68,460</b>     | <b>71,836</b>     |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>   | <b>\$ 534,346</b> | <b>\$ 501,215</b> |

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,      |            |
|                     |    | 2007               | 2006       |
|                     |    | (Unaudited)        |            |
| REVENUES:           |    |                    |            |
| Services            | \$ | 131,060            | \$ 109,950 |
| Product Sales       |    | 39,005             | 35,576     |
|                     |    | 170,065            | 145,526    |
| OPERATING EXPENSES: |    |                    |            |

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|   |                  |                  |
|---|------------------|------------------|
| Cost of services                        | 84,863           | 74,240           |
| Cost of sales                           | 27,684           | 26,282           |
| General and administrative expenses     | 7,039            | 6,250            |
| Depreciation                            | 4,806            | 4,423            |
| Amortization                            | 229              | 94               |
| Other expense (income), net             | (514)            | 447              |
| <b>OPERATING INCOME</b>                 | <b>45,958</b>    | <b>33,790</b>    |
| Interest expense                        | 614              | 1,930            |
| <b>Income before income tax expense</b> | <b>45,344</b>    | <b>31,860</b>    |
| Income tax expense                      | 13,830           | 9,476            |
| <b>NET INCOME</b>                       | <b>\$ 31,514</b> | <b>\$ 22,384</b> |

EARNINGS PER SHARE INFORMATION:

|                                   |                |                |
|-----------------------------------|----------------|----------------|
| <b>Basic earnings per share</b>   | <b>\$ 1.34</b> | <b>\$ 0.88</b> |
| <b>Diluted earnings per share</b> | <b>\$ 1.29</b> | <b>\$ 0.83</b> |

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:

|         |        |        |
|---------|--------|--------|
| Basic   | 23,556 | 25,304 |
| Diluted | 24,377 | 26,951 |

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,     |            |
|                            |  | 2007              | 2006       |
|                            |  | (Unaudited)       |            |
| <b>REVENUES:</b>           |  |                   |            |
| Services                   |  | \$ 374,212        | \$ 315,423 |
| Product Sales              |  | 119,969           | 107,455    |
|                            |  | 494,181           | 422,878    |
| <b>OPERATING EXPENSES:</b> |  |                   |            |
| Cost of services           |  | 249,140           | 221,768    |

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|   |                  |                  |
|---|------------------|------------------|
| Cost of sales                           | 84,005           | 79,097           |
| General and administrative expenses     | 24,798           | 25,458           |
| Depreciation                            | 14,094           | 12,473           |
| Amortization                            | 416              | 256              |
| Other income, net                       | (2,850)          | (2,969)          |
| <b>OPERATING INCOME</b>                 | <b>124,578</b>   | <b>86,795</b>    |
| Interest expense                        | 1,881            | 4,785            |
| <b>Income before income tax expense</b> | <b>122,697</b>   | <b>82,010</b>    |
| Income tax expense                      | 37,118           | 24,521           |
| <b>NET INCOME</b>                       | <b>\$ 85,579</b> | <b>\$ 57,489</b> |

EARNINGS PER SHARE INFORMATION:

|                                   |                |                |
|-----------------------------------|----------------|----------------|
| <b>Basic earnings per share</b>   | <b>\$ 3.62</b> | <b>\$ 2.25</b> |
| <b>Diluted earnings per share</b> | <b>\$ 3.51</b> | <b>\$ 2.11</b> |

WEIGHTED AVERAGE COMMON SHARES OUTSTANDING:

|         |        |        |
|---------|--------|--------|
| Basic   | 23,642 | 25,551 |
| Diluted | 24,371 | 27,304 |

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,<br>2007 | 2006      |
|   | (Unaudited)           |           |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>                                  |                       |           |
| Net income  | \$ 85,579             | \$ 57,489 |
| Adjustments to reconcile income to net cash provided by operating activities: |                       |           |
| Net provision for (recoveries of) doubtful accounts                           | 15                    | 577       |
| Inventory obsolescence  | 121                   | 1,553     |
| Equity in loss of affiliates  | 222                   | 53        |

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|   |                 |                  |
|---|-----------------|------------------|
| Minority interest   | 153             | 151              |
| Stock-based compensation  | 3,499           | 3,611            |
| Depreciation and amortization                                     | 14,510          | 12,729           |
| Debt issuance costs amortization                                  | 1,352           | 86               |
| Gain on sale of assets  | (249)           | (782)            |
| Realization of pension obligation                                 | 54              | -                |
| Gain on insurance recovery  | -               | (492)            |
| Increase in value of life insurance policies                      | (852)           | (132)            |
| Deferred income taxes   | (7,106)         | (5,792)          |
| Changes in assets and liabilities, net of effect of dispositions: |                 |                  |
| Accounts receivable   | (26,316)        | (13,765)         |
| Inventories   | 246             | (5,770)          |
| Prepaid expenses and other current assets                         | (5,378)         | (584)            |
| Other assets  | 96              | (42)             |
| Accounts payable  | 7,910           | (1,237)          |
| Accrued expenses  | 6,982           | 21,514           |
| Other long-term liabilities                                       | 6,977           | 10,911           |
| <b>Net cash provided by operating activities</b>                  | <b>87,815</b>   | <b>80,078</b>    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>                      |                 |                  |
| Capital expenditures  | (15,285)        | (16,347)         |
| Patents and other intangibles                                     | (252)           | (103)            |
| Acquisition, net of cash acquired                                 | (5,012)         | -                |
| Deposit on sale of asset  | 13,475          | -                |
| Proceeds from sale of assets                                      | 488             | 2,222            |
| Premiums on life insurance  | (1,199)         | (753)            |
| <b>Net cash used in investing activities</b>                      | <b>(7,785)</b>  | <b>(14,981)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>                      |                 |                  |
| Repayment of debt   | (2,754)         | (23,439)         |
| Proceeds from debt borrowings                                     | -               | 42,000           |
| Capital lease obligations   | (4)             | (24)             |
| Stock options exercised   | 18,184          | 13,859           |
| Tax benefits from stock-based compensation                        | 20,328          | 5,671            |
| Debt issuance costs   | (162)           | -                |
| Repurchase of common shares                                       | (127,677)       | (104,451)        |
| <b>Net cash used in financing activities</b>                      | <b>(92,085)</b> | <b>(66,384)</b>  |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>                    | <b>(12,055)</b> | <b>(1,287)</b>   |
| <b>CASH AND CASH EQUIVALENTS, beginning of period</b>             | <b>54,223</b>   | <b>13,743</b>    |
|   | <b>\$</b>       |                  |
| <b>CASH AND CASH EQUIVALENTS, end of period</b>                   | <b>42,168</b>   | <b>\$ 12,456</b> |
| Non-cash investing and financing activities:                      |                 |                  |
|   | \$              |                  |
| Change in par value of common stock                               | -               | \$ 977           |
|   | \$              |                  |
| Financial capital expenditures                                    | -               | \$ 2,350         |

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 GAAP for complete financial statements.

Core Laboratories N.V. uses the equity method of accounting for all investments in which it has less than a majority interest and over which it does not exercise control. Minority interest has been recorded to reflect outside ownership attributable to consolidated subsidiaries that are less than 100% owned. In the opinion of management, all adjustments considered necessary for a fair presentation have been included in these financial statements. Furthermore, the operating results presented for the three and nine month periods ended September 30, 2007 may not necessarily be indicative of the results that may be expected for the year ending December 31, 2007.

Core Laboratories N.V.'s balance sheet information for the year ended December 31, 2006 was derived from the 2006 audited consolidated financial statements but does not include all disclosures in accordance with GAAP.

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

These financial statements should be read in conjunction with the financial statements and the summary of significant accounting policies and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2006.

## 2. INVENTORIES, NET

Inventories consist of the following (in thousands):

|                               | September 30,<br>2007<br>(Unaudited) | December 31,<br>2006 |
|-------------------------------|--------------------------------------|----------------------|
| Finished goods                | \$ 21,387                            | \$ 22,930            |
| Parts and materials           | 7,655                                | 6,031                |
| Work in progress              | 1,231                                | 1,238                |
| <b>Total inventories, net</b> | <b>\$ 30,273</b>                     | <b>\$ 30,199</b>     |

We include freight costs incurred for shipping inventory to customers in the Cost of Sales line of the Consolidated Statement of Operations.



### 3. GOODWILL AND INTANGIBLES

We account for intangible assets with indefinite lives, including goodwill, in accordance with Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", which requires us to evaluate these assets for impairment annually, or more frequently if an indication of impairment has occurred. Based upon our most recent evaluation, management determined that goodwill was not impaired. We amortize intangible assets with a defined term on a straight-line basis over their respective useful lives.

In September 2007, we acquired all of the outstanding common shares of Temco, Inc., a Tulsa-based core analysis and reservoir fluids instrument manufacturing business, for \$5.5 million dollars. The acquisition resulted in goodwill of \$3.8 million and intangibles of \$0.8 million which was recorded in the Reservoir Description business segment. There were no other significant changes relating to our intangible assets for the nine months ended September 30, 2007. The remaining composition of goodwill by business segment at September 30, 2007 is consistent with the amounts disclosed in our Annual Report on Form 10-K as of December 31, 2006.

### 4. DEBT AND CAPITAL LEASE OBLIGATIONS

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

|   | September 30,<br>2007<br>(Unaudited) | December 31,<br>2006 |
|---|--------------------------------------|----------------------|
| Senior exchangeable notes   | \$ 300,000                           | \$ 300,000           |
| Capital lease obligations   | 6                                    | 10                   |
| Other indebtedness  | -                                    | 2,754                |
| <b>Total debt and capital leases obligations</b>                          | <b>300,006</b>                       | <b>302,764</b>       |
| Less - short-term debt included in other indebtedness                     | -                                    | 2,654                |
| Less - current maturities of long-term debt and capital lease obligations | 5                                    | 108                  |
| <b>Long-term debt and capital lease obligations</b>                       | <b>\$ 300,001</b>                    | <b>\$ 300,002</b>    |

In November 2006, Core Laboratories LP, a wholly owned subsidiary of Core Laboratories N.V., issued \$300 million aggregate principal amount of Senior Exchangeable Notes due 2011 (the "Notes") to qualified institutional buyers. The Notes bear interest at a rate of 0.25% per year and are fully and unconditionally guaranteed by Core Laboratories N.V. The Notes are exchangeable into shares of Core Laboratories N.V. under certain circumstances at an initial conversion rate of 10.5533 per \$1,000 principal amount of notes. Upon exchange, holders will receive cash up to the principal amount, and any excess exchange value will be delivered in Core Laboratories N.V. common shares. On December 22, 2006 we filed a registration statement on Form S-3, which became effective pursuant to the Securities Act of 1933, as amended; to register the resale of the Notes and shares received in exchange for the Notes.

We maintain a revolving credit facility (the "Credit Facility") that allows for an aggregate borrowing capacity of \$100.0 million. As amended, this facility provides an option to increase the commitment under the Credit Facility to \$150.0 million, if certain conditions are met. The Credit Facility bears interest at variable rates from LIBOR plus 0.5% to a maximum of LIBOR plus 1.125%. Any outstanding balance under the Credit Facility is due in December 2010 when the Credit Facility matures and only requires bi-annual interest payments until maturity. Interest payment dates are based on the interest period selected. Our available capacity is reduced by outstanding unsecured letters of credit and performance guarantees and bonds totaling \$8.7 million at September 30, 2007 relating to certain projects in progress. Our available borrowing capacity under the Credit Facility at September 30, 2007 was \$91.3 million.

## 5. PENSIONS AND OTHER POST-RETIREMENT BENEFITS

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

The following table summarizes the components of the net periodic pension cost under this plan for the three and nine month periods ended September 30, 2007 and 2006 (in thousands):

|                                      | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |                 |
|--------------------------------------|-------------------------------------|---------------|------------------------------------|-----------------|
|                                      | 2007                                | 2006          | 2007                               | 2006            |
|                                      | (Unaudited)                         |               | (Unaudited)                        |                 |
| Service cost                         | \$ 306                              | \$ 295        | \$ 895                             | \$ 905          |
| Interest cost                        | 281                                 | 221           | 821                                | 678             |
| Expected return on plan assets       | (256)                               | (214)         | (749)                              | (657)           |
| Unrecognized pension obligation, net | 18                                  | 34            | 54                                 | 105             |
| <b>Net periodic pension cost</b>     | <b>\$ 349</b>                       | <b>\$ 336</b> | <b>\$ 1,021</b>                    | <b>\$ 1,031</b> |

## 6. COMMITMENTS AND CONTINGENCIES

### Legal Proceedings

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

## 7. SHAREHOLDERS' EQUITY

During the three months ended September 30, 2007, we repurchased 485,571 of our common shares for \$52.3 million, at an average price of \$107.65 per share.

During the nine months ended September 30, 2007, we repurchased 1,400,021 of our common shares for \$127.7 million, at an average price of \$91.20 per share which included rights to 602,148 shares valued at \$48.4 million, or \$80.30 per share, that were surrendered to the Company pursuant to the terms of a stock-based compensation plan, in consideration of the exercise price of their stock options and their personal tax burdens that may result from the issuance of common shares under this plan.

For the three and nine months ended September 30, 2007, we issued 76,277 and 1,405,885 of our common shares associated with stock option exercises for which we received proceeds of approximately \$1.0 million and \$18.2

million.

At our Annual Shareholders' Meeting on April 2, 2007 (the "Meeting"), our shareholders approved the cancellation of 3,127,040 treasury shares we had repurchased or otherwise acquired prior to the date of the Meeting. These 3,127,040 treasury shares were cancelled in April 2007 at historical cost, totaling \$233.5 million, or \$74.73 per share, resulting in a decrease in treasury shares and a corresponding decrease in additional paid-in-capital, retained earnings and common shares. Our shareholders also approved the extension of the authority of our Management Board to repurchase up to 10% of the Company's outstanding share capital up through October 2, 2008.

#### Comprehensive Income

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

|                                   | Three months ended<br>September 30, 2007<br>(Unaudited) | Nine months ended<br>September 30, 2007<br>(Unaudited) |
|-----------------------------------|---|--|
| Net income                        | \$ 31,514   | \$ 85,579  |
| Realization of pension obligation | 18  | 54   |
| <b>Total comprehensive income</b> | <b>\$ 31,532</b>  | <b>\$ 85,633</b>                                       |

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

|  | September 30,<br>2007<br>(Unaudited) | December 31,<br>2006 |
|--|--------------------------------------|----------------------|
| Pension obligation - prior service cost              | \$ 1,273                             | \$ 1,327             |
| Pension obligation - unrecognized net actuarial loss | 745                                  | 745                  |
| <b>Total accumulated other comprehensive income</b>  | <b>\$ 2,018</b>                      | <b>\$ 2,072</b>      |

#### 8. EARNINGS PER SHARE

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

|   | Three Months Ended<br>September 30,<br>2007                      2006<br>(Unaudited) |        | Nine Months Ended<br>September 30,<br>2007                      2006<br>(Unaudited) |        |
|---|--|--------|---|--------|
| Weighted average basic common shares<br>outstanding | 23,556   | 25,304 | 23,642  | 25,551 |

|  |               |               |               |               |
|--|---------------|---------------|---------------|---------------|
| Effect of dilutive securities:   |               |               |               |               |
| Stock options  | 207           | 1,421         | 381           | 1,498         |
| Contingent shares  | 88            | 159           | 98            | 146           |
| Restricted stock and other   | 108           | 67            | 109           | 109           |
| Senior exchangeable notes  | 418           | -             | 141           | -             |
| <b>Weighted average diluted common and potential common shares outstanding</b> | <b>24,377</b> | <b>26,951</b> | <b>24,371</b> | <b>27,304</b> |

In 2006, we sold warrants that give the holders the right to acquire approximately 3.2 million of our common shares at a strike price of \$127.56 per share. These warrants could have a dilutive impact on our earnings per share if the share price exceeds the strike price of the warrants.

## 9. OTHER EXPENSE (INCOME)

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

|  | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |                   |
|--|-------------------------------------|---------------|------------------------------------|-------------------|
|  | 2007<br>(Unaudited)                 | 2006          | 2007<br>(Unaudited)                | 2006              |
| Minority interest                        | \$ 122                              | \$ 77         | \$ 153                             | \$ 151            |
| Gain on sale of assets                   | (30)                                | (76)          | (249)                              | (782)             |
| Foreign exchange loss (gain)             | (352)                               | 430           | (827)                              | (1,032)           |
| Interest income                          | (136)                               | (54)          | (1,047)                            | (161)             |
| Gain on insurance recovery               | -                                   | -             | -                                  | (492)             |
| Other                                    | (118)                               | 70            | (880)                              | (653)             |
| <b>Total other expense (income), net</b> | <b>\$ (514)</b>                     | <b>\$ 447</b> | <b>\$ (2,850)</b>                  | <b>\$ (2,969)</b> |

In 2005, a building at our manufacturing plant in Godley, Texas, was damaged by fire, resulting in the loss of the building, some inventory, as well as other business equipment and supplies. We filed a claim for business interruption costs and the final settlement was reached in the first quarter of 2006, which resulted in a gain of \$0.5 million.

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

|                          | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |                   |
|--------------------------|-------------------------------------|---------------|------------------------------------|-------------------|
|                          | 2007<br>(Unaudited)                 | 2006          | 2007<br>(Unaudited)                | 2006              |
| Canadian Dollar          | \$ (199)                            | \$ 44         | \$ (443)                           | \$ (336)          |
| Euro                     | (198)                               | (16)          | (282)                              | (270)             |
| Russian Ruble            | (152)                               | 172           | (223)                              | (290)             |
| Other currencies         | 197                                 | 230           | 121                                | (136)             |
| <b>Total loss (gain)</b> | <b>\$ (352)</b>                     | <b>\$ 430</b> | <b>\$ (827)</b>                    | <b>\$ (1,032)</b> |

## 10. INCOME TAXES

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We file an income tax return in the U.S. federal jurisdiction, various states and foreign jurisdictions. We are currently undergoing multiple examinations in various jurisdictions, and the years 1998 through 2006 remain open for examination in various tax jurisdictions in which we operate.

We adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109, Accounting for Income Taxes ("FIN 48"), on January 1, 2007. FIN 48 clarifies the accounting for uncertainty in income taxes recognized in financial statements and requires the impact of a tax position to be recognized in the financial statements if that position is more likely than not of being sustained by the taxing authority. As a result of the implementation of FIN 48, we recognized approximately a \$3.3 million increase in the liability for unrecognized tax benefits, which was accounted for as a reduction to the January 1, 2007 balance of retained earnings. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows (in thousands):

|  | 2007<br>(Unaudited) |
|--|---------------------|
| Unrecognized tax benefits at January 1,    | \$ 13,064           |
| Tax positions, current period              | 286                 |
| Tax positions, prior period                | 1,442               |
| Settlements with taxing authorities        | (53)                |
| Lapse of applicable statute of limitations | -                   |
| Unrecognized tax benefits at September 30, | \$ 14,739           |

The total amount of unrecognized tax benefits at September 30, 2007, if recognized, would affect our effective tax rate.

Our policy is to record accrued interest and penalties on uncertain tax positions, net of any tax effect, as part of total tax expense for the period. The corresponding liability is carried along with the tax exposure as a non-current payable in "other long-term liabilities". We had approximately \$3.2 million accrued for the payment of interest and penalties as of January 1, 2007. We expect the requirements of FIN 48 will add volatility to our effective tax rate, and therefore our expected income tax expense, in future periods.

During the three and nine month period ended September 30, 2007, we recognized tax benefits of \$10.2 million and \$20.3 million, respectively, relating to tax deductions in excess of book expense for stock-based compensation awards. These tax benefits are recorded to additional paid-in capital to the extent deductions reduce current taxable income.

### 11. SEGMENT REPORTING

Our business units have been aggregated into three complementary segments, which provide products and services for improving reservoir performance and increasing oil and gas recovery from new and existing fields.

\* Reservoir Description:

Encompasses the characterization of petroleum reservoir rock, fluid and gas samples. We provide analytical and field services to characterize properties of crude oil and petroleum products to the oil and gas industry.

## \* Production Enhancement:

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

## \* Reservoir Management:

Combines and integrates information from reservoir description and production enhancement services to increase production and improve recovery of oil and gas from our clients' reservoirs.

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Segment Analysis

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

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

| (Unaudited)<br>Three Months Ended September<br>30, 2007 | Reservoir<br>Description | Production<br>Enhancement | Reservoir<br>Management | Corporate &<br>Other <sup>1</sup> | Consolidated |
|---|--------------------------|---------------------------|-------------------------|-----------------------------------|--------------|
| Revenues from unaffiliated customers                    | \$ 97,476                | \$ 61,998                 | \$ 10,591               | \$ -                              | \$ 170,065   |
| Inter-segment revenues                                  | 233                      | 252                       | 318                     | (803)                             | -            |
| Segment operating income                                | 26,108                   | 17,426                    | 2,357                   | 67                                | 45,958       |
| Total assets  | 251,170                  | 161,972                   | 19,446                  | 101,758                           | 534,346      |
| Capital expenditures                                    | 4,252                    | 1,809                     | 181                     | 491                               | 6,733        |
| Depreciation and amortization                           | 2,645                    | 1,288                     | 121                     | 981                               | 5,035        |
| Three Months Ended September<br>30, 2006                |                          |                           |                         |                                   |              |
| Revenues from unaffiliated customers                    | \$ 81,090                | \$ 55,113                 | \$ 9,323                | \$ -                              | \$ 145,526   |
| Inter-segment revenues                                  | 24                       | 194                       | 21                      | (239)                             | -            |
| Segment operating income                                | 17,646                   | 13,841                    | 2,086                   | 217                               | 33,790       |
| Total assets  | 210,604                  | 159,276                   | 16,387                  | 34,603                            | 420,870      |
| Capital expenditures                                    | 3,929                    | 1,247                     | 81                      | 3,582                             | 8,839        |
| Depreciation and amortization                           | 2,306                    | 1,231                     | 119                     | 861                               | 4,517        |

Nine Months Ended  
September 30, 2007

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

Nine Months Ended  
September 30, 2006

|                                      |            |            |           |        |            |
|--------------------------------------|------------|------------|-----------|--------|------------|
| Revenues from unaffiliated customers | \$ 232,436 | \$ 162,826 | \$ 27,616 | \$ -   | \$ 422,878 |
| Inter-segment revenues               | 263        | 526        | 27        | (816)  | -          |
| Segment operating income (loss)      | 41,098     | 39,434     | 6,658     | (395)  | 86,795     |
| Total assets                         | 210,604    | 159,276    | 16,387    | 34,603 | 420,870    |
| Capital expenditures                 | 10,319     | 4,165      | 408       | 3,805  | 18,697     |
| Depreciation and amortization        | 6,785      | 3,631      | 341       | 1,972  | 12,729     |

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

## 12. CONDENSED CONSOLIDATING FINANCIAL INFORMATION

Core Laboratories N.V. has fully and unconditionally guaranteed all of the Notes issued by Core Laboratories LP on November 6, 2006. Core Laboratories LP is a 100% indirectly owned subsidiary of Core Laboratories N.V.

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

The following condensed consolidating financial information presents: condensed consolidating balance sheets as of September 30, 2007 and December 31, 2006, statements of income and the consolidating statements of cash flows for the three and nine month periods ended September 30, 2007 and 2006 of (a) Core Laboratories N.V., parent/guarantor, (b) Core Laboratories LP, issuer of public debt securities guaranteed by Core Laboratories N.V.; (c) the non-guarantor subsidiaries, (d) consolidating adjustments necessary to consolidate Core Laboratories N.V. and its subsidiaries and (e) Core Laboratories N.V. on a consolidated basis.

Condensed Consolidating Balance  
Sheets

| (In thousands)                                  | September 30, 2007                                  |                                     |   |                              |                       |
|---|---|-------------------------------------|---|------------------------------|-----------------------|
|   | Core<br>Laboratories<br>N.V. (Parent/<br>Guarantor) | Core<br>Laboratories<br>LP (Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
| <b>ASSETS</b>                                   |   |                                     |   |                              |                       |
| <b>CURRENT ASSETS:</b>                          |   |                                     |   |                              |                       |
| Cash and cash equivalents                       | \$ 16,160   | \$ 8,627                            | \$ 17,381                                     | \$ -                         | \$ 42,168             |
| Accounts receivable, net                        | 141   | 25,639                              | 113,102                                       | -                            | 138,882               |
| Inventories, net                                | -   | 2,692                               | 27,581  | -                            | 30,273                |
| Prepaid expenses and other<br>current assets    | 1,903   | 9,364                               | 23,001  | -                            | 34,268                |
|   | <b>18,204</b>                                       | <b>46,322</b>                       | <b>181,065</b>                                | <b>-</b>                     | <b>245,591</b>        |
| PROPERTY, PLANT AND<br>EQUIPMENT, net           | -   | 21,496                              | 67,367  | -                            | 88,863                |
| GOODWILL AND<br>INTANGIBLES, net                | 46,986  | 1,947                               | 94,703  | -                            | 143,636               |
| INTERCOMPANY<br>RECEIVABLES                     | 12,358  | 290,154                             | 266,242                                       | (568,754)                    | -                     |
| INVESTMENT IN AFFILIATES                        | 331,511   | 5,500                               | 818,275                                       | (1,154,618)                  | 668                   |
| DEFERRED TAX ASSET                              | 4,971   | 44,828                              | -   | (9,797)                      | 40,002                |
| OTHER ASSETS                                    | 3,774   | 10,785                              | 1,027   | -                            | 15,586                |
| <b>TOTAL ASSETS</b>                             | <b>\$ 417,804</b>                                   | <b>\$ 421,032</b>                   | <b>\$ 1,428,679</b>                           | <b>\$ (1,733,169)</b>        | <b>\$ 534,346</b>     |
| <b>LIABILITIES AND SHAREHOLDERS'<br/>EQUITY</b> |   |                                     |   |                              |                       |
| <b>CURRENT LIABILITIES:</b>                     |   |                                     |   |                              |                       |
| Current maturities of<br>long-term debt and     |   |                                     |   |                              |                       |
| capital lease obligations                       | \$ -  | \$ -                                | \$ 5  | \$ -                         | \$ 5                  |
| Accounts payable                                | 10,490  | 5,590                               | 29,518  | -                            | 45,598                |
| Other accrued expenses                          | 3,151   | 18,854                              | 47,349  | -                            | 69,354                |
|   | <b>13,641</b>                                       | <b>24,444</b>                       | <b>76,872</b>                                 | <b>-</b>                     | <b>114,957</b>        |
| <b>LONG-TERM DEBT AND<br/>CAPITAL LEASE</b>     |   |                                     |   |                              |                       |
| OBLIGATIONS                                     | -   | 300,000                             | 1   | -                            | 300,001               |
| DEFERRED COMPENSATION                           | 5,807   | 7,642                               | 373   | -                            | 13,822                |
| DEFERRED TAX LIABILITY                          | 9,220   | -                                   | 577   | (9,797)                      | -                     |
| INTERCOMPANY PAYABLES                           | 309,651   | 45,718                              | 213,385                                       | (568,754)                    | -                     |



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|   |                   |                   |                     |                       |                   |
|---|-------------------|-------------------|---------------------|-----------------------|-------------------|
| OTHER LONG-TERM LIABILITIES                       | 11,025            | 8,443             | 16,039              | -                     | 35,507            |
| MINORITY INTEREST                                 | -                 | -                 | 1,599               | -                     | 1,599             |
| <b>TOTAL SHAREHOLDERS' EQUITY</b>                 | <b>68,460</b>     | <b>34,785</b>     | <b>1,119,833</b>    | <b>(1,154,618)</b>    | <b>68,460</b>     |
| <b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b> | <b>\$ 417,804</b> | <b>\$ 421,032</b> | <b>\$ 1,428,679</b> | <b>\$ (1,733,169)</b> | <b>\$ 534,346</b> |

Condensed Consolidating Balance Sheets

| (In thousands)                              | December 31, 2006                          |                               |                                     |                           |                    |
|---|--|-------------------------------|-------------------------------------|---------------------------|--------------------|
|   | Core Laboratories N.V. (Parent/ Guarantor) | Core Laboratories LP (Issuer) | Other Subsidiaries (Non-Guarantors) | Consolidating Adjustments | Consolidated Total |
| <b>ASSETS</b>                               |  |                               |                                     |                           |                    |
| <b>CURRENT ASSETS:</b>                      |  |                               |                                     |                           |                    |
| Cash and cash equivalents                   | \$ 1,572                                   | \$ 35,385                     | \$ 17,266                           | \$ -                      | \$ 54,223          |
| Accounts receivable, net                    | 125  | 19,717                        | 92,213                              | -                         | 112,055            |
| Inventories, net                            | -  | 1,677                         | 28,522                              | -                         | 30,199             |
| Prepaid expenses and other current assets   | 495  | 14,441                        | 14,139                              | -                         | 29,075             |
|   | <b>2,192</b>                               | <b>71,220</b>                 | <b>152,140</b>                      | <b>-</b>                  | <b>225,552</b>     |
| PROPERTY, PLANT AND EQUIPMENT, net          | -  | 21,654                        | 66,080                              | -                         | 87,734             |
| GOODWILL AND INTANGIBLES, net               | 46,986                                     | 2,009                         | 90,225                              | -                         | 139,220            |
| INTERCOMPANY RECEIVABLES                    | 38,390                                     | 198,654                       | 351,316                             | (588,360)                 | -                  |
| INVESTMENT IN AFFILIATES                    | 150,090                                    | -                             | 788,555                             | (937,755)                 | 890                |
| DEFERRED TAX ASSET                          | 5,815                                      | 26,286                        | 13,707                              | (12,776)                  | 33,032             |
| OTHER ASSETS                                | 3,410                                      | 10,460                        | 917                                 | -                         | 14,787             |
| <b>TOTAL ASSETS</b>                         | <b>\$ 246,883</b>                          | <b>\$ 330,283</b>             | <b>\$ 1,462,940</b>                 | <b>\$ (1,538,891)</b>     | <b>\$ 501,215</b>  |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b> |  |                               |                                     |                           |                    |
| <b>CURRENT LIABILITIES:</b>                 |  |                               |                                     |                           |                    |
| Current maturities of long-term debt and    |  |                               |                                     |                           |                    |
| capital lease obligations                   | \$ 2,654                                   | \$ 100                        | \$ 8                                | \$ -                      | \$ 2,762           |
| Accounts payable                            | 698  | 7,078                         | 29,684                              | -                         | 37,460             |
| Other accrued expenses                      | 2,785                                      | 18,915                        | 26,998                              | -                         | 48,698             |
|   | <b>6,137</b>                               | <b>26,093</b>                 | <b>56,690</b>                       | <b>-</b>                  | <b>88,920</b>      |

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LONG-TERM DEBT AND CAPITAL  
LEASE

|                                   |                   |                   |                     |                       |                   |
|-----------------------------------|-------------------|-------------------|---------------------|-----------------------|-------------------|
| OBLIGATIONS                       | -                 | 300,000           | 2                   | -                     | 300,002           |
| DEFERRED COMPENSATION             | 5,230             | 4,920             | 263                 | -                     | 10,413            |
| DEFERRED TAX LIABILITY            | 12,776            | -                 | -                   | (12,776)              | -                 |
| INTERCOMPANY PAYABLES             | 140,376           | 2,553             | 445,431             | (588,360)             | -                 |
| OTHER LONG-TERM LIABILITIES       | 10,528            | 7,645             | 10,425              | -                     | 28,598            |
| MINORITY INTEREST                 | -                 | -                 | 1,446               | -                     | 1,446             |
| <b>TOTAL SHAREHOLDERS' EQUITY</b> | <b>71,836</b>     | <b>(10,928)</b>   | <b>948,683</b>      | <b>(937,755)</b>      | <b>71,836</b>     |
| <b>TOTAL LIABILITIES AND</b>      |                   |                   |                     |                       |                   |
| <b>SHAREHOLDERS'</b>              |                   |                   |                     |                       |                   |
| <b>EQUITY</b>                     | <b>\$ 246,883</b> | <b>\$ 330,283</b> | <b>\$ 1,462,940</b> | <b>\$ (1,538,891)</b> | <b>\$ 501,215</b> |

Condensed Consolidating Statements of  
Operations

| (In thousands)                              | Three Months Ended September 30, 2007               |                                     |   |                              |                       |
|---|---|-------------------------------------|---|------------------------------|-----------------------|
|   | Core<br>Laboratories<br>N.V. (Parent/<br>Guarantor) | Core<br>Laboratories<br>LP (Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
| <b>REVENUES</b>                             |   |                                     |   |                              |                       |
| Operating revenues                          | \$ -  | \$ 34,806                           | \$ 135,259                                    | \$ -                         | \$ 170,065            |
| Intercompany revenues                       | 302   | 4,366                               | 29,884  | (34,552)                     | -                     |
| Earnings from consolidated<br>affiliates    | 35,324  | -                                   | 73,253  | (108,577)                    | -                     |
| <b>Total revenues</b>                       | <b>35,626</b>                                       | <b>39,172</b>                       | <b>238,396</b>                                | <b>(143,129)</b>             | <b>170,065</b>        |
| <b>OPERATING EXPENSES</b>                   |   |                                     |   |                              |                       |
| Operating costs                             | 257   | 20,717                              | 91,573  | -                            | 112,547               |
| General and administrative<br>expenses      | 1,758   | 5,247                               | 34  | -                            | 7,039                 |
| Depreciation and<br>amortization            | -   | 1,300                               | 3,735   | -                            | 5,035                 |
| Other expense (income), net                 | (950)   | 2,191                               | 22,223  | (23,978)                     | (514)                 |
| <b>Operating income</b>                     | <b>34,561</b>                                       | <b>9,717</b>                        | <b>120,831</b>                                | <b>(119,151)</b>             | <b>45,958</b>         |
| Interest expense                            | 5   | 577                                 | 32  | -                            | 614                   |
| <b>Income before income tax<br/>expense</b> | <b>34,556</b>                                       | <b>9,140</b>                        | <b>120,799</b>                                | <b>(119,151)</b>             | <b>45,344</b>         |
| Income tax expense (benefit)                | 3,042   | 3,554                               | 7,234   | -                            | 13,830                |

|                   |           |               |           |              |           |                |           |                  |           |               |
|-------------------|-----------|---------------|-----------|--------------|-----------|----------------|-----------|------------------|-----------|---------------|
| <b>NET INCOME</b> | <b>\$</b> | <b>31,514</b> | <b>\$</b> | <b>5,586</b> | <b>\$</b> | <b>113,565</b> | <b>\$</b> | <b>(119,151)</b> | <b>\$</b> | <b>31,514</b> |
|-------------------|-----------|---------------|-----------|--------------|-----------|----------------|-----------|------------------|-----------|---------------|

Condensed Consolidating Statements of  
Operations

|   | (In thousands)                                      |                                     |   |                              |                       |                |           |                  |           |               |
|---|---|-------------------------------------|---|------------------------------|-----------------------|----------------|-----------|------------------|-----------|---------------|
|   | Core<br>Laboratories<br>N.V. (Parent/<br>Guarantor) |                                     | Nine Months Ended September 30, 2007          |                              |                       |                |           |                  |           |               |
|   |   | Core<br>Laboratories<br>LP (Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |                |           |                  |           |               |
| <b>REVENUES</b>                         |   |                                     |   |                              |                       |                |           |                  |           |               |
| Operating revenues                      |   |                                     | \$  |                              |                       |                |           |                  |           |               |
|   | \$  | \$                                  |   | \$                           | \$                    |                |           |                  |           |               |
| Intercompany revenues                   | -   | 99,662                              | 394,519                                       | -                            | 494,181               |                |           |                  |           |               |
| Earnings from consolidated affiliates   | 908   | 13,174                              | 91,455  | (105,537)                    | -                     |                |           |                  |           |               |
|   | 94,917  | -                                   | 150,550                                       | (245,467)                    | -                     |                |           |                  |           |               |
| <b>Total revenues</b>                   | <b>95,825</b>                                       | <b>112,836</b>                      | <b>636,524</b>                                | <b>(351,004)</b>             | <b>494,181</b>        |                |           |                  |           |               |
| <b>OPERATING EXPENSES</b>               |   |                                     |   |                              |                       |                |           |                  |           |               |
| Operating costs                         | 809   | 59,503                              | 272,833                                       | -                            | 333,145               |                |           |                  |           |               |
| General and administrative expenses     | 6,033   | 18,731                              | 34  | -                            | 24,798                |                |           |                  |           |               |
| Depreciation and amortization           | -   | 3,927                               | 10,583  | -                            | 14,510                |                |           |                  |           |               |
| Other expense (income), net             | (2,244)   | 6,389                               | 64,439  | (71,434)                     | (2,850)               |                |           |                  |           |               |
| <b>Operating income</b>                 | <b>91,227</b>                                       | <b>24,286</b>                       | <b>288,635</b>                                | <b>(279,570)</b>             | <b>124,578</b>        |                |           |                  |           |               |
| Interest expense                        | 63  | 1,782                               | 36  | -                            | 1,881                 |                |           |                  |           |               |
| <b>Income before income tax expense</b> | <b>91,164</b>                                       | <b>22,504</b>                       | <b>288,599</b>                                | <b>(279,570)</b>             | <b>122,697</b>        |                |           |                  |           |               |
| Income tax expense (benefit)            | 5,585   | 8,704                               | 22,829  | -                            | 37,118                |                |           |                  |           |               |
| <b>NET INCOME</b>                       | <b>\$</b>   | <b>85,579</b>                       | <b>\$</b>                                     | <b>13,800</b>                | <b>\$</b>             | <b>265,770</b> | <b>\$</b> | <b>(279,570)</b> | <b>\$</b> | <b>85,579</b> |

Condensed Consolidating Statements of Cash  
Flows

(In thousands)

Nine Months Ended September 30, 2007

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|  | Core<br>Laboratories<br>N.V. (Parent/<br>Guarantor) | Core<br>Laboratories<br>LP (Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
|--|---|-------------------------------------|---|------------------------------|-----------------------|
| <b>Net cash provided by (used in)<br/>operating activities</b> | \$ 106,407  | \$ (16,573)                         | \$ (2,019)                                    | \$ -                         | \$ 87,815             |
| <b>CASH FLOWS FROM INVESTING<br/>ACTIVITIES:</b>               |   |                                     |   |                              |                       |
| Capital expenditures   | -   | (3,685)                             | (11,600)                                      | -                            | (15,285)              |
| Patents and other intangibles                                  | -   | (57)                                | (195)   | -                            | (252)                 |
| Acquisitions, net of cash<br>acquired                          | -   | (5,012)                             | -   | -                            | (5,012)               |
| Deposit on sale of asset                                       | -   | -                                   | 13,475  | -                            | 13,475                |
| Proceeds from sale of assets                                   | -   | 30                                  | 458   | -                            | 488                   |
| Premiums on life insurance                                     | -   | (1,199)                             | -   | -                            | (1,199)               |
| <b>Net cash used in investing activities</b>                   | -   | <b>(9,923)</b>                      | <b>2,138</b>                                  | -                            | <b>(7,785)</b>        |
| <b>CASH FLOWS FROM FINANCING<br/>ACTIVITIES:</b>               |   |                                     |   |                              |                       |
| Repayment of debt  | (2,654)   | (100)                               | -   | -                            | (2,754)               |
| Capital lease obligations                                      | -   | -                                   | (4)   | -                            | (4)                   |
| Stock options exercised  | 18,184  | -                                   | -   | -                            | 18,184                |
| Tax benefits from<br>stock-based compensation                  | 20,328  | -                                   | -   | -                            | 20,328                |
| Debt issuance costs  | -   | (162)                               | -   | -                            | (162)                 |
| Repurchase of common<br>shares                                 | (127,677)   | -                                   | -   | -                            | (127,677)             |
| <b>Net cash used in financing<br/>activities</b>               | <b>(91,819)</b>                                     | <b>(262)</b>                        | <b>(4)</b>                                    | -                            | <b>(92,085)</b>       |
| <b>NET CHANGE IN CASH AND<br/>CASH</b>                         |   |                                     |   |                              |                       |
| <b>EQUIVALENTS<br/>C A S H A N D C A S H<br/>EQUIVALENTS,</b>  | 14,588  | (26,758)                            | 115   | -                            | (12,055)              |
| beginning of period  | 1,572   | 35,385                              | 17,266  | -                            | 54,223                |
| <b>C A S H A N D C A S H<br/>EQUIVALENTS,</b>                  |   |                                     |   |                              |                       |
| end of period  | \$ 16,160   | \$ 8,627                            | \$ 17,381                                     | \$ -                         | \$ 42,168             |

Condensed Consolidating Statements of  
Operations

(In thousands)

Three Months Ended September 30, 2006

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|   | Core<br>Laboratories<br>N.V. (Parent/<br>Guarantor) | Core<br>Laboratories<br>LP (Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
|---|---|-------------------------------------|---|------------------------------|-----------------------|
| <b>REVENUES</b>                         |   |                                     |   |                              |                       |
| Operating revenues                      | \$ -  | \$ 28,301                           | \$ 117,225                                    | \$ -                         | \$ 145,526            |
| Intercompany revenues                   | -   | 3,985                               | 27,983  | (31,968)                     | -                     |
| Earnings from consolidated affiliates   | 24,266  | -                                   | (3)   | (24,263)                     | -                     |
| <b>Total revenues</b>                   | <b>24,266</b>                                       | <b>32,286</b>                       | <b>145,205</b>                                | <b>(56,231)</b>              | <b>145,526</b>        |
| <b>OPERATING EXPENSES</b>               |   |                                     |   |                              |                       |
| Operating costs                         | 348   | 17,561                              | 92,600  | (9,987)                      | 100,522               |
| General and administrative expenses     | 1,042   | 5,244                               | 11  | (47)                         | 6,250                 |
| Depreciation and amortization           | 5   | 1,346                               | 3,166   | -                            | 4,517                 |
| Other expense (income), net             | (1,158)   | 1,593                               | 21,650  | (21,638)                     | 447                   |
| <b>Operating income</b>                 | <b>24,029</b>                                       | <b>6,542</b>                        | <b>27,778</b>                                 | <b>(24,559)</b>              | <b>33,790</b>         |
| Interest expense                        | 220   | 1,701                               | 9   | -                            | 1,930                 |
| <b>Income before income tax expense</b> | <b>23,809</b>                                       | <b>4,841</b>                        | <b>27,769</b>                                 | <b>(24,559)</b>              | <b>31,860</b>         |
| Income tax expense (benefit)            | 1,425   | 1,875                               | 6,176   | -                            | 9,476                 |
| <b>NET INCOME</b>                       | <b>\$ 22,384</b>                                    | <b>\$ 2,966</b>                     | <b>\$ 21,593</b>                              | <b>\$ (24,559)</b>           | <b>\$ 22,384</b>      |

Condensed Consolidating Statements of Operations

|                                       | (In thousands)                                      |                                     |   |                              |                       |
|---------------------------------------|---|-------------------------------------|---|------------------------------|-----------------------|
|                                       | Core<br>Laboratories<br>N.V. (Parent/<br>Guarantor) | Core<br>Laboratories<br>LP (Issuer) | Other<br>Subsidiaries<br>(Non-<br>Guarantors) | Consolidating<br>Adjustments | Consolidated<br>Total |
| <b>REVENUES</b>                       |   |                                     |   |                              |                       |
| Operating revenues                    | \$ -  | \$ 80,932                           | \$ 341,946                                    | \$ -                         | \$ 422,878            |
| Intercompany revenues                 | -   | 10,506                              | 80,925  | (91,431)                     | -                     |
| Earnings from consolidated affiliates | 65,845  | -                                   | 12,849  | (78,694)                     | -                     |
| <b>Total revenues</b>                 | <b>65,845</b>                                       | <b>91,438</b>                       | <b>435,720</b>                                | <b>(170,125)</b>             | <b>422,878</b>        |
| <b>OPERATING EXPENSES</b>             |   |                                     |   |                              |                       |
| Operating costs                       | 503   | 50,816                              | 278,689                                       | (29,143)                     | 300,865               |
| General and administrative expenses   | 6,145   | 19,345                              | 15  | (47)                         | 25,458                |

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|   |                  |                  |                  |                    |                  |
|---|------------------|------------------|------------------|--------------------|------------------|
| Depreciation and amortization           | 21               | 3,979            | 8,729            | -                  | 12,729           |
| Other expense (income), net             | (1,342)          | 3,683            | 56,635           | (61,945)           | (2,969)          |
| <b>Operating income</b>                 | <b>60,518</b>    | <b>13,615</b>    | <b>91,652</b>    | <b>(78,990)</b>    | <b>86,795</b>    |
| Interest expense                        | 612              | 4,145            | 28               | -                  | 4,785            |
| <b>Income before income tax expense</b> | <b>59,906</b>    | <b>9,470</b>     | <b>91,624</b>    | <b>(78,990)</b>    | <b>82,010</b>    |
| Income tax expense (benefit)            | 2,417            | (946)            | 23,050           | -                  | 24,521           |
| <b>NET INCOME</b>                       | <b>\$ 57,489</b> | <b>\$ 10,416</b> | <b>\$ 68,574</b> | <b>\$ (78,990)</b> | <b>\$ 57,489</b> |

Condensed Consolidating Statements of Cash Flows

|  | (In thousands)                             |                               |                                     |                           |                    |
|--|--|-------------------------------|-------------------------------------|---------------------------|--------------------|
|  | Nine Months Ended September 30, 2006       |                               |                                     |                           |                    |
|  | Core Laboratories N.V. (Parent/ Guarantor) | Core Laboratories LP (Issuer) | Other Subsidiaries (Non-Guarantors) | Consolidating Adjustments | Consolidated Total |
| <b>Net cash provided by (used in) operating activities</b> | <b>\$ 83,824</b>                           | <b>\$ (14,895)</b>            | <b>\$ 11,149</b>                    | <b>\$ -</b>               | <b>\$ 80,078</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>               |  |                               |                                     |                           |                    |
| Capital expenditures                                       | -  | (3,092)                       | (13,255)                            | -                         | (16,347)           |
| Patents and other intangibles                              | -  | (36)                          | (67)                                | -                         | (103)              |
| Proceeds from sale of assets                               | -  | 320                           | 1,902                               | -                         | 2,222              |
| Premiums on life insurance                                 | -  | (753)                         | -                                   | -                         | (753)              |
| <b>Net cash used in investing activities</b>               | <b>-</b>                                   | <b>(3,561)</b>                | <b>(11,420)</b>                     | <b>-</b>                  | <b>(14,981)</b>    |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>               |  |                               |                                     |                           |                    |
| Repayment of debt  | (7,339)                                    | (16,100)                      | -                                   | -                         | (23,439)           |
| Proceeds from debt borrowings                              | 8,000                                      | 34,000                        | -                                   | -                         | 42,000             |
| Capital lease obligations                                  | -  | -                             | (24)                                | -                         | (24)               |
| Stock options exercised                                    | 13,859                                     | -                             | -                                   | -                         | 13,859             |
| Repurchase of common shares                                | (104,451)                                  | -                             | -                                   | -                         | (104,451)          |
| Excess tax benefits from stock-based payments              | 5,671                                      | -                             | -                                   | -                         | 5,671              |

|                                       |          |          |           |      |           |
|---------------------------------------|----------|----------|-----------|------|-----------|
| Net cash used in financing activities | (84,260) | 17,900   | (24)      | -    | (66,384)  |
| NET CHANGE IN CASH AND CASH           |          |          |           |      |           |
| EQUIVALENTS                           | (436)    | (556)    | (295)     | -    | (1,287)   |
| C A S H A N D C A S H EQUIVALENTS,    |          |          |           |      |           |
| beginning of period                   | 1,352    | (243)    | 12,634    | -    | 13,743    |
| C A S H A N D C A S H EQUIVALENTS,    |          |          |           |      |           |
| end of period                         | \$ 916   | \$ (799) | \$ 12,339 | \$ - | \$ 12,456 |

### 13. RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, Fair Value Measurements ("FAS 157"). FAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS No. 157 does not require any new fair value measurements, rather, its application will be made pursuant to other accounting pronouncements that require or permit fair value measurements. FAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those years. The provisions of FAS No. 157 are to be applied prospectively upon adoption, except for limited specified exceptions. We do not expect the adoption of FAS No. 157 to have a material impact on our financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115 ("FAS 159"). FAS 159 permits companies to measure eligible financial instruments and certain other items at fair value that are currently not required to be measured at fair value. FAS 159 will become effective for financial statements issued for fiscal years beginning after November 15, 2007, with early adoption permitted. We are currently evaluating FAS 159 and any potential impact on our financial statements, however we do not expect this pronouncement to have a material impact on our financial position or results of operations or cash flows.

### 14. SUBSEQUENT EVENTS

On October 2, 2007, we completed the sale of an office building in Moscow for \$13.5 million which resulted in a pre-tax gain of approximately \$10.2 million that will be included in our fourth quarter results.

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The following discussion summarizes the financial position of Core Laboratories N.V. and its subsidiaries as of September 30, 2007 and should be read in conjunction with (i) the unaudited consolidated interim financial statements and notes thereto included elsewhere in this Quarterly Report on Form 10-Q and (ii) the consolidated financial statements and accompanying notes to our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

## General

Core Laboratories N.V. is a Netherlands limited liability company. It was established in 1936 and is one of the world's leading providers of proprietary and patented reservoir description, production enhancement and reservoir management products and services to the oil and gas industry. These products and services can enable our clients to improve reservoir performance and increase oil and gas recovery from their producing fields. Core Laboratories N.V. has over 70 offices in more than 50 countries and employs approximately 4,800 people worldwide.

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

Our business units have been aggregated into three complementary segments, which provide products and services for improving reservoir performance and increasing oil and gas recovery from new and existing fields.

- \* **Reservoir Description:** Encompasses the characterization of petroleum reservoir rock, fluid and gas samples. We provide analytical and field services to characterize properties of crude oil and petroleum products to the oil and gas industry.
- \* **Production Enhancement:** Includes products and services relating to reservoir well completions, perforations, stimulations and production. We provide integrated services to evaluate the effectiveness of well completions and to develop solutions aimed at increasing the effectiveness of enhanced oil recovery projects.
- \* **Reservoir Management:** Combines and integrates information from reservoir description and production enhancement services to increase production and improve recovery of oil and gas from our clients' reservoirs.

## Cautionary Statement Regarding Forward Looking Statements

This quarterly report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Certain of the statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations section, including those under the headings "Outlook" and "Liquidity and Capital Resources", and in other parts of this 10-Q, are forward looking. In addition, from time to time, we may publish forward-looking statements relating to such matters as anticipated financial performance, business prospects, technological developments, new products, research and development activities and similar matters. Forward-looking statements can be identified by the use of forward-looking terminology such as "may", "will", "believe", "expect", "anticipate", "estimate", "continue", or other similar words, including statements as to the intent, belief, or current expectations of our directors, officers, and management with respect to our future operations, performance, or positions or which contain other forward-looking information. These forward-looking statements are predictions. No assurances can be given that the future results indicated, whether expressed or implied, will be achieved. Our actual results may differ significantly from the results discussed in the forward-looking statements. While we believe that these statements are and will be accurate, a variety of factors could cause our actual results and experience to differ materially from the anticipated results or other expectations expressed in our statements. Such factors include, but are not limited to, the risks and uncertainties summarized below:



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

Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those projected in the forward-looking statements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. For a more detailed discussion of some of the foregoing risks and uncertainties, see "Item 1A - Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006, as well as the other reports and registration statements filed by us with the SEC.

#### Recent Developments

On January 1, 2007, we adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes-An Interpretation of FASB Statement No. 109, Accounting for Income Taxes ("FIN 48"), which was issued to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 became effective for fiscal years beginning after December 15, 2006. The cumulative effect of \$3.3 million from adopting FIN 48 was recorded in retained earnings and other long-term liabilities.

#### Outlook

We have established internal earnings targets that are based on current market conditions. Based on industry surveys, we anticipate North American activity levels of our clients during 2007 to be somewhat lower than their activity levels in 2006. We also believe that the activity levels outside of North America for 2007 will continue to remain higher than activity levels for 2006.

#### Results of Operations

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

|           | Three Months Ended September 30, |     |           |     | % Change  |
|-----------|----------------------------------|-----|-----------|-----|-----------|
|           | 2007                             |     | 2006      |     | 2007/2006 |
| REVENUES: |                                  |     |           |     |           |
| Service   | \$131,060                        | 77% | \$109,950 | 76% | 19%       |

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|   |                  |             |                  |             |            |
|---|------------------|-------------|------------------|-------------|------------|
| Product sale                            | 39,005           | 23%         | 35,576           | 24%         | 10%        |
| <b>Total revenue</b>                    | <b>170,065</b>   | <b>100%</b> | <b>145,526</b>   | <b>100%</b> | <b>17%</b> |
| OPERATING EXPENSES:                     |                  |             |                  |             |            |
| Cost of services (1)                    | 84,863           | 65%         | 74,240           | 68%         | 14%        |
| Cost of sales (1)                       | 27,684           | 71%         | 26,282           | 74%         | 5%         |
| <b>Total cost of services and sales</b> | <b>112,547</b>   | <b>66%</b>  | <b>100,523</b>   | <b>69%</b>  | <b>12%</b> |
| General and administrative expenses     | 7,039            | 4%          | 6,250            | 4%          | 13%        |
| Depreciation and amortization           | 5,035            | 3%          | 4,517            | 3%          | 11%        |
| Other (income), net                     | (514)            | -           | 447              | -           | (215%)     |
| <b>Operating income</b>                 | <b>45,958</b>    | <b>27%</b>  | <b>33,790</b>    | <b>23%</b>  | <b>36%</b> |
| Interest expense                        | 614              | -           | 1,930            | 2%          | (68%)      |
| <b>Income before income tax expense</b> | <b>45,344</b>    | <b>27%</b>  | <b>31,860</b>    | <b>22%</b>  | <b>42%</b> |
| Income tax expense                      | 13,830           | 8%          | 9,476            | 7%          | 46%        |
| <b>NET INCOME</b>                       | <b>\$ 31,514</b> | <b>19%</b>  | <b>\$ 22,384</b> | <b>15%</b>  | <b>41%</b> |

(1) Percentage based on applicable revenue rather than total revenue

|   | Nine Months Ended September 30, |             |                  |             | % Change<br>2007/2006 |
|---|---------------------------------|-------------|------------------|-------------|-----------------------|
|   | 2007                            | 2006        |                  |             |                       |
| (dollars, in thousands)                 |                                 |             |                  |             |                       |
| REVENUES:                               |                                 |             |                  |             |                       |
| Service                                 | \$ 374,212                      | 76%         | \$ 315,423       | 75%         | 19%                   |
| Product sale                            | 119,969                         | 24%         | 107,455          | 25%         | 12%                   |
| <b>Total revenue</b>                    | <b>494,181</b>                  | <b>100%</b> | <b>422,878</b>   | <b>100%</b> | <b>17%</b>            |
| OPERATING EXPENSES:                     |                                 |             |                  |             |                       |
| Cost of services (1)                    | 249,140                         | 67%         | 221,768          | 70%         | 12%                   |
| Cost of sales (1)                       | 84,005                          | 70%         | 79,097           | 74%         | 6%                    |
| <b>Total cost of services and sales</b> | <b>333,145</b>                  | <b>67%</b>  | <b>300,865</b>   | <b>71%</b>  | <b>11%</b>            |
| General and administrative expenses     | 24,798                          | 5%          | 25,458           | 6%          | (3%)                  |
| Depreciation and amortization           | 14,510                          | 3%          | 12,729           | 3%          | 14%                   |
| Other (income), net                     | (2,850)                         | (1%)        | (2,969)          | (1%)        | (4%)                  |
| <b>Operating income</b>                 | <b>124,578</b>                  | <b>25%</b>  | <b>86,795</b>    | <b>21%</b>  | <b>44%</b>            |
| Interest expense                        | 1,881                           | -           | 4,785            | 1%          | (61%)                 |
| <b>Income before income tax expense</b> | <b>122,697</b>                  | <b>25%</b>  | <b>82,010</b>    | <b>19%</b>  | <b>50%</b>            |
| Income tax expense                      | 37,118                          | 8%          | 24,521           | 6%          | 51%                   |
| <b>NET INCOME</b>                       | <b>\$ 85,579</b>                | <b>17%</b>  | <b>\$ 57,489</b> | <b>14%</b>  | <b>49%</b>            |

(1) Percentage based on applicable revenue rather than total revenue

Operating Results for the Three and Nine Months Ended September 30, 2007 Compared to the Three and Nine Months Ended September 30, 2006 (unaudited)

### Service Revenues

Service revenues increased to \$131.1 million for the third quarter of 2007, up 19% when compared to \$110.0 million for the third quarter of 2006. For the nine months ended September 30, 2007, service revenues increased 19% to \$374.2 million compared to \$315.4 million for the respective period in 2006. This increase in revenue was primarily due to the continued strength in the price of oil which is driving increased demand for oilfield activities globally. This increased activity in turn continued to create increased demand for the services we provide such as our patented and proprietary reservoir fluids analysis relating to our pressure, volume, and temperature ("PVT") phase-behavior studies, crude-oil distillations and petroleum product inspection and testing services. In addition, we have experienced an increase in market penetration and market acceptance of recently introduced services. This has benefited our business in the Middle East, especially Qatar and Saudi Arabia, where these services will be used to increase daily natural gas and crude oil production while maximizing the ultimate hydrocarbon recoveries from the Qatari and Saudi Arabian fields.

### Product Sale Revenues

Revenues associated with product sales increased to \$39.0 million for the third quarter of 2007, up 10% from \$35.6 million for the third quarter of 2006. For the nine months ended September 30, 2007, product sale revenues increased 12% to \$120.0 million compared to \$107.5 million for the same period in 2006. Increased drilling activity on a global basis, but more specifically greater market penetration for our well completion products, contributed to our improved results. During the first quarter we introduced new reservoir optimizing technologies which began to generate additional revenues that have produced higher operating margins which have also increased incremental margins across many regions, including the U.S., Middle East and Asia Pacific.

### Cost of Services

Cost of services expressed as a percentage of service revenue was 65% for the quarter ended September 30, 2007, down from 68% for the corresponding quarter in 2006. For the nine-month period ending September 30, 2007, cost of services expressed as a percentage of service revenue was 67% as compared to 70% for the same period for 2006. The decline in the cost of services relative to service revenue was primarily a result of incremental margins earned on higher revenues over our relatively fixed cost structure. Incremental margins are calculated as the change in operating income divided by the change in revenues.

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### Cost of Sales

Cost of sales as a percentage of product sale revenues was 71% for the quarter ended September 30, 2007, which was an improvement from the 74% for the same period in 2006. For the nine month period ended September 30, 2007, cost of product sales expressed as a percentage of sales revenue was 70% which was an improvement from the 74% for the same period in 2006. The decrease in cost of sales as a percentage of product sale revenues for 2007 was primarily due to growing demand for new higher margin products and continuing efforts to improve our manufacturing efficiencies.

### General and Administrative Expenses

General and administrative expenses were \$7.0 million for the third quarter of 2007 compared to \$6.3 million for the third quarter of 2006. This increase was primarily due to an increase in salaries and related incentives tied to our improved performance. For the nine-month periods ended September 30, 2007 and 2006, general and administrative expenses decreased to \$24.8 million from \$25.5 million, primarily due to lower compensation expense recorded for certain members of management in 2007 compared to 2006.

### Depreciation and Amortization Expense

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Depreciation and amortization expense of \$5.0 million for the third quarter of 2007 increased \$0.5 million, from \$4.5 million for the third quarter of 2006. For the nine-month period ended September 30, 2007, depreciation and amortization expense was \$14.5 million, an increase of \$1.8 million from the corresponding period ended September 30, 2006 due to an increase in capital expenditures year-to-date in 2007 compared to 2006.

Other Expense (Income), Net

Other expense (income), net consisted of the following at September 30, 2007 and 2006 (in thousands):

|  | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |                  |
|--|-------------------------------------|---------------|------------------------------------|------------------|
|  | 2007<br>(Unaudited)                 | 2006          | 2007<br>(Unaudited)                | 2006             |
| Minority interest                        | \$ 122                              | \$ 77         | \$ 153                             | \$ 151           |
| Gain on sale of assets                   | (30)                                | (76)          | (249)                              | (782)            |
| Foreign exchange loss (gain)             | (352)                               | 430           | (827)                              | (1,032)          |
| Interest income                          | (136)                               | (54)          | (1,047)                            | (161)            |
| Gain on insurance recovery               | -                                   | -             | -                                  | (492)            |
| Other                                    | (118)                               | 70            | (880)                              | (653)            |
| <b>Total other expense (income), net</b> | <b>\$ (514)</b>                     | <b>\$ 447</b> | <b>\$(2,850)</b>                   | <b>\$(2,969)</b> |

In 2005, a building at our manufacturing plant in Godley, Texas, was damaged by fire, resulting in the loss of the building, some inventory, as well as other business equipment and supplies. We filed a claim for business interruption costs and the final settlement was reached in the first quarter of 2006, which resulted in a gain of \$0.5 million.

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

|                          | Three Months Ended<br>September 30, |               | Nine Months Ended<br>September 30, |                   |
|--------------------------|-------------------------------------|---------------|------------------------------------|-------------------|
|                          | 2007<br>(Unaudited)                 | 2006          | 2007<br>(Unaudited)                | 2006              |
| Canadian Dollar          | \$ (199)                            | \$ 44         | \$ (443)                           | \$ (336)          |
| Euro                     | (198)                               | (16)          | (282)                              | (270)             |
| Russian Ruble            | (152)                               | 172           | (223)                              | (290)             |
| Other currencies         | 197                                 | 230           | 121                                | (136)             |
| <b>Total loss (gain)</b> | <b>\$ (352)</b>                     | <b>\$ 430</b> | <b>\$ (827)</b>                    | <b>\$ (1,032)</b> |

Income Tax Expense

The effective tax rate for the third quarter of 2007 and 2006 was 30.5% and 29.7%, respectively.

Segment Analysis

Our operations are managed primarily in three complementary segments - Reservoir Description, Production Enhancement and Reservoir Management. The following table summarizes our results by operating segment for the three and nine-month periods ended September 30, 2007 and 2006 (in thousands):

|           | Three Months Ended<br>September 30, |      | Nine Months Ended<br>September 30, |      |
|-----------|-------------------------------------|------|------------------------------------|------|
|           | 2007<br>(Unaudited)                 | 2006 | 2007<br>(Unaudited)                | 2006 |
| Revenues: |                                     |      |                                    |      |

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|                         |                   |                   |                   |                   |
|-------------------------|-------------------|-------------------|-------------------|-------------------|
| Reservoir Description   | \$ 97,476         | \$ 81,090         | \$ 274,437        | \$ 232,436        |
| Production Enhancement  | 61,998            | 55,113            | 181,566           | 162,826           |
| Reservoir Management    | 10,591            | 9,323             | 38,178            | 27,616            |
| <b>Consolidated</b>     | <b>\$ 170,065</b> | <b>\$ 145,526</b> | <b>\$ 494,181</b> | <b>\$ 422,878</b> |
| Operating income:       |                   |                   |                   |                   |
| Reservoir Description   | \$ 26,108         | \$ 17,646         | \$ 64,307         | \$ 41,098         |
| Production Enhancement  | 17,426            | 13,841            | 49,678            | 39,434            |
| Reservoir Management    | 2,357             | 2,086             | 10,171            | 6,658             |
| Corporate and Other (1) | 67                | 217               | 422               | (395)             |
| <b>Consolidated</b>     | <b>\$ 45,958</b>  | <b>\$ 33,790</b>  | <b>\$ 124,578</b> | <b>\$ 86,795</b>  |

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

### Reservoir Description

Revenues from the Reservoir Description segment increased \$16.4 million, to \$97.5 million in the third quarter of 2007, compared to \$81.1 million in the third quarter of 2006, as a result of continued expansion of oilfield activities world-wide and North American projects related to gas-shale and Canadian oil-sands reservoirs. For the nine months ended September 30, 2007 revenues increased \$42.0 million, to \$274.4 million from \$232.4 million for the nine months ended September 30, 2006. The revenue growth was driven, in part, by the high demand for our proprietary and patented reservoir optimization technologies and related services. These include our pressure, volume, and temperature (PVT) phase behavior studies, crude-oil distillations and petroleum product inspection and testing services. We are expanding our services, especially in the Middle East, which will be used to increase daily natural gas and crude oil production while maximizing the ultimate hydrocarbon recoveries.

Operating income in the third quarter of 2007 increased by 48% or \$8.5 million to \$26.1 million compared to \$17.6 million for the third quarter of 2006. Operating income for the nine month period ended September 30, 2007 increased by 56% or \$23.2 million to \$64.3 million. Increases in operating income were primarily due to incremental margins earned from higher sales over our relatively fixed cost structure and the introduction and acceptance of recently introduced reservoir optimization services. Operating margins for the quarter and nine months ended September 30, 2007 were 27% and 23%, respectively compared to 22% and 18% for the same periods in 2006, respectively. Our customers continue to shift from lower margin projects to those projects having a higher content of Core's newer services and technologies, which produced incremental margins of 55% for the nine month period ended September 30, 2007, on higher revenues during the period. Incremental margins are calculated as the change in operating income divided by the change in revenues.

### Production Enhancement

Revenues from the Production Enhancement segment increased \$6.9 million to \$62.0 million in the third quarter of 2007 as compared to \$55.1 million in the third quarter in 2006, and revenues increased \$18.7 million to \$181.6 million for the nine months ended September 30, 2007 as compared to \$162.8 million for the same period in 2006. This increase was primarily the result of continued improvement in market penetration of our well perforating and completion products and stimulation diagnostic services, overall expansion in global drilling activities, and continued improvements in the international expansion of our technologies.

Operating income in the third quarter of 2007 increased by 26% or \$3.6 million to \$17.4 million from \$13.8 million for the third quarter of 2006. Operating margins increased to 28% in the third quarter of 2007 compared to 25% for the same period in 2006. For the nine months ended September 30, 2007, operating income increased to \$49.7 million, an increase of 26% over the same period in 2006. These margin improvements were primarily due to increased sales of higher-margin services and products including our SpectraChem™ tracer service and our SuperHERO™ perforating

charges and gun systems, as well as improved manufacturing efficiencies.

### Reservoir Management

Revenues from the Reservoir Management segment increased \$1.3 million, or 14%, in the third quarter of 2007 as compared to the third quarter of 2006. Revenues for the nine month period ended September 30, 2007 were \$38.2 million, an increase of 38% from \$27.6 million from the same period in 2006. The improvement was driven by our multi-client regional reservoir optimization projects for both North America and international studies, especially studies pertaining to unconventional gas reservoirs and sales of our proprietary reservoir monitoring products for oil-sands in Canada.

Operating income in the third quarter of 2007 increased 13% to \$2.4 million from \$2.1 million for the third quarter of 2006. For the nine month period ended September 30, 2007, operating income was \$10.2 million with operating margins of 27%, as compared to operating income of \$6.7 million and operating margins of 24% from the same period in 2006. The increase was primarily due to the continued expansion of the multi-client regional reservoir study sales in the U.S. and expansion of studies being performed in Libya, along with product sales to the oil-sands projects in Canada.

### Liquidity and Capital Resources

#### General

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

We utilize the non-GAAP financial measure of free cash flow to evaluate our cash flows and results of operations. Free cash flow is defined as net cash provided by operating activities (which is the most directly comparable GAAP measure) less capital expenditures. Management believes that free cash flow provides useful information to investors as it represents the cash, in excess of capital expenditures, available to operate the business and fund non-discretionary obligations. Free cash flow is not a measure of operating performance under GAAP, and should not be considered in isolation nor construed as an alternative to operating profit, net income (loss) or cash flows from operating, investing or financing activities, each as determined in accordance with GAAP. Moreover, since free cash flow is not a measure determined in accordance with GAAP and thus is susceptible to varying interpretations and calculations, free cash flow as presented, may not be comparable to similarly titled measures presented by other companies. The following table reconciles this non-GAAP financial measure to the most directly comparable measure calculated and presented in accordance with U.S. GAAP for the nine month period ended September 30, 2007 and 2006 (in thousands):

|   | Nine Months Ended |                  |
|---|-------------------|------------------|
|   | September 30,     |                  |
|   | 2007              | 2006             |
| Free cash flow calculation:               |                   | (unaudited)      |
| Net cash provided by operating activities | \$ 87,815         | \$ 80,078        |
| Less: capital expenditures                | 15,285            | 16,347           |
| <b>Free cash flow</b>                     | <b>\$ 72,530</b>  | <b>\$ 63,731</b> |

The increase in free cash flow in 2007 compared to 2006 was due to higher net income and a decrease in capital expenditures offset by a net increase in working capital, excluding cash. At September 30, 2007 and December 31, 2006, we had working capital of \$130.6 million and \$136.6 million, respectively.

#### Cash Flows

The following table summarizes cash flows for the nine months ended September 30, 2007 and 2006 (in thousands):

|  | Nine Months Ended  |                       |
|--|--------------------|-----------------------|
|  | 2007               | September 30,<br>2006 |
| Cash provided by/(used in):                    |                    | (unaudited)           |
| Operating activities                           | \$ 87,815          | \$ 80,078             |
| Investing activities                           | (7,785)            | (14,981)              |
| Financing activities                           | (92,085)           | (66,384)              |
| <b>Net change in cash and cash equivalents</b> | <b>\$ (12,055)</b> | <b>\$ (1,287)</b>     |

The increase in cash flows provided by operating activities was attributable to an increase in net income offset by an increase in working capital due to timing of payments. The decrease in cash used in investing activities is due to a deposit received on the sale of an asset offset by the acquisition of Temco, Inc. a Tulsa-based core analysis and reservoir fluids instrument manufacturer. The increase in cash flows used in financing activities was due to lower borrowings and an increase in shares repurchased under our common share repurchase program. In the first nine months of 2007, we repurchased approximately 1.4 million shares for an aggregate price of \$127.7 million compared to approximately 1.9 million shares for an aggregate price of \$104.5 million during the nine months ended September 2006. The increase in cash flows used in financing activities was offset by an increase in stock options exercised and the recognition of tax deductions relating to stock-based compensation.

We maintain a revolving credit facility (the "Credit Facility") that allows for an aggregate borrowing capacity of \$100.0 million. As amended, this facility provides an option to increase the commitment under the Credit Facility to \$150.0 million, if certain conditions are met. The Credit Facility bears interest at variable rates from LIBOR plus 0.5% to a maximum of LIBOR plus 1.125%. Any outstanding balance under the Credit Facility is due in December 2010 when the Credit Facility matures and only requires bi-annual interest payments until maturity. Interest payment dates are based on the interest period selected. Our available capacity is reduced by outstanding unsecured letters of credit and performance guarantees and bonds totaling \$8.7 million at September 30, 2007 relating to certain projects in progress. Our available borrowing capacity under the Credit Facility at September 30, 2007 was \$91.3 million.

The terms of the Credit Facility require us to meet certain financial and operational covenants. We believe that we are in compliance with all such covenants at September 30, 2007. All of our material, wholly owned subsidiaries are guarantors or co-borrowers under the Credit Facility.

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

At our Annual Shareholders' Meeting on April 2, 2007 (the "Meeting"), our shareholders approved the cancellation of 3,127,040 treasury shares we had repurchased or otherwise acquired up to the date of the Meeting. These 3,127,040 treasury shares were cancelled in April 2007 at historical cost, totaling \$233.5 million, or \$74.73 per share, resulting in a decrease in treasury shares and a corresponding decrease in additional paid-in-capital, retained earnings and common stock. Our shareholders also approved the extension of the authority of our Management Board to repurchase up to 10% of the Company's outstanding share capital up through October 2, 2008.

In September 2006, the Financial Accounting Standards Board ("FASB") issued SFAS No. 157, Fair Value Measurements ("FAS 157"). FAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS No. 157 does not require any new fair value measurements, rather, its application will be made pursuant to other accounting pronouncements that require or permit fair value measurements. FAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those years. The provisions of FAS No. 157 are to be applied prospectively upon adoption, except for limited specified exceptions. We do not expect the adoption of FAS No. 157 to have a material impact on our financial position, results of operations or cash flows.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities - Including an Amendment of FASB Statement No. 115 ("FAS 159"). FAS 159 permits companies to measure eligible financial instruments and certain other items at fair value that are currently not required to be measured at fair value. FAS 159 will become effective for financial statements issued for fiscal years beginning after November 15, 2007, with early adoption permitted. We are currently evaluating FAS 159 and any potential impact on our financial statements, however we do not expect this pronouncement to have a material impact on our financial position or results of operations.

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

There have been no material changes in market risk from the information provided in Item 7A. "Quantitative and Qualitative Disclosures About Market Risk" in our Annual Report on Form 10-K as of December 31, 2006.

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### Item 4. Controls and Procedures

A complete discussion of our controls and procedures is included in our Form 10-K for the year ended December 31, 2006.

#### Disclosure Controls and Procedures

Our management, under the supervision of and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of Core Laboratories N.V.'s disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of the end of the period covered by this report. Our disclosure controls and procedures are designed to provide reasonable assurance that the information required to be disclosed by us in our reports filed or submitted under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based on such evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 30, 2007 at the reasonable assurance level. Our management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent all errors and all fraud. Further, the design of disclosure controls and internal control over financial reporting must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected.



## Changes in Internal Control Over Financial Reporting

There have not been any changes in our internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during our fiscal quarter ended September 30, 2007, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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CORE LABORATORIES N.V.

## PART II - OTHER INFORMATION

## Item 1. Legal Proceedings

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

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

The following table provides information about purchases of equity securities that are registered by us pursuant to Section 12 of the Exchange Act during the quarter ended September 30, 2007:

| 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 |
|----------------------|----------------------------------|------------------------------|--|--|
| July 1-31, 2007      | 325,873                          | \$103.82                     | 325,873  | 1,894,013  |
| August 1-31, 2007    | 79,900                           | \$103.90                     | 79,900   | 1,814,113  |
| September 1-30, 2007 |                                  |                              |  | 1,734,315  |
| (1)                  | 79,798                           | \$127.12                     | 79,798   |  |
| <b>Total</b>         | <b>485,571</b>                   | <b>\$107.65</b>              | <b>485,571</b>   |  |

(1) Contains 98 shares valued at \$10,200, or \$103.63 per share, acquired pursuant to the terms of a compensation plan, in settlement by the participants of personal tax burdens that may result from the issuance of common shares under this plan.

Under Dutch law and our articles of association, and subject to certain Dutch statutory provisions, we may repurchase up to 10% of our issued share capital in open market purchases. In connection with our initial public offering in March 1995, our shareholders authorized our Management Board to make such repurchases for a period of 18 months. At each annual shareholders' meeting subsequent to 1995, our shareholders have renewed that authorization. At our Annual Shareholders' Meeting on April 2, 2007, our shareholders approved the extension of the authority of our Management Board to repurchase up to 10% of the Company's outstanding share capital up through October 2, 2008.

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## Item 5. Other Information

On August 15, 2007, we issued 2,000 restricted performance shares ("Director Tranche 2") to each of our non-employee Supervisory Directors for which the performance period began on August 15, 2007 and ends on August 15, 2010. The Director Tranche 2 shares were granted pursuant to a Performance Share Award Restricted Share Agreement (ROE Based), dated August 15, 2007, between the Company and each of the non-employee directors. Pursuant to this agreement, we will award performance restricted shares if certain targets are obtained. These performance restricted share awards represent the right to receive our common shares in the future. The performance target for Director Tranche 2 is based on a calculated ROE, as defined in the Director Tranche 2 agreement, that equals or exceeds the pre-determined target ROE of 50%. Unless there is a change in control, none of these Director Tranche 2 shares will be issued if our ROE is less than 40% for the three-year performance period. If our ROE for the performance period equals 40%, then 20% of the Director Tranche 2 shares will be issued, and if our ROE for the performance period equals or exceeds 50%, then 100% of the Director Tranche 2 shares will be issued. If our ROE for the performance period is greater than 40% but less than 50%, then the number of Director Tranche 2 shares to be issued would be interpolated based on the terms of the agreement. If a change in control of the Company occurs prior to the last day of the three-year performance period, then all of the Director Tranche 2 shares will vest as of the date of the change in control.

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Item 6. Exhibits

| Exhibit No. | Exhibit Title  | Incorporated by reference from the following documents                |
|-------------|--|---|
| 3.1         | - Articles of Association of Core Laboratories N.V., as amended (including English translation)  | Form F-1, September 20, 1995 (File No. 000-26710)                     |
| 3.2         | - Amendments to the Articles of Association of Core Laboratories N.V.  | Proxy Statement dated May 17, 2006 for Annual Meeting of Shareholders |
| 10.1*       | - Form of Director Performance Share Award Restricted Share Agreement (ROE Based)  | Filed herewith  |
| 31.1        | - Certification of Chief Executive Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith  |
| 31.2        | - Certification of Chief Financial Officer Pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | Filed herewith  |
| 32.1        | - Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                | Furnished herewith  |
| 32.2        | - Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002                                | Furnished herewith  |

\* Management contract or compensatory plan or arrangement

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SIGNATURE

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

CORE LABORATORIES N.V.

By: Core Laboratories International B.V.,  
its  
Managing Director

Date: October 26, 2007

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

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