VERITAS DGC INC
Form 10-Q
June 02, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)

OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended October 31, 2004

OR

o

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)

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 o No ý

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

The number of shares of the Company s common stock, $.01 par value, outstanding at April 30, 2005 was 33,849,816 (including 155,370 Veritas Energy Services Inc. exchangeable shares which are identical to the company s 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,	
	2004	Restated 2003
	(In thousands, except per share amounts)	
Revenues	$ 129,581	$ 102,407
Cost of services	116,002	115,850
Research and development	4,094	3,445
General and administrative	6,359	6,191
Operating income (loss)	3,126	(23,079)
Interest expense	757	4,279
Other (income), net	(578)	(158)
Income (loss) before provision for income taxes	2,947	(27,200)
Provision for income tax expense (benefit)	1,969	(215)
Net income (loss)	$ 978	$ (26,985)
Net income (loss) per share:		
Basic:		
Net income (loss) per common share	$ .03	$ (.80)
Weighted average common shares (including exchangeable shares)	33,752	33,608
Diluted:		
Net income (loss) per common share	$ .03	$ (.80)
Weighted average common shares (including exchangeable shares)	34,895	33,608
Comprehensive income (loss):		
Net income (loss)	$ 978	$ (26,985)
Other comprehensive income (net of tax, $0 in all periods):		
Foreign currency translation adjustments	7,285	5,443
Unrealized gain (loss) on investments available for sale	84	(247)
Unrealized gain on interest rate swap		462
Unrealized loss on hedge transactions		(128)
Total other comprehensive income	7,369	5,530
Comprehensive income (loss)	$ 8,347	$ (21,455)

See Notes to Consolidated Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value)

		October 31, 2004 (Unaudited)		July 31, 2004
ASSETS				
Current assets:				
Cash and cash equivalents	$	134,559	$	116,299
Restricted cash investments		227		111
Accounts and notes receivable (net of allowance of $833 at October and $1,109 at July)		163,251		166,810
Materials and supplies inventory		4,431		4,198
Prepayments and other		17,678		15,599
Income taxes receivable		6,577		12,617
Total current assets		326,723		315,634
Property and equipment		487,062		479,639
Less accumulated depreciation		372,299		357,976
Property and equipment, net		114,763		121,663
Multi-client data library		318,809		313,153
Deferred tax asset		1,223		1,223
Other assets		23,951		24,573
Total	$	785,469	$	776,246
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Trade accounts payable	$	52,236	$	44,907
Other accrued liabilities		63,776		74,795
Total current liabilities		116,012		119,702
Non-current liabilities:				
Long-term debt		155,000		155,000
Other non-current liabilities		14,760		11,854
Total non-current liabilities		169,760		166,854
Stockholders equity:				
Common stock, $.01 par value; issued: 35,041,994 shares and 34,821,298 shares, respectively (excluding Exchangeable Shares of 155,370 and 185,921, respectively)		350		348
Additional paid-in capital		444,172		441,982
Accumulated earnings		64,122		63,144
Accumulated other comprehensive income:				
Cumulative foreign currency translation adjustment		14,616		7,331
Other comprehensive income (loss)		(799)		(883)
Unearned compensation		(786)		(604)
Treasury stock, at cost; 1,341,556 shares and 1,317,532 shares, respectively		(21,978)		(21,628)
Total stockholders equity		499,697		489,690
Total	$	785,469	$	776,246

See Notes to Consolidated Financial Statements

Item 1. Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended October 31, 2004	Three Months Ended October 31, Restated 2003
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 978	$ (26,985)
Non-cash items included in net income (loss):		
Depreciation and amortization, net (other than multi-client)	9,764	9,519
Amortization of multi-client library	36,272	55,901
Loss on disposition of property and equipment	65	182
Equity in loss of joint venture		249
Deferred taxes	(340)	2,038
Amortization of unearned compensation	83	149
Change in operating assets/liabilities:		
Accounts and notes receivable	5,845	236
Materials and supplies inventory	(226)	1,644
Prepayments and other	1,686	(2,574)
Income taxes receivable	5,745	(2,374)
Accounts payable and other accrued liabilities	(4,475)	(7,264)
Other	3,195	(291)
Net cash provided by operating activities	58,592	30,430
Cash flows from investing activities:		
Increase in restricted cash	(116)	
Investment in multi-client data library, net cash	(35,625)	(40,518)
Purchase of property and equipment	(7,294)	(8,581)
Sale of property and equipment	282	539
Sale of (RC)2 software operation		2,000
Net cash used by investing activities	(42,753)	(46,560)
Cash flows from financing activities:		
Payments on long-term debt		(387)
Net proceeds from sale of common stock	1,893	497
Net cash provided by financing activities	1,893	110
Currency (gain) loss on foreign cash	528	(268)
Change in cash and cash equivalents	18,260	(16,288)
Beginning cash and cash equivalents balance	116,299	72,097
Ending cash and cash equivalents balance	$ 134,559	$ 55,809
Schedule of non-cash transactions:		
Capitalization of depreciation and amortization resulting in an increase in multi-client data library	$ 2,913	$ 5,355

See Notes to Consolidated Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Summary of significant accounting policies

Restatement of Financial Statements

The historical financial information in this document for the three months ended October 31, 2003 has been restated due to accounting errors. In September 2004, we found various types of errors in our balance sheet related primarily to clerical and account reconciliation errors associated with the intercompany transfers of property and foreign currency items. In addition, we found errors in the accounting for certain customer contracts that contained provisions for customer payment of equipment mobilization fees, revenue sharing with customers and certain other contingencies. Correction of these errors resulted in a decrease of net income of $1.4 million relating to the first three fiscal quarters of fiscal 2004 and $2.6 million related to periods prior to fiscal 2004. Since recording the required adjustments in the fourth quarter of fiscal 2004 would have had a material impact on the financial statements of the fourth quarter and those of the full fiscal year, we determined that a restatement of our prior years financial statements was appropriate. The impact of this restatement was to increase the net loss and net loss per common share for the first quarter of fiscal 2004 by $0.6 million and $0.02 per share, respectively. (See Note 10 for the details of the restatement.)

The restatement has not caused us to be in default under any of our debt covenants or lease agreements. We obtained waivers from our lenders under our Credit Facility related to the timing of our delivery of financial statements to them, extending the due date to June 15, 2005. Additionally, the restatement has delayed the registration of our Convertible Senior Notes, resulting in our payment of liquidated damages to the holders of the Convertible Senior Notes in the amount of $2,153 per day from August 31, 2004 until the registration is completed.

Consolidation

The accompanying consolidated financial statements include our accounts and the accounts of majority-owned domestic and foreign subsidiaries. All material intercompany balances and transactions have been eliminated. All material 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.

In December 2003, the Financial Accounting Standards Board issued FIN 46R, a revision to FIN 46 Consolidation of Variable Interest Entities . FIN 46R replaces FIN 46 and provides additional clarification on the application of ARB No. 51, Consolidated Financial Statements, to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. We adopted FIN 46 on April 30, 2004. Adoption did not have a material effect on our financial position or results of operations; however, it required consolidation of our 80% owned Indonesian joint venture. Prior to adoption of FIN 46R this joint venture was accounted for under the equity method.

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.

Recent Accounting Pronouncements

In October 2004, the emerging issues task force (the EITF) of the Financial Accounting Standards Board issued EITF 04-8, *The Effect of Contingently Issuable Debt on Earnings per Share,* which is effective for periods ending after December 15, 2004. This EITF statement requires us to include shares of our common stock issuable upon the assumed conversion of our Convertible Senior Notes in the calculation of diluted weighted average shares. We adopted the EITF during the first quarter of fiscal 2005, but adoption did not have a significant effect on our weighted average shares calculation. The contingently issuable shares related to our Convertible Senior Notes had no impact on the calculation of weighted average shares for the quarter ended October 31, 2004, as issuance of the shares would have been anti-dilutive.

2. Multi-client library accounting change

Effective August 1, 2003, we changed our minimum amortization policy with regard to multi-client data and recorded a charge of $22.1 million in the first quarter of fiscal 2004, included in cost of services in our Consolidated Statement of Operations. Under the prior method, capitalized costs of multi-client surveys were charged to cost of services in the period sales occurred, using the sales forecast method, over an estimated five-year useful life. However, during the last 24 months of a survey s useful life, amortization was the greater of the amount resulting from the sales forecast method or straight-line amortization of the remaining book value over the remaining portion of the original five-year estimated useful life. Under the new method, capitalized costs of multi-client surveys are charged to cost of services over an estimated five-year useful life based upon the greater of the result (higher expense) under the sales forecast method or cumulative straight-line amortization from survey completion over an estimated five-year useful life. Notwithstanding this change, the sales forecast method remains our primary method of calculating cost of services. The total amortization period that concludes sixty months after survey completion represents the minimum period over which the surveys are expected to provide economic benefits. We believe that commencing the minimum amortization upon survey completion, as opposed to our prior method of doing so only during the last twenty four months of the survey s life, better reflects the potential diminution of survey value with the passage of time.

3. Other (income), net

Other (income), net consists of the following:

	Three Months Ended October 31, 2004	Restated 2003
	(In thousands)	
Interest income	$ (819)	$ (234)
Net foreign currency exchange loss	318	21
Loss from unconsolidated joint venture		249
Other	(77)	(194)
Total	$ (578)	$ (158)

4. Earnings per common share

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

	Three Months Ended October 31, 2004	Restated 2003
	(In thousands, except per share amounts)	
Net income (loss)	$ 978	$ (26,985)
Basic:		
Weighted average common shares (including exchangeable shares)	33,752	33,608
Net income (loss) per share	$ .03	$ (.80)
Diluted:		
Weighted average common shares (including exchangeable shares)	33,752	33,608
Shares issuable from assumed exercise of options	1,090	