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VERITAS DGC INC
Form 10-Q
June 13, 2003

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(MARK ONE)

[X]

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

FOR THE QUARTERLY PERIOD ENDED APRIL 30, 2003

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 1-7427

VERITAS DGC INC.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of
incorporation or organization)

76-0343152

(I.R.S. Employer Identification No.)

10300 TOWN PARK

HOUSTON, TEXAS

(Address of principal executive offices)

77072

(Zip Code)

(832) 351-8300

(Registrant's telephone number, including area code)

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

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---------------------------------|---|
| Common Stock, \$.01 par Value | New York Stock Exchange |
| Preferred Stock Purchase Rights | New York Stock Exchange |

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes [X] No []

APPLICABLE ONLY TO CORPORATE ISSUERS:

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

The number of shares of the Company's common stock, \$.01 par value, outstanding at May 30, 2003 was 33,503,081 (including 1,443,411 Veritas Energy Services Inc. exchangeable shares which are identical to the Common Stock in all material respects).

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VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

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(UNAUDITED)

| | THREE MONTHS ENDED APRIL 30, | |
|---|---------------------------------|------------|
| | 2003 | 2002 |
| | (In thousands, except | |
| Revenues | \$ 120,636 | \$ 109,267 |
| Cost of services | 97,287 | 85,082 |
| Research and development | 3,274 | 2,846 |
| General and administrative | 6,261 | 5,854 |
| Merger costs | | 1,658 |
| | ----- | ----- |
| Operating income | 13,814 | 13,827 |
| Interest expense | 5,992 | 2,771 |
| Other expense (income), net | 17 | (1,427) |
| | ----- | ----- |
| Income before provision for income taxes | 7,805 | 12,483 |
| Provision for income taxes | 3,077 | 4,438 |
| | ----- | ----- |
| Net income | \$ 4,728 | \$ 8,045 |
| Other comprehensive income (loss) (net of tax, \$0 in all periods): | | |
| Foreign currency translation adjustments | 5,651 | 2,557 |
| Unrealized gain (loss) on investments available for sale | 61 | (219) |
| Unrealized (loss) on interest swap | (410) | |
| Unrealized gain (loss) on foreign currency hedge..... | (235) | 212 |
| | ----- | ----- |
| Total other comprehensive income (loss)..... | 5,067 | 2,550 |
| | ----- | ----- |
| Comprehensive income | \$ 9,795 | \$ 10,595 |
| | ===== | ===== |
| Weighted average common shares: | | |
| Basic | 33,348 | 32,446 |
| Diluted | 33,355 | 32,639 |
| Earnings per share: | | |
| Basic and diluted | \$.14 | \$.25 |

See Notes to Consolidated Financial Statements

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VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except par value)

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ASSETS

Current assets:

| | |
|---|--|
| Cash and cash equivalents | |
| Restricted cash investments | |
| Accounts and notes receivable (net of allowance: \$7,391 at April; \$4,143 at July) | |
| Materials and supplies inventory | |
| Prepayments and other | |
| Income taxes receivable | |
| Total current assets | |
| Property and equipment | |
| Less accumulated depreciation | |
| Property and equipment, net | |
| Multi-client data library | |
| Investment in and advances to joint ventures | |
| Goodwill | |
| Deferred tax asset | |
| Other assets | |
| Total | |

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

| | |
|--|--|
| Trade accounts payable | |
| Accrued interest | |
| Other accrued liabilities | |
| Total current liabilities | |
| Non-current liabilities: | |
| Long-term debt | |
| Deferred tax liability | |
| Other non-current liabilities | |
| Total non-current liabilities | |
| Stockholders' equity: | |
| Common stock, \$.01 par value; authorized: 40,000,000 shares; issued: 32,062,631 shares at April and 31,171,988 shares at July (excluding Exchangeable Shares of 1,443,411 at April and 1,444,514 at July) | |
| Additional paid-in capital | |
| Accumulated earnings (from August 1, 1991 with respect to Digicon Inc.) | |
| Accumulated other comprehensive income: | |
| Cumulative foreign currency translation adjustment | |
| Other comprehensive income | |
| Unearned compensation | |
| Treasury stock, at cost; 83,672 shares at April and 76,607 at July | |
| Total stockholders' equity | |
| Total | |

See Notes to Consolidated Financial Statements

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CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

Operating activities:

| | |
|--|--|
| Net income | |
| Non-cash items included in net income: | |
| Depreciation and amortization (other than multi-client) | |
| Depreciation and amortization capitalized to multi-client library and software | |
| Amortization of multi-client library | |
| Impairment of land acquisition equipment | |
| Gain on disposition of property and equipment | |
| Equity in loss (income) of joint venture | |
| Deferred taxes | |
| Amortization of unearned compensation | |
| Change in operating assets/liabilities: | |
| Accounts and notes receivable | |
| Materials and supplies inventory | |
| Prepayments and other | |
| Income tax receivable | |
| Accounts payable and other accrued liabilities | |
| Other non-current liabilities | |
| Other | |
| Total cash provided by operating activities | |

Investing activities:

| | |
|---|--|
| Increase in restricted cash investments | |
| Investment in multi-client data library, net cash | |
| Purchase of property and equipment | |
| Sale of property and equipment | |
| Acquisition of business | |
| Total cash used by investing activities | |

Financing activities:

| | |
|--|--|
| Borrowings of long-term debt, net of debt issuance costs | |
| Payments on long-term debt | |
| Net proceeds from sale of common stock | |
| Total cash provided by financing activities | |
| Currency loss on foreign cash | |
| Change in cash and cash equivalents | |
| Beginning cash and cash equivalents balance | |
| Ending cash and cash equivalents balance | |

CASH PAID FOR:

| | |
|----------------|--|
| Interest | |
| Taxes | |

See Notes to Consolidated Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

The accompanying consolidated financial statements include our accounts and the accounts of majority-owned domestic and foreign subsidiaries. Investment in an 80% owned joint venture is accounted for on the equity method due to provisions in the joint venture agreement that give minority shareholders the right to exercise control. All material intercompany balances and transactions have been eliminated. All material adjustments consisting only of normal recurring adjustments that, in the opinion of management are necessary for a fair statement of the results for the interim periods, have been reflected. These interim financial statements should be read in conjunction with our annual consolidated financial statements.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATION OF PRIOR YEAR BALANCES

Certain prior year balances have been reclassified for consistent presentation. Depreciation and amortization is now included in cost of services on the "Consolidated Statements of Operations and Comprehensive Income".

RECENT ACCOUNTING PRONOUNCEMENTS

In August 2001, the Financial Accounting Standards Board issued SFAS No.143 (Asset Retirement Obligations). This standard requires that obligations associated with the retirement of a tangible long-lived asset be recorded as a liability when those obligations are incurred with the liability being initially measured at fair value. We adopted the use of this accounting statement in August 2002. Adoption did not have a material effect on our financial position or results of operations.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144 (Accounting for the Impairment or Disposal of Long Lived Assets). This standard develops one accounting model for long-lived assets that are to be disposed of by sale, requiring such assets to be measured at the lower of book value or fair value less cost to sell. The standard also provides guidance on the recognition of liabilities for the obligations arising from disposal activities. We adopted the use of this accounting statement in August 2002. Adoption did not have a material effect on our financial position or results of operations.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145 (Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement

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No. 13 and Technical Corrections as of April 2002). Among other things, this statement addresses how to report gains or losses resulting from the early extinguishment of debt. Previously, any gains or losses were reported as an extraordinary item. Upon adoption of SFAS No. 145, an entity is required to evaluate whether the debt extinguishment is truly extraordinary in nature, in accordance with Accounting Principles Board Opinion No. 30. We adopted the use of this accounting statement in August 2002. The adoption of this statement will likely preclude extraordinary classification of costs related to early debt extinguishment, and the effect of adoption was immaterial.

In July 2002, the Financial Accounting Standards Board issued SFAS No. 146 (Accounting for Costs Associated with Exit or Disposal Activities). This standard requires recognition of costs associated with exit or disposal activities when they are incurred rather than when management commits to an exit or disposal plan. Examples of costs covered by this guidance include lease termination costs, employee severance costs that are associated with restructuring, discontinued operations, plant closings, or other exit or disposal activities. We adopted the use of this accounting statement for all activities initiated after December 31, 2002. Adoption did not have a material effect on our financial position or results of operations.

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VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (UNAUDITED)

In December 2002, the FASB issued Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements. FIN 45 expands required disclosures for certain types of guarantees and recognition of a liability at fair value of such guarantees at the time of issuance. The disclosure requirements are effective for our second fiscal quarter financial statements, while the fair value accounting requirements apply prospectively to guarantees issued or modified after December 31, 2002. Adoption of FIN 45 did not have a material effect on our financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 amended ARB 51, Consolidated Financial Statements, and established standards for determining under what circumstances a variable interest entity (VIE) should be consolidated with its primary beneficiary. FIN 46 also requires disclosures about VIEs that the company is not required to consolidate, but in which it has a significant variable interest. Adoption of FIN 46 did not have a material effect on our financial position or results of operations.

In January 2003, the FASB issued Statement No. 148, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We adopted the use of this accounting statement in January 2003. Adoption did not have a material effect on our financial position or results of operations. We have no plans to voluntarily expense stock options or change our current stock-based compensation program. We have included the required interim disclosures in Note 12, Stock Based Compensation.

2. BUSINESS COMBINATIONS

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On August 21, 2002, we acquired Hampson-Russell Software Services Ltd. ("Hampson-Russell"), a Canadian provider of software tools and consulting services related to reservoir interpretation. Under the terms of the agreement, we acquired substantially all of the assets of Hampson-Russell in exchange for a cash payment of \$9,250,000, transfer of 589,623 shares of Veritas common stock (\$12.30 per share), and Hampson-Russell's right to receive a percentage of the revenues generated by the purchased assets over the five years following the closing of the transaction, provided that certain financial targets are obtained. The common stock price of \$12.30 was based on the average closing price for Veritas common stock for a short period up to the transaction close date. Our allocation of the \$16.8 million purchase price was based on fair value as follows: \$0.3 million of fees and expenses, \$13.2 million to software, \$3.9 million to goodwill, of which none is expected to be tax deductible, \$1.1 million to accrued liabilities, \$0.3 million to fixed assets and \$0.2 million to other assets. The software will be amortized over no more than five years. David B. Robson, Veritas DGC's Chairman and Chief Executive Officer, beneficially owns a controlling interest in Vada Industries Ltd., which was a 25% shareholder of Hampson-Russell at the time of the acquisition. The results of operations for Hampson-Russell began to be included in our results of operations as of August 21, 2002.

3. ASSET IMPAIRMENT

During the first quarter of fiscal year 2003, we incurred a \$1.8 million loss for the impairment of land equipment. It was determined the fair value of the equipment was zero. The impairment loss is included in cost of services in the "Consolidated Statements of Operations and Comprehensive Income".

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VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED) (UNAUDITED)

4. OTHER EXPENSE (INCOME), NET

Other expense (income), net consists of the following:

| | THREE MONTHS ENDED APRIL 30, | |
|--|---------------------------------|------------|
| | 2003 | 2002 |
| | (IN THOUSANDS) | |
| Interest income | \$ (453) | \$ (169) |
| Net (gain) loss on disposition of property and equipment.. | 210 | 38 |
| Net gain on sale of Air-Jac subsidiary | | |
| Net foreign currency exchange loss (gain) | 8 | (957) |
| Loss (income) from unconsolidated joint venture | 210 | (321) |
| Other | 42 | (18) |
| | ----- | ----- |
| Total | \$ 17 | \$ (1,427) |
| | ===== | ===== |

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5. EARNINGS PER COMMON SHARE

Basic and diluted earnings per common share are computed as follows:

| | THREE MONTHS ENDED APRIL 30, | | NI |
|---|---------------------------------|----------|------|
| | 2003 | 2002 | |
| (IN THOUSANDS, EXCEPT PER | | | |
| Net income | \$ 4,728 | \$ 8,045 | \$10 |
| Basic: | | | |
| Weighted average common shares (including exchangeable shares) .. | 33,348 | 32,446 | 33 |
| Net income per share | \$.14 | \$.25 | \$ |
| Diluted: | | | |
| Weighted average common shares (including exchangeable shares) .. | 33,348 | 32,446 | 33 |
| Shares issuable from assumed exercise of options | 7 | 193 | |
| Total | 33,355 | 32,639 | 33 |
| Net income per share | \$.14 | \$.25 | \$ |

The following options to purchase common shares have been excluded from the computation assuming dilution because the options' exercise prices exceed the average market price of the underlying common shares.

| | THREE MONTHS ENDED APRIL 30, | | NINE MONTHS ENDED APRIL 30, | |
|----------------------|---------------------------------|----------------------|--------------------------------|--------------------|
| | 2003 | 2002 | 2003 | 2002 |
| Number of options | 3,854,346 | 1,338,676 | 3,221,589 | 1,341,62 |
| Exercise price range | \$7.30 - \$55.125 | \$16.3125 - \$55.125 | \$10.71 - \$55.125 | \$15.625 - \$55.12 |
| Expiring through | March 2012 | March 2011 | March 2012 | March 201 |

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VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

6. OTHER ASSETS - SOFTWARE

Software available for sale is included in other assets. A portion of the software was developed internally, and the remaining portion was obtained through the acquisition of Reservoir Characterization Research and Consulting, Inc. (RC(2)) and Hampson-Russell. The current book value of the acquired RC(2)

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software is \$0.9 million, the book value of the internally developed software, originated in RC(2) and called Antero, is \$7.3 million and the book value of the acquired Hampson-Russell software is \$12.3 million. For internally developed software, we capitalize costs associated with the development of the product from the time the product reaches technological feasibility until it is ready for commercial release. The capitalized cost of the software, whether developed or purchased, is charged to cost of services in the period sales occur based on the percentage of total cost to total estimated sales multiplied by actual sales during the period. The period of amortization begins when the software is released to the market. The Antero software has not been released. In no case is the cumulative amortization for a product allowed to fall below the amount that would be recorded using straight-line amortization for that product's estimated useful life. Estimated useful lives of our software products range from three to five years.

Amortization expense for the software is as follows:

| | THREE MONTHS ENDED APRIL 30, | | NINE MONTHS ENDED APRIL 30, | |
|----------------------------|---------------------------------|--------|--------------------------------|----------|
| | (IN THOUSANDS) | | | |
| | 2003 | 2002 | 2003 | 2002 |
| Amortization expense | \$ 960 | \$ 644 | \$ 3,623 | \$ 1,932 |

The carrying value of our software is as follows:

| | APRIL 30, 2003 | | | GROSS CARRYING AMOUNT |
|----------------|-----------------------------|-----------------------------|-----------|-----------------------------|
| | GROSS CARRYING AMOUNT | ACCUMULATED AMORTIZATION | NET | |
| Software | \$ 27,995 | \$ 7,474 | \$ 20,521 | \$ 13,631 |

(IN THOUSANDS)

7. LONG-TERM DEBT

Long-term debt is as follows:

| | APRIL 30, 2003 |
|---|----------------|
| Term A loan due February 2006 | \$ 29,925 |
| Term B loan due February 2007 | 124,688 |
| Term C loan due February 2008 | 40,000 |
| Senior Notes due October 2003, at 9 3/4% | |
| Revolving credit agreement, balance due August 2003 | |
| Total | \$ 194,613 |

VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

On February 14, 2003, we entered into a new Credit Agreement (the "Credit Agreement") with Deutsche Bank AG, New York Branch, as Administrative Agent, Deutsche Bank AG, Canada Branch, as Canadian Administrative Agent, and certain other lending institutions. The new facility provides term financing of \$195 million under term A, term B and term C tranches (the "Term Loans"), a revolving loan facility aggregating \$55 million, including a facility for swing line loans of up to \$10 million and the issuance of letters of credit in an aggregate amount of up to \$40 million. The term A loan is in the original principal amount of \$30 million and matures in three years, or February 2006, and requires quarterly interest payments at a rate, at our election, of Libor plus a margin ranging from 3.5% to 4.0% or a base rate plus a margin ranging from 2.25% to 2.75%. These margins are based on certain of our financial ratios. The term B loan is in the original principal amount of \$125 million, matures in four years, or February 2007, and requires quarterly interest payments at a rate, at our election, of Libor plus 5.0%, subject to a 2% Libor floor or a base rate plus 3.75%. The term C loan is in the original principal amount of \$40 million, matures in five years, or February 2008, and requires quarterly interest payments at a rate, at our election, of Libor plus 7.5%, subject to a 3% Libor floor or a base rate plus 6.25%. The term A and term B loans require quarterly principal payments of 0.25% of the outstanding principal balance. Loans made under the revolving loan facilities, including swing line loans, bear interest at a variable rate, determined on the date of borrowing, that is related to various base rates and margins depending upon our leverage ratio and the location of the borrowing. The revolver expires in February 2006. The financing is secured by assets, including equipment, vehicles, multi-client data library, intellectual property, and stock of certain material subsidiaries, owned by us and certain of our subsidiaries. The Credit Agreement and related documents contain a number of covenants, including financial covenants relating to interest coverage, leverage and net worth. On February 14, 2003, the Term Loans totaling \$194.6 million were funded and letters of credit in the amount of approximately \$5.7 million then outstanding from the previous credit agreement were transferred to the Credit Agreement. Proceeds from the Term Loans were used to satisfy the obligations under the previous credit agreement and the Senior Notes.

We incurred \$7.3 million of debt issuance costs related to the new Credit Agreement. These costs are capitalized to prepayments and other assets and are being amortized to interest expense over the maturity of the debt.

8. HEDGE TRANSACTIONS

In March 2001, we entered into a contract requiring payments in Norwegian kroner to charter the seismic vessel M/V Seisquest. The contract requires 36 monthly payments commencing on June 1, 2001. To protect our exposure to exchange rate risk, we entered into multiple forward contracts as cash flow hedges effectively locking our exchange rate for Norwegian kroner to the U.S. dollar.

On February 25, 2003, we entered into interest rate swaps in order to reduce our exposure to the variable interest rates of the Credit Facility described above. These swaps, with notional amounts totaling \$80 million,

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effectively hedge 41% of our exposure to interest rate changes for the two-year terms of the swaps and had no value at inception.

Details of the swaps are summarized in the following table:

| Tranche Hedged | Amount | Term | Pay % | Receive | Li |
|----------------|----------------|-----------|-------|---------|-----|
| ----- | ----- | ----- | ---- | ----- | --- |
| | (in thousands) | | | | |
| Term A | \$ 25,000 | 24 months | 1.86 | Libor | |
| Term B | \$ 55,000 | 24 months | 2.49 | Libor | |

This is considered a cash flow hedge under FAS 133 for accounting and financial reporting purposes. The two swaps are marked to market with the gain or loss recorded in Other Comprehensive Income offset by an asset or liability. The differences in the amount paid versus amount received each month flows through the income statement as interest expense. The fair value of the swaps on April 30, 2003 was \$410,000 and is included in other accrued liabilities on the "Consolidated Balance Sheets".

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VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

The values of the kroner contracts and the interest rate swaps are as follows:

| | APRIL 30, 2003 | | | FORWARD VALUE |
|--------------------------------|------------------|----------------------------|----------------|------------------|
| | FORWARD VALUE | UNREALIZED GAIN/ (LOSS) | FAIR VALUE | |
| | | | | |
| | | | (IN THOUSANDS) | |
| Forward kroner contracts | \$ 3,600 | \$ 908 | \$ 4,508 | \$ 6,0 |
| Interest rate swaps | | (410) | (410) | |

9. SEGMENT INFORMATION

We have two segments, land and marine operations, both of which provide geophysical products and services to the petroleum industry. The two segments have been aggregated as they are similar in their economic characteristics and the nature of their products, production processes and customers. A reconciliation of the reportable segments' results to those of the total enterprise is given below:

| THREE MONTHS ENDED APRIL 30, 2003 | | | |
|--------------------------------------|-----------|-------|-------|
| SEGMENTS | CORPORATE | TOTAL | SEGME |
| | | | |

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| | | | (IN THOUSANDS) | |
|---|------------|------------|----------------|--------|
| Revenues | \$ 120,636 | | \$ 120,636 | \$ 109 |
| Operating income | 22,094 | \$ (8,280) | 13,814 | 23 |
| Income (loss) before provision for income taxes | 21,558 | (13,753) | 7,805 | 24 |

| | NINE MONTHS ENDED APRIL 30, 2003 | | | |
|--|-------------------------------------|-------------|----------------|----|
| | SEGMENTS | CORPORATE | TOTAL | |
| | | | (IN THOUSANDS) | |
| Revenues | \$ 383,464 | | \$ 383,464 | \$ |
| Operating income | 59,440 | \$ (25,718) | 33,722 | |
| Income (loss) before provision for income taxes .. | 57,746 | (39,612) | 18,134 | |

10. SEVERANCE

In the first quarter of fiscal year 2003, we began to reduce overhead in all divisions and at all levels of employment. As a result, we incurred \$2.8 million of severance cost during the nine months ended April 30, 2003 of which \$2.1 million was paid and \$0.7 million remains accrued at April 30, 2003. The total expense is included in general and administrative in the "Consolidated Statements of Operations and Comprehensive Income". The total number of employees terminated during the nine months ended April 30, 2003 was 119. The severance liabilities accrued as of April 30, 2003 are expected to be paid over the next nine months.

11. CONTINGENCIES

On September 28, 2002, we filed suit in Federal Court against one of our customers in the amount of \$6.8 million for failure to pay past due invoices and for other damages. The customer has, in turn, filed a counterclaim against us alleging that the services were not properly performed but did not specify the amount of damages claimed. We believe the facts in the matter are in our favor, however, during our third quarter we reserved \$2.9 million of the related receivable in response to a going concern qualification to the audit opinion in the customer's recent Form 10-K filing. We will continue to monitor the financial condition of the customer and, if necessary, adjust the allowance for doubtful accounts to reflect current circumstances. We expect the matter to go to trial in 2004. Our remaining income statement exposure to this issue ranges from \$0 to \$2.9 million.

VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
(UNAUDITED)

12. STOCK BASED COMPENSATION

The effect on net income and earnings per share that would have been

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recorded using the fair value based method for stock options as required by SFAS 148 is as follows:

| | THREE MONTHS ENDED APRIL 30, | | |
|--|---------------------------------|----------|----|
| | 2003 | 2002 | |
| (IN THOUSANDS) | | | |
| Net income, as reported | \$ 4,728 | \$ 8,045 | \$ |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects | (1,783) | (1,021) | |
| Pro forma net income | \$ 2,945 | \$ 7,024 | \$ |
| Earnings per share: | | | |
| Basic - as reported | \$.14 | \$.25 | \$ |
| Basic - pro forma | .09 | .22 | |
| Diluted - as reported | .14 | .25 | |
| Diluted - pro forma | .09 | .22 | |
| Pro forma net income | | | |

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors. These factors are more fully described in other reports filed with the Securities and Exchange Commission, including our fiscal year 2002 Form 10-K, and include changes in market conditions in the oil and gas industry as well as declines in prices of oil and gas.

GENERAL

For the last few years, Veritas has been engaged in a program designed to expand and upgrade the capabilities of the company. Key elements of this program were the outfitting of the three Viking-class vessels, installation of large computer clusters, and the addition of Arctic-capable land acquisition equipment. These investments are now paying off in terms of increased acceptance in the market. Veritas will continue to invest in its core businesses, especially in assets that advance our technological position. However, in the current market we do not expect to invest significant amounts to expand our overall capacity.

We are continuing to selectively invest in our multi-client library

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where we can reasonably assume adequate returns. However, we balance our investment in multi-client libraries with our participation in the contract, or proprietary, market. In 2003, we are increasing our participation in the contract marine acquisition market, with a commensurate reduction in marine multi-client investment. We anticipate this will result in increased cash flow, although potentially at the expense of a lower gross margin.

Based on this environment, for fiscal year 2003, we expect capital expenditures will be approximately \$30 to \$35 million, less than half of the expected depreciation level, and cash investment in our multi-client library will be approximately \$160 million, significantly less than projected multi-client revenue. These factors, along with expense reductions and expected revenues, are projected to result in positive free cash flow for the year. (See Liquidity and Capital Resources on page 13 for our definition of free cash flow and further explanation.)

RESULTS OF OPERATIONS

THREE MONTHS ENDED APRIL 30, 2003 COMPARED WITH THREE MONTHS ENDED APRIL 30, 2002

Revenues. Revenues increased by 10% overall. Multi-client revenue decreased 3% primarily due to lower sales of completed surveys in West Africa and offshore Canada. Additionally, in the prior year we had two vessels working on a highly funded survey in Brazil. These decreases were partially offset by increased activity in Canada where a large sale of Rocky Mountain foothills data contributed significantly to the quarter. Contract revenue increased by 23%. Land acquisition revenue increased due to activity in the U.S., a new contract in Bolivia and re-entry into the Argentine market. Marine acquisition revenue increased due to a project in Trinidad.

Operating income. Operating income as a percentage of revenue decreased to 11.5% from 12.7% mainly as a result of a \$2.9 million provision related to a disputed receivable from a customer. Contract margins increased but were partially offset by lower multi-client margins as a result of an unfavorable mix of survey licenses.

On September 28, 2002, we filed suit in Federal Court against one of our customers in the amount of \$6.8 million for failure to pay past due invoices and for other damages. The customer has, in turn, filed a counterclaim against us alleging that the services were not properly performed but did not specify the amount of damages claimed. We believe the facts in the matter are in our favor, however, during our third quarter we reserved \$2.9 million of the related receivable in response to a going concern qualification to the audit opinion in the customer's recent Form 10-K filing. We will continue to monitor the financial condition of the customer and, if necessary, adjust the allowance for doubtful accounts to reflect current circumstances. We expect the matter to go to trial in 2004.

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Other expense (income), net. Other expense (income), net decreased from income of \$1.4 million to an expense of \$17,000. This was mainly due to the prior year recovery of a \$1.3 million currency loss in Argentina. In addition, our unconsolidated Indonesian joint venture incurred a loss of \$210,000 as opposed to income in the prior year of \$0.3 million, and net losses from the sale of fixed assets increased from \$38,000 to \$0.2 million. These were offset by an increase in interest income from \$0.2 million to \$0.5 million due to increased borrowings and increased cash from operations in the current quarter as compared to the prior year's quarter.

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Interest expense. Interest expense increased from \$2.8 million to \$6.0 million. Our previous outstanding debt, Senior Notes and the revolving credit facility, and the new bank debt were concurrently outstanding for one month, resulting in additional interest costs of \$1.2 million. In addition, we expensed \$0.7 million of unamortized debt issuance costs related to the refinanced facilities. Outstanding borrowings were \$194.6 million under the new facility compared with \$135.0 million outstanding in prior year's third quarter. These factors were partially offset by the new Credit Agreement's weighted-average borrowing cost of approximately 8%, compared with 9.75% under the Senior Notes. Management expects interest expense to be in the \$4.0 to \$4.5 million range in each of the next few quarters.

Provision for income taxes. The provision for income taxes decreased from \$4.4 million to \$3.1 million as a result of a decrease in earnings in the current year. The effective income tax rate increased from 36% to 39% as a result of unbenefited losses and foreign tax credits generated in certain jurisdictions.

NINE MONTHS ENDED APRIL 30, 2003 COMPARED WITH NINE MONTHS ENDED APRIL 30, 2002

Revenues. Revenues increased by 9% overall. Multi-client revenue was comparable to the previous year's nine month period. Marine multi-client revenue decreased by 4% due to lower sales of completed surveys, while land multi-client revenue increased due to higher sales of Canadian foothills data. Contract revenue increased by 18% due to a large land acquisition project in Peru, increased land activity in the U.S., re-entry into the Argentina land market and an increase in marine acquisition projects. This was partially offset by decreased activity in Canada land acquisition due to warmer than normal weather, that delayed equipment movement during the winter season.

Operating income. Operating income as a percentage of revenue decreased to 8.8% from 12.9%. Although contract margins increased due to higher pricing and project mix, overall margins declined due to several operational disruptions in land acquisition in the first quarter of the current year, lower margins from multi-client revenue caused by a greater mix of lower margin surveys and a \$2.9 million provision for doubtful accounts. The operational disruptions included two lightning strikes, two hurricanes, and civil unrest, all of which resulted in declarations of contractual force majeure provisions. Reduced revenue and increased expense associated with these projects reduced operating income by approximately \$2.1 million. Additionally, we recognized an impairment of \$1.8 million of assets in the land acquisition business.

On September 28, 2002, we filed suit in Federal Court against one of our customers in the amount of \$6.8 million for failure to pay past due invoices and for other damages. The customer has, in turn, filed a counterclaim against us alleging that the services were not properly performed but did not specify the amount of damages claimed. We believe the facts in the matter are in our favor, however, during our third quarter we reserved \$2.9 million of the related receivable in response to a going concern qualification to the audit opinion in the customer's recent Form 10-K filing. We will continue to monitor the financial condition of the customer and, if necessary, adjust the allowance for doubtful accounts to reflect current circumstances. We expect the matter to go to trial in 2004.

General and administrative expense increased by \$3.9 million from the prior year due to severance and other items.

Other expense (income), net. Other expense (income), net decreased from income of \$2.2 million to a loss of \$1.2 million due to several factors. The prior year's results included a \$0.7 million gain from the sale of a seismic drilling operation. Net loss from foreign currency increased from \$0.3 million

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to \$0.7 million. Interest income decreased from \$1.3 million to \$0.3 million due to lower cash in the first half of the current year as compared to the prior year. Our unconsolidated joint venture in Indonesia incurred a loss of \$1.2 million compared to income of \$0.3 million in the prior year.

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Interest expense. Interest expense increased from \$9.9 million to \$14.4 million. During the first half of the current fiscal year, interest expense increased due to additional borrowing on our revolving credit facility. In the third quarter of the current year, our previous outstanding debt, Senior Notes and the revolving credit facility, and the new bank debt were concurrently outstanding for one month, resulting in additional interest costs of \$1.2 million. In addition, we expensed \$0.7 million of unamortized debt issuance costs related to the refinanced facilities. Outstanding borrowings were \$194.6 million under the new facility compared with \$135.0 million outstanding in prior year's third quarter. These factors were partially offset by the new credit facility's weighted-average borrowing cost of approximately 8%, compared with 9.75% under the Senior Notes.

Provision for income taxes. The provision for income taxes decreased from \$14.2 million to \$7.4 million as a result of a decrease in earnings in the current year. The effective income tax rate increased from 38% to 41% as a result of unbenefited losses in certain foreign jurisdictions.

LIQUIDITY AND CAPITAL RESOURCES

SOURCES AND USES

Our internal sources of liquidity are cash, cash equivalents and cash flow from operations. External sources include public financing, equity sales, equipment financing, our revolving loan facility, and trade credit. We believe these sources of funds are adequate to meet our liquidity needs for fiscal 2003 and 2004.

Net cash provided by operating activities increased from \$148.4 million in the first nine months of 2002 to \$162.1 million in 2003. Major components of this change were a \$17.2 million increase in amortization on multi-client library due to higher cost of sales from new survey sales and increased amortization on remaining costs for surveys reaching their three-year completion period. In addition, depreciation and amortization, net increased by \$6.0 million as a result of amortization on Hampson-Russell software and decreased depreciation capitalized to multi-client library. These increases were offset by a \$12.6 million decrease in net income and an unfavorable change in operating assets and liabilities of \$1.4 million.

Net cash used by investing activities decreased from \$194.6 million in the first nine months of 2002 to \$149.3 million in 2003 due to lower capital spending and investments in multi-client library, partially offset by the acquisition of Hampson-Russell. Our capital expenditure estimate for fiscal 2003 is approximately \$30 to \$35 million, which is mostly allocated to the replacement and upgrading of existing equipment. For fiscal year 2003, we are forecasting \$150 to \$160 million of cash investment in our data library. We expect to fund these investments from internally generated cash flows.

Net cash provided by financing activities increased from \$2.1 million in the first nine months of 2002 to \$49.4 million in 2003. This increase was driven by a new financing package that provides us with greater liquidity at a lower interest rate than we previously had and gives us a pre-payment option in the future. On February 14, 2003, we entered into a new Credit Agreement (the

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"Credit Agreement") with Deutsche Bank AG, New York Branch, as Administrative Agent, Deutsche Bank AG, Canada Branch, as Canadian Administrative Agent, and certain other lending institutions. The new facility provides term financing of \$195 million under term A, term B and term C tranches (the "Term Loans"), a revolving loan facility aggregating \$55 million, including a facility for swing line loans of up to \$10 million and the issuance of letters of credit in an aggregate amount of up to \$40 million. Proceeds from the Term Loans were used to satisfy the obligations under the previous credit agreement and the Senior Notes. In addition, the current year includes net payments on the revolving credit facility of \$5.0 million, redemption of the Senior Notes of \$135.0 million, and payments under the new Credit Agreement of \$0.4 million.

We use free cash flow as an important metric within the company as it measures the combined effects of our operational performance and our investing discipline on the liquidity of the company. For the nine months of the current fiscal year to date we have generated \$20.0 million of free cash flow versus a negative \$50.7 million of free cash flow for the same period of the prior fiscal year. The large positive change in free cash flow is primarily due to decreased capital spending in the current year and, to a lesser extent, lower spending on multi-client surveys. We expect to maintain the reduced capital spending levels through the end of the fiscal year and, in total, plan to spend \$56 million less than in the prior year.

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We define free cash flow as cash from operating activities less cash multi-client spending and capital expenditures. This non-GAAP liquidity measure is useful as an addition to the most directly comparable GAAP measure of "cash provided by operating activities" because free cash flow includes investments in operational assets and therefore presents a fuller picture of net cash flow from ongoing operations. This measure excludes items such as proceeds from the disposal of assets, cash paid for acquisitions and all financing activities.

A reconciliation of free cash flow to cash provided by operating activities is presented in the following table.

| | THREE MONTHS ENDED APRIL 30, | | |
|---|---------------------------------|------------|------------|
| | 2003 | 2002 | 2001 |
| | (IN THOUSANDS) | | |
| Free cash flow | \$ 15,775 | \$ (3,356) | \$ 19,000 |
| Add back: | | | |
| Multi-client expenditures, net cash | 47,065 | 38,674 | 122,000 |
| Capital expenditures | 6,563 | 20,455 | 19,000 |
| | ----- | ----- | ----- |
| Total cash provided by operating activities.. | \$ 69,403 | \$ 55,773 | \$ 162,000 |

While we believe that we have adequate sources of funds to meet our liquidity needs, our ability to meet our obligations depends on our future performance, which, in turn, is subject to many factors beyond our control. Key internal factors affecting future results include utilization levels of acquisition and processing assets and the level of multi-client data library licensing, all of which are driven by the external factors of exploration spending and, ultimately, underlying commodity prices.

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The following represents our financial contractual obligations and commitments for the fiscal period ending July 31, 2003 through 2007 and thereafter.

| CONTRACTUAL CASH OBLIGATIONS ----- | TOTAL ----- | 2003 ---- | 2004 ---- | 2005 ---- |
|---------------------------------------|----------------|--------------|--------------|--------------|
| Lease obligations | \$ 160,329 | \$ 41,710 | \$ 30,738 | \$ 23,275 |
| Long-term debt | 194,613 | 387 | 1,537 | 1,537 |
| Forward exchange contracts | 6,832 | 800 | 3,253 | 3,253 |
| Standby letters of credit | 5,733 | 365 | 5,275 | 5,275 |

CRITICAL ACCOUNTING POLICIES

While all of our accounting policies are important in assuring that Veritas adheres to current accounting standards, certain policies are particularly important due to their impact on our financial statements. These are described in detail below.

MULTI-CLIENT DATA LIBRARY

In the portion of our business known as multi-client data library, we collect and process geophysical data for our own account and retain all ownership rights. We license the data to multiple clients on a non-transferable basis. We capitalize the costs associated with acquiring and processing the multi-client data on a survey-by-survey basis (versus a pooled basis). The capitalized cost of multi-client data is charged to cost of services in the period revenue is recognized in an amount equal to the period revenue multiplied by the percentage of total estimated costs to total estimated revenue. Therefore, multi-client margins recognized in any given period are the product of estimated costs and estimated sales and may not reflect the ultimate cash margins recognized from a survey. Any costs remaining 36 months after completion of a survey are charged to cost of services over a period not to exceed 24 months. The maximum amortization period of sixty months represents the period over which the majority of revenues from these surveys are expected to be derived. We periodically review the carrying value of the multi-client data library to assess whether there has been a permanent impairment of value and then record losses when it is determined that estimated sales will not be sufficient to cover the carrying value of the asset.

DEFERRED TAX ASSET

Deferred taxes result from the effect of transactions that are recognized in different periods for financial and tax reporting purposes. A valuation allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The valuation allowance is then adjusted when the realization of deferred tax assets becomes more likely than not. Adjustments are also made to recognize the expiration of net operating loss and investment tax credit carry-forwards, with equal and offsetting adjustments to the related deferred tax asset. Should the income projections result in the conclusion that realization of additional deferred tax assets is more likely than not, further adjustments to the valuation allowance are made.

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SOFTWARE CAPITALIZATION AND AMORTIZATION

Software available for sale is included in other assets. Software acquired through the purchase of software companies is capitalized at estimated fair market value through allocation of the purchase price. For internally developed software, we capitalize costs associated with the development of the product from the time the product reaches technological feasibility until it is ready for commercial release. The capitalized cost of the software, whether developed or purchased, is charged to cost of services in the period sales occur based on the percentage of total cost to total estimated sales multiplied by actual sales during the period. The period of amortization begins when the software is released to the market. In no case is the cumulative amortization for a product allowed to fall below the amount that would be recorded using straight-line amortization for that product's estimated useful life. Estimated useful lives of our software products range from three to five years.

OTHER ACCOUNTING POLICIES

Since our quasi-reorganization on July 31, 1991 with respect to Digicon Inc., the tax benefits of net operating loss carryforwards existing at the date of the quasi-reorganization have been recognized through a direct addition to additional paid-in capital, when realization is more likely than not. Additionally, the utilization of the net operating loss carry-forwards existing at the date of the quasi-reorganization is subject to certain limitations. For the nine months ended April 30, 2003, we recognized \$1.8 million related to these benefits.

We receive some account receivable payments in foreign currency. We currently do not conduct a hedging program for these receivables because we do not consider our current exposure to foreign currency fluctuations to be significant, although we have hedged certain future charter payments to be made in a foreign currency.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143 (Asset Retirement Obligations). This standard requires that obligations associated with the retirement of a tangible long-lived asset be recorded as a liability when those obligations are incurred with the liability being initially measured at fair value. We adopted the use of this accounting statement in August 2002. Adoption did not have a material effect on our financial position or results of operations.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144 (Accounting for the Impairment or Disposal of Long Lived Assets). This standard develops one accounting model for long-lived assets that are to be disposed of by sale, requiring such assets to be measured at the lower of book value or fair value less cost to sell. The standard also provides guidance on the recognition of liabilities for the obligations arising from disposal activities. We adopted the use of this accounting statement in August 2002. Adoption did not have a material effect on our financial position or results of operations.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145 (Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections as of April 2002). Among other things, this statement addresses how to report gains or losses resulting from the early extinguishment of debt. Previously, any gains or losses were reported as an extraordinary item. Upon adoption of SFAS No. 145, an entity is required to evaluate whether the debt extinguishment is truly extraordinary in nature, in accordance with Accounting Principles Board Opinion No. 30. We adopted the use of this accounting statement in August 2002. The adoption of this statement will likely preclude extraordinary classification of costs related to early debt

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extinguishment, and the effect of adoption was immaterial.

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In July 2002, the Financial Accounting Standards Board issued SFAS No. 146 (Accounting for Costs Associated with Exit or Disposal Activities). This standard requires recognition of costs associated with exit or disposal activities when they are incurred rather than when management commits to an exit or disposal plan. Examples of costs covered by this guidance include lease termination costs, employee severance costs that are associated with restructuring, discontinued operations, plant closings, or other exit or disposal activities. We adopted the use of this accounting statement for all activities initiated after December 31, 2002. Adoption did not have a material effect on our financial position or results of operations.

In December 2002, the FASB issued Interpretation No. 45 (FIN 45), Guarantor's Accounting and Disclosure Requirements. FIN 45 expands required disclosures for certain types of guarantees and recognition of a liability at fair value of such guarantees at the time of issuance. The disclosure requirements are effective for our second fiscal quarter financial statements, while the fair value accounting requirements apply prospectively to guarantees issued or modified after December 31, 2002. Adoption of FIN 45 did not have a material effect on our financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46 (FIN 46), Consolidation of Variable Interest Entities. FIN 46 amended ARB 51, Consolidated Financial Statements, and established standards for determining under what circumstances a variable interest entity (VIE) should be consolidated with its primary beneficiary. FIN 46 also requires disclosures about VIEs that the company is not required to consolidate, but in which it has a significant variable interest. Adoption of FIN 46 did not have a material effect on our financial position or results of operations.

In January 2003, the FASB issued Statement No. 148, Accounting for Stock-Based Compensation, to provide alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. We adopted the use of this accounting statement in January 2003. Adoption did not have a material effect on our financial position or results of operations. We have no plans to voluntarily expense stock options or change our current stock-based compensation program. We have included the required interim disclosures in Note 12, Stock Based Compensation.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK

At April 30, 2003, we had limited market risk related to foreign currencies. In March 2001, we entered into a contract requiring payments in Norwegian kroner to charter the seismic vessel M/V Seisquest. The contract requires 36 monthly payments commencing on June 1, 2001. To protect our exposure to exchange rate risk, we entered into multiple forward contracts as cash flow hedges fixing our exchange rates for Norwegian kroner to the U.S. dollar. The total fair value of the open forward contracts at April 30, 2003 in U.S. dollars was \$4.5 million.

As of February 14, 2003, with the signing of the new Credit Agreement, we are exposed to interest rate risk based upon fluctuations in the Libor rate. To partially mitigate this risk, on February 25, 2003 we entered into interest

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rate swaps in the notional amount of \$80 million, effectively hedging 41% of our exposure to interest rate fluctuations for the two-year terms of the swaps. The swaps had no value at inception.

Details of the swaps are summarized in the following table:

| Tranche Hedged ----- | Amount ----- (in thousands) | Term ----- | Pay % ---- | Receive ----- | Li --- |
|-------------------------|-----------------------------------|---------------|---------------|------------------|-----------|
| Term A | \$ 25,000 | 24 months | 1.86 | Libor | |
| Term B | \$ 55,000 | 24 months | 2.49 | Libor | |

The fair value of the swaps on April 30, 2003 was \$410,000 and is included in other accrued liabilities on the "Consolidated Balance Sheets".

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ITEM 4. CONTROLS AND PROCEDURES

Our management, including the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of disclosure controls and procedures within ninety days of the filing of this report pursuant to Exchange Act Rule 13a-14. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission (SEC) rules and forms. There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date our management, including its Chief Executive Officer and Chief Financial Officer, completed its evaluation.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On September 28, 2002, we filed suit in Federal Court against one of our customers in the amount of \$6.8 million for failure to pay past due invoices and for other damages. The customer has, in turn, filed a counterclaim against us alleging that the services were not properly performed but did not specify the amount of damages claimed. We believe the facts in the matter are in our favor, however, during our third quarter we reserved \$2.9 million of the related receivable in response to a going concern qualification to the audit opinion in the customer's recent Form 10-K filing. We will continue to monitor the financial condition of the customer and, if necessary, adjust the allowance for doubtful accounts to reflect current circumstances. We expect the matter to go to trial in 2004. Our remaining income statement exposure to this issue ranges from \$0 to \$2.9 million.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

- a) EXHIBITS FILED WITH THIS REPORT:

EXHIBIT

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| NO. ----- | DESCRIPTION ----- |
|--------------|---|
| 10.1 | -- Credit Agreement among Veritas DGC Inc., as borrower, and Wells Fargo, Inc., as a bank and agent for the banks named therein, dated July 19, 2001. (Exhibit 10-W to Veritas DGC Inc.'s Form 10-K for the year ended July 31, 2001 is incorporated herein by reference.) |
| 10.2 | -- Second Amendment to Credit Agreement, effective as of July 1, 2002, by and among Veritas DGC Inc., Veritas DGC Limited, Veritas Energy Services Inc., Veritas Energy Services Partnership, certain Banks party thereto, Wells Fargo Bank Texas, N.A., as agent, and HSBC Bank Canada, as agent. (Exhibit 10.1 to Veritas DGC Inc.'s Current Report on Form 8-K dated September 27, 2002 is incorporated herein by reference.) |
| 10.3 | -- Credit Agreement, dated as of February 14, 2003, among Veritas DGC Inc., Veritas DGC Limited, Veritas Energy Services Inc., Veritas Energy Services Partnership, Deutsche Bank AG, New York Branch, as Administrative Agent, Deutsche Bank AG, Canada Branch, as Canadian Administrative Agent, and the various lending institutions named therein. (Exhibit 10.1 to Veritas DGC Inc.'s Current Report on Form 8-K dated February 19, 2003 is incorporated herein by reference.) |
| 17 | |
| 10.4 | -- Letter of Agreement between Veritas DGC Inc. and Anthony Tripodo dated November 8, 2002 (Exhibit 10.4 to Veritas DGC Inc.'s Form 10-Q for the quarter ended January 31, 2003 is incorporated herein by reference.) |
| *10.5 | -- Agreement and Release of All Claims dated April 23, 2003, between Veritas DGC Inc. and Anthony Tripodo. |
| *10.6 | -- Consulting Services Agreement dated effective May 1, 2003 by and between Veritas DGC Inc. and Arch Creek Advisors LLC. (Arch Creek Advisors LLC is owned and controlled by Anthony Tripodo, who, until April 30, 2003, was Executive Vice President, Special Projects of Veritas DGC Inc. and prior to that, was Executive Vice President, Chief Financial Officer & Treasurer of the Veritas DGC Inc.) |
| *99.1 | -- Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by David B. Robson. |
| *99.2 | -- Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Matthew D. Fitzgerald. |

* filed herewith

b) REPORTS ON FORM 8-K

On February 5, 2003, we filed a report under Item 5 on Form 8-K

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regarding the anticipated redemption of our 9 3/4 Senior Notes.

On February 19, 2003, we filed a report under Item 5 on Form 8-K regarding our credit agreement with Deutsche Bank AG.

On May 30, 2003, we filed a Form 8-K regarding our earnings release conference call for our 3rd Quarter, 2003.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 13th day of June 2003.

VERITAS DGC INC.

By: /s/ David B. Robson

DAVID B. ROBSON
Chairman of the Board and Chief Executive Officer

/s/ Matthew D. Fitzgerald

MATTHEW D. FITZGERALD
Executive Vice President, Chief Financial Officer
and Treasurer

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CERTIFICATIONS

I, David B. Robson, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Veritas DGC Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and

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procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 13, 2003

/s/ David B. Robson

David B. Robson
Chief Executive Officer

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CERTIFICATIONS

I, Matthew D. Fitzgerald, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Veritas DGC Inc.;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and

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procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: June 13, 2003

/s/ Matthew D. Fitzgerald

Matthew D. Fitzgerald
Chief Financial Officer

EXHIBIT INDEX

| EXHIBIT NO. | DESCRIPTION |
|-------------|--|
| ----- | ----- |
| 10.1 | -- Credit Agreement among Veritas DGC Inc., as borrower, and Wells Fargo, Inc., as a bank and agent for the banks named therein, dated July 19, 2001. (Exhibit 10-W to Veritas DGC Inc.'s Form 10-K for the year ended July 31, 2001 is incorporated herein by reference.) |
| 10.2 | -- Second Amendment to Credit Agreement, effective as of July 1, 2002, by and among Veritas DGC Inc., Veritas DGC Limited, Veritas Energy Services Inc., Veritas Energy Services Partnership, certain Banks party thereto, Wells Fargo Bank Texas, N.A., as agent, and HSBC Bank Canada, as agent. (Exhibit 10.1 to Veritas DGC Inc.'s Current Report on Form 8-K dated September 27, 2002 is incorporated herein by reference.) |
| 10.3 | -- Credit Agreement, dated as of February 14, 2003, among Veritas DGC Inc., Veritas DGC Limited, Veritas Energy Services Inc., Veritas Energy Services Partnership, Deutsche Bank AG, New York Branch, as Administrative Agent, Deutsche |

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Bank AG, Canada Branch, as Canadian Administrative Agent, and the various lending institutions named therein. (Exhibit 10.1 to Veritas DGC Inc.'s Current Report on Form 8-K dated February 19, 2003 is incorporated herein by reference.)

- 10.4 -- Letter of Agreement between Veritas DGC Inc. and Anthony Tripodo dated November 8, 2002 (Exhibit 10.4 to Veritas DGC Inc.'s Form 10-Q for the quarter ended January 31, 2003 is incorporated herein by reference.)
- *10.5 -- Agreement and Release of All Claims dated April 23, 2003, between Veritas DGC Inc. and Anthony Tripodo.
- *10.6 -- Consulting Services Agreement dated effective May 1, 2003 by and between Veritas DGC Inc. and Arch Creek Advisors LLC. (Arch Creek Advisors LLC is owned and controlled by Anthony Tripodo, who, until April 30, 2003, was Executive Vice President, Special Projects of Veritas DGC Inc. and prior to that, was Executive Vice President, Chief Financial Officer & Treasurer of the Veritas DGC Inc.)
- *99.1 -- Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by David B. Robson.
- *99.2 -- Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Matthew D. Fitzgerald.

* filed herewith