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VERITAS DGC INC
Form 10-Q
June 13, 2001

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UNITED STATES 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, 2001

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)

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

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

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

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at May 30, 2001 was 32,267,613 (including 1,565,001 Veritas Energy Services Inc. exchangeable which are identical to the Common Stock in all material respects).

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VERITAS DGC INC. AND SUBSIDIARIES

FORM 10-Q

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

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(UNAUDITED)

| | THREE MONTHS ENDED APRIL 30, | |
|---|---------------------------------|-----------|
| | 2001 | 2000 |
| | ----- | ----- |
| Revenue | \$ 126,617 | \$ 93,742 |
| Costs and expenses: | | |
| Cost of services | 84,401 | 62,931 |
| Research and development | 2,701 | 2,079 |
| Depreciation and amortization | 17,128 | 17,490 |
| Selling, general and administrative | 7,026 | 4,569 |
| | ----- | ----- |
| Operating income | 15,361 | 6,673 |
| Other income (expense): | | |
| Interest expense | (3,483) | (3,605) |
| Other income | 1,468 | 882 |
| | ----- | ----- |
| Income before provision for income taxes and extraordinary item | 13,346 | 3,950 |
| Provision for income taxes | 4,962 | 1,411 |
| | ----- | ----- |
| Income before extraordinary item | 8,384 | 2,539 |
| Extraordinary loss on debt repurchase (net of tax, \$95) | | |
| | ----- | ----- |
| Net income | \$ 8,384 | \$ 2,539 |
| | ===== | ===== |
| Comprehensive income (loss) (net of tax - \$0 in all periods): | | |
| Net income | \$ 8,384 | \$ 2,539 |
| Foreign currency translation adjustments | (2,438) | (1,649) |
| Unrealized gain (loss) on investments-available for sale | (1,767) | 356 |
| Unrealized loss on hedge transaction | (488) | |
| | ----- | ----- |
| Comprehensive income | \$ 3,691 | \$ 1,246 |
| | ===== | ===== |
| Earnings Per Share: | | |
| Basic | | |
| Income per common share before extraordinary item | \$.26 | \$.10 |
| Loss per common share from extraordinary item | 0 | 0 |
| | ----- | ----- |
| Net income per common share | \$.26 | \$.10 |
| | ===== | ===== |
| Weighted average common shares | 31,860 | 26,080 |
| | ===== | ===== |
| Diluted | | |
| Income per common share before extraordinary item | \$.26 | \$.09 |
| Loss per common share from extraordinary item | 0 | 0 |
| | ----- | ----- |
| Net income per common share | \$.26 | \$.09 |
| | ===== | ===== |
| Weighted average common shares | 32,627 | 26,817 |
| | ===== | ===== |

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See Notes to Consolidated Financial Statements

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VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS

Current assets:

Cash and cash equivalents
Restricted cash investments
Accounts and notes receivable (net of allowance: April \$1,841; July \$1,749)
Materials and supplies inventory
Investments-available for sale
Prepayments and other

Total current assets

Property and equipment

Less accumulated depreciation

Property and equipment - net

Multi-client data library

Goodwill (net of accumulated amortization: April \$6,200; July \$4,984)

Deferred tax asset

Other assets

Total

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

Current maturities of long-term debt
Accounts payable - trade
Accrued interest
Other accrued liabilities
Income taxes payable

Total current liabilities

Non-current liabilities:

Long-term debt - less current maturities
Other non-current liabilities

Total non-current liabilities

Stockholders' equity:

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Common stock, \$.01 par value; authorized: 40,000,000 shares; issued: 30,602,763 shares at April and 25,069,834 shares at July (excluding exchangeable shares of 1,569,736 at April and 2,014,205 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
- Unrealized loss on investments-available for sale
- Unrealized loss on hedge transaction

Unearned compensation

Treasury stock, at cost: 63,935 shares at April and 104,175 shares at July

Total stockholders' equity

Total

See Notes to Consolidated Financial Statements

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VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| | NINE MONTHS ENDED APRIL 30, | |
|--|--------------------------------|------|
| | 2001 | 2000 |
| | (In thousands) | |
| OPERATING ACTIVITIES: | | |
| Net income | \$ 20,612 | \$ 2 |
| Non-cash items included in net income: | | |
| Depreciation and amortization | 50,458 | 54 |
| Net (gain) loss on disposition of property and equipment | (1,049) | |
| Equity in loss of joint venture | 19 | |
| Amortization of multi-client data library | 444 | |
| Deferred taxes | (386) | (9) |
| Amortization of unearned compensation | 531 | |
| Change in operating assets and liabilities | (62,881) | (75) |
| Total cash provided by (used in) operating activities | 7,748 | (25) |
| INVESTING ACTIVITIES: | | |
| Decrease in restricted cash investments | 206 | |
| Acquisitions, net of cash received | (135) | (2) |
| Sale of KC Offshore, net | | 6 |

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| | | |
|---|-----------|-------|
| Sale of Brigham Exploration Company stock | 4,098 | |
| Purchase of property and equipment | (58,830) | (39) |
| Sale of property and equipment | 3,741 | 3 |
| | ----- | ----- |
| Total cash used in investing activities | (50,920) | (31) |
| FINANCING ACTIVITIES: | | |
| Payments from long-term debt | (442) | |
| Senior notes issue costs | | |
| Net proceeds from sale of common stock | 95,576 | 20 |
| Purchase of treasury stock | | |
| | ----- | ----- |
| Total cash provided by financing activities | 95,134 | 19 |
| | | |
| Currency loss on foreign cash | (376) | |
| | ----- | ----- |
| Change in cash and cash equivalents | 51,586 | (37) |
| Beginning cash and cash equivalents balance | 43,154 | 73 |
| | ----- | ----- |
| Ending cash and cash equivalents balance | \$ 94,740 | \$ 35 |
| | ===== | ===== |

See Notes to Consolidated Financial Statements

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VERITAS DGC INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULES TO CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:

| | |
|---|----|
| Increase in property and equipment for accounts payable - trade | \$ |
| Stock and options issued for purchase of Enertec Resource Services Inc. (net of cash received) | |
| Stock and options issued for purchase of Reservoir Characterization Research and Consulting, Inc. | |

See Notes to Consolidated Financial Statements

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VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

We provide integrated geophysical services to the petroleum industry worldwide. 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.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This standard requires companies to record derivative financial instruments on the balance sheet as assets or liabilities, as appropriate, at fair value. Gains or losses resulting from changes in the fair values of those derivatives are accounted for depending on the use of the derivatives and whether they qualify for hedge accounting. We adopted this statement in the first quarter of the current year with no material impact on the consolidated financial statements.

2. PURCHASE OF RESERVOIR CHARACTERIZATION RESEARCH AND CONSULTING, INC.

On February 2, 2001, we consummated a merger with Reservoir Characterization Research and Consulting, Inc., ("RC2"), a Colorado corporation. Under the terms of the agreement, we acquired 100% of RC2 in exchange for 1,137,466 shares of our common stock.

The total purchase price of RC2 was \$34.4 million, comprised of \$33.0 million of stock and \$1.4 million of options. The acquisition was accounted for as a purchase with the preliminary allocation of purchase price, in accordance with APB 16, yielding \$2.4 million of current assets, \$10.3 million of property and long term assets, \$2.3 million of liabilities, and \$24.0 million of goodwill. Goodwill will be amortized over no more than 20 years.

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VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

3. OTHER INCOME

Other income consists of the following:

| | Three Months Ended April 30, | | Nine A |
|--|---------------------------------|--------|-----------|
| | 2001 | 2000 | 2001 |
| | (In thousands) | | |
| Interest income | \$ 1,424 | \$ 914 | \$ 4,059 |
| Net (loss) gain on disposition of property and equipment | (4) | (74) | 1,049 |
| Net foreign currency exchange gains (losses) | 141 | (18) | 500 |
| Other | (93) | 60 | 13 |
| | ----- | ----- | ----- |
| Total | \$ 1,468 | \$ 882 | \$ 5,621 |
| | ===== | ===== | ===== |

4. EARNINGS PER COMMON SHARE

Earnings per common share - basic and diluted are computed as follows:

| | Three Months Ended April 30, | |
|---|---------------------------------|----------|
| | 2001 | 2000 |
| | (In thousands, e | |
| Income before extraordinary item | \$ 8,384 | \$ 2,539 |
| Extraordinary loss on debt repurchase | ----- | ----- |
| Net income | \$ 8,384 | \$ 2,539 |
| | ===== | ===== |
| BASIC | | |
| Weighted average common shares | 31,860 | 26,080 |
| Income per common share before extraordinary item | \$.26 | \$.10 |

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| | | |
|---|--------|--------|
| Loss per common share from extraordinary item | ----- | ----- |
| Net income per common share | \$.26 | \$.10 |
| | ===== | ===== |
| DILUTED | | |
| Weighted average common shares - assuming dilution: | | |
| Weighted average common shares | 31,860 | 26,080 |
| Shares issuable from assumed conversion of options | 767 | 737 |
| | ----- | ----- |
| Total | 32,627 | 26,817 |
| | ===== | ===== |
| Income per common share before extraordinary item | \$.26 | \$.09 |
| Loss per common share from extraordinary item | ----- | ----- |
| Net income per common share | \$.26 | \$.09 |
| | ===== | ===== |

Veritas Energy Services Inc. exchangeable shares, which were issued in business combinations, and may be exchanged for our common stock and are identical to our common stock in all material respects, are included in the above computations.

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VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

On October 26, 1999, we filed a prospectus supplement relating to the sale of up to 2.0 million shares of our common stock, from time to time through ordinary brokerage transactions, under a shelf registration. For the nine months ended April 30, 2001, we issued approximately 0.1 million shares in connection with these transactions, generating approximately \$2.9 million in net proceeds. In October 2000, we completed an offering of 3.1 million shares of common stock under the shelf registration statement, generating \$82.4 million in net proceeds. In addition, during the nine months ended April 30, 2001, 0.7 million options were exercised, generating \$9.8 million in net proceeds, and approximately 40,000 shares were purchased under the employee stock purchase plan, generating \$0.9 million in net proceeds.

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

Three Months Ended
April 30,

Nine Months
April 30

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| | 2001 ----- | 2000 ----- | 2001 ----- | 2001 ----- |
|----------------------|---------------------|---------------------|---------------------|---------------|
| Number of options | 404,840 | 725,314 | 168,327 | |
| Exercise price range | \$31 1/2 - \$55 1/8 | \$19 3/8 - \$55 1/8 | \$28 3/4 - \$55 1/8 | \$1 |
| Expiring through | March 2011 | March 2010 | March 2011 | |

5. UNREALIZED LOSS ON INVESTMENTS-AVAILABLE FOR SALE

In fiscal year 1999, we exchanged a \$4.7 million account receivable from Miller Exploration Company (Miller), a publicly traded company, for a long-term note receivable paying 18% interest. The interest rate changed to 9 3/4%, effective October 15, 2000. For the periods April 15, 1999 to October 14, 2000, interest was paid in common stock warrants, with an exercise price of \$0.01 per share, in advance, at six-month intervals. Beginning October 15, 2000, interest is paid in cash after the six-month intervals and no additional warrants will be issued. In addition, in fiscal year 1999, we exchanged an account receivable from Brigham Exploration Company, a publicly traded company, for shares of Brigham common stock. The stock from this exchange was sold in April 2001 for \$4.1 million resulting in an immaterial gain. The cost basis of the investments available for sale is determined by the fair market value on the date received.

| | April 30, 2001 ----- | | | July ----- | Un ----- |
|----------------------|-------------------------|-----------------------------|---------------------|---------------------|-------------|
| | Cost Basis ----- | Unrealized loss ----- | Fair Value ----- | Cost Basis ----- | |
| | (In thousands) | | | | |
| Brigham common stock | | | | \$ 4,099 | \$ |
| Miller warrants | \$ 1,500 | \$ (80) | \$ 1,420 | 1,500 | \$ |
| | ----- | ----- | ----- | ----- | ----- |
| | \$ 1,500 | \$ (80) | \$ 1,420 | \$ 5,599 | \$ |
| | ===== | ===== | ===== | ===== | ===== |

VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

(UNAUDITED)

6. 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:

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| | Three Months Ended April 30, 2001 | | | Three Months Ended April 30, 2000 | |
|-------------------------------------|--------------------------------------|-------------|------------|--------------------------------------|-------------|
| | Segments | Corporate | Total | Segments | Corporate |
| | (In thousands) | | | | |
| Revenue | \$ 126,617 | | \$ 126,617 | \$ 93,742 | \$ 10,818 |
| Costs and expenses | 102,453 | \$ 10,818 | 113,271 | 81,630 | 31,641 |
| Net income (loss) before income tax | \$ 24,164 | \$ (10,818) | 13,346 | \$ 12,112 | \$ (20,827) |

| | Nine Months Ended April 30, 2001 | | | Nine Months Ended April 30, 2000 | |
|-------------------------------------|-------------------------------------|-------------|------------|-------------------------------------|-------------|
| | Segments | Corporate | Total | Segments | Corporate |
| | (In thousands) | | | | |
| Revenue | \$ 372,331 | | \$ 372,331 | \$ 253,442 | \$ 118,889 |
| Costs and expenses | 306,677 | \$ 30,447 | 337,124 | 222,456 | 118,889 |
| Net income (loss) before income tax | \$ 65,654 | \$ (30,447) | \$ 35,207 | \$ 30,986 | \$ (20,827) |

7. HEDGE TRANSACTION

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. The total value of the forward contracts in U.S. dollars is \$9.7 million. The unrealized loss on the hedge transaction is summarized below:

| | April 30, 2001 | | |
|-------------------|----------------|-----------------|------------|
| | Forward value | Unrealized loss | Fair Value |
| | (In thousands) | | |
| Forward contracts | \$9,711 | (488) | \$ 9,223 |

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 2000 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.

RESULTS OF OPERATIONS

THREE MONTHS ENDED APRIL 30, 2001 COMPARED WITH THE THREE MONTHS ENDED APRIL 30, 2000

Revenue. Revenue increased 35%, from \$93.7 million to \$126.6 million due to a general increase in exploration spending by our customers in the current quarter. Multi-client revenue increased 17%, from \$46.4 million to \$54.3 million. This is primarily due to licensing of our new Canadian Foothill surveys. Contract revenue increased 53%, from \$47.3 million to \$72.3 million, driven by an overall improvement in activity and additional crews in Alaska and Canada.

Operating income. Operating income increased 130% from \$6.7 million to \$15.4 million. Operating margin (revenue less cost of services) remained essentially flat. Research and development expense increased 29%, from \$2.1 million to \$2.7 million as a result of our continuing efforts to develop and employ leading edge technologies to improve the quality of our products and services. Selling, general and administrative expense increased 52%, from \$4.6 million to \$7.0 million as a result of an increase in personnel cost, outside services for the new headquarters facility in Houston, and an expansion of our e-business and health and safety initiatives.

Other income (expense). Interest expense remained essentially flat, with long-term debt being the same in both quarters. Other income increased from \$0.9 million to \$1.5 million primarily due to the increase in interest income as a result of the increase in cash.

Income taxes. Income taxes increased from \$1.4 million to \$5.0 million as a result of our higher earnings in the current quarter with the effective rate remaining essentially flat.

NINE MONTHS ENDED APRIL 30, 2001 COMPARED WITH THE NINE MONTHS ENDED APRIL 30, 2000

Revenue. Revenue increased 47%, from \$253.4 million to \$372.3 million due to a general increase in exploration spending by our customers in the current year. Multi-client revenue increased 37%, from \$128.6 million to \$176.3 million. This is largely due to increased licensing of multi-client surveys in the Gulf of Mexico, Canada and the U.S. Contract revenue increased 57%, from \$124.8 million to \$196.0 million, driven by improvements in vessel activity for contract work, specifically in Asia and Canada, and increased utilization of land crews.

Operating income. Operating income increased 177% from \$14.5 million to \$40.1 million. Operating margin (revenue less cost of services) decreased from 34% to 32% due to licensing of an increased proportion of lower margin surveys in the current year as compared to the prior year. Depreciation and amortization

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expense decreased 7% from \$54.3 million to \$50.5 million as a result of timing of capital expenditures for the current year. Research and development and selling, general and administrative expenses increased in the current year as compared to the prior year. Research and development expense increased 21%, from \$6.1 million to \$7.4 million as a result of our continuing efforts to develop and employ leading edge technologies to improve the quality of our products and services. Selling, general and administrative expense increased 58%, from \$12.3 million to \$19.4 million as a result of relocation, rent and outside service expenses associated with

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the new headquarters facility in Houston, an increase in personnel cost and bonus accruals, and an expansion of our e-business and health and safety initiatives.

Other income (expense). Interest expense remained essentially flat, with long-term debt being the same in both periods. Other income increased from \$1.7 million to \$5.6 million. Interest income increased by \$1.6 million due to the increase in cash. Gains on the sale of fixed assets resulted in an increase of \$1.2 million. Currency gains in the current year versus currency losses in the prior year resulted in an increase of \$0.8 million.

Income taxes. Income taxes increased from \$2.5 million to \$14.6 million as a result of our higher earnings in the current year with the effective rate remaining essentially flat.

LIQUIDITY AND CAPITAL RESOURCES

Our internal sources of liquidity are cash, cash equivalents and cash flow from operations. External sources include public financing, equity sales, the unutilized portion of a revolving credit facility, equipment financing and trade credit. We believe that these sources of funds are adequate to meet our liquidity needs through the next fiscal year.

Net cash provided by operating activities increased from (\$25.9) million to \$7.7 million due primarily to higher profitability in the current year. In addition, net cash used by working capital decreased from \$75.2 million to \$62.9 million. This is primarily due to a decrease in net investment in multi-client data library in the current fiscal year as compared to the prior fiscal year. This is offset by an increase in accounts receivable as a result of the increase in activity for the current year.

Currently, we are forecasting \$60.0 million of net investment in our data library (measured as the change in the balance sheet account) during fiscal year 2001. Because of the elapsed time between survey execution, sale and ultimate cash receipt, multi-client work generally requires greater amounts of working capital than contract work. Depending upon the timing of the sales of the multi-client surveys and the contract terms relating to the collection of the proceeds from such sales, our liquidity may be affected. While we seek pre-funding commitments from customers for a portion of the cost of these surveys, pre-funding levels do not generally affect our library spending. We believe that these multi-client surveys have good long-term revenues, earnings and cash flow potential, but there is no assurance that we will recover the costs of these surveys.

Net cash used in investing activities increased from \$31.7 million to \$50.9 million. We require significant amounts of capital to support our operations and

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fund capital spending and research and development programs. Our current capital expenditure forecast for fiscal 2001 is \$105.0 million, which includes expenditures of approximately \$50 million to expand or upgrade current operating equipment. We are forecasting \$9.2 million of research and development spending in fiscal 2001. As demand for our geophysical products and services continues to increase during fiscal 2001, we may increase our expenditures and business investments as we take advantage of expansion opportunities.

Net cash provided by financing activities increased from \$19.6 million to \$95.1 million. As of April 30, 2001, we had \$135.0 million in senior notes outstanding due in October 2003. These notes contain a change of control provision allowing them to be callable by the holder under certain conditions. We also have a revolving credit facility due July 2001 from commercial lenders that provides advances up to \$50.0 million. At April 30, 2001, the borrowing base exceeded the credit limit. Advances bear interest, at our election, at LIBOR plus a margin based on certain financial ratios maintained by us or prime rate. Advances are secured by certain accounts receivable. As of April 30, 2001, there were no outstanding advances under the credit facility, but \$5.8 million of the credit facility was utilized for letters of credit. An additional \$44.2 million is available for borrowings. We are currently in negotiations for a new credit facility with the expected closing in June 2001.

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To ensure that we have available as many financing options as possible, we filed a shelf registration allowing the issuance of up to \$200 million in debt, preferred stock or common stock. On October 26, 1999, we filed a prospectus supplement relating to the sale of up to 2.0 million shares of our common stock, from time to time through ordinary brokerage transactions, under the shelf registration. For the nine months ended April 30, 2001, we issued approximately 0.1 million shares in connection with these transactions, generating approximately \$2.9 million in net proceeds. In addition, in October 2000, we completed an offering of 3.1 million shares of common stock under the shelf registration statement. This offering generated \$82.4 million in net proceeds. The total issuance of equity under the shelf registration has been approximately 4.4 million shares generating \$112.5 million in net proceeds.

We will require substantial cash flow to continue operations on a satisfactory basis, complete our capital expenditure and research and development programs and meet our principal and interest obligations with respect to outstanding indebtedness. 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 our client's exploration spending and, ultimately, underlying commodity prices.

OTHER

Since our quasi-reorganization with respect to Digicon Inc. on July 31, 1991, 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 carryforwards existing at the date of the quasi-reorganization is subject to certain limitations. For the nine months ended April 30, 2001, \$1.7 million has been recognized related to these benefits, due to our U.K. operation's increased profitability.

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In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." This standard requires companies to record derivative financial instruments on the balance sheet as assets or liabilities, as appropriate, at fair value. Gains or losses resulting from changes in the fair values of those derivatives are accounted for depending on the use of the derivatives and whether they qualify for hedge accounting. We adopted this statement in the first quarter of the current fiscal year with no material impact on the consolidated financial statements.

On February 2, 2001, we acquired Reservoir Characterization Research and Consulting, Inc., ("RC2"), a Colorado corporation in an acquisition accounted for as a purchase. The total purchase price was \$34.4 million, consisting of stock and options.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK

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. The total value of the forward contracts in U.S. dollars is \$9.7 million.

There have been no other significant changes that would affect our exposure to market risk since July 31, 2000.

PART II. OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) EXHIBITS FILED WITH THIS REPORT:

Exhibit

- 3-A) Restated Certificate of Incorporation with amendments of Veritas DGC Inc. dated August 30, 1996. (Exhibit 3.1 to Veritas DGC Inc.'s Current Report on Form 8-K dated September 16, 1996 is incorporated herein by reference.)
- 3-B) Certificate of Ownership and Merger of New Digicon Inc. and Digicon Inc. (Exhibit 3-B to Digicon Inc.'s Registration Statement No. 33-43873 dated November 12, 1991 is incorporated herein by reference.)
- 3-C) By-laws of New Digicon Inc. dated June 24, 1991. (Exhibit 3-C to Digicon Inc.'s Registration Statement No. 33-43873 dated November 12, 1991 is incorporated herein by reference.)
- 3-D) Certificate of Amendment to Restated Certificate of Incorporation of Veritas DGC Inc. dated September 30, 1999. (Exhibit 3-D to Veritas DGC Inc.'s Form 10-K for the year

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ended July 31, 1999 is incorporated herein by reference.)

- 3-F) By-laws of Veritas DGC Inc. as amended and restated March 7, 2000. (Exhibit 3-E to Veritas DGC Inc.'s Form 10-Q for the quarter ended January 31, 2000 is incorporated herein by reference.)
- 4-A) Specimen certificate for Senior Notes (Series A). (Included as part of Section 2.2 Exhibit 4-B to Veritas DGC Inc.'s Registration Statement No. 333-12481 dated September 20, 1996 is incorporated herein by reference.)
- 4-B) Form of Trust Indenture relating to the 9 3/4% Senior Notes due 2003 of Veritas DGC Inc. between Veritas DGC Inc. and Fleet National Bank, as trustee. (Exhibit 4-B to Veritas DGC Inc.'s Registration Statement No. 333-12481 dated September 20, 1996 is incorporated herein by reference.)
- 4-C) Specimen Veritas DGC Inc. Common Stock certificate. (Exhibit 4-C to Veritas DGC Inc.'s Form 10-K for the year ended July 31, 1996 is incorporated herein by reference.)
- 4-D) Rights Agreement between Veritas DGC Inc. and ChaseMellon Shareholder Services, L.L.C. dated May 15, 1997. (Exhibit 4.1 to Veritas DGC Inc.'s Current Report on Form 8-K dated May 27, 1997 is incorporated herein by reference.)

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- 4-E) Form of Restricted Stock Grant Agreement. (Exhibit 4.8 to Veritas DGC Inc.'s Registration Statement No. 333-48953 dated March 31, 1998 is incorporated herein by reference.)
- 4-F) Restricted Stock Plan as amended and restated March 7, 2000. (Exhibit 4-F to Veritas DGC Inc.'s Form 10-Q for the quarter ended April 30, 2000 is incorporated herein by reference.)
- 4-G) Key Contributor Incentive Plan as Amended and Restated dated March 9, 1999. (Exhibit 4.9 to Veritas DGC Inc.'s Registration Statement No. 333-74305 dated March 12, 1999 is incorporated herein by reference.)
- 4-H) Specimen for Senior Notes (Series C). (Exhibit 4-K to Veritas DGC Inc.'s Form 10-Q for the quarter ended January 31, 1999 is incorporated herein by reference.)
- 4-I) Indentures relating to the 9 3/4% Senior Notes due 2003, Series B and Series C of Veritas DGC Inc. between Veritas DGC Inc. and State Street Bank and Trust Company dated October 28, 1998. (Exhibit 4.3 to Veritas DGC Inc.'s Current Report on Form 8-K dated November 12, 1998 is incorporated herein by reference.)
- 9-A) Voting and Exchange Trust Agreement dated August 30, 1996 among Digicon Inc., Veritas Energy Services Inc. and the R-M Trust Company. (Exhibit 9.1 to Veritas DGC Inc.'s Current Report on Form 8-K dated September 16, 1996 is incorporated herein by reference.)

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- 9-B) Voting and Exchange Trust Agreement dated September 30, 1999 among Veritas DGC Inc., Veritas Energy Services Inc. and the CIBC Mellon Trust Company.
- 10-A) Support Agreement dated August 30, 1996 between Digicon Inc. and Veritas Energy Services Inc. (Exhibit 10.1 to Veritas DGC Inc.'s Current Report on Form 8-K dated August 30, 1996 is incorporated herein by reference.)
- 10-B) 1992 Non-Employee Director Stock Option Plan as amended and restated March 7, 2000. (Exhibit 10-B to Veritas DGC Inc.'s Form 10-Q for the quarter ended April 30, 2000 is incorporated herein by reference.)
- 10-C) 1992 Employee Nonqualified Stock Option Plan as amended and restated March 7, 2000. (Exhibit 10-C to Veritas DGC Inc.'s Form 10-Q for the quarter ended April 30, 2000 is incorporated herein by reference.)
- 10-D) 1997 Employee Stock Purchase Plan. (Exhibit 4.1 to Veritas DGC Inc.'s Registration Statement No. 333-38377 dated October 21, 1997 is incorporated herein by reference.)
- 10-E) Restricted Stock Agreement dated April 1, 1997 between Veritas DGC Inc. and Anthony Tripodo. (Exhibit 10-O to Veritas DGC Inc.'s Form 10-K for the year ended July 31, 1997 is incorporated herein by reference.)
- 10-F) Employment Agreement executed by David B. Robson. (Exhibit 10-L to Veritas DGC Inc.'s Form 10-K for the year ended July 31, 1997 is incorporated herein by reference.)
- 10-G) Employment Agreement executed by Stephen J. Ludlow. (Exhibit 10-B to Veritas DGC Inc.'s Form 10-Q for the quarter ended April 30, 1997 is incorporated herein by reference.)
- 10-H) Employment Agreement executed by Anthony Tripodo. (Refer to Exhibit 10-I to Veritas DGC Inc.'s Form 10-Q for the quarter ended April 30, 1997 is incorporated herein by reference.)

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- 10-I) Employment Agreement executed by Rene M.J. VandenBrand. (Exhibit 10-N to Veritas DGC Inc.'s Form 10-K for the year ended July 31, 1997 is incorporated herein by reference.)
- 10-J) Employment Agreement executed by Timothy L. Wells. (Exhibit 10-J to Veritas DGC Inc.'s Form 10-K for the year ended July 31, 1999 is incorporated herein by reference.)
- 10-K) Credit Agreement among Veritas DGC Inc., as borrower, and Bank One, Texas, N.A., as issuing bank, as a bank and agent for the banks, and the banks therein named dated November 1, 1999. (Exhibit 10-N to Veritas DGC Inc.'s Form 10-Q for the quarter ended October 31, 1999 is incorporated herein by reference.)
- 10-L) Sales agency agreement between Veritas DGC Inc. and Paine Webber Incorporated, dated October 26, 1999. (Exhibit 10-N to

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Veritas DGC Inc.'s Form 10-Q for the quarter ended October 31, 1999 is incorporated herein by reference.)

- 10-M) Form of Indemnity Agreement between Veritas DGC Inc. and its executive officers and directors as amended and restated March 7, 2000. (Exhibit 10-M to Veritas DGC Inc.'s Form 10-Q for the quarter ended April 30, 2000 is incorporated herein by reference.)
- 10-N) Employment Agreement executed by Richard C. White. (Exhibit 10-Q to Veritas DGC Inc.'s Form 10-Q for the quarter ended January 31, 2000 is incorporated herein by reference.)
- 10-O) Indemnity Agreement between Veritas DGC Inc. and Richard C. White. (Exhibit 10-Q to Veritas DGC Inc.'s Form 10-Q for the quarter ended April 30, 2000 is incorporated herein by reference.)
- 10-P) Settlement Agreement between Veritas DGC Inc. and Richard C. White. (Exhibit 10-P to Veritas DGC Inc.'s Form 10-Q for the quarter ended October 31, 2000 is incorporated herein by reference.)
- 10-Q) Deferred Compensation Plan effective January 1, 2001. (Exhibit 10-Q to Veritas DGC Inc.'s Form 10-Q for the quarter ended October 31, 2000 is incorporated herein by reference.)
- 10-R) Rabbi Trust Agreement between Veritas DGC Inc. and Austin Trust Company relating to the Deferred Compensation Plan. (Exhibit 10-R to Veritas DGC Inc.'s Form 10-Q for the quarter ended October 31, 2000 is incorporated herein by reference.)
- 10-S) 2001 Key Employee Nonqualified Stock Option Plan effective February 1, 2001. (Exhibit 10-S to Veritas DGC Inc.'s Form 10-Q for the quarter ended January 31, 2001 is incorporated herein by reference.)
- 10-T) 2001 Key Employee Restricted Stock Plan effective February 1, 2001. (Exhibit 10-T to Veritas DGC Inc.'s Form 10-Q for the quarter ended January 31, 2001 is incorporated herein by reference.)
- *10-U) Employment Agreement executed by Matthew D. Fitzgerald.

* Filed herewith

b) REPORTS ON FORM 8-K

We did not file a Form 8-K during the quarter ended April 30, 2001.

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 2001.

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VERITAS DGC INC.

By: /s/ Timothy L. Wells

TIMOTHY L. WELLS
Chief Operating Officer

/s/ Matthew D. Fitzgerald

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

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EXHIBIT NUMBER

EXHIBIT
NUMBER

DESCRIPTION

*10-U)

Employment Agreement executed by Matthew D. Fitzgerald