VERITAS DGC INC
Form 10-K
October 11, 2002

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(MARK ONE)
[X]
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JULY 31, 2002

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)

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANG
Common Stock, $.01 par Value	New York St
Preferred Stock Purchase Rights	New York St

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 [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

The aggregate market value of the registrant's voting stock held by non-affiliates of the registrant was $345,419,205 as of September 30, 2002.

The number of shares of the Company's common stock, $.01 par value, outstanding at September 30, 2002 was 33,217,995 (including 1,444,514 Veritas Energy Services Inc. exchangeable shares which are identical to the Common Stock in all material respects).

The registrant's proxy statement to be filed in connection with the registrant's 2002 Annual Meeting of Stockholders is incorporated by reference into Part III of this report.

==

TABLE OF CONTENTS

FORM 10-K

This report on Form 10-K and the documents incorporated by reference contain forward-looking statements that involve risks and uncertainties. Forward-looking statements include, among other things, business strategy and expectations concerning industry conditions, market position, future operations, margins, profitability, liquidity and capital resources. 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-K. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors including those set forth under Item 1. "Business" and Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

PART I

ITEM 1. BUSINESS

GENERAL

We are a leading provider of integrated geophysical services to the petroleum industry worldwide. Our customers include major, national and independent oil and gas companies that utilize geophysical technologies to achieve the following:

- Identify new areas where subsurface conditions are favorable for the production of hydrocarbons.

- Determine the size and structure of previously identified oil and gas fields.

- Optimize development and production of hydrocarbon reserves.

We acquire, process, and interpret geophysical data and produce geophysical surveys that are either 2D or 3D images of the subsurface geology in the survey area. We also produce 4D surveys, which record fluid movement in the reservoir, by repeating specific 3D surveys over time. Additionally, we are increasingly using geophysical data for reservoir characterization to enable our customers to maximize their recovery of oil and natural gas.

SERVICES AND MARKETS

We conduct geophysical surveys on both a contract and a multi-client basis. Approximately 50% of our business was done on a multi-client basis in fiscal year 2002. The high cost of acquiring and processing geophysical data on an exclusive basis has prompted many oil and gas companies to increase their licensing of multi-client surveys. In response, we have added significantly to our multi-client data library, increasing its size and geographic breadth, as well as enhancing the quality of the data through advanced processing. Currently our library consists of 178,787 line kilometers of 2D survey data and 135,975 square kilometers of 3D data. The marine library covers areas in the Gulf of Mexico, the North Atlantic, Southeast Asia, West Africa, North Africa, Canada and Brazil. The land data library includes surveys in Texas, Mississippi, Oklahoma, Wyoming and Alberta, Canada.

These tables describe our revenues by contract type and geographic area.

REVENUES BY CONTRACT TYPE	2002	2001	2000
	YEARS ENDED JULY 31, (IN THOUSANDS)		
Contract work	$ 229,709	$ 258,403	$ 171,213
Licensing of multi-client data	225,974	218,899	181,866
Total	$ 455,683	$ 477,302	$ 353,079

REVENUES BY GEOGRAPHIC AREA	2002	2001	2000
	YEARS ENDED JULY 31, (IN THOUSANDS)		
United States	$ 185,238	$ 193,204	$ 130,872
Canada	75,885	113,334	95,686
Latin America	95,382	68,501	41,480
Europe	47,224	48,427	35,388
Middle East/Africa	25,610	18,363	27,012
Asia Pacific	26,344	35,473	22,641
Total	$ 455,683	$ 477,302	$ 353,079

In fiscal 2002, 2001 and 2000, 59%, 60% and 63%, respectively, of our revenues were attributable to non-U.S. operations and export sales (See Note 13 of Notes to Consolidated Financial Statements for additional geographic information).

PRINCIPAL OPERATING ASSETS

We acquire, process, and interpret geophysical information utilizing a wide array of assets as follows:

LAND ACQUISITION

Our land acquisition activities are performed with technologically advanced geophysical equipment. The equipment, as of July 31, 2002, had a combined recording capacity of 45,826 channels.

Each crew consists of a surveying unit which lays out the lines to be recorded and marks the site for shot-hole placement or equipment location, an explosive or mechanical vibrating unit that produces the acoustical impulse and a recording unit that synchronizes the shooting and captures the signal via geophones. On a land survey where explosives are used, the geophysical crew is supported by several drill crews, which are typically furnished by third parties under short-term contracts. Drill crews operate in advance of the geophysical crew and bore shallow holes for explosive charges which, when detonated by the geophysical crew, produce the necessary acoustical impulse.

MARINE ACQUISITION

Our marine acquisition crews operate from both owned and chartered vessels that have been modified or equipped to our specifications. All of the vessels we utilize are equipped to perform both 2D and 3D geophysical surveys. During the last several years, a majority of the marine geophysical data acquisition services we performed involved 3D surveys. The following table contains certain information concerning the geophysical vessels we operate.

VESSEL	YEAR ENTERED SERVICE	LENGTH	BEAM	CHARTER EXP
Pacific Sword	1999	189 feet	40 feet	October 200
New Venture	2000	250 feet	56 feet	November 20
Seisquest	2001	302 feet	61 feet	May 2004
Veritas Viking	1998	305 feet	72 feet	June 2006
Veritas Viking II	1999	305 feet	72 feet	June 2007
Veritas Vantage	2002	305 feet	72 feet	April 2010
Veritas Searcher	1983	217 feet	44 feet	Owned

Each vessel generally has an equipment complement consisting of geophysical recording instrumentation, digital geophysical streamer cable, cable location and geophysical data location systems, multiple navigation systems, a source control system that controls the synchronization of the energy source and a firing system that generates the acoustical impulses. Streamer cables contain hydrophones that receive the acoustical impulses reflected by variations in the subsurface strata.

At present, five of our vessels are equipped with multiple streamers and multiple energy sources. These vessels acquire more lines of data with each pass, which reduces completion time and the acquisition cost. The Veritas Vikings and the Veritas Vantage are each capable of deploying 12 streamers simultaneously, although each is currently equipped to tow eight. In November 2002, we will return the New Venture to its owner.

DATA PROCESSING AND INTERPRETATION

We operate 14 data processing centers capable of processing 2D and 3D data. Most of our data processing services are performed on 3D seismic data. The centers process data received from the field, both from our own and other geophysical crews, to produce an image of the earth's subsurface using proprietary computer software and techniques. We also reprocess older geophysical data using new techniques designed to enhance the quality of the data. Our data processing centers have opened at various times since 1966 and are at present located in:

NORTH AMERICA	SOUTH AMERICA	EUROPE/AFRICA/ MIDDLE EAST	ASIA PACIFIC
Houston, Texas	Buenos Aires, Argentina	Crawley, England	Singapore

Midland, Texas	Caracas, Venezuela	Stavanger, Norway	Perth, Australia
Calgary, Canada		Aberdeen, Scotland	Jakarta, Indonesia
		Abu Dhabi, U.A.E.	Kuala Lumpur, Malaysia
		Lagos, Nigeria	

2

Our processing centers operate high capacity, advanced technology data processing systems on high-speed networks. These systems run our proprietary data processing software. The marine and land data acquisition crews have software compatible with that utilized in the processing centers, allowing for ease in the movement of data from the field to the data processing centers. We operate both land and marine data processing centers and tailor the equipment and software deployed in an area to meet the local market demands.

We operate four visualization centers in Houston, Calgary, Perth, and Crawley. These centers allow teams of geoscientists and engineers to view and interpret large volumes of complex 3D data. The visualization centers are imaging tools used for advanced interpretive techniques that enhance the understanding of regional geology and reservoir modeling. These visualization centers allow us to offer the type of collaborative geophysical model building that is enabling oil companies to explore areas of complex geology such as the large sub-salt plays in the deepwater Gulf of Mexico.

We have groups of scientists and engineers located in Calgary, Houston, Denver, and Leoben, Austria who perform advanced geophysical interpretation on a contract basis. These geophysical experts work around the world, using third-party and Veritas proprietary software to create subsurface models for our clients and advising our clients on how best to exploit their reservoirs. Their work is related to exploration as well as production activities. Additionally, we license our proprietary software, obtained through the acquisition of RC2, to companies desiring to do their own geophysical interpretation.

TECHNOLOGY AND CAPITAL EXPENDITURES

The geophysical industry is highly technical, and the requirements for the acquisition and processing of geophysical data have evolved continuously during the past 50 years. Accordingly, it is critical to us that our technological capabilities are comparable or superior to those of our competitors. We maintain our technological capabilities through continuing research and development, strategic alliances with equipment manufacturers, and by acquiring technology under license from others. We have introduced several technological innovations that have become industry standard practice in both acquisition and processing of geophysical data.

Currently, we employ approximately 90 people in our research and development activities, substantially all of whom are scientists, engineers or programmers. During fiscal 2002, 2001 and 2000, research and development expenditures were $11.5 million, $9.9 million, and $8.3 million, respectively. Our research and development budget for fiscal 2003 is $9.3 million.

During fiscal 2002, 2001 and 2000, capital expenditures for equipment were $87.1 million, $96.9 million and $57.9 million, respectively. Our capital expenditure budget for equipment in fiscal 2003 is $57.9 million. The actual level of future capital expenditures for equipment will depend on the availability of funding and market requirements as dictated by oil and gas company spending levels. A substantial portion of our fiscal 2003 capital budget is allocated to replacement and upgrading of existing equipment. During fiscal

2002, 2001 and 2000, gross multi-client investment including capitalized depreciation was $198.1 million, $199.6 million and $167.5 million, respectively. For fiscal 2003, we are planning approximately $197 million gross multi-client investment including capitalized depreciation. We intend to maintain flexibility and control capital spending and investment in multi-client library data in an effort to reach our goal of generating free cash flow in fiscal 2003.

COMPETITION

The acquisition and processing of geophysical data for the oil and gas industry has historically been highly competitive worldwide. Success in marketing geophysical services is based on several competitive factors, including price, crew experience, equipment availability, technological expertise, reputation for quality and dependability and, in the case of multi-client surveys, customer interest in the area surveyed.

As a result of changing technology and increased capital requirements, the geophysical industry has consolidated substantially since the late 1980's. Our largest competitors are Western-Geco (a joint venture between Schlumberger and Baker Hughes), Compagnie Generale Geophysique and Petroleum Geo-Services ASA. We have a large number of small, mostly local competitors, especially in the land acquisition and processing areas where financial barriers to entry are minimal. We attempted to consolidate the industry further through a merger with Petroleum Geo-Services ASA. After several months of negotiation and due diligence it became evident to us that such a merger was not in the best interest of Veritas DGC and our board withdrew support for the merger. The transaction was subsequently terminated in July 2002.

BACKLOG

At July 31, 2002, our backlog of commitments for services was $216.4 million, compared with $193.9 million at July 31, 2001. Approximately 30% of this backlog is related to multi-client surveys. It is anticipated that a majority of the July 31, 2002 backlog will be completed in the next 12 months. This backlog consists of written orders or firm commitments. Contracts for services are subject to modification by mutual consent and in certain instances are cancelable by the customer on short notice without penalty. As a result of these factors, our backlog as of any particular date may not be indicative of our actual operating results for any succeeding period.

SIGNIFICANT CUSTOMERS

Historically, our principal customers have been major oil and gas companies, national oil companies and independent oil and gas companies. In fiscal 2002, a single large national oil company accounted for 12% of our revenue. In fiscal 2001 and fiscal 2000, no customer accounted for 10% or more of total revenues.

EMPLOYEES

During the fiscal year ended July 31, 2002, we employed an average of 3,807 people on a full-time basis. Our number of employees varies greatly due to changing activity in our land acquisition business and ranged this year from a low of 3,074 to a high of 5,667. With the exception of 28 employees working at the Singapore data processing center, none of our employees are subject to collective bargaining agreements. We consider our relations with our employees to be good.

ITEM 2. PROPERTIES

In the first quarter of fiscal 2001, we moved all of our Houston employees into our new 218,151 square foot leased office and warehouse complex. The complex houses data processing operations, as well as executive, accounting, research and development and operating personnel. This lease expires in 2015. We lease additional space aggregating approximately 415,041 square feet, which is used by operations around the world. These leases expire at various times through 2015.

ITEM 3. LEGAL PROCEEDINGS

As of September 30, 2002, we were not a party to, nor was our property the subject of, any material pending legal proceedings.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders during the fourth quarter of the fiscal year ended July 31, 2002.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The following table sets forth the high and low sales prices for our common stock as reported by the New York Stock Exchange for the fiscal periods shown. Our stock is also listed on the Toronto Stock Exchange.

	PERIOD	HIGH	LOW
2002	4th Quarter......................	$ 18.61	$ 7.00
	3rd Quarter......................	18.99	12.20
	2nd Quarter......................	18.75	13.80
	1st Quarter......................	17.55	10.00
2001	4th Quarter......................	$ 39.24	$ 19.70
	3rd Quarter......................	39.80	26.90
	2nd Quarter......................	34.55	23.50
	1st Quarter......................	33.06	21.25

On September 30, 2002, the last reported sales price for our common stock on the New York Stock Exchange was $10.81 per share. On September 30, 2002, there were approximately 331 record holders of common stock.

We have not paid any dividends on our common stock and have no plans to pay any dividends. The payment of any future dividends on common stock would depend upon our financial condition and upon a determination by our Board of Directors that the payment of dividends would be desirable. In addition, the indentures governing our senior notes and our revolving credit facility restrict the payment of cash dividends.

For information related to equity compensation plans, see Note 8.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

	YEARS E		
	2002(1)	2001	
	(IN THOUSANDS, EXCE		
STATEMENT OF OPERATIONS DATA:			
Revenues	$455,683	$477,302	$3
Income (loss) before extraordinary charge	(23,150)	22,458	
Income (loss) before goodwill amortization	(23,150)	24,750	
Income (loss) before extraordinary charge per common share -- basic	(.71)	.73	
Income (loss) before extraordinary charge per common share -- diluted	(.71)	.71	
Income (loss) before goodwill amortization per common share -- diluted	(.71)	.78	
BALANCE SHEET DATA:			
Total assets	$780,781	$796,952	$6
Long-term debt (including current maturities)	140,000	135,000	1

(1) Fiscal 2002 included unusual charges of $55.2 million for impairment of multi-client surveys, $14.6 million for merger costs and merger termination expense, and a $6.5 million allowance for Argentine net operating loss.

In July 2001, the Financial Accounting Standards Board issued SFAS No.141 (Business Combinations) and SFAS No.142 (Goodwill and Other Intangible Assets.) We adopted the use of these new accounting statements in August 2001. SFAS No.142 defines the booking and subsequent treatment of goodwill and other intangible assets derived from business combinations and supercedes APB Opinion No.17. This statement requires us to discontinue our amortization of goodwill. Goodwill amortization is not included in the net loss for fiscal 2002.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The market for geophysical services is driven ultimately by commodity prices, which are currently at relatively high levels. Oil prices have been over $30 per barrel recently and have averaged in the high $20's since March 2002. Natural gas prices have been similarly high in the U.S. with contract prices in the $3 to $4 mcf range. The positive commodity price news has been tempered somewhat by uncertainty as to the sustainability of these prices and the continued consolidation in the oil and gas business.

In the fourth quarter of this year, we took a $55.2 million pretax impairment charge related to 11 of our multi-client library surveys, which we have shown separately in our income statement as an operating expense. As we analyzed our fiscal 2003 plans in June and July, it became clear that we are not likely to recover the remaining book value of these surveys, hence the fourth quarter charge. Seven of these are land surveys located in the Gulf Coast region. Exploration spending has been very low in this region since shortly after we completed these surveys, and we do not anticipate any sales of these surveys in the foreseeable future. Therefore, we have written these surveys completely off of our books, with a net charge of $28.8 million. We have one survey in the Gulf of Mexico that was shot at a cost significantly exceeding its original budget. As we do not currently forecast enough sales to amortize the remainder of the cost of the survey, we have written it down by $16.0 million. This leaves $10.0 million of cost for this survey, an amount we believe to be the fair value of the survey based on future estimated sales. In the Shetland-Faroes area of the North Sea, we have a large survey that has been troubled by an ongoing territorial dispute. When the dispute was settled, nine-year concessions were awarded to various licensees. Given the length of the license period, we do not foresee significant near-term additional licensing of this survey, and we have written it off with a net charge of $9.3 million. We also have two small 2-D surveys off Africa that were written off with a net charge of $1.1 million.

Overall, we feel that our data library business is fundamentally sound. Our current forecasts show that we should recover the costs of the surveys with remaining value and, except as discussed below for U.S. land surveys, will generate a reasonable margin. Due to the continued uncertainty of U.S. land exploration spending, we will generally report no margin on these surveys until all of their costs are fully amortized. Should the U.S. land business change, we may find it prudent to increase our forecasts and book margin on these surveys while costs remain on the books.

During fiscal 2002, we spent $7.1 million in legal, accounting and banking fees related to our terminated merger with Petroleum Geo-Services (PGS), and we paid PGS $7.5 million to terminate the merger agreement. The total $14.6 million was expensed as incurred during the last three quarters of the year and has been shown separately in our income statement as an operating expense. The total of unusual items for the year, the library impairment and the merger costs, is $69.8 million pretax, or $1.71 after tax per share.

We are currently forecasting a relatively stable operating environment for fiscal 2003. Without industry consolidation, it is our view that the industry's capacity in both the marine and land acquisition businesses will remain greater than demand for at least the next year, and this will limit increases in contract margins. Operating margins on multi-client revenue are expected to decline due to more conservative sales estimates, most significantly in our U.S. land business.

RESULTS OF OPERATIONS

FISCAL 2002 COMPARED WITH FISCAL 2001

Revenues. Revenues decreased 5%, from $477.3 million in fiscal 2001 to $455.7 million in fiscal 2002. Multi-client revenues increased 3% due to strong pre-funded sales in Brazil and the North Sea, offset by declines in licenses of U.S. land surveys. Contract revenues decreased 11% due to continued overcapacity and aggressive industry pricing which kept our marine fleet focused on multi-client projects.

Operating income (loss). Operating income decreased by $49.0 million due to the impairment of multi-client surveys and merger costs. Operating income, excluding the unusual charges of $69.8 million, previously described, increased by 45%. The largest contributor to the increase was improved contract margins and a favorable revenue mix towards multi-client, rather than proprietary, work. This is reflected in the reduction in cost of services as a percentage of revenues from 83% in fiscal 2001 to 78% this year. We also benefited by $2.3 million from the elimination of goodwill amortization in fiscal 2002, due to a change in accounting rules, and by $2.6 million of reduced general and administrative costs related to reduced information technology expenses and lower employee bonuses. We recorded an expense of $2.2 million related to the doubtful collection of our Miller Exploration Company long-term receivable. Last year, we released the $1.0 million reserve related to this receivable based on Miller Exploration Company's public reporting of their intent and ability to pay amounts owed to us. Partially offsetting these decreases was an additional $1.6 million, a 16% increase, in research and development expense in fiscal 2002.

Other (income) expense. Other (income) expense was reduced from $5.6 million of income in fiscal 2001 to an expense of $1.8 million in fiscal 2002. Interest income of $5.1 million in the prior year was reduced to $1.4 million in fiscal 2002 due to lower cash balances. Foreign exchange losses in Argentina and Canada added $1.3 million of net expense. Additionally, a loss on investment in Miller Exploration Company's stock and warrants in 2002 contributed $1.4 million of additional expense. In the fourth quarter of 2002, we initiated a program to liquidate our investment in Miller Exploration Company and recognized the unrealized loss as expense, as we feel that the reduction in value is other than temporary (See Note 9).

Provision for income taxes. The provision for income taxes decreased by $10.7 million from fiscal 2001 to fiscal 2002 due to the tax loss incurred in 2002. The effective income tax rate in fiscal 2002, before the unusual charges, was 38% compared to 41% in fiscal 2001. The tax benefit related to the $69.8 million unusual charge was $20.8 million, for a 30% effective rate, and was less than the statutory rates. Additionally, we recorded a $6.5 million tax valuation allowance related to net operating losses in Argentina, the value of which are not likely to be realized due to our suspension of activity there.

FISCAL 2001 COMPARED WITH FISCAL 2000

Revenues. Revenues increased by 35% from fiscal 2000 to fiscal 2001 due to the upturn in exploration spending driven by higher commodity prices. Multi-client revenues increased 20% from $181.9 million to $218.9 million, while contract revenues increased 51%, from $171.2 million to $258.4 million. Contract revenue showed the stronger year to year increase due to our expansion into new market areas, such as Alaska, the Canadian Arctic, offshore Canada, and Brazil.

Operating Income. Operating income increased by 100%, from $23.2 million in fiscal 2000 to $46.4 million in fiscal 2001. Approximately $2 million of this $23 million increase was due to the adjustment of receivable reserves. This adjustment was made, in part, due to our belief in the improved ability of a long-term debtor to repay debt. Cost of services decreased to 83% from 86% due to improved equipment utilization. Research and development expense increased by 19%, from $8.3 million in fiscal 2000 to $9.9

million in fiscal 2001. This increase was due to an increase in employees dedicated to research and development. Selling, general and administrative expense increased by 44% due to costs associated with the move to the new Houston headquarters building, increased corporate marketing efforts, and higher incentive compensation payments.

Other income. Other income increased by $3.0 million from fiscal 2000 to fiscal 2001 due partly to an additional $1.5 million in interest income resulting from the higher cash balances in fiscal 2001. In addition, gains on sales of assets of $1.3 million in fiscal 2001 were an improvement of $1.6 million over the $0.3 million loss on sales of assets experienced in fiscal 2000.

Provision for income taxes. The provision for income taxes increased by $10.9 million from fiscal 2000 to fiscal 2001 due to the increased profitability of the company. The effective income tax rate in fiscal 2001 was 41% compared to 43% in fiscal 2000.

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 2003.

As of July 31, 2002, we had $135.0 million in Senior Notes outstanding due in October 2003. These notes contain a change of control provision allowing the holders to require us to call the notes under certain conditions. There is a possibility we may call these notes before their maturity, and we are allowed to do so at par after October 15, 2002. We are evaluating various external financing alternatives and will use the proceeds of these to retire the Senior Notes, among other uses. We may retire the Senior Notes before their maturity.

We also have a revolving credit facility due August 2003 from commercial lenders that provides U.S. advances up to $80.0 million and non-U.S. advances up to $20 million. Advances bear interest, at our election, at LIBOR plus a spread or prime rate plus a spread. These spreads are based on either certain of our financial ratios or our credit rating. At July 31, 2002 the LIBOR spread was 1.25% and the prime rate spread was 0%, based upon our current financial ratios. The maximum LIBOR and prime rate spreads, should our financial ratios deteriorate, are 1.75% and 0.50%, respectively. As of July 31, 2002, there were $5.0 million of outstanding advances under the credit facility and $9.2 million of the credit facility was utilized for letters of credit, leaving $85.8 million available for borrowings.

The following represents our financial contractual obligations and commitments as of July 31, 2002 for the fiscal years 2003 through 2007 and thereafter:

CONTRACTUAL CASH OBLIGATIONS	TOTAL	2003	2004	2005	
Lease obligations	$ 160,329	$ 41,710	$ 30,738	$ 23,963	$
Long-term debt	140,000		140,000		
Forward exchange contracts	6,033	3,253	2,780		
Standby letters of credit	9,202	9,202			

We require significant amounts of working capital to support our operations and fund our research and development program. Our capital expenditure for equipment budget in fiscal 2003 is approximately $58 million, most of which is designated for replacement and upgrades. For fiscal 2003, we are planning approximately $167 million of net cash investment in our data library and $9.3 million for research and development spending.

We will require substantial cash flow to continue our investment in multi-client library, 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.

7

In August 1999, 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. As of July 31, 2002, we had issued approximately 1.3 million shares in connection with these transactions, generating approximately $30.1 million in net proceeds. In October 2000, we sold 3.1 million shares of stock in a public offering and netted $82.4 million in proceeds.

CRITICAL ACCOUNTING POLICIES

While all of our accounting policies are important in assuring that Veritas adheres to current accounting standards, certain policies are particularly important due to their impact on our financial statements. These are described in detail below.

MULTI-CLIENT DATA LIBRARY

We collect and process geophysical data for our own account and retain all ownership rights. We license the data to clients on a non-transferable basis. We capitalize costs associated with acquiring and processing the data. The capitalized cost of multi-client data is charged to cost of services in the period sales occur based on the percentage of total estimated costs to total estimated sales multiplied by actual sales. Any costs remaining 36 months after completion of a survey are charged to cost of services over a period not to exceed 24 months. The total amortization period of sixty months represents the minimum period over which benefits from these surveys are expected to be derived.

We periodically review the carrying value of the multi-client data library to assess whether there has been a permanent impairment of value and record losses when it is determined that estimated sales would not be sufficient to cover the carrying value of the asset. In the fourth quarter of this year, we took a $55.2 million pretax impairment charge related to 11 surveys. We recorded no such impairment charges in fiscal 2001 or fiscal 2000.

During the fourth quarter of fiscal 2001, we changed the useful life of marine surveys from 48 months to 60 months. We believe that 60 months more accurately represents the time over which we will derive benefits from our current portfolio of marine surveys. This change in accounting estimate was made prospectively and had an immaterial impact on our results for the year ended July 31, 2001.

DEFERRED TAX ASSET

Deferred taxes result from the effect of transactions that are recognized in different periods for financial and tax reporting purposes. A valuation allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The valuation allowance is then adjusted when the realization of deferred tax assets becomes more likely than not. Adjustments are also made to recognize the expiration of net operating loss and investment tax credit carryforwards, with equal and offsetting adjustments to the related deferred tax asset. Should the income projections result in the conclusion that realization of additional deferred tax assets is more likely than not, further adjustments to the valuation allowance are made.

Since our quasi-reorganization on July 31, 1991 with respect to Digicon Inc., 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 year ended July 31, 2002, we recognized $1.1 million related to these benefits.

OTHER ACCOUNTING POLICIES

We receive some accounts receivable payments in foreign currency. We currently do not conduct a hedging program because we do not consider our current exposure to foreign currency fluctuations to be significant, although we have hedged certain future charter payments to be made in a foreign currency.

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141 (Business Combinations) and SFAS No. 142 (Goodwill and Other Intangible Assets.) We have adopted the use of these new accounting statements. The main effect of SFAS No. 141 is to require purchase accounting be used in all future business combinations, disallowing the pooling-of-interests method allowed under APB Opinion No. 16. SFAS No. 142 defines the recording and subsequent treatment of goodwill and other intangible assets derived from business combinations and supercedes APB Opinion No. 17. This statement requires us to discontinue our amortization of goodwill and requires that we test goodwill and other intangible assets for impairment on an annual basis or when certain events trigger such a test. We performed the initial impairment tests in January 2002, and will retest at least annually.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143 (Asset Retirement Obligations). This standard requires that obligations associated with the retirement of a tangible long-lived asset be recorded as a liability when those obligations are incurred with the liability being initially measured at fair value. We will adopt the use of this accounting statement in fiscal 2003 and do not expect adoption to have a material effect on our financial position or results of operations.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144 (Accounting for the Impairment or Disposal of Long Lived Assets). This standard develops one accounting model for long-lived assets that are to be disposed of by sale, requiring such assets to be measured at the lower of book value or fair value less cost to sell. The standard also provides guidance on the recognition of liabilities for the obligations arising from disposal activities. We will adopt the use of this accounting statement in fiscal 2003 and do not expect adoption to have a material effect on our financial position or results of operations.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145 (Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No.

13 and Technical Corrections as of April 2002). Among other things, this statement addresses how to report gains or losses resulting from the early extinguishment of debt. Previously, any gains or losses were reported as an extraordinary item. Upon adoption of SFAS No. 145, an entity will be required to evaluate whether the debt extinguishment is truly extraordinary in nature, in accordance with Accounting Principles Board Opinion No. 30. We will adopt the use of this accounting statement in fiscal 2003. The adoption of this statement will preclude extraordinary classification of costs related to early debt extinguishment.

In July 2002, the Financial Accounting Standards Board issued SFAS No. 146 (Accounting for Costs Associated with Exit or Disposal Activities). This standard requires recognition of costs associated with exit or disposal activities when they are incurred rather than when management commits to an exit or disposal plan. Examples of costs covered by this guidance include lease termination costs, employee severance costs that are associated with restructuring, discontinued operations, plant closings, or other exit or disposal activities. We will adopt the use of this accounting statement in fiscal year 2004. We have not yet completed our evaluation of the effect of this statement on our accounting practices.

RISK FACTORS

An investment in our common stock is subject to a number of risks discussed below. You should carefully consider these discussions of risks and the other information included in this report.

AS A PROVIDER OF GEOPHYSICAL TECHNOLOGIES, OUR BUSINESS IS SUBSTANTIALLY DEPENDENT ON THE LEVEL OF CAPITAL EXPENDITURES BY OIL AND GAS COMPANIES.

Capital expenditures by oil and gas companies have tended in the past to follow trends in the price of oil and natural gas, which have fluctuated widely in recent years. These capital expenditures may also be affected by worldwide economic conditions. Should there be a sustained period of substantially reduced capital expenditures by oil and gas companies, as we have experienced in recent years, the demand for geophysical services likely will drop and there will be an adverse effect on our results of operations and cash flow during the affected period.

WEAK DEMAND OR TECHNOLOGICAL OBSOLESCENCE COULD IMPAIR THE VALUE OF OUR MULTI-CLIENT DATA LIBRARY; CHANGES IN ACCOUNTING PRACTICES COULD AFFECT OUR METHODS OF ACCOUNTING FOR OUR MULTI-CLIENT DATA LIBRARY.

We have invested significant amounts in acquiring and processing multi-client data and expect to continue to do so for the foreseeable future. There is no assurance that we will recover all the costs of such surveys. Technological, regulatory or other industry or general economic developments could render all or portions of our multi-client data library obsolete or reduce its value.

In accordance with industry practice, we capitalize our investments in our multi-client library and charge these investments to cost of services as sales are made. Certain accounting authorities are reviewing accounting practices relating to the capitalization of expenditures made in the development of certain databases, particularly in the context of "e-commerce" companies. We cannot predict whether future accounting changes could adversely affect our balance sheet or results of operations.

WE ARE DEPENDENT ON ACHIEVING AND MAINTAINING TECHNOLOGICAL ADVANCES, WHICH CREATES RISKS REGARDING TECHNOLOGICAL OBSOLESCENCE, REQUIREMENTS FOR SUBSTANTIAL FUTURE CAPITAL EXPENDITURES, THE UNAVAILABILITY OF NECESSARY TECHNOLOGY AND THE FAILURE OF NEW TECHNOLOGIES.

The development of geophysical data acquisition and processing equipment has been characterized by rapid technological advancements in recent years. We expect this trend to continue. We will be required to invest substantial capital in the future to maintain our technology. Furthermore, manufacturers of geophysical equipment may develop new systems that render our equipment, even if recently acquired, obsolete or less desirable, requiring significant additional capital expenditures. Since some of our competitors are themselves leading designers and manufacturers of seismic equipment, we may not have access to their technology. Even if critical new and advanced equipment is available to us, we may not have funds available or be able to obtain necessary financing on acceptable terms to acquire it. Further, any investment we may make in a perceived technological advance may not be effective, economically successful or otherwise accepted in the market.

WE FACE INTENSE COMPETITION IN OUR INDUSTRY, WHICH COULD ADVERSELY AFFECT OUR RESULTS.

Competition among geophysical service providers historically has been, and will continue to be, intense. Competitive factors in recent years have included price, crew experience, equipment availability, technological expertise and reputation for quality, safety and dependability. Some of our competitors operate substantially more data acquisition crews than we do and have significantly greater financial and other resources. These larger and better-financed operators could enjoy an advantage over us in a competitive environment for contract awards and data sales and in the development of new technologies. Other competitors operate with extremely low overhead and compete vigorously on price in certain markets where that is the determining factor in awarding work. These low-cost competitors can have a competitive advantage over us in these markets.

HIGH FIXED COSTS COULD RESULT IN OPERATING LOSSES.

Our business has high fixed costs. As a result, downtime or low productivity due to reduced demand, weather interruptions, equipment failures or other causes can result in significant operating losses. Low utilization rates may hamper our ability to recover the cost of necessary capital investments.

OUR REVENUES ARE SUBJECT TO FLUCTUATIONS THAT ARE BEYOND OUR CONTROL, WHICH COULD ADVERSELY AFFECT OUR RESULTS OF OPERATIONS IN ANY FINANCIAL PERIOD.

Our operating results may, in the future, vary in material respects from quarter to quarter. Factors that could cause variations include the timing of the receipt and commencement of contracts for data acquisition, customers' budgetary cycles, the timing of offshore lease sales and the effect of such timing on the demand for geophysical activities, seasonal factors and the timing of sales of geophysical data from our multi-client data library, which may be significant to us and which are not typically made in a linear or consistent pattern. Combined with our high fixed costs, these revenue fluctuations could produce unexpected adverse results of operations in any fiscal period.

WE MAY BE UNABLE TO ATTRACT AND RETAIN KEY EMPLOYEES, WHICH COULD ADVERSELY AFFECT OUR BUSINESS.

Our success depends upon attracting and retaining highly skilled professionals and other technical personnel. A number of our employees are highly skilled scientists and highly trained technicians, and our failure to continue to attract and retain such individuals could adversely affect our ability to compete in the geophysical services industry. We may confront significant and potentially adverse competition for key personnel, particularly during periods of increased demand for geophysical services. In addition, our success will depend to a significant extent upon the abilities and efforts of members of our senior management, the loss of whom could adversely affect our business.

WE FACE RISKS ASSOCIATED WITH OUR FOREIGN REVENUE GENERATING ACTIVITIES.

Substantial portions of our revenues are derived from foreign activities and, as a result, significant portions of our revenues are denominated in foreign currencies. These revenues are impacted by foreign currency fluctuations. In addition, net assets reflected on the balance sheets of our foreign subsidiaries, and therefore on our consolidated balance sheet, are subject to currency fluctuations. Foreign revenues are also subject to special risks that may disrupt markets, including the risk of war, terrorism, civil disturbances, embargo, and government activities. Revenue generating activities in certain foreign countries may require prior United States government approval in the form of an export license and otherwise be subject to tariffs and import/export restrictions. There can be no assurance that we will not experience difficulties in connection with future foreign revenues and, in particular, adverse effects from foreign currency fluctuations.

WE OPERATE UNDER HAZARDOUS CONDITIONS THAT SUBJECT US TO RISK OF DAMAGE TO PROPERTY OR PERSONAL INJURIES AND MAY INTERRUPT OUR BUSINESS.

Our seismic data acquisition activities involve operating under extreme weather and other hazardous conditions. These operations are subject to risks of loss to property and injury to personnel from fires, accidental explosions, ice floes, and high seas. These events could result in an interruption of our business or significant liability. We may not obtain insurance against all risks or for certain equipment located from time to time in certain areas of the world.

THE TRADING PRICE OF OUR SECURITIES COULD BE SUBJECT TO SIGNIFICANT FLUCTUATIONS.

The trading prices of our securities fluctuate. Factors such as fluctuations in our financial performance, and that of our competitors, as well as general market conditions could have a significant impact on the future trading prices of our securities. The trading prices also may be affected by weakness in oil prices, changes in interest rates and other factors beyond our control. These factors may have an adverse effect on the trading price of our securities.

OUR BUSINESS IS SUBJECT TO GOVERNMENTAL REGULATION, WHICH MAY ADVERSELY AFFECT OUR FUTURE OPERATIONS.

Our operations are subject to a variety of federal, provincial, state, foreign and local laws and regulations, including environmental laws. We invest financial and managerial resources to comply with these laws and related permit requirements. Failure to timely obtain the required permits may result in crew downtime and operating losses. Because laws and regulations change frequently, we cannot predict the impact of government regulations on our future operations. The adoption of laws and regulations that have the effect of curtailing exploration by oil and gas companies could also adversely affect our operations by reducing the demand for our geophysical services.

CERTAIN PROVISIONS OF OUR CHARTER, DELAWARE LAW AND OUR SHAREHOLDER RIGHTS PLAN MAY MAKE IT DIFFICULT FOR A THIRD PARTY TO ACQUIRE US, EVEN IN SITUATIONS THAT MAY BE VIEWED AS DESIRABLE BY OUR STOCKHOLDERS.

The General Corporation Law of the State of Delaware contains provisions that may delay or prevent an attempt by a third party to acquire control of the company. Our certificate of incorporation and bylaws contain provisions that authorize the issuance of preferred stock, and establish advance notice requirements for director nominations and actions to be taken at stockholder meetings. These provisions could also discourage or impede a tender offer, proxy contest or other similar transaction involving control of us, even if viewed favorably by stockholders. In addition, we have adopted a stockholder rights plan that would likely discourage a hostile attempt to acquire control of us.

CAUTIONARY STATEMENTS ABOUT FORWARD-LOOKING STATEMENTS

This report on Form 10-K 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 Veritas DGC documents filed 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 the negatives thereof. 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-K. 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 this report on Form 10-K.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES REGARDING MARKET RISK

At July 31, 2002, 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 our 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 July 31, 2002 in U.S. dollars is $6.8 million. At July 31, 2002, we had $135.0 million of 9.75% fixed rate debt maturing in October 2003 with a fair value of $135.4 million at July 31, 2002.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

PAGE

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Veritas DGC Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations and comprehensive income (loss), of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of Veritas DGC Inc. and its subsidiaries at July 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended July 31, 2002 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the consolidated financial statements, effective August 1, 2001, the Company changed its method of accounting for goodwill in accordance with Statement of Financing Accounting Standards No. 142, Goodwill and Other Intangible Assets.

PRICEWATERHOUSECOOPERS LLP

Houston, Texas
October 3, 2002

VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	FOR THE
	2002
Revenues	$ 455,683
Cost of services	353,178
Research and development	11,475
General and administrative	23,763
Merger costs	14,607
Impairment of multi-client surveys	55,204
Operating income (loss)	(2,544)
Interest expense	13,628
Other (income) expense	1,786
Income (loss) before provision for income taxes and extraordinary item	(17,958)
Provision for income taxes	5,192
Income (loss) before extraordinary charge	(23,150)
Extraordinary loss on debt repurchase (net of tax, $95)	
Net income (loss)	$ (23,150)
Other comprehensive income (loss) (net of tax, $0 in all periods):	
Foreign currency translation adjustments	(1,867)
Unrealized gain (loss) on investments - available for sale	(1,354)
Unrealized loss on investments-available for sale recognized as expense	1,368
Unrealized gain (loss) on foreign currency hedge	1,215
Total other comprehensive loss	(638)
Comprehensive income (loss)	$ (23,788)
PER SHARE:	
BASIC:	
Income (loss) per common share before extraordinary item	$ (.71)
Loss per common share from extraordinary item	
Net income (loss) per common share	$ (.71)
Weighted average common shares	32,409
DILUTED:	
Income (loss) per common share before extraordinary item	$ (.71)
Loss per common share from extraordinary item	
Net income (loss) per common share	$ (.71)
Weighted average common shares	32,409

See Notes to Consolidated Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT PAR VALUE)

ASSETS
Current assets:
Cash and cash equivalents
Restricted cash investments
Accounts and notes receivable (net of allowance for doubtful accounts: 2002, $4,143; 2001, $709)
Materials and supplies inventory
Prepayments and other
Income taxes receivable
Investments -- available for sale
Total current assets
Property and equipment:
Land
Geophysical equipment
Data processing equipment
Geophysical ship
Leasehold improvements and other
Total
Less accumulated depreciation
Property and equipment -- net
Multi-client data library
Investment in and advances to joint ventures
Goodwill (net of accumulated amortization: 2002, $6,819; 2001, $6,844)
Deferred tax asset
Long term notes receivable
Other assets
Total
LIABILITIES AND STOCKHOLDERS' EQUITY
Current liabilities:
Accounts payable -- trade
Accrued interest
Other accrued liabilities
Total current liabilities
Non-current liabilities:
Long-term debt
Deferred tax liability
Other non-current liabilities

Total non-current liabilities	
Commitments and contingent liabilities (See Note 8)	
Stockholders' equity:	
Common stock, $.01 par value; authorized: 40,000,000 shares; issued: 31,171,988 and 30,920,550 shares (excluding 1,444,514 and 1,484,948 Exchangeable Shares, respectively) at July 31, 2002 and 2001, respectively	
Additional paid-in capital	
Accumulated earnings (from August 1, 1991 with respect to Digicon Inc.)	
Accumulated other comprehensive income:	
Cumulative foreign currency translation adjustment	
Unrealized loss on investments -- available for sale	
Unrealized gain (loss) on foreign currency hedge	
Unearned compensation	
Treasury stock, at cost; 76,607 and 65,296 shares at July 31, 2002 and 2001, respectively	
Total stockholders' equity	
Total	

See Notes to Consolidated Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	FOR THE YEARS	
	2002	200
Operating activities:		
Net income (loss)	$ (23,150)	$ 22
Non-cash items included in net income (loss):		
Depreciation and amortization, total (other than multi-client)..	68,341	68
Depreciation and amortization capitalized to multi-client library and software	(29,244)	(22
Amortization of multi-client library	115,287	119
Impairment of multi-client library	55,204	
(Gain)/loss on disposition of property and equipment	(1,445)	(1
Loss on investment in Miller Exploration Company	1,369	
Equity in (earnings) loss of joint venture	(181)	
Provision for deferred taxes	6,242	22
Amortization of unearned compensation	654	
Change in operating assets/liabilities:		
Accounts and notes receivable	12,608	(22
Materials and supplies inventory	(6,039)	(5
Prepayments and other	(120)	(5
Income tax receivable	(11,032)	(6
Accounts payable and other accrued liabilities	(4,169)	27
Income taxes payable		(1
Other non-current liabilities	154	
Other	793	(2

Total cash provided by operating activities	185,272	194
Investing activities:		
Decrease (increase) in restricted cash investments	(166)	
Investment in multi-client library, net cash	(169,039)	(177
Acquisitions, net of cash received		
Sale of KC Offshore, net		
Purchase of property and equipment	(87,096)	(96
Sale of Brigham Exploration Company stock		4
Sale of property and equipment	4,980	3
Total cash used by investing activities	(251,321)	(266
Financing activities:		
Net long-term debt payments		
Net long-term debt borrowings	5,000	
Debt issue costs		
Net proceeds from sale of common stock	2,622	99
Purchase of treasury stock		
Total cash provided by financing activities	7,622	98
Currency gain on foreign cash	(205)	
Change in cash and cash equivalents	(58,632)	26
Beginning cash and cash equivalents balance	69,218	43
Ending cash and cash equivalents balance	$ 10,586	$ 69

See Notes to Consolidated Financial Statements

16

VERITAS DGC INC. AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULES TO CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS)

	FOR THE Y
	2002
SCHEDULE OF NON-CASH TRANSACTIONS:	
Utilization of net operating losses existing prior to the quasi-reorganization resulting in an increase (decrease) in:	
Deferred tax asset valuation allowance	$ (1,111)
Additional paid-in capital	1,111
Tax deduction due to exercise of stock options resulting in an increase in:	
Deferred tax asset	2,379
Additional paid-in capital	2,379
Treasury stock issued for future services resulting in an increase (decrease) in:	
Additional paid-in-capital	
Unearned compensation	
Capitalization of depreciation and amortization resulting in an	

increase in:	
Multi-client data library	29,025
Other assets	219
Settlement of accounts receivable and interest payments for investments-available for sale	
Common stock issued for purchase of Enertec Resource Services Inc.	
Common stock issued for purchase of an interest in Fairweather Geophysical Inc.	
Common stock issued for purchase of Reservoir Characterization Research and Consulting Inc.	
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:	
Cash paid for:	
Interest:	
Senior notes	$ 13,163
Equipment purchase obligations	
Credit agreements	202
Other	134
Income taxes	10,851

See Notes to Consolidated Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED JULY 31, 2002, 2001 AND 2000

	COMMON STOCK ISSUED		TREASURY STOCK AT COST		ADDITIONAL	AC EAR AUG WITH
	SHARES	PAR VALUE	SHARES	COST	PAID-IN- CAPITAL	DI
			(IN THOUSANDS, EXCEPT SHARE AMOU			
BALANCE, JULY 31, 1999	21,470,938	$ 214	(150,068)	$ (2,546)	$ 208,749	$
Common stock issued for exchangeable stock	1,928,917	19			(19)	
Common stock issued to employees	479,779	6			5,873	
Common stock issued for cash	1,190,200	12			27,247	
Treasury stock issued for services under restricted stock Agreements ...			45,893	734	189	
Registration and filing fees					(401)	
Class A Exchangeable Shares issued in Enertec Acquisition .					25,637	
Utilization of net operating loss carryforwards existing prior to quasi-reorganization .					2,080	
Cumulative foreign currency						

translation adjustment						
Amortization of unearned compensation						
Loss on investments-- available for sale						
Net income						
	-----------	-----	-----------	--------	-----------	-
BALANCE, JULY 31, 2000	25,069,834	$ 251	(104,175)	$ (1,812)	$ 269,355	$
Common stock issued for exchangeable stock	529,257	5			(5)	
Common stock issued to employees	860,957	9			12,987	
Common stock issued for cash	3,302,793	33			86,634	
Common stock issued in acquisition of Reservoir Characterization Research and Consulting Inc.	1,137,466	11			34,381	
Common stock issued for investment in Fairweather Geophysical LLC	20,243				500	
Treasury stock issued for services under restricted stock Agreements			38,879	641	682	
Registration and filing fees					(456)	
Utilization of net operating loss carryforwards existing prior to quasi-reorganization .					1,728	
Tax deduction for stock option exercises					1,636	
Cumulative foreign currency translation adjustment						
Amortization of unearned compensation						
Unrealized gain on investments-- available for sale						
Unrealized loss on foreign currency hedge						
Net income						
	-----------	-----	-----------	--------	-----------	-
BALANCE, JULY 31, 2001	30,920,550	$ 309	(65,296)	$ (1,171)	$ 407,442	$
Common stock issued for exchangeable stock	40,794					
Common stock issued to employees	17,061				250	
Common stock issued for cash	193,583	2			2,623	
Treasury stock returned			(11,311)	(261)	11	
Registration and filing fees					(3)	
Utilization of net operating loss carryforwards existing prior to quasi-reorganization .					1,111	
Tax deduction for stock option exercises					2,379	
Cumulative foreign currency translation adjustment						
Amortization of unearned compensation						
Unrealized gain on investments-- available for sale						
Unrealized gain on foreign currency hedge						

Net income (loss)						
BALANCE, JULY 31, 2002	31,171,988	$ 311	(76,607)	$ (1,432)	$ 413,813	$

See Notes to Consolidated Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED JULY 31, 2002, 2001 AND 2000

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION

We provide integrated geophysical technologies 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.

RECLASSIFICATION OF PRIOR YEAR BALANCES

Certain prior year balances have been reclassified for consistent presentation. Depreciation and amortization expense is now included in cost of services on the "Consolidated Statements of Operations and Comprehensive Income (Loss)."

FAIR VALUE OF FINANCIAL INSTRUMENTS

Our financial instruments include cash and short-term investments, restricted cash investments, accounts and notes receivable, accounts payable and debt. The fair market value of the $135.0 million of 9.75% fixed rate debt maturing in October 2003 is $135.4 million at July 31, 2002. The carrying value is a reasonable estimate of fair value for all other financial instruments.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the Financial Accounting Standards Board issued SFAS No. 141 (Business Combinations) and SFAS No. 142 (Goodwill and Other Intangible Assets.) We have adopted the use of these new accounting statements. The main effect of SFAS No. 141 is to require purchase accounting be used in all future business combinations, disallowing the pooling-of-interests method allowed under APB Opinion No. 16. SFAS No. 142 defines the recording and subsequent treatment of goodwill and other intangible assets derived from business combinations and supercedes APB Opinion No. 17. This statement requires us to discontinue our amortization of goodwill and requires that we test goodwill and other intangible assets for impairment on an annual basis or when certain events trigger such a test. We performed the initial impairment tests in January 2002, and we will retest at least annually.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 143 (Asset Retirement Obligations). This standard requires that obligations associated with the retirement of a tangible long-lived asset be recorded as a liability when those obligations are incurred with the liability being initially measured at fair value. We will adopt the use of this accounting statement in fiscal 2003 and do not expect adoption to have any effect on our financial position and results of operations.

In October 2001, the Financial Accounting Standards Board issued SFAS No. 144 (Accounting for the Impairment or Disposal of Long Lived Assets). This standard develops one accounting model for long-lived assets that are to be disposed of by sale, requiring such assets to be measured at the lower of book value or fair value less cost to sell. The standard also provides guidance on the recognition of liabilities for the obligations arising from disposal activities. We will adopt the use of this accounting statement in fiscal 2003 and do not expect adoption to have a material effect on our financial position and results of operations.

In April 2002, the Financial Accounting Standards Board issued SFAS No. 145 (Rescission of FASB Statement No. 4, 44, and 64, Amendment of FASB Statement No. 13 and Technical Corrections as of April 2002). Among other things, this statement addresses how to report gains or losses resulting from the early extinguishment of debt. Previously, any gains or losses were reported as an extraordinary item. Upon adoption of SFAS No. 145, an entity will be required to evaluate whether the debt extinguishment is truly extraordinary in nature, in accordance with Accounting Principles Board Opinion No. 30. We will adopt the use of this accounting statement in fiscal 2003. The adoption of this statement will preclude extraordinary classification of costs related to early debt extinguishment.

In July 2002, the Financial Accounting Standards Board issued SFAS No. 146 (Accounting for Costs Associated with Exit or Disposal Activities). This standard requires recognition of costs associated with exit or disposal activities when they are incurred rather than when management commits to an exit or disposal plan. Examples of costs covered by this guidance include lease termination costs, employee severance costs that are associated with restructuring, discontinued operations, plant closings, or other exit or disposal activities. We will adopt the use of this accounting statement in fiscal year 2004. We have not yet completed our evaluation of the effect of this statement on our accounting practices.

TRANSLATION OF FOREIGN CURRENCIES

The U.S. dollar is the functional currency of all of our operations except Canada, which uses the Canadian dollar as its functional currency. Currency gains and losses result from the remeasurement of assets and liabilities denominated in currencies other than their functional currency. (See Note 12)

CASH EQUIVALENTS

For purposes of the Consolidated Statements of Cash Flows, we define "cash equivalents" as items readily convertible into known amounts of cash with original maturities of three months or less.

RESTRICTED CASH INVESTMENTS

Restricted cash investments in the amounts of $166,000 at July 31, 2002 were pledged as collateral on certain bank guarantees related to contracts entered into in the normal course of business.

ACCOUNTS RECEIVABLE

Unbilled amounts of approximately $47.8 million and $51.7 million are included in accounts and notes receivable at July 31, 2002 and 2001, respectively. Such amounts were not billable to the customer at the fiscal year end in accordance with contract provisions and generally will be billed in one to four months.

INVENTORIES

Inventories of materials and supplies are stated at the lower of average cost or market.

INVESTMENTS AVAILABLE FOR SALE

Our marketable securities are considered available for sale and are reported at fair value, with change in fair values recorded as unrealized gains and losses in Accumulated Other Comprehensive Income within stockholders' equity. Realized gains and losses are calculated using the specific identification method. In the fourth quarter of 2002, we initiated a program to liquidate our investment in Miller Exploration Company and recognized the unrealized loss as expense, as we consider the decline in fair value to be other than temporary.

PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation is computed using the straight-line method based on estimated useful lives as follows:

	ESTIMATED USEFUL LIFE IN YEARS
Geophysical equipment......................	3-5
Data processing equipment..................	3
Geophysical ship...........................	5
Leasehold improvements and other...........	3-10

Depreciation related to assets used in the production of the multi-client library and development of certain software is capitalized. Amounts capitalized were $29.2 million, $22.6 million and $29.8 million in fiscal years 2002, 2001, and 2000, respectively.

Expenditures for routine repairs and maintenance are charged to expense as incurred. We are contractually obligated to periodically put our chartered vessels into port so that the vessel owner can have legally required maintenance and inspections performed. We accrue for the costs of these port calls in advance. Such accruals were $2.9 million and $1.4 million at July 31, 2002 and 2001, respectively. Expenditures for additions and improvements, including capitalized interest, are capitalized and depreciated over the estimated useful life of the related assets. The net gain or loss on disposed property and equipment is included in other (income) expenses (See Note 12).

MULTI-CLIENT DATA LIBRARY

We collect and process geophysical data for our own account and retain all ownership rights. We license the data to clients on a non-transferable basis. We capitalize costs associated with acquiring and processing the data. The capitalized cost of multi-client data is charged to cost of services in the period sales occur based on the percentage of total estimated costs to total estimated sales multiplied by actual sales. Any costs remaining 36 months after completion of a survey are charged to cost of services over a period not to exceed 24 months. The total amortization period of sixty months represents the minimum period over which benefits from these surveys are expected to be derived.

We periodically review the carrying value of the multi-client data library to assess whether there has been a permanent impairment of value and record losses when it is determined that estimated sales would not be sufficient to cover the carrying value of the asset. In the fourth quarter of this year, we took a $55.2 million pretax impairment charge related to 11 of our multi-client library surveys, which we have shown separately in our income statement as an operating expense. As we analyzed our fiscal 2003 plans in June and July, it became clear that we are not likely to recover the remaining book value of these surveys, hence the fourth quarter charge. Seven of these are land surveys located in the Gulf Coast region. Exploration spending has been very low in this region since shortly after we completed these surveys and we do not anticipate any sales of these surveys in the foreseeable future. Therefore, we have written these surveys completely off of our books, with a net charge of $28.8 million. We have one survey in the Gulf of Mexico that was shot at a cost significantly exceeding its original budget. As we do not currently forecast enough sales to amortize the remainder of the cost of the survey, we have written it down by $16.0 million. This leaves $10.0 million of cost for this survey, an amount we believe to be the fair value of the survey based on future estimated sales. In the Shetland-Faroes area of the North Sea we have a large survey that has been troubled by an ongoing territorial dispute. When the dispute was settled, nine-year concessions were awarded to various licensees. Given the length of the license period we do not foresee significant near-term additional licensing of this survey, and we have written it off with a net charge of $9.3 million. We also have two small 2-D surveys off Africa that were written off with a net charge of $1.1 million. We recorded no such impairment charges in the years ended July 31, 2001 and 2000.

During the fourth quarter of fiscal 2001, we changed the useful life of marine surveys from 48 months to 60 months. We believe that 60 months more accurately represents the time over which we will derive benefits from our current portfolio of marine surveys. This change in accounting estimate was made prospectively and had an immaterial impact on our results for the year ended July 31, 2001.

GOODWILL

For acquisitions accounted for under the purchase method, we record the purchase price of businesses or joint venture interests in excess of the fair value of net assets acquired as goodwill. During fiscal 2001 and 2000, goodwill was amortized using the straight-line method over a period of 10 to 20 years, which approximates the period in which benefits were expected to be derived. This amortization was discontinued in the beginning of fiscal 2002 with our adoption of SFAS No. 142 (See Note 3).

MOBILIZATION COST

Transportation and other expenses incurred prior to commencement of geophysical operations in an area, that would not have been incurred otherwise, are deferred and amortized over the lesser of the term of the related contract or one year. Amounts applicable to operations performed for our own account are included in the cost of the multi-client data library. Included in other assets at July 31, 2002 and 2001, are unamortized mobilization costs approximating $2.6 million and $5.1 million, respectively.

LEASES

Operating leases include those for office space, specialized geophysical equipment, and our geophysical vessels, which are chartered on a short-term basis relative to their useful economic lives.

REVENUES

Revenues from the licensing of multi-client data surveys are based upon agreed rates set forth in the contract and are recognized upon delivery of such data. Revenues from contract services are recognized on the percentage-of-completion method measured by the amount of data collected or processed to the total amount of data to be collected or processed or by time incurred to total time expected to be incurred. Revenues generated from external pre-funding of data library projects are recognized on a similar percentage-of-completion method, modified slightly to account for the timing of pre-funding.

STOCK-BASED COMPENSATION

We maintain stock-based compensation plans that are accounted for using the intrinsic value based method allowed by Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related Interpretations. Under that method, compensation expense is recorded in the accompanying consolidated financial statements when the quoted market price of stock at the grant date or other measurement date exceeds the amount an employee must pay to acquire the stock. Our plans do not permit us to grant options at a price lower than market, therefore, we do not record any compensation expense related to stock options. As required by SFAS No. 123, "Accounting for Stock-Based Compensation," we disclose the pro forma effect of stock option expense on net income and earnings per share that would have been recorded using the fair value based method (See Note 8).

EARNINGS PER SHARE

The computation of earnings per share -- basic is based on the weighted average common shares outstanding (including the exchangeable shares -- see Notes 2 and 10). The computation of earnings per share -- diluted is based upon the weighted average common shares outstanding (including the exchangeable shares) and additional common shares, utilizing the treasury stock method and average market prices, which would have been outstanding if dilutive potential common shares had been issued. Since we recorded a net loss for fiscal 2002 no securities are dilutive and basic and diluted earnings per share are equal for that year (See Note 13).

2. BUSINESS COMBINATIONS

See Note 16, Subsequent Events, for a description of the Hampson-Russell acquisition.

During fiscal 2002, we entered into negotiations with Petroleum Geoservices ASA to merge our two companies. During this process we incurred banking, legal, and other professional fees of $7.1 million. We incurred an additional $7.5 million of expense due to the termination of the merger. The $14.6 million of total expense related to the proposed merger is presented as operating expense on the Statement of Operations.

On February 2, 2001, we consummated a merger with Reservoir Characterization Research and Consulting, Inc., ("RC2"), a Colorado corporation. Under the terms of the agreement, we acquired 100% of RC2 in exchange for 1,137,466 shares of our common stock. The total purchase price of RC2 was $34.4 million, comprised of $33.0 million of stock and $1.4 million of options. The acquisition was accounted for as a purchase with the allocation of purchase price, in accordance with APB 16, yielding $2.2 million of current assets, $8.5 million of property and long term assets, $2.3 million of liabilities, and $26.0 million of goodwill.

On September 30, 1999, Veritas DGC, Veritas Energy Services Inc. ("VES") and Enertec Resource Services Inc. ("Enertec"), a Canadian company, consummated a business combination (the "Combination") whereby Enertec became a wholly owned subsidiary of VES. As a result of the Combination, each share of Enertec stock was converted into the right to receive VES Class A Exchangeable Series 1 stock (the "Class A shares") at an exchange ratio of 0.345 of a Class A share for each share of Enertec. All of the holders of Enertec common shares became holders of Class A shares and accordingly, 2,437,527 Class A shares were issued. Each Class A share is convertible, at the option of the holder, into one share of common stock of Veritas DGC. Outstanding options to purchase shares of Enertec stock were converted into options to purchase approximately 236,000 shares of common stock of Veritas DGC.

The total purchase price of Enertec was approximately $28.0 million, comprised of approximately $24.7 million of stock, $0.9 million of our stock options and $2.4 million of business combination costs. The acquisition was accounted for as a purchase with the allocation of purchase price, in accordance with APB 16, yielding approximately $4.9 million of current assets, $13.4 million of property and long-term assets, $2.6 million of liabilities and $12.3 million of goodwill. On April 28, 2000, we sold Enertec's marine high-resolution survey business, KC Offshore, L.L.C. and its subsidiary Kinco Operating, Inc., to the Racal Corporation for $6.9 million

Pro forma revenue, net income before extraordinary item, net income and earnings per share of the combined Veritas DGC/Enertec entity, presented as if the Combination had occurred on August 1, 1999 are shown below. This pro forma financial information is not necessarily indicative of the actual results that would have been achieved had the Combination occurred at the beginning of the periods presented.

(Un

	FOR THE YEA
	(IN THOUSA SHAR
Revenues..	$
Net income before extraordinary item................................	$
Net income..	$
Earnings per share:	
Basic	
Income per common share before extraordinary item................	$
Net income per common share......................................	$
Diluted	
Income per common share before extraordinary item................	$
Net income per common share......................................	$

23

3. GOODWILL

In July 2001, the Financial Accounting Standards Board issued SFAS No. 142 (Goodwill and Other Intangible Assets). We adopted SFAS No. 142 as of August 1, 2001. SFAS No. 142 defines the accounting treatment of goodwill and other intangible assets derived from business combinations and supersedes APB Opinion No. 17. This statement requires us to discontinue amortization of goodwill and requires that we test goodwill and other intangible assets for impairment in a specific manner on an annual basis or when certain events trigger such a test. The as adjusted effect of implementing SFAS No. 142 is as follows:

	FOR THE YEARS ENDED JULY	
	2002	2001
	(IN THOUSANDS, EXCEPT PER SHAR	
Reported net income (loss)	$ (23,150)	$ 22,458
Goodwill amortization		2,292
Adjusted net income (loss)	$ (23,150)	$ 24,750
Earnings per share:		
Basic:		
Reported net income (loss) per share	$ (.71)	$ .73
Goodwill amortization per share		.07
Adjusted net income (loss) per share	$ (.71)	$ .80
Diluted:		
Reported net income (loss) per share	$ (.71)	$ .71
Goodwill amortization per share		.07
Adjusted net income (loss) per share	$ (.71)	$ .78

4. LONG-TERM DEBT

Long-term debt is as follows:

	JULY 31,	
	2002	20
	(IN THOUSANDS)	
Senior Notes due October 2003, at 9 3/4%	$ 135,000	$ 1
Revolving credit agreement, balance due August 2003	5,000	
Total	$ 140,000	$ 1

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 any 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 our 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 or after October 15, 2000. 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 expiring August 2003 with commercial lenders that provides for U.S. advances up to $80.0 million and non-U.S. advances up to $20.0 million. Advances bear interest, at our election, at LIBOR plus a spread or prime rate plus a spread, with the spread based on certain financial ratios maintained by us or our credit rating. At July 31, 2002 the LIBOR spread was 1.25% and the prime rate spread was 0%. 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. Advances of $5.0 million were outstanding at July 31, 2002 under the credit agreement, and $9.2 million in letters of credit have been issued under the facility, leaving $85.8 million available for borrowing.

During the year ended July 31, 2002, we incurred interest costs of $14.7 million. For the years ended July 31, 2002 and 2001, we capitalized $1,114,000 and $523,000, respectively. No amount was capitalized for the year ended July 31, 2000. The capitalized amounts are related to capital improvements made to the chartered vessels Veritas Viking II and the Veritas Vantage.

5. OTHER ACCRUED LIABILITIES

Other accrued liabilities include the following:

	JULY 31, 2002	JULY 31, 2001
	(IN THOUSANDS)	
Accrued payroll and benefits	$ 17,310	$ 17,666
Deferred revenue	12,187	12,083
Accrued taxes other than income	4,364	4,329
Merger termination costs	7,500	
Other	12,808	11,183
Total	$ 54,169	45,261

6. INCOME TAXES

Pretax income (loss) was taxed under the following jurisdictions:

	FOR THE YEARS ENDED JULY 31, 2002	2001	
		(IN THOUSANDS)	
U.S.	$ (32,376)	$ 15,073	$
Non-U.S.	14,418	23,268	
Total	$ (17,958)	$ 38,341	$

The provision for income taxes consists of the following:

	FOR THE YEARS ENDED JULY 31, 2002	2001	
		(IN THOUSANDS)	
Current -- U.S.	$ (12,494)	$ (6,552)	$
Deferred -- U.S.	7,403	15,534	
Current -- Non-U.S	11,444	277	
Deferred -- Non-U.S	(1,161)	6,624	
Total	$ 5,192	$ 15,883	$

A reconciliation of income tax expense computed at the U.S. statutory rate to the provision reported in the consolidated statements of income is as follows:

	FOR THE YEARS ENDED JUL	
	2002	2001
	(IN THOUSANDS)	
Income tax (benefit) at the U.S. statutory rate ..	$ (6,285)	$ 13,419
Increase (reduction) in taxes resulting from:		
Tax effect resulting from foreign activities ...	10,029	1,217
Prior year adjustments	403	147
State income tax	(391)	343
Software amortization	848	425
Miller investment loss	477	
Other	111	332
Total	$ 5,192	$ 15,883

The tax effect resulting from foreign activities category includes non-U.S. earnings taxed at other than the U.S. statutory rate, non-U.S. losses with no tax recovery, foreign tax credits and deductions, foreign withholding taxes and U.S. tax on Subpart F income, dividends and foreign branch operations. In fiscal 2002 we recorded $6.5 million of expense related to net operating losses in Argentina that are not expected to be utilized, due to our suspension of activity in that country.

25

Deferred taxes result from the effect of transactions that are recognized in different periods for financial and tax reporting purposes. The primary components of our deferred tax assets and liabilities are as follows:

	200
Deferred tax assets:	
Difference between book and tax basis of property and equipment	$ 10
Difference between book and tax basis of multi-client data library	4
Net operating loss carryforwards	20
Deferred revenues	1
Capitalized research and development costs	2
Other deferred tax assets	2
Total	41
Deferred tax liabilities	
Net deferred tax asset	41
Valuation allowance	(27
Net deferred tax asset	$ 13

A valuation allowance is established when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The valuation allowance is then adjusted when the realization of deferred tax assets becomes more likely than not. Adjustments are also made to recognize the expiration of net operating loss and investment tax credit carryforwards, with equal and offsetting adjustments to the related deferred tax asset. Should the income projections result in the conclusion that realization of additional deferred tax assets is more likely than not, further adjustments to the valuation allowance are made. Since the quasi-reorganization with respect to Digicon 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 paid-in capital, when realization is more likely than not.

As of July 31, 2002, we had U.S. net operating loss carryforwards of approximately $31.7 million. Approximately $11.8 million of net operating loss carryforwards existed prior to the quasi-reorganization.

The following schedule sets forth the expiration dates of the U.S. and non-U.S. net operating losses.

FISCAL YEAR	U.S. NET OPERATING LOSS	NON-U.S. NET OPERATING LOSS
	(IN THOUSANDS)	
2003	4,222	1,570
2004	6,355	2,105
2005	1,198	1,257
2006	1,347	846
2007	2,505	100
2008		3,129
2009	152	765
2010	2,710	21
2011	9,986	91
2012		185
2018	2,070	
2019	1,172	
2020	22	
Indefinite		32,382
Total	$ 31,739	$ 42,451

Internal Revenue Service regulations restrict the utilization of U.S. net operating loss carryforwards and other tax benefits (such as investment tax credits) for any company in which an "ownership change" (as defined in Section 382 of the Internal Revenue Code) has occurred. We performed the required testing and concluded that two "ownership changes" occurred. The first occurred in connection with the issuance of common stock through a public offering we made on January 6, 1992. The utilization of U.S. net operating loss carryforwards existing at the date of the first "ownership change" is limited to approximately $4.0 million per year. The second "ownership change" occurred in 1996 as a result of the stock acquisition of Veritas Energy Services Inc. The utilization of U.S. net operating losses incurred between the first and second ownership changes is limited to approximately $8.9 million per year, which includes the limitation of approximately $4.0 million from the first ownership change. For the year ended July 31, 2001, we utilized $8.9 million of limitation carryover. For the year ended July 31, 2002, we generated a U.S. net operating loss of $27.9 million which we expect to carry back and utilize against prior years' taxable income.

Non-U.S. operations had net operating loss carryforwards of approximately $42.4 million at July 31, 2002, of which approximately $10.8 million existed prior to the quasi-reorganization. Approximately $23.0 million of the total non-U.S. net operating loss carryforwards are related to United Kingdom operations, have an indefinite carryforward period, and are available to offset future profits in our current trade or business. Approximately $10.2 million of the United Kingdom net operating loss carryforwards existed prior to the quasi-reorganization.

We consider the undistributed earnings of our non-U.S. subsidiaries to be permanently reinvested. We have not provided deferred U.S. income tax on those earnings, as it is not practicable to estimate the amount of additional tax that might be payable should these earnings be remitted or deemed remitted as dividends or if we should sell our stock in the subsidiaries.

7. COMMITMENTS AND CONTINGENT LIABILITIES

Total rentals of vessels, equipment and office facilities charged to operations amounted to $65.6 million, $78.8 million and $57.0 million for the years ended July 31, 2002, 2001 and 2000, respectively.

Minimum rentals payable under operating leases, principally for office space and vessel charters with remaining noncancellable terms of at least one year are as follows:

FISCAL YEAR	MINIMUM RENTAL (IN THOUSANDS
2003.................................	$ 41,710
2004.................................	30,738
2005.................................	23,963
2006.................................	19,932
2007 and thereafter..................	43,986

We carry workers compensation insurance that limits our liability on a per claim and per policy year basis. Management has evaluated the adequacy of the accrual for the liability for incurred but unreported workers compensation claims and has determined that the ultimate resolution of any such claims would not have a material adverse impact on our financial position.

8. EMPLOYEE BENEFITS

We maintain a 401(k) plan in which employees of our majority-owned domestic subsidiaries and certain foreign subsidiaries are eligible to participate. Employees of foreign subsidiaries who are covered under a foreign deferred compensation plan are not eligible. Employees are permitted to make contributions of up to 50% of their salary to a maximum of $11,000 per year. Generally, we contribute an amount equal to one-half of the employee's contribution of up to $8,000 or 8% of the employee's salary (whichever is less). However, if consolidated pre-tax income for any fiscal year is less than the amount we are required to contribute, we may elect to reduce our contribution, but in no event may we reduce the total contribution to less than 25% of the employee contribution. We may make additional contributions from our current or cumulative net profits in an amount determined by the Board of Directors. Our matching contributions to the 401(k) plan were $1,083,000 in 2002, $971,000 in 2001 and $821,000 in 2000.

We have two employee nonqualified stock option plans under which options are granted to officers and key employees. Options generally vest over three years and are exercisable over a ten-year period from the date of grant. The exercise price for each option is the fair market value of the common stock on the grant date. Our Board of Directors has authorized 5,954,550 shares of common stock to be issued under the option plans.

27

We also maintain a stock option plan for non-employee directors (the "Director Plan") under which options are granted to our non-employee directors. The Director Plan provides that every year each eligible director is granted options to purchase 5,000 shares of our common stock which vest over a period of three years from the date of grant and are exercisable over ten years from the date of grant. The exercise price for each option granted is the fair market value at the date of grant. The Board of Directors has authorized 600,000 shares of common stock to be issued under the Director Plan. The following tables provide additional information related to our stock option plans:

	FOR THE YEAR EN	
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Beginning balance	2,011,619	$ 23.16
Options granted	30,000	$ 15.09
Options exercised	(32,292)	$ 9.24
Options forfeited	(124,662)	$ 27.96
Ending balance	1,884,665	$ 22.95
Options exercisable	1,471,018	$ 20.91
Options exercisable by range of exercise price:		
$ 0.00-$ 5.65	8,333	$ 5.25
$ 5.65-$11.30	483,511	$ 10.07
$11.30-$16.95	42,400	$ 13.12
$16.95-$22.60	280,018	$ 19.44
$22.60-$28.25	360,380	$ 25.99
$28.25-$33.90	790	$ 30.78
$33.90-$39.55	279,400	$ 34.80
$39.55-$45.20	9,645	$ 43.73
$45.20-$50.85	4,828	$ 45.31
$50.85-$56.50	1,713	$ 54.80

Ending balance	1,471,018	
Ending balance by range of exercise price:		
$ 0.00-$ 5.65	8,333	$ 5.25
$ 5.65-$11.30	483,511	$ 10.07
$11.30-$16.95	65,275	$ 13.81
$16.95-$22.60	280,018	$ 19.44
$22.60-$28.25	509,551	$ 25.90
$28.25-$33.90	790	$ 30.78
$33.90-$39.55	521,001	$ 34.64
$39.55-$45.20	9,645	$ 43.73
$45.20-$50.85	4,828	$ 45.31
$50.85-$56.50	1,713	$ 54.80
Ending balance	1,884,665	

	FOR THE YEAR ENDED JULY 31, 2001		
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGHTED AVERAGE GRANT DATE FAIR VALUE
Beginning balance	2,278,562	$ 17.43	
Options granted	568,456	$ 34.44	$ 26.96
Options converted from RC(2)	149,370	$ 21.02	$ 23.22
Options exercised	(857,757)	$ 15.05	
Options forfeited	(127,012)	$ 23.31	
Ending balance	2,011,619	$ 23.15	
Options exercisable	1,087,533	$ 20.50	

28

	FOR THE YEAR ENDED JULY 31, 2000		
	NUMBER OF SHARES	WEIGHTED AVERAGE EXERCISE PRICE	WEIGH AVERA GRANT FAIR V
Beginning balance	1,928,048	$ 14.43	
Options granted	576,011	$ 26.10	$
Options converted from Enertec	236,000	$ 12.65	
Options exercised	(349,056)	$ 11.70	
Options forfeited	(112,441)	$ 18.15	
Ending balance	2,278,562	$ 17.43	

Options exercisable	1,232,590	$ 16.38

The weighted average fair values of options granted are determined using the Black-Scholes option valuation method assuming no expected dividends. Other assumptions used are as follows:

	FOR THE YEARS ENDED JULY 31,		
	2002	2001	2000
Risk-free interest rate	4.9%	5.1%	5.9%
Expected volatility	69.0%	67.5%	62.3%
Expected life in years	6.3(1)	10.0	10.0

(1) Based upon current exercise and forfeiture history, we now estimate the expected life of our 10 year options to be 6.3 years.

On November 1, 1997, we initiated an employee stock purchase plan. This plan was amended and restated on December 11, 2001 to make an aggregate 1,000,000 shares available for issuance under the plan. Participation is voluntary and substantially all full-time employees meeting limited eligibility requirements may participate. Contributions are made through payroll deductions and may not be less than 1% or more than 15% of the participant's base pay as defined. The participant's option to purchase common stock is deemed to be granted on the first day and exercised on the last day of the fiscal quarter at a price that is the lower of 85% of the market price on the first or last day of the fiscal quarter. During the year ended July 31, 2002, 187,998 shares of common stock were issued with a weighted average grant date fair value of $12.42. During the year ended July 31, 2001, 61,001 shares of common stock were issued with a weighted fair value at grant of $27.04 per share. During the year ended July 31, 2000, 130,744 shares of common stock were issued with a weighted average grant date fair value of $13.57 per share.

On June 9, 1998, we initiated a restricted stock plan. This plan was amended and restated on March 7, 2000 to make an aggregate of 173,975 shares available for issuance under the plan. On March 8, 2001, an additional 200,000 shares were reserved for use under the new 2001 plan. The Board of Directors' Compensation Committee determines the eligibility of an employee and the terms and amount of the grant. In addition, we have issued restricted stock in conjunction with certain employment agreements.

These tables represent the restricted shares issued for fiscal 2002 and 2001.

YEAR ENDED JULY 31, 2002		
NUMBER OF SHARES GRANTED	GRANT DATE	GRANT PRICE
1,200	August 2001	$ 15.75
99	August 2001	$ 16.06

14,286	August 2001	$ 16.10
4,500	October 2001	$ 13.79

29

YEAR ENDED JULY 31, 2001		
NUMBER OF SHARES GRANTED	GRANT DATE	WEIGHTED AVERAGE GRANT PRICE
1,500...............	August 2000	$ 23.88
5,000...............	September 2000	$ 30.50
1,000...............	September 2000	$ 30.25
4,000...............	November 2000	$ 30.50
5,113...............	February 2001	$ 28.40
2,556...............	February 2001	$ 28.40
15,947..............	March 2001	$ 36.98
7,378...............	March 2001	$ 34.40
1,500...............	April 2001	$ 30.24
1,200...............	May 2001	$ 32.82
2,000...............	May 2001	$ 35.21

Compensation expense relating to the stock-based compensation plans described above was $654,000, $712,000 and $1.1 million the years ended July 31, 2002, 2001 and 2000, respectively. The effect on net income and earnings per share that would have been recorded using the fair value based method for stock options as allowed by SFAS 123 is as follows:

	FOR THE
	2002
	(IN THOUSANDS,
Reported net income (loss)	$ (23,150)
Pro forma net income (loss)	$ (29,350)
Reported net income (loss) per common share -- basic	$ (.71)
Pro forma earnings (loss) per common share -- basic	$ (.91)
Reported net income (loss) per common share -- diluted	$ (.71)
Pro forma earnings (loss) per common share -- diluted	$ (.91)

The pro forma effect on net income and earnings per share may not be representative of the pro forma effects on future net income and earnings per share because some options vest over several years and additional awards may be granted.

The following table presents data related to all of our equity-based compensation plans, for both directors and employees, and provides information related to potential ownership dilution:

EQUITY-BASED COMPENSATION PLANS	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS	WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS
Stock option plans approved by stockholders(1)	1,465,879	$ 20.17
Stock option plans not approved by stockholders	418,786	$ 32.68
Restricted stock plans not approved by stockholders ..	48,561	$ 0.00(2)

(1) The 1992 employee non-qualified stock option plan was approved by stockholders, however the number of shares available for grant under that plan was amended once without stockholder approval. The number of shares added to the plan without stockholder approval was 1,754,550.

(2) Restricted stock vests upon completion of specified years of service. No cash payment is required from the recipient.

30

We maintain a contributory defined benefit pension plan (the "Pension Plan") for eligible participating employees in the United Kingdom. Monthly contributions by employees are equal to 4% of their salaries. We provide an additional contribution in an actuarially determined amount necessary to fund future benefits to be provided under the Pension Plan. Benefits provided are based upon 1/60 of the employee's final pensionable salary (as defined) for each complete year of service up to 2/3 of the employee's final pensionable salary and increase annually in line with inflation subject to a maximum of 5% per annum. The Pension Plan also provides for 50% of such actual or expected benefits to be paid to a surviving spouse upon the death of a participant. Pension Plan assets consist mainly of investments in marketable securities that are held and managed by an independent trustee. The net periodic pension costs are as follows:

	FOR
	2002
Service costs (benefits earned during the period)	$ 530
Interest cost on projected benefit obligation	750
Expected return on plan assets	(546)
Net amortization and deferral	118
Net periodic pension costs	$ 852

The funded status of the Pension Plan is as follows:

JULY 3

	2002
	(IN THOUS
Plan assets at fair value	$ 8,257
Projected benefit obligation in excess of plan assets	$ 4,673
Unrecognized prior service costs	(1,620)
Unrecognized actuarial loss	(1,664)
Net pension liability	$ 1,389

Amounts included in the consolidated balance sheet consist of:

	JULY 3
	2002
	(IN THOUS
Accrued benefit liability	$ 3,009
Intangible asset	(1,620)
Net pension liability	$ 1,389

The weighted average assumptions used to determine the projected benefit obligation and the expected long-term rate of return on assets are as follows:

	FOR
	2002
Discount rate	6.0%
Rates of increase in compensation levels	4.0%
Expected long-term rate of return on assets	6.5%

31

The following is a reconciliation of the beginning and ending balances of the benefit obligation and the fair value of plan assets:

	JULY 31,	
	2002	2001

	(IN THOUSANDS)	
Benefit obligation at beginning of year	$ 12,293	$ 11,439
Service cost	530	550
Interest cost	750	656
Contributions by plan participants	233	231
Actuarial gains and losses	(1,989)	177
Benefits paid	(48)	(45)
Foreign currency exchange rate changes	1,161	(715)
Benefit obligation at end of year	$ 12,930	$ 12,293
Fair value of plan assets at beginning of year	$ 7,935	$ 8,543
Actual return on plan assets	(1,853)	(694)
Employer contributions	1,247	409
Plan participants' contributions	233	231
Benefits paid	(48)	(45)
Foreign currency exchange rate changes	743	(509)
Fair value of plan assets at end of year	$ 8,257	$ 7,935

9. UNREALIZED LOSS ON INVESTMENTS -- AVAILABLE FOR SALE

In April 1999, we exchanged a $4.7 million account receivable from Miller Exploration Company ("Miller"), a publicly traded company, for a long-term interest-bearing note. Interest is paid in Miller common stock warrants, with an exercise price of $0.01 per share. During fiscal 2001 we exchanged 500,000 warrants for 496,923 shares of Miller common stock.

In the fourth quarter of 2002, we initiated a program to liquidate our investment in Miller and therefore, recognized the unrealized loss as an expense during fiscal 2002.

	JULY 31,			
	2002			
	COST BASIS	FAIR VALUE	COST BASIS	UN
Miller stock and warrants	133	133	1,501	

10. HEDGE TRANSACTION

In March 2001, we entered into a contract requiring payments in Norwegian kroner to charter the seismic vessel M/V Seisquest. The contract requires 36 monthly payments commencing on June 1, 2001. To protect our exposure to exchange rate risk, we entered into multiple forward contracts as cash flow hedges effectively locking our exchange rate for Norwegian kroner to the U.S. dollar. The unrealized gain (loss) on the hedge transaction is summarized below:

	JULY 31, 2002			J
	CONTRACT VALUE	UNREALIZED GAIN	FAIR VALUE	CONTRACT VALUE
			(IN THOUSANDS)	
Forward contracts	$ 6,032	$ 794	$ 6,826	$ 9,183

Assuming no changes in exchange rates after July 31, 2002, we expect to recognize $490,000 of the unrealized gain in fiscal year 2003.

11. COMMON AND PREFERRED STOCK AND SPECIAL VOTING STOCK AND EXCHANGEABLE SHARES

The Board of Directors, without any action by the stockholders, may issue up to one million shares of preferred stock, par value $.01, in one or more series and determine the voting rights, preferences as to dividends, liquidation, conversion, and other rights of such stock. There are no shares of preferred stock outstanding as of July 31, 2002.

On May 27, 1997, our Board of Directors declared a distribution of one right for each outstanding share of common stock or

Exchangeable Stock to shareholders of record at the close of business on June 12, 1997 and designated 400,000 shares of the authorized preferred stock as a class to be distributed under a shareholder rights agreement. Upon the occurrence of certain events enumerated in the shareholder rights agreement, each right entitles the registered holder to purchase a fraction of a share of our preferred stock or the common stock of an acquiring company. The rights, among other things, will cause substantial dilution to a person or group that attempts to acquire Veritas DGC. The rights expire on May 15, 2007 and may be redeemed prior to that date.

Two shares of special voting stock of Veritas DGC are authorized and outstanding, each as a series of common shares. One special voting share was issued in connection with the combination of Digicon Inc. (Veritas DGC's former name) and Veritas Energy Services Inc. in August of 1996. The other special voting share was issued in connection with the combination of Veritas DGC, Veritas Energy Services and Enertec Resources Inc. in September 1999.

These special voting shares possess a number of votes equal to the number of outstanding Veritas Energy Services exchangeable shares and Veritas Energy Services Class A exchangeable shares, Series 1 that are not owned by Veritas DGC or any of its subsidiaries. Such exchangeable shares were issued to the former stockholders of Veritas Energy Services and Enertec Resources in business combinations with Veritas DGC. In any matter submitted to Veritas DGC stockholders for a vote, each holder of a Veritas Energy Services exchangeable share has the right to instruct a trustee as to the manner of voting for one of the votes comprising the Veritas Energy Services special voting share for each Veritas Energy Services exchangeable share owned by the holder. Likewise, each holder of a Veritas Energy Services class A exchangeable share, series 1 has the right to instruct a trustee as to the manner of voting for one of the votes comprising the Enertec special voting share for each Veritas Energy Services Class A exchangeable shares, Series 1 owned by the holder. The Veritas Energy Services exchangeable shares and the Veritas Energy Services Class A exchangeable shares, Series 1 are convertible on a one-for-one basis into shares of the common stock and, when coupled with the voting rights afforded by the special voting shares, have rights virtually identical to Veritas DGC common stock.

12. OTHER (INCOME) EXPENSE

Other (income) expense consist of the following:

	FOR
	2002
Net foreign currency exchange loss	$ 2,746
Net (gain) loss on disposition of property and equipment	(1,445)
Interest income	(1,414)
(Income) loss from unconsolidated subsidiary	(181)
Unrealized loss on Miller investment	1,368
Other	712
Total	$ 1,786

13. EARNINGS PER COMMON SHARE

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

	FOR
	2002
	(IN THOUS
Income (loss) before extraordinary item	$ (23,150)
Extraordinary loss on debt repurchase	
Net income (loss)	$ (23,150)
Basic:	
Weighted average common shares (including exchangeable shares)	32,409
Income (loss) per common share before extraordinary item	$ (.71)
Loss per common share from extraordinary item	
Net income (loss) per share	$ (.71)
Diluted:	
Weighted average common shares (including exchangeable shares)	32,409
Shares issuable from assumed conversion of:	
Options(1)	
Total	32,409
Income (loss) per common share before extraordinary item	$ (.71)

Loss per common share from extraordinary item	
Net income (loss) per share	$ (.71)

(1) The outstanding options are anti-dilutive in fiscal 2002 due to the net loss.

The following options to purchase common shares have been excluded from the computation assuming dilution for the years ended July 31, 2002, 2001 and 2000 because the options' exercise price exceeded the average market price of the underlying common shares or the options are anti-dilutive due to a net loss.

	FOR THE YEARS ENDED JULY	
	2002	2001
Number of options..................	1,884,665	664,516
Exercise price range...............	$5.25-$55.13	$26.00-$55.13
Expiring through...................	March 2012	March 2011

14. SEGMENT AND GEOGRAPHICAL 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 so 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.

	FOR THE Y
	SEGMENTS
	(DOL
Revenue	$ 455,683
Operating income	43,225
Net income (loss) before income tax	41,419
Total assets	703,802

	FOR THE Y
	SEGMENTS
	(DOL

Revenue	$ 477,302
Operating income	80,441
Net income (loss) before income tax	82,737
Total assets	676,936

	FOR THE Y
	SEGMENTS
	(DOL
Revenue	$ 353,079
Operating income	46,112
Net income (loss) before income tax	47,284
Total assets	530,119

This table presents consolidated revenues by geographic area based on the location of the use of the product or service for the years ended July 31, 2002, 2001 and 2000:

	FOR
	2002
Geographic areas:	
United States	$ 185,238
Canada	75,885
Latin America	95,382
Europe	47,224
Middle East/Africa	25,610
Asia Pacific	26,344
Total	$ 455,683

34

This table presents long-lived assets by geographic area based on the location of the assets:

	FOR
	2002

Geographic areas:	
United States	$ 140,082
Asia Pacific	12,981
Canada	14,668
Europe	11,444
Latin America	4,082
Middle East/Africa	7,824
Total	$ 191,081

In fiscal 2002, a single large national oil company accounted for 12% of our revenue. In fiscal 2001 and 2000 no customer accounted for 10% or more of total revenue.

We generate our revenue in the exploration and production ("E&P") sector of the petroleum industry and, therefore, are subject to fluctuations in E&P spending. E&P spending is directly related to the actual and expected prices of oil and gas, which are subject to wide and relatively unpredictable variations.

15. SELECTED UNAUDITED QUARTERLY FINANCIAL DATA

	FOR THE YEAR ENDED JU		
	1ST QUARTER	2ND QUARTER	3R
	(IN THOUSANDS, EXCEPT PER		
Revenues	$ 121,378	$ 119,623	$
Net income (before unusual charges)	$ 7,645	$ 9,470	$
Net income (loss)	$ 7,645	$ 7,677	$
Net income per common share (before unusual charges)	$ .24	$ .29	$
Net income (loss) per common share -- basic	$ .24	$ .24	$
Net income (loss) per common share -- diluted	$ .24	$ .24	$

	FOR THE YEAR ENDED JU		
	1ST QUARTER	2ND QUARTER	3R
	(IN THOUSANDS, EXCEPT PER		
Revenues	$ 111,299	$ 134,415	$
Net income	$ 5,008	$ 7,220	$
Net income per common share -- basic	$ .18	$ .24	$
Net income per common share -- diluted	$ .18	$ .23	$

(1) The fourth quarter of fiscal 2002 includes unusual charges of $55.2 million for impairment of multi-client surveys, $10.2 million for merger costs and merger termination expense, and a $6.5 million allowance for Argentine net operating losses.

Quarterly per share amounts may not total to annual per share amounts because weighted average common shares for the quarter may vary from weighted average common shares for the year.

16. SUBSEQUENT EVENTS

On August 1, 2002, we paid Petroleum Geoservices ASA $7.5 million related to the termination of our proposed merger.

On August 21 2002, we acquired Hampson-Russell Software Services Ltd., 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 a cash payment of $9,250,000, transfer of 589,623 shares of Veritas common stock ($12.57 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. Our preliminary allocation of the $16.8 million purchase price, including approximately $0.1 million of fees and expenses, is as follows: $13.2 million to software, $4.2 million to goodwill, $1.1 million to accrued liabilities and $0.5 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.

VERITAS DGC INC. AND SUBSIDIARIES

FINANCIAL STATEMENT SCHEDULE
VALUATION AND QUALIFYING ACCOUNTS
SCHEDULE II

	FOR THE
	2002
	(DOL
ALLOWANCE FOR DOUBTFUL ACCOUNTS	
Beginning balance	$ 709
Expenses/(adjustments)	3,434
Write-offs	
Recovery	
Ending balance	$ 4,143
ALLOWANCE FOR LONG-TERM RECEIVABLES	
Beginning balance	
Expense	
Ending balance	
ACCRUED DRY DOCK	
Beginning balance	$ 1,432
Additions	3,098
Reduction	(1,673)
Other	

Ending balance	$	2,857
TAX VALUATION ALLOWANCE		
Beginning balance	$	27,273
Argentine NOL reserve		6,541
Projected utilization/adjustment of net operating carryforwards		(6,499)
Ending balance	$	27,315

(1) Estimates were revised due to improved collections of past due receivables.

(2) Estimate was revised due to published report of debtor's intent and ability to repay debt.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this item is incorporated by reference to the material to appear under the headings "Election of Directors -- Nominees" and "Other Information -- Executive Officer Tenure and Identification" in the Proxy Statement for the 2002 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this item is incorporated by reference to the material to appear under the heading "Other Information -- Executive Compensation" in the Proxy Statement for the 2002 Annual Meeting of Stockholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this item is incorporated by reference to the material to appear under the headings "Election of Directors" and "Other Information -- Certain Stockholders" in the Proxy Statement for the 2002 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this item is incorporated by reference to the material to appear under the heading "Other Information -- Certain Transactions" in the Proxy Statement for the 2002 Annual Meeting of Stockholders.

PART IV

ITEM 14. CONTROLS AND PROCEDURES

Not Applicable.

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

Financial Statement Schedule II -- Valuation and Qualifying Accounts appears on page 36. All other financial statement schedules are omitted for the reason that they are not required or are not applicable, or the required information is shown in the consolidated financial statements or the notes thereto.

Individual financial statements of 50% or less-owned companies and joint ventures accounted for by the equity method have been omitted because such 50% or less-owned companies and joint ventures, considered in the aggregate as a single subsidiary, would not constitute a significant subsidiary.

FORM 8-K REPORTS FILED DURING THE QUARTER ENDED JULY 31, 2002

On July 30, 2002, we announced that our Board of Directors had withdrawn its approval and recommendation supporting the previously announced business combination with Petroleum Geo-Services ASA ("PGS"). On July 31, 2002, we announced that the Agreement and Plan of Merger and Exchange Agreement with PGS had been formally terminated and filed a Form 8-K to that effect.

SIGNATURES

Pursuant to the requirements of Sections 13 or 15(d) 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 7th day of October, 2002.

VERITAS DGC INC.

By: /s/ DAVID B. ROBSON

David B. Robson
(Chairman of the Board and
Chief Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, the following persons on behalf of the Registrant in the indicated capacities have signed this report below on the 7th day of October 2002.

Signature	Title
/s/ DAVID B. ROBSON David B. Robson	Chairman of the Board and Chief Executive Officer, Director
/s/ STEPHEN J. LUDLOW Stephen J. Ludlow	Vice Chairman, Director
/s/ TIMOTHY L. WELLS Timothy L. Wells	President and Chief Operating Officer
/s/ MATTHEW D. FITZGERALD Matthew D. Fitzgerald	Executive Vice President, Chief Financial Officer and Treasurer
/s/ CLAYTON P. CORMIER Clayton P. Cormier	Director
Lawrence C. Fichtner	Director
/s/ JAMES R. GIBBS James R. Gibbs	Director
Steven J. Gilbert	Director
/s/ BRIAN F. MACNEILL Brian F. MacNeill	Director
/s/ JAN RASK Jan Rask	Director

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, David B. Robson, certify that:

1. I have reviewed this annual report on Form 10-K of Veritas DGC Inc.

2. Based on my knowledge, this annual 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 annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report.

October 7, 2002

/s/ David B. Robson

David B. Robson
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Matthew D. Fitzgerald, certify that:

1. I have reviewed this annual report on Form 10-K of Veritas DGC Inc.

2. Based on my knowledge, this annual 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 annual report; and

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report.

October 7, 2002

/s/ Matthew D. Fitzgerald

Matthew D. Fitzgerald
Chief Financial Officer

EXHIBIT INDEX

EXHIBIT NO.		DESCRIPTION
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-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 For 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 of 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 as of May 15, 1997. (Exhibit 4.1 to Veritas DGC Inc.'s Current Report on form 8-K filed 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 is incorporated herein by reference.)
4-G	--	Key Contributor Incentive Plan as amended and restated 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 -- Indenture 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 of 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 CIBC Mellon Trust Company.

10-A -- Support Agreement dated August 30, 1996 between Digicon Inc. and Veritas Energy Services Inc. (Exhibit 10.1 of Veritas DGC Inc.'s Current Report on Form 8-K dated August 30, 1996 is incorporated herein by reference.)

10-B -- 1992 Non-Employee Director Stock Option Plan as amended and restated March 7, 2000. (Exhibit 10-B to Veritas DGC Inc.'s Form 10-Q for the quarter ended April 30, 2000 is incorporated herein by reference.)

10-C -- 1992 Employee Nonqualified Stock Option Plan as amended and restated March 7, 2000. (Exhibit 10-C to Veritas DGC Inc.'s Form 10-Q for the quarter ended April 30, 2000 is incorporated herein by reference.)

10-D -- 1997 Employee Stock Purchase Plan. (Exhibit 4.1 to Veritas DGC Inc.'s Registration Statement No. 333-38377 dated October 21, 1997 is incorporated herein by reference.)

10-E -- Amended and Restated Employment Agreement between Veritas DGC Inc. and Matthew D. Fitzgerald. (Exhibit 10-A to Veritas DGC, Inc.'s Form 10-Q for the quarter ended October 31, 2001 is incorporated herein by reference.)

10-F -- Amendment No. 1 to Amended and Restated Employment Agreement between Veritas DGC Inc. and Matthew D. Fitzgerald. (Exhibit 10-B to Veritas DGC, Inc.'s Form 10-Q for the quarter ended October 31, 2001 is incorporated herein by reference.)

10-G -- Amended and Restated Employment Agreement between Veritas DGC Inc. and Stephen J. Ludlow. (Exhibit 10-C to Veritas DGC, Inc.'s Form 10-Q for the quarter ended October 31, 2001 is incorporated herein by reference.)

10-D -- Amendment No. 1 to Amended and Restated Employment Agreement between Veritas DGC Inc. and Stephen J. Ludlow. (Exhibit 10-D to Veritas DGC, Inc.'s Form 10-Q for the quarter ended October 31, 2001 is incorporated herein by reference.)

10-E -- Amended and Restated Employment Agreement between Veritas DGC Inc. and David B. Robson. (Exhibit 10-E to Veritas DGC, Inc.'s Form 10-Q for the quarter ended October 31, 2001 is incorporated herein by reference.)

10-F -- Amendment No. 1 to Amended and Restated Employment Agreement between Veritas DGC Inc. and David B. Robson. (Exhibit 10-F to Veritas DGC, Inc.'s Form 10-Q for the quarter ended October 31, 2001 is incorporated herein by reference.)

10-G -- Amended and Restated Employment Agreement between Veritas DGC Inc. and Anthony Tripodo. (Exhibit 10-G to Veritas DGC, Inc.'s Form 10-Q for the quarter ended October 31, 2001 is incorporated herein by reference.)

10-H -- Amendment No. 1 to Amended and Restated Employment Agreement between Veritas DGC Inc. and Anthony Tripodo. (Exhibit 10-H to Veritas DGC, Inc.'s Form 10-Q for the quarter ended October 31, 2001 is incorporated herein by reference.)

10-I -- Amended and Restated Employment Agreement between Veritas DGC Inc. and Rene M.J. VandenBrand. (Exhibit 10-I to Veritas DGC, Inc.'s Form 10-Q for the quarter ended October 31, 2001 is incorporated herein by reference.)

10-J -- Amendment No. 1 to Amended and Restated Employment Agreement between Veritas DGC Inc. and Rene M.J. VandenBrand. (Exhibit 10-J to Veritas DGC, Inc.'s Form 10-Q for the quarter ended October 31, 2001 is incorporated herein by reference.)

10-K -- Amended and Restated Employment Agreement between Veritas DGC Inc. and Timothy L. Wells. (Exhibit 10-K to Veritas DGC, Inc.'s Form 10-Q for the quarter ended October 31, 2001 is incorporated herein by reference.)

10-L -- Amendment No. 1 to Amended and Restated Employment Agreement between Veritas DGC Inc. and Timothy L. Wells. (Exhibit 10-L to Veritas DGC, Inc.'s Form 10-Q for the quarter ended October 31, 2001 is incorporated herein by reference.)

10-M -- Employment Agreement between Veritas DGC Inc. and Larry L. Worden. (Exhibit 10-M to Veritas DGC, Inc.'s Form 10-Q for the quarter ended October 31, 2001 is incorporated herein by reference.)

10-N -- Amendment No. 1 to Employment Agreement between Veritas DGC Inc. and Larry L. Worden. (Exhibit 10-N to Veritas DGC, Inc.'s Form 10-Q for the quarter ended October 31, 2001 is incorporated herein by reference.)

10-Q -- Deferred Compensation Plan effective January 1, 2001. (Exhibit 10-Q to Veritas DGC Inc.'s for 10-Q for the quarter ended October 31, 2000 is incorporated by reference.)

10-R -- Rabbi Trust Agreement between Veritas DGC Inc. and Austin Trust Company relating to the Deferred Compensation Plan. (Exhibit 10-R to Veritas DGC Inc.'s Form 10-Q for the quarter ended October 31, 2000 is incorporated herein by reference.)

10-S -- 2001 Key Employee Nonqualified Stock Option Plan effective February 1, 2001. (Exhibit 10-S to Veritas DGC Inc.'s Form 10-Q for the quarter ended January 31, 2001 is incorporated by reference.

10-T -- Key Employee Restricted Stock Plan effective February 1, 2001. (Exhibit 10-T to Veritas DGC Inc.'s Form 10-Q for the quarter ended January 31, 2001 is incorporated herein by reference.)

10-U -- Employment Agreement between Veritas DGC Inc. and Matthew D. Fitzgerald. (Exhibit 10-U to Veritas DGC Inc.'s Form 10-Q for the quarter ended April 30, 2001 is incorporated herein by reference.)

10-V -- Employment Agreement between Veritas DGC Inc. and Anthony Tripodo. (Exhibit 10-V to Veritas DGC Inc.'s Form 10-K for the year ended July 31, 2002 is incorporated herein by reference.)

10-W -- Credit Agreement among Veritas DGC Inc., as borrower, and Wells Fargo, Inc., as a bank and agent for the banks named therein, dated July 19, 2001. (Exhibit 10-W to Veritas DGC Inc.'s Form 10-K for the year ended July 31, 2001 is incorporated herein by reference.)

*21 -- Subsidiaries of the Registrant.

*23 -- Consent of PricewaterhouseCoopers LLP.

*99.1 -- Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by David B. Robson.

*99.2 -- Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Matthew D. Fitzgerald.

----

* Filed herewith