VERITAS DGC INC
Form 10-Q
March 14, 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 JANUARY 31, 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	76-0343152
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

10300 TOWN PARK HOUSTON, TEXAS	77072
(Address of principal executive offices)	(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 at February 28, 2001 was 31,811,794 (including 1,764,389 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
UNAUDITED

	THREE MONTHS ENDED JANUARY 31,	
	2001	2000
		(I
REVENUES	$ 134,415	$ 91,0
COSTS AND EXPENSES:		
Cost of services	94,428	60,5
Research and development	2,504	2,0
Depreciation and amortization	16,225	18,4
Selling, general & administrative	6,846	4,2
Interest expense	3,542	3,4
Other income	(2,518)	(1
Total costs and expenses	121,027	88,6
Income before provision for income taxes and equity in (earnings) loss of joint venture	13,388	2,3
Provision for income taxes	6,287	1,0
Equity in (earnings) loss of joint venture	(119)	
Net income before extraordinary item	7,220	1,1
Extraordinary loss on debt repurchase (net of tax, $95)		
Net income	$ 7,220	$ 1,1
Other comprehensive income (loss) (net of tax - $0 in both periods)		
Foreign currency translation adjustments	392	1,6
Unrealized gain (loss) on investments-available for sale	964	
Comprehensive income	$ 8,576	$ 2,9
PER SHARE:		
BASIC		
Net income per common share before extraordinary item	$ .24	$.
Loss per common share from extraordinary item		
Net income per common share	$ .24	$.
Weighted average common shares	30,479	24,4
DILUTED		
Net income per common share before extraordinary item	$ .23	$.
Loss per common share from extraordinary item		
Net income per common share	$ .23	$.
Weighted average common shares	31,272	25,8

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: January $1,843; July $1,749)
  Materials and supplies inventory
  Prepayments and other
  Investments-available for sale

Total current assets

Property and equipment
  Less accumulated depreciation

Property and equipment - net

Multi-client data library
Investment in and advances to joint venture
Goodwill (net of accumulated amortization: January $5,708; July $4,984)
Deferred tax asset
Long term notes receivable (net of allowance: $1,000 in both periods)
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:
Preferred stock, $.01 par value; authorized: 1,000,000 shares; none issued
Common stock, $.01 par value; authorized: 40,000,000 shares; issued: 28,882,221 shares at January and 25,069,834 shares at July (excluding exchangeable shares of 1,764,396 at January and 2,014,205 at July)
Additional paid-in capital
Accumulated earnings (from August 1, 1991 with respect to Digicon Inc.)
Accumulated comprehensive income:
Cumulative foreign currency translation adjustment
Unrealized gain (loss) on investments-available for sale
Unearned compensation
Treasury stock, at cost: 93,927 shares at January and 104,175 shares at July

Total stockholders' equity

Total

See Notes to Consolidated Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

	SIX MONTHS ENDED JANUARY, 31	
	2001	2000
	(In thousands)	
OPERATING ACTIVITIES:		
Net income	$ 12,228	$ 4
Non-cash items included in net income:		
Depreciation and amortization	33,330	36,8
Net (gain) loss on disposition of property and equipment	(1,053)	1
Equity in (earnings) loss of joint venture	(109)	3
Amortization of multi-client data library	381	4
Deferred taxes	2	(3,9
Amortization of unearned compensation	292	3
Change in operating assets/liabilities:		
Accounts and notes receivable	(24,212)	(6,5
Materials and supplies inventory	501	4
Prepayments and other	(7,174)	(2,1
Multi-client data library	(28,515)	(53,9
Accounts payable and other accrued liabilities	9,120	4,6
Income taxes payable	8,786	(5,7
Other non-current liabilities	117	3,8
Other assets	(5,192)	3,9

Other	(1,688)	(1,9
Total cash used in operating activities	(3,186)	(23,0
FINANCING ACTIVITIES:		
(Payments)/borrowings from long-term debt	(42)	
Senior notes issue costs		(
Net proceeds from sale of common stock	89,690	3,8
Total cash provided by financing activities	89,648	3,8
INVESTING ACTIVITIES:		
Decrease in restricted cash investments	206	1
Acquisitions, net of cash received		(2,9
Purchase of property and equipment	(35,889)	(22,9
Sale of property and equipment	2,409	2,8
Total cash used in investing activities	(33,274)	(22,9
Currency loss on foreign cash	20	(
Change in cash and cash equivalents	53,208	(42,1
Beginning cash and cash equivalents balance	43,154	73,4
Ending cash and cash equivalents balance	$ 96,362	$ 31,2

See Notes to Consolidated Financial Statements

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VERITAS DGC INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULES TO CONSOLIDATED STATEMENTS OF CASH FLOWS
UNAUDITED

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SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:	
Increase in property and equipment for accounts payable - trade	$
Utilization of net operating loss carryforwards existing prior to the quasi-reorganization resulting in an increase (decrease) in:	
Deferred tax asset valuation allowance	
Additional paid-in capital	
Treasury stock issued for future services resulting in an increase in:	
Additional paid-in-capital	
Unearned compensation	

Stock and options issued for purchase of Enertec Resource Services Inc. (net of cash received)
Stock issued for purchase of Fairweather Geophysical, LLC
Settlement of and interest payments from investments-available for sale

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:
Cash paid (received) for:
Interest -
Senior notes 6
Equipment purchase obligations
Other
Income taxes

See Notes to Consolidated Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
UNAUDITED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

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.

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 derivative and whether it qualifies for hedge accounting. We adopted this statement in the first quarter of the current year. Since adoption, we have neither held nor have we issued derivative instruments. In addition, we have not engaged in any hedging activities.

2. DEBT

Debt is as follows:

	January 31, 2001	July 31, 2000
	(In thousands)	
Senior notes due October 2003, at 9 3/4%	$ 135,000	$ 135,000
Equipment purchase obligations maturing through July 2001, at 8.97%	64	106
Total	135,064	135,106
Less current maturities	64	106
Due after one year	$ 135,000	$ 135,000

The senior notes are due in October 2003 with interest payable semi-annually at 9 3/4% per annum. The senior notes are unsecured and are effectively subordinated to all of our secured debt, with respect to the assets securing such debt, and to all debt of our subsidiaries whether secured or unsecured. The indenture relating to the senior notes contains certain covenants that limit our ability to, among other things, incur additional debt, pay dividends and complete mergers, acquisitions and sales of assets. Upon a change in control, as defined in the indenture, each holder of the senior notes has the right to require us to purchase all or a portion of such holder's senior note at a price equal to 101% of the aggregate principal

amount. We have the right to redeem the senior notes, in whole or part. On September 24, 1999, we repurchased $5.5 million of 9 3/4% senior notes on the open market at a price of $5.7 million, resulting in an extraordinary loss of $0.2 million, net of tax. On December 3, 1999, we reissued $1.0 million of 9 3/4% senior notes at a price of $1.0 million. On December 10, 1999, we reissued $4.6 million of 9 3/4% senior notes at a price of $4.7 million.

We maintain a revolving credit agreement due July 2001 with commercial lenders that provides for advances up to $50.0 million. Advances are limited by a borrowing base, which is in excess of the credit limit at January 31, 2001 and bears 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. Covenants in the agreement limit, among other things, our right to take certain actions, including creating indebtedness. In addition, the agreement requires us to maintain certain financial ratios. No advances were outstanding at January 31, 2001 and July 31, 2000, under the credit agreement. At January 31, 2001, $4.1 million in letters of credit were outstanding under the facility.

Our equipment purchase obligations represent installment loans and capitalized lease obligations primarily related to computer and geophysical equipment.

3. OTHER ACCRUED LIABILITIES

Other accrued liabilities consists of the following:

	January 31, 2001	July 31, 2000
	(In thousands)	
Accrued payroll and benefits	$ 11,817	$ 9,942
Deferred revenues	$ 8,776	$ 15,370
Accrued taxes other than income	$ 5,069	$ 4,255

4. OTHER INCOME

Other income consists of the following:

	Three Months Ended January 31,		Six Months E January 31	
	2001	2000	2001	
	(In thousands)			
Interest income	$ (1,634)	$ (498)	$ (2,635)	$
Net (gain) loss on disposition of property and equipment	(320)	110	(1,053)	
Net foreign currency exchange losses (gains)	(573)	170	(359)	
Other	9	22	2	
Total	$ (2,518)	$ (196)	$ (4,045)	$

VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
UNAUDITED

5. EARNINGS PER COMMON SHARE

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

	Three Months Ended January 31,		Six J
	2001	2000	2001
	(In thousands, except per s		
Net income before extraordinary item	$ 7,220	$ 1,170	$ 12,
Extraordinary loss on debt repurchase			
Net income	$ 7,220	$ 1,170	$ 12,
Weighted average common shares	30,479	24,474	29,
Basic			
Net income per common share before extraordinary item	$ .24	$ .05	$
Loss per common share from extraordinary item			
Net income per common share	$ .24	$ .05	$
Weighted average common shares - assuming dilution:			
Weighted average common shares	30,479	24,474	29,
Shares issuable from assumed conversion of options	793	1,419	
Total	31,272	25,893	29,
Diluted			
Net income per common share before extraordinary item	$ .23	$ .05	$
Loss per common share from extraordinary item			
Net income per common share	$ .23	$ .05	$

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.

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 six months ended January 31, 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 six months ended January 31, 2001, 0.3 million options were exercised, generating $3.9 million in net proceeds, and 0.04 million shares were exercised under the employee stock purchase plan, generating

$0.8 million in net proceeds.

VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
UNAUDITED

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 January 31,		Six Month January
	2001	2000	2001
Number of options	61,173	823,470	104,028
Exercise price range	$ 28 3/4 - $55 1/8	$15 5/8 - $55 1/8	$27 13/16 - $55 1/8
Expiring through	August 2008	November 2008	August 2008

6. UNREALIZED GAIN (LOSS) ON INVESTMENTS-AVAILABLE FOR SALE

In fiscal year 1999, we exchanged a $4.7 million account receivable from Miller Exploration Company, 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 will be 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 cost basis of the investments available for sale is determined by the fair market value on the date received.

	January 31, 2001			July 31, 2000		
	Cost Basis	Unrealized gain/(loss)	Fair Value	Cost Basis	Unrealized gain/(loss)	F
			(In thousands)			
Brigham common stock	$ 4,099	$ 1,581	$ 5,680	$ 4,099	$ (1,411)	$
Miller warrants	1,500	105	1,605	1,500	(204)	
	$ 5,599	$ 1,686	$ 7,285	$ 5,599	$ (1,615)	$

VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)
UNAUDITED

7. 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 January 31, 2001			
	Segments	Corporate	Total	Segmen
			(In thousands)	
Revenues	$ 134,415		$ 134,415	$ 91
Costs and expenses including joint venture	112,250	8,658	120,908	79
Net income (loss) before income tax	22,165	(8,658)	13,507	11

	Six Months Ended January 31, 2001			
	Segments	Corporate	Total	Segmen
			(In thousands)	
Revenues	$ 245,714		$ 245,714	$ 159
Costs and expenses including joint venture	204,224	19,629	223,853	140
Net income (loss) before income tax	41,490	(19,629)	21,861	18

8. SUBSEQUENT EVENTS

PURCHASE OF RC(2)

On February 2, 2001, we acquired Reservoir Characterization Research and Consulting, Inc., ("RC(2)"), a Colorado corporation, in a stock-for-stock transaction. The total purchase price of RC(2) was approximately $34.9 million, consisting of $34.3 million of stock and options.

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 JANUARY 31, 2001 COMPARED WITH THREE MONTHS ENDED JANUARY 31, 2000

Revenues. Revenues increased 48%, from $91.0 million to $134.4 million due to a general increase in exploration spending by our customers in the current quarter. Multi-client revenue increased 25%, from $48.7 million to $60.8 million. This is largely due to increased licensing of multi-client surveys in the Gulf of Mexico and Canada. Contract revenue increased 74%, from $42.3 million to $73.6 million, driven by increased activity in Asia and Canada and increased utilization of land crews. Operating land crews increased from 11 to 18.

Cost of services. Cost of services increased 56%, from $60.6 million to $94.4 million primarily as a result of the increase in revenue. Cost of services as a percent of revenues increased from 67% to 70%. This is due to licensing of an increased proportion of lower margin surveys during the quarter.

Research and development. Research and development expense increased 19%, from $2.1 million to $2.5 million as a result of our continuing efforts to develop and employ leading edge technologies to improve the quality of our products and services.

Depreciation and amortization. Depreciation and amortization expense decreased 12%, from $18.5 million to $16.2 million. In general, this is the result of assets becoming fully depreciated. Net property and equipment decreased by 8%, from $163.0 million to $149.6 million between the comparative income statement periods.

Selling, general & administrative. Selling, general and administrative expense increased 58%, from $4.3 million to $6.8 million. The increase relates to relocation and rent expenses associated with the new headquarters facility in Houston, an increase in personnel cost, and expansion of our e-business and health and safety initiatives.

Interest expense. Interest expense remained essentially flat, with long-term debt being the same in both quarters.

Other income. Other income increased from $0.2 million to $2.5 million. Interest income increased by $1.2 million due to the increase in cash. Gains on the sale of fixed assets resulted in an increase of $0.4 million. Currency gains in the current year versus currency losses in the prior year resulted in an increase of $0.7 million.

Income taxes. Income taxes increased from $1.1 million to $6.3 million as a result of our higher earnings in the current quarter with the effective tax rate remaining essentially flat.

Equity in (earnings) loss of joint venture. Equity in (earnings) loss of joint venture, related to the Indonesian joint venture, increased from a loss of $83,000 to earnings of $119,000. An increase in marine contract work accounts for the increased profitability in the current quarter.

SIX MONTHS ENDED JANUARY 31, 2001 COMPARED WITH SIX MONTHS ENDED JANUARY 31, 2000

Revenues. Revenues increased 54%, from $159.7 million to $245.7 million due to a general increase in exploration spending by our customers in the current year. Multi-client revenue increased 48%, from $82.2 million to $122.0 million. This is largely due to expansion of onshore licensing in the U.S. and Canada and continued expansion in the Gulf of Mexico. Contract revenue increased 60%, from $77.5 million to $123.7 million, driven by increased activity in Asia Pacific and Canada and increased utilization of land crews. Operating land crews increased from 11 to 18.

Cost of services. Cost of services increased 65%, from $103.3 million to $170.6 million primarily as a result of the increase in revenue. Cost of services as a percent of revenues increased from 65% to 69%. This is due to licensing of an increased proportion of lower margin surveys during the current year.

Research and development. Research and development expense increased 18%, from $4.0 million to $4.7 million as a result of our continuing efforts to develop and employ leading edge technologies to improve the quality of our products and services.

Depreciation and amortization. Depreciation and amortization expense decreased 10%, from $36.8 million to $33.3 million. In general, this is the result of assets becoming fully depreciated. Net property and equipment decreased by 8%, from $163.0 million to $149.6 million between the comparative income statement periods.

Selling, general & administrative. Selling, general and administrative expense increased 60%, from $7.7 million to $12.3 million. The increase relates to relocation and rent expenses associated with the new headquarters facility in Houston, an increase in personnel cost, and expansion of our e-business and health and safety initiatives.

Interest expense. Interest expense remained essentially flat, with long-term debt being the same in both quarters.

Other income. Other income increased from $1.2 million to $4.0 million. Interest income increased by $1.1 million due to the increase in cash. Gains on the sale of fixed assets resulted in an increase of $1.1 million. Currency gains in the current year versus currency losses in the prior year resulted in an increase of $0.6 million.

Income taxes. Income taxes increased from $1.1 million to $9.6 million as a result of our higher earnings in the current year. The decrease in the effective tax rate from 54% to 44% is primarily attributable to income in the current year versus unbenefitted losses in the prior year.

Equity in (earnings) loss of joint venture. Equity in (earnings) loss of joint venture, related to the Indonesian joint venture, increased from a loss of $319,000 to earnings of $108,000. An increase in marine contract work accounts for the increased profitability in the current year.

LIQUIDITY AND CAPITAL RESOURCES

SOURCES AND USES

Our internal sources of liquidity are cash, cash equivalents and cash flow from operations. External sources include public financing, equity sales, 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 for fiscal 2001.

As of January 31, 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 January 31, 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 January 31, 2001, there were no outstanding advances under the credit facility, but $4.1 million of the credit facility was utilized for letters of credit. An additional $45.9 million is available for borrowings.

We require significant amounts of capital to support our operations and fund capital spending and research and development programs. Our current capital expenditure forecast for fiscal 2001 is $100.0 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.

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 revenue, earnings and cash flow potential, but there is no assurance that we will recover the costs of these surveys.

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 the external factors of exploration spending and, ultimately, underlying commodity prices.

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 six months ended January 31, 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 4.4 million shares generating $112.5 million in net proceeds.

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 six months ended January 31, 2001 no amount has been recognized related to these benefits, due to our U.K. operations decreased profitability.

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 derivative and whether it qualifies for hedge accounting. We adopted this statement in first quarter of the current year. Since adoption, we have neither held nor have we issued derivative instruments. In addition, we have not engaged in any hedging activities.

On February 2, 2001, we acquired Reservoir Characterization Research and Consulting, Inc., ("RC(2)"), a Colorado corporation, in a stock-for-stock transaction. The total purchase price of RC(2) was approximately $34.9 million, consisting of $34.3 million of stock and options. We expect this transaction will have a slight dilutive impact in the short term, but we believe the technology acquired is critical to developing the growing market for reservoir services.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK

There have been no 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 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.)
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 in 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.)
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 in 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.)

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 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.

10-Q) Deferred Compensation Plan effective January 1, 2001.

10-R) Rabbi Trust Agreement between Veritas DGC Inc. and Austin Trust Company relating to the Deferred Compensation Plan.

*10-S) 2001 Key Employee Nonqualified Stock Option Plan effective February 1, 2001.

*10-T) 2001 Key Employee Restricted Stock Plan effective February 1, 2001.

*27) Financial Data Schedule.

* Filed herewith

b) REPORTS ON FORM 8-K

On January 18, 2001, we filed a Form 8-K reporting the Agreement and Plan of Merger with Reservoir Characterization Research and Consulting, Inc.

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 March 2001.

VERITAS DGC INC.

By: /s/ David B. Robson

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

/s/ Matthew D. Fitzgerald

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

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION
10-S)	2001 Key Employee Nonqualified Stock Option Plan effective February 1, 2001.
10-Q)	2001 Key Employee Restricted Stock Plan effective February 1, 2001.
27)	Financial Data Schedule