
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended October 31, 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)

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

The number of shares of the Company's common stock, \$.01 par value, outstanding at November 30, 2003 was 33,727,077 (including 1,443,441 Veritas Energy Services Inc. exchangeable shares which are identical to the Common Stock in all material respects).

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) (UNAUDITED)

	Three Months Ended October 31,	
	2003	2002
	(In thousands, except per share amounts)	
Revenues.....	\$ 104,350	\$ 137,507
Cost of services.....	116,835	118,712
Research and development	3,445	3,008
General and administrative	6,191	7,673
Operating income (loss).....	(22,121)	8,114
Interest expense	4,278	3,942
Other expense, net	35	1,234
Income (loss) before provision for income taxes	(26,434)	2,938
Income taxes (benefit)	(87)	1,375
Net income (loss).....	\$ (26,347)	\$ 1,563
Net income (loss) per share:		
Basic:		
Net income (loss) per common share.....	\$ (.78)	\$.05
Weighted average common shares (including exchangeable shares).....	33,608	33,151
Diluted:		
Net income (loss) per common share.....	\$ (.78)	\$.05
Weighted average common shares (including exchangeable shares).....	33,608	33,195
Comprehensive income (loss):		
Net income (loss).....	\$ (26,347)	\$ 1,563
Other comprehensive income (loss) (net of tax, \$0 in all periods):		
Foreign currency translation adjustments	5,365	225
Unrealized loss on investments available for sale.....	(247)	
Unrealized gain on interest rate swap	462	
Unrealized (loss) gain on foreign currency hedge.....	(128)	112
Total other comprehensive income	5,452	337
Comprehensive income (loss).....	\$ (20,895)	\$ 1,900

See Notes to Consolidated Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value)

	October 31, 2003	July 31, 2003
	(Unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 56,346	\$ 72,626
Restricted cash investments	205	205
Accounts and notes receivable (net of allowance: \$3,419 at October; \$7,953 at July)	132,636	131,645
Materials and supplies inventory	3,415	5,044
Prepayments and other	15,251	13,365
Income taxes receivable	13,748	11,335
Total current assets	221,601	234,220
Property and equipment	500,549	492,639
Less accumulated depreciation	353,883	341,430
Property and equipment, net	146,666	151,209
Multi-client data library	364,963	371,949
Investment in and advances to joint ventures	4,153	4,657
Deferred tax asset	1,953	2,546
Other assets	22,214	23,781
Total	\$ 761,550	\$ 788,362
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current porting of long-term debt	\$ 13,783	\$ 13,908
Trade accounts payable	41,952	43,423
Accrued interest	515	551
Other accrued liabilities	36,068	41,329
Total current liabilities	92,318	99,211
Non-current liabilities:		
Long-term debt	180,055	180,317
Other non-current liabilities	18,814	18,701
Total non-current liabilities	198,869	199,018
Stockholders' equity:		
Common stock, \$.01 par value; issued: 32,304,150 shares and 32,156,781 shares, respectively (excluding common stock equivalent exchangeable shares of subsidiary of 1,443,411 in both periods)	323	322
Additional paid-in capital	429,418	428,402
Accumulated earnings (from August 1, 1991 with respect to Digicon Inc.)	34,170	60,517
Accumulated other comprehensive income:		
Cumulative foreign currency translation adjustment	8,883	3,518
Other comprehensive income (loss)	(691)	(778)
Unearned compensation	(191)	(340)
Treasury stock, at cost; 89,136 shares and 84,143 shares, respectively	(1,549)	(1,508)
Total stockholders' equity	470,363	490,133
Total	\$ 761,550	\$ 788,362

See Notes to Consolidated Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)**

	Three Months Ended October 31,	
	2003	2002
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	\$ (26,347)	\$ 1,563
Non-cash items included in net income (loss):		
Depreciation and amortization, net (other than multi-client)	9,359	12,752
Amortization of multi-client library	56,213	32,026
Impairment of land acquisition equipment.....		1,780
Loss on disposition of property and equipment	182	224
Equity in loss of joint venture	249	599
Deferred taxes	722	
Amortization of unearned compensation	149	180
Change in operating assets/liabilities:		
Accounts and notes receivable	276	(17,799)
Materials and supplies inventory	1,634	11,850
Prepayments and other	(2,102)	(2,520)
Income tax receivable	(2,181)	429
Accounts payable and other accrued liabilities	(7,246)	(19,462)
Other	(481)	508
Net cash provided by operating activities	<u>30,427</u>	<u>22,130</u>
Cash flows from investing activities:		
Investment in multi-client data library, net cash	(40,507)	(37,506)
Purchase of property and equipment.....	(8,581)	(9,385)
Sale of property and equipment	539	92
Sale of (RC) ² software operation.....	2,000	
Purchase of Hampson-Russell Software Services Ltd.		(9,250)
Net cash used by investing activities.....	<u>(46,549)</u>	<u>(56,049)</u>
Cash flows from financing activities:		
Borrowing of long-term debt, net of debt issuance costs		120,500
Payments on long-term debt	(387)	(49,950)
Net proceeds from sale of common stock	497	643
Net cash provided by financing activities	<u>110</u>	<u>71,193</u>
Currency (gain) loss on foreign cash	(268)	16
Change in cash and cash equivalents	(16,280)	37,290
Beginning cash and cash equivalents balance	72,626	10,586
Ending cash and cash equivalents balance	<u>\$ 56,346</u>	<u>\$ 47,876</u>
 Schedule of non-cash transactions:		
Capitalization of depreciation and amortization resulting in an increase in multi-client data library.....	\$ 5,355	\$ 6,034
 Cash paid for:		
Interest	\$ 3,813	\$ 6,771
Taxes	1,372	950

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 audited 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.

2. Business combination

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 \$9.2 million in cash, 589,623 shares of our common stock (valued at \$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 our 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. Sale of (RC)² software operation

In the fourth quarter of fiscal year 2003, we decided to sell the Reservoir Characterization Research and Consulting, Inc., “(RC)²” software operation and entered into a letter of intent to sell it to Seismic Micro-Technology, Inc (“SMT”). We closed the sale on September 16, 2003. We recorded a charge in the fourth quarter of fiscal year 2003 of \$7.6 million related to these operations. \$5.9 million of this charge was applied to reduce the carrying value of the (RC)² software to its value of \$2.0 million. The remaining \$1.7 million primarily relates to employee severance and facility costs. As of October 31, 2003, we have \$1.1 million remaining reserved for facility costs. Under the terms of the agreement, SMT acquired the software developed and marketed by (RC)² and certain related trade names and trademarks. SMT paid us a cash payment of \$2.0 million plus a percentage of the revenues from the licensing of (RC)² software over a four-year period. The cash payment was applied to the remaining software value. SMT also assumed certain maintenance and support obligations for the software and granted our subsidiaries and us a royalty-free license to continue use of all SMT software including the software being sold.

4. Multi-client library accounting change

As of August 1, 2003, we changed our multi-client amortization policy to the greater of straight-line or sales forecast method. The impact of the change will be to record a minimum amortization of surveys from their date of completion instead of only in the last 24 months of a survey’s book life. This change resulted in a catch-up adjustment of \$22.1 million recognized as additional amortization expense during the current fiscal year and is included in cost of services on the “Consolidated Statements of Operations and Comprehensive Income (Loss)”. A minimum amortization schedule, excluding the catch-up adjustment, is shown below. This table is based upon the recorded net book value of all surveys, both complete and in-progress, as of July 31, 2003. However, cost of sales attributed to any survey may be higher than that resulting from the minimum amortization due to sales during the period.

Fiscal Year	<u>Minimum Amortization (In thousands)</u>
2004.....	\$ 46,928
2005.....	72,024
2006.....	89,465
2007.....	80,535
2008 and thereafter.....	61,269

5. Other expense, net

Other expense, net consists of the following:

	<u>Three Months Ended October 31,</u>	
	<u>2003</u>	<u>2002</u>
	<u>(In thousands)</u>	
Interest income.....	\$ (234)	\$ (74)
Net loss on disposition of property and equipment.....	182	224
Net foreign currency exchange loss.....	32	283
Loss from unconsolidated joint venture.....	249	599
Other.....	(194)	202
Total.....	<u>\$ 35</u>	<u>\$ 1,234</u>

6. Earnings per common share

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

	Three Months Ended October 31,	
	2003	2002
	(In thousands, except per share amounts)	
Net income (loss)	\$ (26,347)	\$ 1,563
Basic:		
Weighted average common shares (including exchangeable shares)	33,608	33,151
Net income (loss) per share	<u>\$ (.78)</u>	<u>\$.05</u>
Diluted:		
Weighted average common shares (including exchangeable shares)	33,608	33,151
Shares issuable from assumed exercise of options	<u>44</u>	<u>44</u>
Total	<u>33,608</u>	<u>33,195</u>
Net income (loss) per share	<u>\$ (.78)</u>	<u>\$.05</u>

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 or the options are anti-dilutive due to a net loss.

	Three Months Ended October 31,	
	2003	2002
Number of options	3,985,002	3,363,216
Exercise price range	\$5.25 – \$55.13	\$10.71 - \$55.125
Expiring through	March 2012	March 2012

7. Long-term debt

Long-term debt is as follows:

	October 31, 2003	July 31, 2003
	(In thousands)	
Term A loan due February 2006	\$ 29,775	\$ 29,850
Term B loan due February 2007	124,063	124,375
Term C loan due February 2008	40,000	40,000
Total debt	<u>193,838</u>	<u>194,225</u>
Less: Current portion of long-term debt	13,783	13,908
Total long-term debt	<u>\$ 180,055</u>	<u>\$ 180,317</u>

On February 14, 2003, we entered into a 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 facility provides term financing of \$195.0 million under term A, term B and term C tranches (the "Term Loans"), a revolving loan facility aggregating \$55.0 million, including a facility for swing line loans of up to \$10.0 million and the issuance of letters of credit in an aggregate amount of up to \$40.0 million. As of October 31, 2003, there were \$4.4 million in letters of credit outstanding, leaving \$50.6 million available for borrowings. Among other restrictions, the Credit Agreement prohibits us from paying cash dividends. Proceeds from the Term Loans were used to satisfy the obligations under our previous credit agreement and our Senior Notes.

The term A loan was in the original principal amount of \$30.0 million, matures in 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 was in the original principal amount of \$125.0 million, matures in 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 was in the original principal amount of \$40.0 million, matures in 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 required quarterly combined principal payments of \$387,500 representing 0.25% of the initial principal balances. Should there be an event of default or if an unmatured event of default exists, or the credit rating of any of the debt is below Moody's Ba2 or S&P's BB, or our leverage ratio as of the last day of the most recent excess cash flow calculation period rises above certain levels, the term A and B loans also require principal payments of 50% of the prior fiscal year's cash flow, calculated as per the loan agreement. This payment is due 100 days after the end of the fiscal year and results in a ratable reduction of the future required quarterly principal payments. As our lowest debt rating by Moody's is below the minimum level, we paid \$12.4 million of principal in November 2003 related to the company's cash flow from January 1, 2003 through July 31, 2003. Based upon this payment, our required quarterly combined principal payments will be reduced to \$356,371. Future excess cash flow payments of this type, if any, will be based on cash flow for full fiscal years.

Loans made under the revolving loan facility, 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 revolving loan facility expires in February 2006.

Borrowings under the Credit Agreement are 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. At October 31, 2003, the carrying value of the secured assets, including intercompany receivables, was \$1.1 billion. The Credit Agreement and related documents contain a number of covenants, including financial covenants relating to interest coverage, leverage and net worth.

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 against 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 Agreement described above. These swaps, with notional amounts totaling \$80.0 million, effectively hedge 41% of our exposure to interest rate changes for the two-year term of the swaps and had no value at inception.

Details of the interest rate swaps are summarized in the following table:

Tranche Hedged	Amount (in thousands)	Term	Pay %	Receive	Libor Floor
Term A	\$25,000	24 months	1.86	LIBOR	None
Term B	\$55,000	24 months	2.49	LIBOR	2%

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

	October 31, 2003			July 31, 2003		
	Forward Value	Unrealized Gain/(Loss)	Fair Value	Forward Value	Unrealized Gain	Fair Value
	(In thousands)					
Forward contracts	\$ 1,941	\$ 504	\$ 2,445	\$ 2,780	\$ 632	\$ 3,412
Interest rate swaps.....		(315)	(315)		(777)	(777)

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					
	October 31,					
	2003			2002		
	Segments	Corporate	Total	Segments	Corporate	Total
	(In thousands)					
Revenues.....	\$104,350		\$104,350	\$137,507		\$137,507
Operating income (loss)	(13,723)	\$ (8,398)	(22,121)	16,781	\$ (8,667)	8,114
Income (loss) before provision for income taxes.....	(14,460)	(11,974)	(26,434)	15,677	(12,739)	2,938

10. Stock based compensation

We account for stock based employee compensation using the intrinsic method prescribed in Accounting Principles Board Opinion No. 25 and have adopted the disclosure only provisions of Statement of Financial Accounting Standards No. 148. The effect on net income and earnings per share that would have been recorded using the fair value based method for stock options is as follows:

	Three Months Ended	
	October 31,	
	2003	2002
	(In thousands)	
Net income (loss), as reported.....	\$ (26,347)	\$ 1,563
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	1,633	4,636
Pro forma net income (loss)	<u>\$ (27,980)</u>	<u>\$ (3,073)</u>
Earnings (loss) per share:		
Basic – as reported	\$ (.78)	\$.05
Basic – pro forma.....	(.83)	(.09)
Diluted – as reported.....	\$ (.78)	\$.05
Diluted – pro forma.....	(.83)	(.09)

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

This report on Form 10-Q and the documents incorporated by reference contain forward-looking statements, within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. These statements include statements incorporated by reference to other documents we file with the SEC. Forward-looking statements include, among other things, business strategy and expectations concerning industry conditions, market position, future operations, margins, profitability, liquidity and capital resources. Forward-looking statements generally can be identified by the use of terminology such as "may," "will," "expect," "intend," "estimate," "anticipate" or "believe" or similar expressions or the negatives thereof. These expectations are based on management's assumptions and current beliefs based on currently available information. Although we believe that the expectations reflected in such statements are reasonable, we can give no assurance that such expectation will be correct. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report on Form 10-Q. Our operations are subject to a number of uncertainties, risks and other influences, many of which are outside our control, and any one of which, or a combination of which, could cause our actual results of operations to differ materially from the forward-looking statements. Important factors that could cause actual results to differ materially from our expectations are disclosed in "Risk Factors" and elsewhere in our Annual Report on Form 10-K.

Overview

The first quarter was a difficult start to the fiscal year. However, the disappointing first quarter results have not materially changed our outlook for fiscal 2004. We continue to project overall flat activity as compared to fiscal 2003, and believe the sluggish spending by our major customers could improve beginning as early as the second quarter. We are optimistic that sales of our data library in key areas, such as the Gulf of Mexico, will show substantial improvement in coming months and that increased contract work will yield good utilization of our acquisition and processing assets.

We were not alone in having difficulties over the past several quarters. The entire seismic industry has experienced reduced sales of multi-client data, causing several of our competitors to record large impairments to their libraries and to move more of their acquisition assets into the contract market. This shift has exacerbated already low pricing in that arena.

Seismic spending by the major oil companies and large independents has been very slow, although partially offset by increased spending by some of the national oil companies. However, the national oil companies tend to package much of their work into large programs that encourage very aggressive bidding, as evidenced by the extremely low pricing on recent contract awards. As a result, our future profitability will continue to be heavily reliant on the sales of existing multi-client data, most significantly in the Gulf of Mexico.

We are currently forecasting both multi-client and contract revenue for the remaining quarters of the fiscal year to be substantially higher than in the first quarter and higher than in the corresponding quarters of the prior fiscal year. With our expectations of reduced investment in multi-client library in the current fiscal year and lower funding levels, achievement of these higher revenues will require higher shelf sales than we have experienced in recent quarters. Recently, we have seen stronger interest in our library from various customers and expect that, once calendar 2004 budgets are in place, we will be able to close substantial deals that are in the discussion phase at this time. Additionally, a few of our customers have commented that they may have some "year-end money" to spend on data library in December.

Results of operations

Three months ended October 31, 2003 compared with three months ended October 31, 2002

Revenues. Revenues decreased by 24% overall. Multi-client revenue declined for the third consecutive quarter, down 29% primarily due to decreased sales in the Gulf of Mexico and offshore Brazil, partially offset by increased onshore sales in Canada and the U.S. Revenue from ongoing surveys was lower in the current quarter, despite our higher multi-client spending, due to lower funding of the current projects. Contract revenue decreased by 21% due to a large land acquisition project in Peru last year as well as fewer contract marine acquisition projects in the current quarter.

Revenues break down as follows:

	Three Months Ended	
	October 31,	
	2003	2002
	(In thousands)	
Multi-client:		
Land	\$ 13,902	\$ 11,021
Marine	25,884	45,258
Subtotal	39,786	56,279
Contract:		
Land	36,747	48,363
Marine	27,817	32,865
Subtotal	64,564	81,228
Total Revenues.....	<u>\$ 104,350</u>	<u>\$ 137,507</u>

Operating income (loss). Operating income (loss) decreased from income of \$8.1 million to a loss of \$22.1 million. The poor results for the quarter were due mostly to a change in accounting for our multi-client library, which resulted in a charge of \$22.1 million (included in cost of services on the "Consolidated Statements of Operations and Comprehensive Income (Loss)"). This charge represents the adjustment necessary to reduce each of our surveys as of August 1, 2003 to a balance no greater than that which would have been recorded had the company been previously using the new method. While the sales forecast method remains our primary means of expensing multi-client surveys, we have now established a minimum cumulative amortization for each survey based upon straight-line amortization over five years. The monthly expense recognized for each survey is the greater of the amount derived by the sales forecast method or the amount of minimum amortization. This is a change from the prior method that provided for a minimum amortization only during the last two years of the surveys' book lives.

Disregarding the charge for the change in accounting method, our operating results were significantly below those of the prior comparable period. The biggest contributor to the poor results was the fact that our multi-client revenue was the lowest we have seen in many years, with sales of completed surveys (shelf sales) being particularly low. However, over the past two years our shelf sales have been lowest during the first quarter and then peaked in the second quarter. We are projecting a similar trend for this year.

In addition to the accounting adjustment, the results of the quarter reflect additional minimum amortization expense of \$7.2 million, compared with \$0.2 million during the prior fiscal year's first quarter. The extremely low levels of Gulf of Mexico shelf sales also detrimentally affected our multi-client margin. Many of our surveys in the Gulf of Mexico are fully amortized and, historically, sales of these surveys have contributed substantially to our profitability. Contract margins were higher than in last year's comparable quarter, although the prior fiscal period's margins reflect several operational disruptions and low margins on the large land acquisition job in Peru.

General and administrative expense declined by \$1.5 million as the prior year's first fiscal quarter includes \$1.0 million of severance costs and \$0.8 million of other non-recurring costs. Absent these costs, general and administrative expense increased by \$0.3 million.

Other expense, net. Other expense, net, decreased from \$1.2 million to \$35,000. No single item accounts for a significant portion of the change. A combination of increased interest income due to a higher cash balance, declining losses from our unconsolidated Indonesian joint venture and declining foreign currency exchange losses account for the largest portion of the change.

Income taxes. Despite the significant operating loss for the current quarter, a tax benefit of only \$87,000 was provided due to limitations on the establishment of deferred tax assets in the U.S. and several international jurisdictions. Similarly, profitability generated in these jurisdictions will not result in a corresponding tax provision in the short term. As a result, our effective tax rate for fiscal 2004 is expected to be well below the U.S. statutory rate, assuming taxable profit is generated.

Liquidity and capital resources

Cash flow and liquidity

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 that our current cash balance and cash flow from operations will be adequate to meet our liquidity needs for fiscal 2004. However, key elements of our forecasted cash flow are increasing shelf sales of multi-client surveys and higher contract acquisition work. Should these not occur at forecasted levels, which are substantially higher than experienced during the first quarter, we would need to curtail discretionary spending.

Net cash provided by operating activities increased from \$22.1 million in the first quarter of fiscal 2003 to \$30.4 million in the first quarter of the current fiscal year primarily due to less cash being used in working capital in the current quarter. The large net loss in the current quarter was predominantly due to the \$22.1 million non-cash charge for the change in accounting for our multi-client library and is offset in amortization of multi-client library. Net cash used by investing activities decreased from \$56.0 million in the first quarter of 2003 to \$46.5 million in the first quarter of fiscal 2004, with the main reason being the \$9.3 million used for the purchase of Hampson-Russell in fiscal 2003. Our cash investment in multi-client library was \$3.0 million higher in the current quarter which was partially offset by \$2.0 million from the sale of (RC)². Our capital expenditure estimate for fiscal 2004 is approximately \$48 million and will be spent on replacement and upgrading of existing equipment. For fiscal 2004, we are forecasting an approximately \$120 million to \$130 million cash investment in our data library. We expect to fund these investments from our current cash balance and from internally generated cash flows. Net cash provided by financing activities decreased from \$71.2 million in the first quarter of fiscal 2003 to \$0.1 million in the first quarter of fiscal 2004. We borrowed from our revolver in the prior fiscal year's first quarter to enhance our cash position prior to restructuring our debt.

Free cash flow from operations is an important measure of liquidity for us. 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 "net cash provided by operating activities" because free cash flow includes investments in operational assets and therefore presents a more complete 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. Some portion of projected positive free cash flow would be committed to items such as debt repayment obligations.

Our free cash flow for the first quarter of fiscal 2004 was negative due primarily to investment in our multi-client library. We are forecasting lower quarterly multi-client investment during the rest of the fiscal year. We intend to manage our business to achieve positive free cash flow for fiscal 2004 by maintaining flexibility in our capital and multi-client investments and generally spending within the constraints established by our operational cash flow.

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

	Three Months Ended	
	October 31,	
	2003	2002
	(In thousands)	
Net cash provided by operating activities	\$ 30,427	\$ 22,130
Multi-client expenditures, net cash	(40,507)	(37,506)
Capital expenditures	(8,581)	(9,385)
Free cash flow (deficit)	<u>\$(18,661)</u>	<u>\$(24,761)</u>

The following represents our financial contractual obligations and commitments as of October 31, 2003 for the specified periods:

<u>Contractual Cash Obligations</u>	Payments Due				
	<u>Total</u>	<u>Less than 1</u>	<u>1 – 3 years</u>	<u>3 – 5 years</u>	<u>Greater than 5 years</u>
		year	(In thousands)		
Payments due for operating lease obligations ...	\$ 140,004	\$ 37,026	\$ 50,572	\$ 21,111	\$ 31,295
Scheduled principal payments under debt obligations	193,838	13,427	29,476	110,935	40,000
Forward exchange contracts.....	1,659	1,659			
Potential payments under letters of credit.....	4,405	3,312	1,093		

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.

Debt structure

On February 14, 2003, we entered into a 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 Credit Agreement provides term financing of \$195.0 million under term A, term B and term C tranches (the "Term Loans"), a revolving loan facility aggregating \$55.0 million, including a facility for swing line loans of up to \$10.0 million and the issuance of letters of credit in an aggregate amount of up to \$40.0 million. As of October 31, 2003, there were \$4.4 million in letters of credit outstanding, leaving \$50.6 million available for borrowings. Among other restrictions, the Credit Agreement prohibits us from paying cash dividends. Proceeds from the Term Loans were used to satisfy the obligations under our previous credit agreement and our Senior Notes.

The term A loan was in the original principal amount of \$30.0 million, matures in 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 was in the original principal amount of \$125.0 million, matures in 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 was in the original principal amount of \$40.0 million, matures in 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 required quarterly combined principal payments of \$387,500 representing 0.25% of the initial principal balances. Should there be an event of default or if an unmatured event of default exists, or the credit rating of any of the debt is below Moody's Ba2 or S&P's BB, or our leverage ratio as of the last day of the most recent excess cash flow calculation period rises above certain levels, the term A and B loans also require principal payments of 50% of the prior fiscal year's cash flow, calculated as per the loan agreement. This payment is due 100 days after the end of the fiscal year and results in a ratable reduction of the future required quarterly principal payments. As our lowest debt rating by Moody's is below the minimum level, we paid \$12.4 million of principal in November 2003 related to the company's cash flow from January 1, 2003 through July 31, 2003. Based upon this payment, our required quarterly combined principal payments will be reduced to \$356,371. Future excess cash flow payments of this type, if any, will be based on cash flow for full fiscal years.

Loans made under the revolving loan facility, 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 revolving loan facility expires in February 2006.

Borrowings under the Credit Agreement are 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. At October 31, 2003, the carrying value of the secured assets, including intercompany receivables, was \$1.1 billion. The Credit Agreement and related documents contain a number of covenants, including financial covenants relating to interest coverage, leverage and net worth. Proceeds from the Term Loans were used to satisfy the obligations under the previous credit agreement and the Senior Notes.

Off-balance sheet instruments

Our limited hedging program consists of off-balance sheet instruments to fix the U.S. dollar value of foreign currency payments to be made under a Norwegian vessel charter and interest rate swap contracts that effectively fix the interest rate on \$80.0 million of our variable rate long-term debt. None of these hedges are critical to our operations but they reduce our exposure to currency and interest rate fluctuations and allow us to better plan our future cash flows. These instruments are described in detail in Item 3, Quantitative and Qualitative Disclosures Regarding Market Risk, as well as in Note 8 of Notes to Consolidated Financial Statements.

Critical accounting policies

While all of our accounting policies are important in assuring that we adhere to current accounting standards, certain policies are particularly important due to their impact on our financial statements. These are described in detail in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Significant Accounting Policies included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2003 which description is incorporated herein by reference. Since our last annual filing we have changed our accounting policy regarding the amortization of our multi-client data library. This new policy is described 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). As of August 1, 2003, we changed our method of amortizing these cost to the greater of straight-line over a five-year period or the sales forecast method. The sales forecast method amortizes the capitalized cost of multi-client data 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. The change in policy resulted in a charge of \$22.1 million to the current year as a catch-up adjustment to multi-client amortization and is included in cost of services on the "Consolidated Statements of Operations and Comprehensive Income (Loss)". 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.

Item 3. Quantitative and Qualitative Disclosures Regarding Market Risk

At October 31, 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 against 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 October 31, 2003 in U.S. dollars was \$2.4 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 rate swaps in the notional amount of \$80.0 million, effectively hedging 41% of our exposure to interest rate fluctuations for the two-year term of the swaps. These swaps had no value at inception.

Details of the interest rate swaps are summarized in the following table:

<u>Tranche Hedged</u>	<u>Amount</u> (in thousands)	<u>Term</u>	<u>Pay %</u>	<u>Receive</u>	<u>Libor Floor</u>
Term A	\$25,000	24 months	1.86	Libor	None
Term B	\$55,000	24 months	2.49	Libor	2%

The fair value of the swaps on October 31, 2003 was a negative \$315,000 and is included in other accrued liabilities on the "Consolidated Balance Sheets".

Item 4. Controls and Procedures

Our management, including the Chief Executive Officer and Chief Financial Officer, has conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Exchange Act Rule 13a-15. Based on that evaluation, our 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 rules and forms. There have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation described above that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

On September 28, 2002, we filed suit in Federal Court against one of our customers seeking \$6.8 million in damages for its failure to pay past due invoices and for other damages. The customer, in turn, filed a counterclaim against us alleging that the services were not properly performed, although the counterclaim did not specify the amount of damages claimed. At the time, we believed the facts in the matter were in our favor, however, during the third quarter of fiscal 2003, we reserved \$2.9 million of the related receivable in response to a "going concern" qualification to the audit opinion in the customer's Form 10-K filing. In the first quarter of fiscal 2004, this matter was settled resulting in our recording of a \$0.6 million gain, which is included in operating profit.

On occasion, we are named as a defendant in litigation relating to our normal business operations. Although we are insured against various business risks to the extent we believe prudent, there is no assurance that the nature and amount of such insurance will be adequate in every case.

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 10th day of December 2003.

VERITAS DGC INC.

By: /s/ Matthew D. Fitzgerald
MATTHEW D. FITZGERALD
Executive Vice President, Chief Financial Officer and Treasurer
(Principal Financial Officer)

/s/ Vincent M. Thielen
VINCENT M. THIELEN
Vice President, Corporate Controller
(Chief Accounting Officer)

302 Certifications

EXHIBIT 31.1

SARBANES-OXLEY SECTION 302 CERTIFICATION CERTIFICATION OF VERITAS DGC INC.

I, David B. Robson, the Chief Executive Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Veritas DGC Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

December 10, 2003

/s/ DAVID B. ROBSON
David B. Robson
Chief Executive Officer

**SARBANES-OXLEY SECTION 302 CERTIFICATION
CERTIFICATION OF VERITAS DGC INC.**

I, Matthew D. Fitzgerald, the Chief Financial Officer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Veritas DGC Inc.;
2. Based on my knowledge, this 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 report;
3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; 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 over financial reporting.

December 10, 2003

/s/ MATTHEW D. FITZGERALD
Matthew D. Fitzgerald
Chief Financial Officer

906 CERTIFICATIONS

EXHIBIT 32.1

CERTIFICATION PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Veritas DGC Inc. (the "Company") for the period ended October 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, David B. Robson, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;
2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented as required by such Report.

December 10, 2003

/s/ DAVID B. ROBSON

David B. Robson

Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Veritas DGC Inc. and will be retained by Veritas DGC Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Veritas DGC Inc. (the "Company") for the period ended October 31, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Matthew D. Fitzgerald, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934;
2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods presented as required by such report.

December 10, 2003

/s/ MATTHEW D. FITZGERALD

Matthew D. Fitzgerald
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Veritas DGC Inc. and will be retained by Veritas DGC Inc. and furnished to the Securities and Exchange Commission or its staff upon request.