Veritas DGC Inc. Announces Second Fiscal Quarter Results

HOUSTON--(BUSINESS WIRE)--Feb. 26, 2003--Veritas DGC Inc. (NYSE: VTS) (TSX: VTS) today announced results for its second fiscal quarter ended January 31, 2003. Revenue and earnings, with the comparative amounts for the corresponding period of the prior fiscal year, were as follows:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2003	2002	2003	2002
	(millions, except per share amounts)			
Revenue	$ 125.3	$ 119.6	$262.8	$ 241.0
Net income	4.5	7.7	6.0	15.3
Earnings per common share - basic	0.14	0.24	0.18	0.47
Earnings per common share - diluted	0.14	0.24	0.18	0.47

Results for the current quarter include severance costs of $1.8 million ($0.04 per share) related to the Company's overhead reduction efforts.

Chairman and CEO, Dave Robson, commented on the quarter, "Revenue has stabilized at a relatively healthy level considering the current market environment. Earnings, however, declined from the prior year's second fiscal quarter due to lower multi-client margins. With a focused effort, we generated positive cash flow during the quarter. There are several factors contributing to this. Revenue is up and a greater percentage is coming from proprietary work. Additionally, after having completed our marine fleet upgrade, our capital expenditures are now closer to maintenance levels. Also, the Company is focusing on projects that will bring both cash and profit in the near term. We remain committed to generating positive cash flow for the fiscal year."

Revenue for the second quarter was $125.3 million, an increase of 5% compared to the prior year's second quarter. Net income decreased to $4.5 million, or $0.14 per share, versus $7.7 million, or $0.24 per share, in the prior year's second quarter. Prior year's second quarter results included $5.1 million ($0.10 per share) of costs related to the terminated merger with Petroleum GeoServices and devaluation and shutdown costs in Argentina. Revenue for the second quarter and six months breaks down as follows:

	Three Months Ended January 31, 2003	Three Months Ended January 31, 2002	Six Months Ended January 31, 2003	Six Months Ended January 31, 2002
	(millions)		(millions)	
Multi-client:				
Land	$ 18.9	$ 15.9	$ 29.9	$ 33.5
Marine	46.7	50.9	92.0	85.6
Subtotal	65.6	66.8	121.9	119.1
Contract:				
Land	32.0	33.5	80.3	76.0
Marine	27.7	19.3	60.6	45.9
Subtotal	59.7	52.8	140.9	121.9
Total Revenue	$125.3	$119.6	$262.8	$241.0

Multi-client

Multi-client revenue decreased by 2% compared to the second quarter of fiscal year 2002 and increased 16% sequentially. Net cash spending on multi-client data library was $38.1 million during the quarter and the multi-client library balance at the end of the quarter was $352.7 million.

Land multi-client revenue increased by 19% compared to the second quarter of fiscal 2002 and increased 72% sequentially. Revenue was equally divided between US and Canadian sales. Shelf sales of the Company's Alberta foothills surveys contributed significantly to the quarter.

Marine multi-client revenue decreased by 8% compared to the second quarter of fiscal 2002 and increased 3% sequentially. Sales were spread out over the Company's major data library markets: the Gulf of Mexico, Brazil, West Africa and the North Sea. Healthy revenue levels were achieved despite no major "grand tour" sales. The Company continues to generate significant sales from reprocessed Gulf of Mexico data using advanced processing techniques, such as Pre-Stacked Depth Migration (PSDM), made possible by the Company's investments in PC cluster technology.

Contract

Contract revenue increased by 13% compared with the second quarter of 2002 but decreased 26% sequentially. Contract revenue was exceptionally high during the first quarter of FY 2003 due to a large land project in Peru and marine projects in Trinidad and Morocco.

Contract land revenue decreased by 4% from the prior year's second quarter due to a slow start of the Canadian season. Warmer than normal weather prevented equipment movement. The Canadian market experienced a significant pickup in activity towards the end of the quarter, which is expected to continue through the winter season. As of January 31, 2003, the Company was operating 11 land crews: 5 in Canada, 3 in the US, 1 in South America and 2 in Oman.

Contract marine revenue for the second quarter increased by 44% from the prior year's second quarter due mainly to projects in Morocco, Trinidad and Asia Pacific, and increased processing revenue. The Company expects this trend to continue as it dedicates more of its fleet to contract work.

Operating Income

Operating income as a percent of revenue decreased to 9.4% compared to 12.3% in the prior year's second quarter. Margins declined due to lower multi-client margins caused by a greater mix of lower margin surveys. This decline was partially offset by higher proprietary margins. Operating income for the current quarter was also reduced by $1.8 million of employee severance expense, which has been included in general and administrative expenses. The Company does not anticipate incurring significant severance expense during the remainder of the fiscal year.

Other

Interest expense increased by $0.9 million from prior year's second fiscal quarter due to additional borrowings under the Company's revolving credit facility. Subsequent to quarter end, the Company replaced its existing borrowings with a $250 million bank facility, including $195 million term loans and $55 million available under a revolving credit facility. The initial borrowings under this facility will bear interest at a weighted average rate of approximately 8%.

The Company's effective tax rate for the quarter was 39%, or comparable to the rate for the second quarter of fiscal year 2002.

The Company's cash balance increased by $31.7 million during the quarter due to strong cash flows from operating activities and lower investments in equipment and multi-client library. Cash flows from changes in working capital contributed $12.1 million to the total cash generated during the quarter.

Backlog

The Company's backlog increased to $169.6 million from $155.2 million at the end of the prior quarter with the largest increase coming from backlog of contract marine acquisition projects.

Our customary conference call will be tomorrow, February 27th, at 9:00 a.m. EST. Following a brief presentation, participants will have the opportunity to ask questions. The dial in number to participate is 800-218-0204. Should you have difficulty with the aforementioned "800" number, phone 303-262-2141 to be connected toll free.

There will also be a real-time audio webcast of the conference call at www.veritasdgc.com. Windows Media player software is required and is available, free of charge, for download through our website. Individuals accessing the audio webcast will be "listen only" and will be unable to take part in the Q&A session.

A digital replay will be available at the conclusion of the call until the close of business Wednesday, March 12, 2003. Interested persons can phone 800-405-2236 or 303-590-3000 pin code 494831 or access the webcast replay at www.veritasdgc.com.

We caution that statements in this release may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These include statements as to expectations, beliefs and future financial performance, such as statements regarding our business prospects. All of these are subject to certain risks, uncertainties and assumptions. These risks and assumptions are more fully described in reports filed with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should the assumptions prove incorrect, actual results may vary in material respect from those currently anticipated. Veritas DGC Inc., headquartered in Houston, Texas, is a leading provider of integrated geophysical services and technologies to the petroleum industry worldwide.

VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

(in thousands, except per share amounts)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2003	2002	2003	2002
Revenue	$ 125,321	$ 119,623	$ 262,828	$ 241,001
Costs and expenses:				
Cost of services	102,672	90,822	221,384	188,398
Research and development	3,045	2,696	6,053	5,535
Selling, general and administrative	7,810	6,196	15,483	12,032

Merger costs		2,758		2,758
Argentina devaluation and shutdown costs		2,382		2,382
Operating income	11,794	14,769	19,908	29,896
Interest expense	4,425	3,544	8,367	7,079
Other expense (income) - net	(22)	(1,324)	1,212	(2,239)
Income before provision for income taxes	7,391	12,549	10,329	25,056
Provision for income taxes	2,901	4,872	4,276	9,734
Net income	$ 4,490	$ 7,677	6,053	15,322
Earnings Per Share:				
Basic:				
Net income per common share	$ .14	$ .24	$ .18	$ .47
Weighted average common shares	33,235	32,378	33,193	32,349
Diluted:				

Net income per common share	$ .14	$ .24	$ .18	$ .47
Weighted average common shares	33,249	32,581	33,220	32,522
Cash Flow Data:				
Depreciation and amortization, net	12,597	9,354	25,349	20,279
Multi-client amortization	41,532	33,401	73,558	59,371
Multi-client expenditures, net cash	38,081	38,359	75,587	88,380
Capital expenditures	3,582	31,307	12,967	51,605
Total cash provided by operating activities	70,609	67,152	92,739	92,615
Total cash used by investing activities	39,520	66,910	95,569	136,681
Total cash provided by financing and other activities	577	577	71,786	962
Balance Sheet Data:				
Cash	79,708	26,114	79,708	26,114
Debt	211,160	135,000	211,160	135,000

Multi-client data				
library	352,703	351,808	352,703	351,808

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Visit the Company's website at www.veritasdgc.com