

CORE LABORATORIES N V

Form 10-K

February 20, 2007

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2006

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 or other jurisdiction of incorporation or organization)

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

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

Not Applicable  
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class  
Common Shares, EUR 0.04 Par Value Per Share

Name of exchange on which registered  
New York Stock Exchange

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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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.

Large accelerated filer  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

As of June 30, 2006, the number of common shares outstanding was 25,404,159. At that date, the aggregate market value of common shares held by non-affiliates of the registrant was approximately \$1,462,007,068.

As of February 16, 2007, the number of common shares outstanding was 23,132,097.

DOCUMENTS INCORPORATED BY REFERENCE

DOCUMENT	Part of 10-K
1. Proxy statement to be filed pursuant to Regulation 14A under the Securities Exchange Act of 1934 with respect to the 2006 annual meeting of shareholders	PART III

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CORE LABORATORIES N.V.

FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

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## PART I

### ITEM 1. BUSINESS

#### General

Core Laboratories N.V. is a Netherlands limited liability company. We were established in 1936 and are one of the world's leading providers of proprietary and patented reservoir description, production enhancement and reservoir management services to the oil and gas industry. These products and services are directed toward enabling our clients to improve reservoir performance and increase oil and gas recovery from their producing fields. We have over 70 offices in more than 50 countries and have approximately 4,600 employees.

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

#### Business Strategy

Our business strategy is to provide advanced technologies that improve reservoir performance by (i) continuing the development of proprietary technologies through client-driven research and development, (ii) expanding the services and products offered throughout our global network of offices and (iii) acquiring complementary technologies that add key technologies or market presence and enhance existing products and services.

#### Development of New Technologies, Services and Products

We conduct research and development to meet the needs of our clients who are continually seeking new services and technologies to lower their costs of finding, developing and producing oil and gas. While the aggregate number of wells being drilled per year has fluctuated relative to market conditions, oil and gas producers have, on a proportional basis, increased expenditures on technology services to improve their understanding of the reservoir and increase production of oil and gas from their producing fields. We intend to continue concentrating our efforts on services and technologies that improve reservoir performance and increase oil and gas recovery.

#### International Expansion of Services and Products

Another component of our business strategy is to broaden the spectrum of services and products offered to our clients on a global basis. We intend to continue using our worldwide network of offices to offer many of our new services and products that have been developed internally or obtained through acquisitions. This allows us to enhance our revenues through efficient utilization of our worldwide network.

#### Acquisitions

We continually review potential acquisitions to add key services and technologies, enhance market presence or complement existing businesses.

More information relating to our acquisitions is included in Note 3 of the Notes to Consolidated Financial Statements in this Annual Report on Form 10-K ("Notes to Consolidated Financial Statements").

#### Operations

We derive our revenues from services and product sales to clients primarily in the oil and gas industry.

Our reservoir optimization services and technologies are interrelated and are organized into three complementary segments. Disclosure relating to the results of these business segments is included in Note 15 of the Notes to Consolidated Financial Statements.

- 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.

We offer our services worldwide through our global network of offices. Services accounted for approximately 75%, 76% and 77% of our revenues from operations for the years ended December 31, 2006, 2005 and 2004, respectively.

We manufacture products primarily in four facilities for distribution on a global basis. Product sales, generated principally in our Production Enhancement segment, accounted for approximately 25%, 24% and 23% of our revenues from operations for the years ended December 31, 2006, 2005 and 2004, respectively.

Our product sales backlog at December 31, 2006 was approximately \$23.6 million compared to \$8.8 million at December 31, 2005. Sources of raw material are readily available and our sales backlog should be completed in 2007.

### Reservoir Description

Commercial oil and gas fields consist of porous and permeable reservoir rocks that contain natural gas, crude oil and water. Due to the density differences of the fluids, natural gas typically caps the field and overlies an oil layer, which overlies the water. We provide services that characterize the porous reservoir rock and all three reservoir fluids. Services relating to these fluids include determining quality and measuring quantity of the fluids and their derived products. This includes determining the value of different crude oil and natural gases by analyzing the individual components of complex hydrocarbons. These data sets are used by oil companies to determine the most efficient method by which to recover, process and refine these hydrocarbons to produce the maximum value added to crude oil and natural gas.

We analyze samples of reservoir rocks for their porosity, which determines reservoir storage capacity, and for their permeability, which defines the ability of the fluids to flow through the rock. These measurements are used to determine how much oil and gas are present in a reservoir and the rates at which the oil and gas can be produced. We also use our proprietary services and technologies to correlate the reservoir description data to wireline logs and seismic data by determining the different acoustic velocities of reservoir rocks containing water, oil and natural gas. These measurements are used in conjunction with our reservoir management services to develop programs to produce more oil and gas from the reservoir.

### Production Enhancement

We produce data to describe a reservoir system that is used to enhance oil and gas production so that it will exceed the average oilfield recovery factor, which is approximately 40%. Two production enhancement methods commonly used are (i) hydraulic fracturing of the reservoir rock to improve flow and (ii) flooding a reservoir with water, carbon dioxide, nitrogen or hydrocarbon gases to force more oil and gas to the wellbore. Many oilfields today are hydraulically fractured and flooded to maximize oil and gas recovery. Our services and technologies play a key role in the success of both methods.

The hydraulic fracturing of a producing formation is achieved by pumping a proppant material in a gel slurry into the reservoir zone at extremely high pressures. This forces fractures to open in the rock and "props" or holds the fractures open so that reservoir fluids can flow to the production wellbore. Our data on rock type and strength are critical for determining the proper design of the hydraulic fracturing job. In addition, our testing indicates whether the gel slurry is compatible with the reservoir fluids so that damage does not occur to the porous rock network. Our proprietary and

patented ZeroWash™ tracer technology is used to determine that the proppant material was properly placed in the fracture to ensure effective flow and increased recovery.

SpectraChem<sup>SM</sup> is another proprietary and patented technology developed for optimizing hydraulic fracture performance. SpectraChem<sup>SM</sup> is used to aid operators in determining the efficiency of the fracture fluids used. SpectraChem<sup>SM</sup> tracers allow operators to evaluate the quantity of fracture fluid that returns to the wellbore during the clean-up period after a hydraulic fracturing event. This technology also allows our clients to evaluate load recovery, gas breakthrough, fluid leakoff and breaker efficiency, all of which are important factors for optimizing natural gas production after the formation is hydraulically fractured.

We conduct dynamic flow tests of the reservoir fluids through the reservoir rock, at actual reservoir pressure and temperature, to realistically simulate the actual flooding of a producing zone. We use patented technologies, such as our Saturation Monitoring by the Attenuation of X-rays (SMAX™), to help design the enhanced recovery project. After a field flood is initiated, we are often involved in monitoring the progress of the flood to ensure the maximum amount of incremental production is being achieved through the use of our SpectraFlood™ technology which we developed to optimize sweep efficiency during field floods.

Our unique completion monitoring system, Completion Profiler™, helps to determine flow rates from reservoir zones after they have been hydraulically fractured. This provides our clients with a baseline of early production information and can be compared to subsequent production logs later in the life of the well to see if and where hydrocarbon production varies.

Our PackScan™ patented technology, which is used as a tool to evaluate gravel pack effectiveness in an unconsolidated reservoir, has contributed to our revenue growth. PackScan™ measures the density changes in the area around the tool and is designed to observe the changes within the wellbore to verify the completeness of the gravel pack protection of the wellbore without any additional rig time.

In addition to our many patented reservoir analysis technologies, we have established ourselves as a global leader in the manufacture and distribution of high-performance perforating products. Our unique understanding of complex reservoirs supports our ability to supply perforating systems engineered to maximize well productivity by reducing, eliminating and overcoming formation damage caused during the completion of oil and gas wells. Our "systems" approach to the perforating of an oil or gas well has resulted in numerous patented products. Our HERO™ perforating system has quickly become an industry leader in enhancing reservoir performance. Our manufacturing operations in the United States and Canada continue to meet the global demand for our perforating systems through facility expansion in addition to gains in efficiency and productivity.

We have an experienced Technical Services team to support clients through our global network of offices for the everyday use of our perforating systems and the rapid introduction of new products. Our personnel are capable of providing client training and on-site service in the completion of oil and gas wells. Our patented X-SPAN™ and GTX-SPAN™ casing patches are supported by our Technical Services operating group. These systems are capable of performing in high pressure gas environments and are used to seal non-productive reservoir zones from the producing wellbore.

## Reservoir Management

Reservoir description and production enhancement information, when applied across an entire oilfield, is used to maximize daily production and the ultimate total recovery from the reservoir. We are involved in numerous large-scale reservoir management projects, applying proprietary and state-of-the-art techniques from the earliest phases of a field development program until the last economic barrel of oil is recovered.

These projects are of increasing importance to oil companies as the incremental barrel is often the lowest cost and most profitable barrel in the reservoir. Producing incremental barrels increases our clients' cash flows which we believe will result in additional capital expenditures by our clients, and ultimately further opportunities for us. We also develop and provide industry consortium studies to provide critical reservoir information to a broad spectrum of clients in a cost effective manner.

#### Marketing and Sales

We market and sell our services and products through a combination of print advertising, technical seminars, trade shows and sales representatives. Direct sales and marketing are carried out by our sales force, technical experts and operating managers, as well as by sales representatives and distributors in various markets where we do not have offices.

#### Research and Development

The market for our products and services is characterized by changing technology and frequent product introduction. As a result, our success is dependent upon our ability to develop or acquire new products and services on a cost-effective basis and to introduce them into the marketplace in a timely manner. Many of our acquisitions have allowed us to obtain the benefits of the acquired company's research and development projects without the significant costs that would have been incurred if we had attempted to develop the products and services ourselves. Research and development expenditures are charged to expense as incurred. We intend to continue committing substantial financial resources and effort to the development and acquisition of new products and services. Over the years, we have made a number of technological advances, including the development of key technologies utilized in our operations. Substantially all of the new technologies have resulted from requests and guidance from our clients, particularly major oil companies. While we have acquired many of our new technologies, we incur expenses relating to our ongoing research and development program.

#### Patents and Trademarks

We believe our patents, trademarks and other intellectual property rights are an important factor in maintaining our technological advantage, although no one patent is considered essential to our success. Typically, we will seek to protect our intellectual technology in all jurisdictions where we believe the cost of such protection is warranted. While we have patented some of our key technologies, we do not patent all of our proprietary technology even where regarded as patentable. In addition to patents, in many instances we protect our trade secrets through confidentiality agreements with our employees and our clients.

#### International Operations

We operate facilities in more than 50 countries. Our non-U.S. operations accounted for approximately 53%, 56% and 58% of our revenues from operations during the years ended December 31, 2006, 2005 and 2004, respectively. Significant levels of our revenues in the U.S. are generated by projects on oilfields which are located outside the U.S.

While we are subject to fluctuations and changes in currency exchange rates relating to our international operations, we attempt to limit our exposure to foreign currency fluctuations by limiting the amount in which our foreign contracts are denominated in a currency other than the U.S. dollar to an amount generally equal to the expenses expected to be incurred in such foreign currency. However, the ultimate decision as to the proportion of the foreign currency component within a contract usually resides with our clients. Consequently, we are not able to always match

our currency exposure. We have not historically engaged in and are not currently engaged in any significant hedging or currency trading transactions designed to compensate for adverse currency fluctuations. The following graphs summarize our revenues by geographic region for the years ended December 31, 2006, 2005 and 2004:

#### Geographic Breakdown of Revenues

#### **Environmental Regulation**

We are subject to stringent governmental laws and regulations pertaining to protection of the environment and the manner in which chemicals and gases used in our analytical and manufacturing processes are handled and disposed. Consistent with our quality assurance and control principles, we have established proactive environmental policies for the management of these chemicals and gases as well as the handling and disposal of wastes resulting from our operations. Compliance with these laws and regulations may require the acquisition of permits for regulated activities,



capital expenditures to limit or prevent emissions and discharges, and special precautions for disposal of certain wastes. Failure to comply with these laws and regulations may result in the assessment of administrative, civil and criminal penalties, the imposition of remedial obligations, and even the issuance of injunctive relief. Changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly waste handling, disposal or cleanup requirements have the potential to have a material adverse effect on our operations and financial position.

Our analytical and manufacturing processes involve the handling and use of numerous chemicals and gases as well as the generation of wastes. Spills or releases of these chemicals, gases, and wastes at our facilities or at offsite locations where they are transported for disposal could subject us to environmental liability, which may be strict, joint and several, for the costs of cleaning up chemicals and wastes released into the environment and for damages to natural resources, and it is not uncommon for neighboring landowners and other third parties to file claims for personal injury and property damage allegedly caused by such spills or releases. Under such laws, we could be required to remove previously disposed wastes, remediate environmental contamination, and undertake measures to prevent future contamination. While we believe that we are in substantial compliance with current applicable environmental laws and regulations and that continued compliance with existing requirements will not have a material adverse impact on us, we cannot give any assurance that this trend will continue in the future.

#### Competition

The businesses in which we engage are competitive. Some of our competitors are divisions or subsidiaries of companies that are larger and have greater financial and other resources than we have. While no one company competes with us in all of our product and service lines, we face competition in these lines, primarily from independent regional companies. We compete in different product and service lines to various degrees on the basis of price, technical performance, availability, quality and technical support. Our ability to compete successfully depends on elements both within and outside of our control, including successful and timely development of new products and services, performance and quality, client service, pricing, industry trends and general economic trends.

#### Reliance on the Oil and Gas Industry

Our business and operations are substantially dependent upon the condition of the global oil and gas industry. Future downturns in the oil and gas industry, or in the oilfield services business, may have a material adverse effect on our financial position, results of operations or cash flows.

The oil and gas industry is highly cyclical and has been subject to significant economic downturns at various times as a result of numerous factors affecting the supply of and demand for oil and natural gas, including the level of capital expenditures of the oil and gas industry; the level of drilling activity; the level of production activity; market prices of oil and gas; economic conditions existing in the world; interest rates and the cost of capital; environmental regulations; tax policies; political requirements of national governments; coordination by the Organization of Petroleum Exporting Countries ("OPEC"); cost of producing oil and natural gas; and technological advances.

#### Employees

As of December 31, 2006, we had approximately 4,600 employees. We do not have any material collective bargaining agreements and consider relations with our employees to be good.

#### Web Site Access to Our Periodic SEC Reports

Our primary internet address is <http://www.corelab.com>. We file or furnish Quarterly Reports on Form 10-Q and Annual Reports on Form 10-K, as well as Current Reports on Form 8-K with the U.S. Securities and Exchange Commission ("SEC"). These reports are available free of charge through our web site as soon as reasonably practicable after they are filed or furnished electronically with the SEC. We may from time to time provide important disclosures to investors by posting them in the investor relations section of our web site, as allowed by SEC rules.

Materials we file with the SEC may be read and copied at the SEC's Public Reference Room at 100F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet website at <http://www.sec.gov> that contains reports, proxy and information statements, and other information regarding our company that we file electronically with the SEC.

#### NYSE Corporate Governance Matters

As a listed company with the New York Stock Exchange, our Chief Executive Officer, as required under Section 303A.12(a) of the NYSE Listed Company Manual, must certify to the NYSE each year whether or not he is aware of any violation by the company of NYSE Corporate Governance listing standards as of the date of the certification. On July 27, 2006, Core's Chief Executive Officer submitted such a certification to the NYSE which stated that he was not aware of any violation by Core of the NYSE Corporate Governance listing standards. On February 22, 2006, Core filed its 2005 Form 10-K with the SEC, which included as Exhibits 31.1 and 31.2 the Chief Executive Officer and Chief Financial Officer certifications required under Section 302 of the Sarbanes-Oxley Act of 2002.

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#### ITEM 1A. RISK FACTORS

Our forward-looking statements are based on assumptions that we believe to be reasonable but that may not prove to be accurate. All of our forward-looking information is, therefore, subject to risks and uncertainties that could cause actual results to differ materially from the results expected. Although it is not possible to identify all factors, these risks and uncertainties include the risk factors discussed below.

Future downturns in the oil and gas industry, or in the oilfield services business, may have a material adverse effect on our financial condition or results of operations.

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

- market prices of oil and gas and expectations about future prices;
- cost of producing oil and natural gas;
- the level of drilling and production activity;
- mergers, consolidations and downsizing among our clients;

- coordination by OPEC;
- the impact of commodity prices on the expenditure levels of our clients;
- financial condition of our client base and their ability to fund capital expenditures;
- adverse weather conditions;
- civil unrest in oil producing countries;
- level of consumption of oil, gas and petrochemicals by consumers; and
- availability of services and materials for our clients to grow their capital expenditures.

The oil and gas industry has historically experienced periodic downturns, which have been characterized by diminished demand for our oilfield products and services and downward pressure on the prices we charge. A significant downturn in the oil and gas industry could result in a reduction in demand for oilfield services and could adversely affect our operating results.

We depend on the results of our international operations, which expose us to risks inherent in doing business abroad.

We conduct our business in over 50 countries; business outside of the United States accounts for approximately 53%, 56% and 58% of our revenues during the years ended December 31, 2006, 2005 and 2004, respectively. Our operations are subject to the various laws and regulations of those respective countries as well as various risks peculiar to each country, which may include:

- global economic conditions;
- political actions and requirements of national governments including trade restrictions, embargoes and expropriations of assets;
- potential adjustments to tax liabilities in multiple jurisdictions;
- civil unrest;
- acts of terrorism;
- fluctuations and changes in currency exchange rates;
- the impact of inflation; and
- current conditions in Venezuela, Nigeria, Iran and Iraq.

Historically, economic downturn and political events have resulted in lower demand for our products and services in certain markets. The ongoing conflict in Iraq and the potential for activity from terrorist groups that the U.S. government has cautioned against have further heightened our exposure to international risks. The global economy is highly influenced by public confidence in the geopolitical environment and the situation in the Middle East continues to be highly fluid; therefore, we expect to experience heightened international risks.

In February 2004, the Venezuelan government devalued the VEB by 20% to 1,915 VEB per USD. Effective March 2, 2005, the Venezuelan government devalued the VEB by an additional 12% to 2,147 VEB per USD. At December 31, 2006, our net monetary assets denominated in VEB in Venezuela were \$3.3 million. We continue to monitor our

operations and financial position in this region.

If we are not able to develop or acquire new products or our products become technologically obsolete, our results of operations may be adversely affected.

The market for our products and services is characterized by changing technology and frequent product introduction. As a result, our success is dependent upon our ability to develop or acquire new products and services on a cost-effective basis and to introduce them into the marketplace in a timely manner. While we intend to continue committing substantial financial resources and effort to the development of new products and services, we may not be able to successfully differentiate our products and services from those of our competitors. Our clients may not consider our proposed products and services to be of value to them; or if the proposed products and services are of a competitive nature, our clients may not view them as superior to our competitors' products and services. In addition, we may not be able to adapt to evolving markets and technologies, develop new products, or achieve and maintain technological advantages.

If we are unable to continue developing competitive products in a timely manner in response to changes in technology, our businesses and operating results may be materially and adversely affected. In addition, continuing development of new products inherently carries the risk of inventory obsolescence with respect to our older products.

If we are unable to obtain patents, licenses and other intellectual property rights covering our products and services, our operating results may be adversely affected.

Our success depends in part on our ability to obtain patents, licenses and other intellectual property rights covering our products and services. To that end, we have obtained certain patents and intend to continue to seek patents on some of our inventions and services. While we have patented some of our key technologies, we do not patent all of our proprietary technology, even when regarded as patentable. The process of seeking patent protection can be long and expensive. There can be no assurance that patents will be issued from currently pending or future applications or that, if patents are issued, they will be of sufficient scope or strength to provide meaningful protection or any commercial advantage to us. In addition, effective copyright and trade secret protection may be unavailable or limited in certain countries. Litigation, which could demand financial and management resources, may be necessary to enforce our patents or other intellectual property rights. Also, there can be no assurance that we can obtain licenses or other rights to necessary intellectual property on acceptable terms.

There are risks related to our acquisition strategy. If we are unable to successfully integrate and manage businesses that we have acquired and any businesses acquired in the future, our results of operations and financial condition could be adversely affected.

One of our key business strategies is to acquire technologies, operations and assets that are complementary to our existing businesses. There are financial, operational and legal risks inherent in any acquisition strategy, including:

- increased financial leverage;
- increased interest expense; and
- difficulties involved in combining disparate company cultures and facilities.

The success of any completed acquisition will depend on our ability to integrate effectively the acquired business into our existing operations. The process of integrating acquired businesses may involve unforeseen difficulties and may require a disproportionate amount of our managerial and financial resources. In addition, possible future acquisitions

may be larger and for purchase prices significantly higher than those paid for earlier acquisitions. No assurance can be given that we will be able to continue to identify additional suitable acquisition opportunities, negotiate acceptable terms, obtain financing for acquisitions on acceptable terms or successfully acquire identified targets. Our failure to achieve consolidation savings, to incorporate the acquired businesses and assets into our existing operations successfully or to minimize any unforeseen operational difficulties could have a material adverse effect on our financial condition and results of operation.

We are subject to a variety of environmental laws and regulations, which may result in increased costs to our business.

We are subject to a variety of governmental laws and regulations both in the United States and abroad relating to protection of the environment and the use, storage, discharge and disposal of chemicals and gases used in our analytical and manufacturing processes. These laws and regulations may impose joint and several, strict liability and failure to comply with such laws and regulations could result in the assessment of damages or imposition of fines against us or the suspension or cessation of operations. New laws and regulations could require us to acquire costly equipment or to incur other significant expenses. If we fail to control the use, or adequately restrict the discharge of, hazardous substances, we could be subject to future material liabilities including remedial obligations. In addition, public interest in the protection of the environment has increased dramatically in recent years. We anticipate that the trend of more expansive and stricter environmental laws and regulations will continue, the occurrence of which may require us to increase our capital expenditures or could result in increased operating expenses.

Because we are a Netherlands company, it may be difficult for you to sue our supervisory directors or us and it may not be possible to obtain or enforce judgments against us.

Although we are a Netherlands company, our assets are located in a variety of countries. In addition, not all members of our supervisory board of directors are residents of the same countries as other supervisory directors. As a result, it may not be possible for you to effect service of process within certain countries upon our supervisory directors, or to enforce against our supervisory directors or us judgments of courts of certain countries predicated upon civil liabilities under a country's federal securities laws. Because there is no treaty between certain countries and The Netherlands providing for the reciprocal recognition and enforcement of judgments, some countries' judgments are not automatically enforceable in The Netherlands or in the United States, where the principal market for our shares is located. In addition, there is doubt as to whether a court in one country would impose civil liability on us or on the members of our supervisory board of directors in an original action brought against us or our supervisory directors in a court of competent jurisdiction in another country and predicated solely upon the federal securities laws of that other country.

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#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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#### ITEM 2. PROPERTIES

Currently, we have over 70 offices (totaling approximately 1.8 million square feet of space) in more than 50 countries. In these locations, we lease approximately 1.3 million square feet of space and own approximately 0.5 million square

feet of space. We serve our worldwide clients through six Advanced Technology Centers ("ATCs") that are located in Houston, Texas; Calgary, Canada; Kuala Lumpur, Malaysia; Rotterdam, The Netherlands; Abu Dhabi, UAE; and Aberdeen, Scotland. The ATCs provide support for our 50 regional specialty centers located throughout the global energy producing provinces. In addition, we have manufacturing facilities located in Godley, Texas, and Red Deer, Alberta, Canada, which are included in our Production Enhancement business segment. Our facilities are adequately utilized for current operations. However, expansion into new facilities may be required to accommodate future growth.

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### ITEM 3. LEGAL PROCEEDINGS

From time to time, we may be subject to legal proceedings and claims that arise in the ordinary course of business.

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### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

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## PART II

### ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

#### Price Range of Common Shares

Our common shares trade on the New York Stock Exchange ("NYSE") under the symbol "CLB". The range of high and low sales prices per share of the common shares as reported by the NYSE are set in the following table for the periods indicated.

	High	Low
2006		
First Quarter	\$ 48.31	\$ 38.60
Second Quarter	68.05	48.14
Third Quarter	79.97	55.25
Fourth Quarter	91.92	58.36
2005		
First Quarter	\$ 27.34	\$ 21.59
Second Quarter	27.15	23.12
Third Quarter	33.06	26.91
Fourth Quarter	39.25	27.94

On February 16, 2007, the closing price, as quoted by the NYSE, was \$79.98 per share and there were

23,132,097 common shares issued and outstanding held by approximately 710 record holders and approximately 11,200 beneficial holders. These amounts exclude shares held by us as treasury shares.

See "Item 12. Security Ownership of Certain Beneficial Owners and Management" for discussion of equity compensation plans.

### Dividend Policy

We have never paid dividends on our common shares and currently have no plans to pay dividends on the common shares. We expect that we will retain all available earnings generated by our operations for the development and growth of our business. Any future determination as to the payment of dividends will be made at the discretion of our Supervisory Board and will depend upon our operating results, financial condition, capital requirements, income tax treatment of payments, general business conditions and such other factors as they deem relevant. Because we are a holding company that conducts substantially all of our operations through subsidiaries, our ability to pay cash dividends on the common shares is also dependent upon the ability of our subsidiaries to pay cash dividends or otherwise distribute or advance funds to us and on the terms and conditions of our existing and future credit arrangements. See "Liquidity and Capital Resources" included in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

### Share Repurchases in the Fourth Quarter of 2006

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 three months ended December 31, 2006:

PERIOD	TOTAL NUMBER OF SHARES PURCHASED	AVERAGE PRICE PAID PER SHARE
October 1-31, 2006	-	-
November 1-30, 2006	1,925,269	\$ 75.30
December 1-31, 2006		
(1)	20,179	\$ 82.50
Total	1,945,448	\$ 75.37

(1) 20,179 shares valued at \$1.7 million, or \$82.50 per share, surrendered to us by participants in a stock-based compensation plan to settle any personal tax liabilities which may result from the award.

Under Dutch law and our articles of association, and subject to certain Dutch statutory provisions, we may repurchase up to 10% of our outstanding share capital in open market purchases. In connection with our initial public offering in September 1995, our shareholders authorized our Management Board to make such repurchases for a period of 18 months. At each annual meeting subsequent to 1995, our shareholders have renewed that authorization. At our Annual Shareholders' Meeting on June 28, 2006, our shareholders approved a further extension of this authority for an additional 18-month period from the date of the annual meeting until December 28, 2007 and authorized the repurchase of an additional 2,542,126 shares. The number of shares that may yet be purchased under the announced program was 158,736 at December 31, 2006.

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## ITEM 6. SELECTED FINANCIAL DATA

The selected consolidated financial information contained below is derived from our Consolidated Financial Statements and should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited Consolidated Financial Statements.

	Years Ended December 31,				
	2006	2005	2004 <sup>1</sup>	2003	2002
	(in thousands, except per share and other data)				
<b>Financial Statement Data:</b>					
<sup>2</sup>					
Revenues	\$ 575,689	\$ 483,467	\$ 427,427	\$ 373,167	\$ 330,768
Income from continuing operations	82,662	31,717	28,022	20,792	9,594
Income before cumulative effect of change in accounting principle <sup>3</sup>	82,662	31,211	12,290	18,700	6,478
Net income (loss)	82,662	31,211	12,290	18,700	(9,062)
Working capital	136,632	83,689	84,233	105,079	125,589
Total assets	501,215	394,601	388,797	426,731	421,601
Long-term debt and capital lease obligations, including current maturities	302,764	88,648	113,200	128,101	89,180
Shareholders' equity	71,836	214,257	190,296	220,412	258,146
<b>Earnings Per Share Information:</b>					
<b>Income from continuing operations:</b>					
Basic	\$ 3.29	\$ 1.22	\$ 1.04	\$ 0.69	\$ 0.29
Diluted	\$ 3.07	\$ 1.13	\$ 0.97	\$ 0.67	\$ 0.29
<b>Net income (loss):</b>					
Basic	\$ 3.29	\$ 1.20	\$ 0.46	\$ 0.62	\$ (0.27)
Diluted	\$ 3.07	\$ 1.11	\$ 0.43	\$ 0.60	\$ (0.27)
<b>Weighted average common shares outstanding:</b>					
Basic	25,157	26,038	26,896	30,209	33,174
Diluted	26,888	28,008	28,761	31,179	33,174
<b>Other Data:</b>					
Current Ratio <sup>4</sup>	2.5:1	2.2:1	2.3:1	2.7:1	3.5:1
Debt to Capitalization Ratio <sup>5</sup>	71%	28%	35%	35%	25%

1) See Note 3 of the Notes to Consolidated Financial Statements for a discussion of acquisitions made in 2004.

2) All periods have been restated to reflect discontinued operations sold in 2004. See Note 2 of the Notes to the Consolidated Financial Statements.

3) In 2002, impairment charge recorded upon adoption of SFAS 142.

4) Current ratio is calculated as follows: current assets divided by current liabilities.

5) Debt to capitalization ratio is calculated as follows: debt divided by the sum of cash, debt and shareholders' equity.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

Core Laboratories N.V. is a Netherlands limited liability company. We were established in 1936 and are 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, primarily through customer relationships with many of the world's major, national and independent oil companies.

Our business units have been aggregated into three complementary segments:

- 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.

In April 2004, we sold our specialized geophysical and seismic-related business, which was previously included as a component of our Reservoir Management business. We recorded a loss of \$15.7 million, net of tax, related to this discontinued operation during the year ended December 31, 2004.

General Overview

We provide services and design and produce products which enable our clients to evaluate reservoir performance and increase oil and gas recovery from new and existing fields. These services and products are generally in higher demand when our clients are investing capital in exploration and development efforts to explore new fields or to increase productivity in existing fields. Our clients' investment in capital expenditure programs tends to correlate to oil and natural gas commodity prices. During periods of higher prices, our clients generally invest more in capital expenditures and, during periods of lower commodity prices, they tend to invest less. Accordingly, the level of capital expenditures by our clients impacts the demand for our services and products.

Commodity prices for crude oil fluctuated throughout 2006 ending the year down from levels attained earlier in the year. However, activity levels in the oilfield service sector increased during the year. The following table summarizes the average worldwide and U.S. rig counts for the years ended December 31, 2006, 2005 and 2004, as well as the spot price of a barrel of West Texas Intermediate crude and an mcf of natural gas at the dates then ended:

Rig Count/Oil and Gas Prices

	As of December 31,		
	2006	2005	2004

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Worldwide Rig Count <sup>1</sup>	3,125	2,993	2,555
U.S. Rig Count <sup>1</sup>	1,718	1,470	1,246
Crude Oil Price per Barrel (WTI Spot)	\$ 60.85	\$ 59.82	\$ 43.36
Natural Gas Price Spot Average per MCF <sup>2</sup>	\$ 5.51	\$ 9.52	\$ 6.15

1) Baker Hughes Incorporated - World-wide  
Rig Count

2) Obtained from Lehman Brothers - U.S. Department of Energy Henry Hub spot price  
at 12/29/06, 12/30/05 & 12/30/04 per the New York Mercantile Exchange

The price of natural gas in 2006 declined throughout the year when compared with the price in 2005 and 2004. These lower prices were attributable to various market factors including a general decline in natural gas consumption. General oil market conditions in the United States improved and contributed to maintaining the price for derivative crude-oil products and petrochemical products in 2006.

Our activity levels continue to increase as oilfield activities by our customers increase. These higher activity levels resulted in increased revenues for us in 2006, primarily for our Reservoir Description and Production Enhancement business segments.

Given these higher revenues, in conjunction with efforts to contain our cost structure, we were able to generate operating income that was 102% greater than the prior year. Our Reservoir Description segment showed improvement in almost all operations, primarily as a result of the spending levels of our clients aimed at characterizing and analyzing reservoirs, crude oil, and derivative products. Operating income from our Production Enhancement segment was up 89% over the prior year as more wells in North America were drilled and stimulated than in the prior year, which provides greater opportunity for our clients to use our products and services. In April 2004, we sold our seismic-related business, which had become less profitable in recent years, due to increased competition which contributed to lower margins. The results for our Reservoir Management group improved over the prior year due primarily to a re-focus of our efforts on integrated solutions for clients.

## Outlook

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

We have established internal earnings targets that are based on current market conditions. Based on discussions with our clients and our view of the industry, we anticipate that in 2007 spending by our clients will increase approximately 10%. Attaining our internal targets is dependent on sustained oilfield activity.

We expect to meet ongoing working capital needs, capital expenditure requirements and funding of our share repurchase program from a combination of cash on hand, cash flow from operating activities and available borrowings under our revolving credit facility.

## Critical Accounting Policies and Estimates

Our financial statements are prepared in conformity with generally accepted accounting principles in the U.S. ("U.S. GAAP") and require us to make estimates and assumptions during their preparation which requires judgment. Our

accounting policies and procedures are explained in Note 2 to the Notes to the Consolidated Financial Statements contained elsewhere in this Annual Report on Form 10-K. The following transaction types require significant judgment and, therefore, are considered critical accounting policies as of December 31, 2006:

#### Revenue Recognition

Revenues are recognized as services are completed or as product title is transferred. All advance client payments are classified as unearned revenues until services are performed or product title is transferred. We recognize revenue when we determine that the following criteria are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred or services have been rendered; (iii) the fee is fixed or determinable; and (iv) collectibility is reasonably assured. Revenues from long-term contracts are recorded as services are rendered in proportion to the work performed. All known or anticipated losses on contracts are provided for currently. Training and consulting service revenues are recognized as the services are performed.

#### Allowance for Doubtful Accounts

We perform ongoing credit evaluations of our clients and monitor collections and payments in order to maintain a provision for estimated uncollectible accounts based on our historical collection experience and our current aging of client receivables outstanding in addition to clients' representations and our understanding of the economic environment in which our clients operate. Based on our review, we establish or adjust allowances for specific customers and the accounts receivable as a whole. Our allowance for doubtful accounts at December 31, 2006 was \$4.3 million compared to \$4.5 million at December 31, 2005.

#### Long-Lived Assets, Intangibles and Goodwill

Property, plant and equipment are carried at cost. Major renewals and improvements are capitalized and depreciated over the respective asset's remaining useful life. Maintenance and repair costs are charged to expense as incurred. When long-lived assets are sold or retired, the remaining costs and related accumulated depreciation are removed from the accounts and any resulting gain or loss is included in income.

Property, plant and equipment held and used is reviewed for impairment whenever events or changes in circumstances indicate the carrying amounts may not be recoverable over the remaining service life. Indicators of possible impairment include extended periods of idle use or significant declines in activity levels in regions where specific assets or groups of assets are located.

Provisions for asset impairment are charged to income when the net book value of the assets, or carrying value, is determined to be unrecoverable and the carrying value exceeds the fair value of the assets, calculated as the present value of estimated future cash flows. The calculation of fair value requires estimates of future cash flows, and such estimates can change based on market conditions, technological advances in the industry or changes in regulations governing the industry. We did not record impairment charges related to our long-lived assets held for use in continuing operations during the years ended December 31, 2006, 2005 or 2004.

We review our goodwill, the excess of the purchase price over the fair value of net assets acquired in business combinations, at least annually for impairment or more frequently if an event occurs which may indicate impairment during the year. We evaluated assets with indefinite lives, including goodwill and certain intangible assets, for impairment comparing the fair value of our reportable segments to their net carrying value as of the balance sheet date, after excluding inter-company transactions and allocating corporate assets to the reportable segments. Fair value is determined by projecting future cash flows on a discounted basis. If the carrying value of the reportable segment

exceeds the fair value determined, impairment may be indicated. If impairment is indicated, the fair value of the reportable segment would be determined. Any remaining goodwill would be deemed impaired and charged to income during the period the impairment was identified. Any subsequent impairment loss could result in a material adverse effect upon our financial position and results of operations.

#### Inventory Valuation Allowances

Our valuation reserve for inventory is based on historical regional sales trends, and various other assumptions and judgments including future demand for this inventory. Should these assumptions and judgments not occur, our valuation allowance would be adjusted to reflect actual results. Our industry is subject to technological change and new product development that could result in obsolete inventory. Our valuation reserve for inventory at December 31, 2006 was \$2.5 million compared to \$2.4 million at December 31, 2005. If we over or underestimate demand for inventory, it could result in a material adverse effect upon our financial position and results of operations.

#### Income Taxes

Our income tax expense includes income taxes of The Netherlands, the U.S. and other foreign countries as well as local, state and provincial income taxes. We recognize deferred tax assets or liabilities for the differences between the financial statement carrying amount and tax basis of assets and liabilities using enacted tax rates in effect for the years in which the asset is recovered or the liability is settled. Any valuation allowance recorded is based on estimates and assumptions of taxable income into the future and a determination is made of the magnitude of deferred tax assets which are more likely than not to be realized. Valuation allowances of our net deferred tax assets aggregated \$7.7 million and \$13.8 million at December 31, 2006 and 2005, respectively. If these estimates and related assumptions change in the future, we may be required to record additional valuation allowances against our deferred tax assets and our effective tax rate may increase which could result in a material adverse effect on our financial position, results of operations and cash flows.

#### Stock Based Compensation

Effective January 1, 2006, we adopted Statement of Financial Accounting Standard No. 123R, "Share-Based Payment" ("SFAS 123R") SFAS 123R using the modified prospective transition method. Under that transition method, compensation expense that we recognized for the year ended December 31, 2006 included: (a) compensation expense for all stock-based payments granted prior to, but not yet vested as of, January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, "Accounting for Stock-Based Compensation", and (b) compensation expense for all stock-based payments granted on or after January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R. Results from prior periods have not been restated. This statement requires compensation costs related to share-based payments, including stock options, to be recognized in the Consolidated Statement of Operations based on their fair values. The expense is recognized over the requisite service period of the award. We previously recognized expense for stock-based compensation arrangements in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related interpretations ("APB 25"). Accordingly, compensation expense was recognized for the excess, if any, of the stock price on the grant date over the option exercise price. No compensation expense was recorded under APB 25 for awards granted under our employee stock option plan as all options issued had exercise prices at least equal to the fair value of the stock on the grant date. The pro forma effects upon net income and earnings per share for stock options are disclosed below per SFAS Statement No. 123, "Accounting for Stock-Based Compensation."

## Estimates

The preparation of financial statements in accordance with U.S. GAAP requires us to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We evaluate our estimates on an ongoing basis and determine the adequacy of our estimates based on our historical experience and various other assumptions that we believe are reasonable under the circumstances. By nature, these judgments are subject to an inherent degree of uncertainty. We consider an accounting estimate to be critical if it is highly subjective and if changes in the estimate under different assumptions would result in a material impact on our financial condition and results of operations. The following table summarizes key estimates and assumptions used to prepare our Consolidated Financial Statements for the years ended December 31, 2006, 2005 and 2004.

Account	Nature of Estimates Required	Assumptions Used
Allowance for doubtful accounts	We evaluate whether client receivables are collectible.	See "Allowance for Doubtful Accounts."
Inventory reserves	We forecast client demand, considering changes in technology which could result in obsolescence.	See "Inventory Valuation Allowances."
Depreciation and amortization	We estimate the useful lives and salvage values of our assets.	Useful lives assigned reflect our best estimate based on historical data of the respective asset's useful life and salvage value. These assets could become impaired if our operating plans or business environment changes.
Pensions and other postretirement benefits	We utilize an actuary to determine the value of the projected benefit obligation under a Dutch pension plan. This valuation requires various estimates and assumptions concerning mortality, future pay increases and discount rate used to value our obligations. In addition, we recognize net periodic benefit cost based upon these estimates.	The actuarial assumptions used are based upon professional judgment and historical experience, including trends in mortality rates, and credit market rates (discount rate).
Stock-based compensation	We evaluate the probability that certain of our stock-based plans will meet targets established within the respective agreements and result in the vesting of such awards. In addition, we derive a forfeiture rate that is used in calculating the expense for these awards.	See "Stock-Based Compensation." Comparisons to either our stock price, a return on our stock price compared to certain stock indices or a return on equity calculation.

Income taxes	We estimate the likelihood of the recoverability of our deferred tax assets (particularly, net operating loss carry-forwards).	See "Income Taxes." We examine our historical and projected operating results, review the eligible carry-forward period and tax planning opportunities and consider other relevant information. Changes in tax laws for the jurisdictions in which we operate could significantly impact our estimates.
Long-lived assets, intangibles and goodwill	We evaluate the recoverability of our assets periodically, but at least annually, by examining current and projected operating results to identify any triggering events, which may indicate impairment. We compare the carrying value of the assets to a projection of fair value, utilizing judgment as to the identification of reporting units, the allocation of corporate assets amongst reporting units and the determination of the appropriate discount rate.	See "Long-Lived Assets, Intangibles and Goodwill." Our impairment analysis is subjective and includes estimates based on assumptions regarding future growth rates and operating expenses.

#### Off-Balance Sheet Arrangements

Other than normal operating leases, we do not have any off-balance sheet financing arrangements such as securitization agreements, liquidity trust vehicles, synthetic leases or special purpose entities. As such, we are not materially exposed to any financing, liquidity, market or credit risk that could arise if we had engaged in such financing arrangements.

#### Results of Operations

Results of operations as a percentage of applicable revenues are as follows (dollars in thousands):

	Year Ended			% Change
REVENUES:	2006	2005	2004	2006/2005 2005/2004
Services	\$ 430,118	74.7%		