VERITAS DGC INC
Form 10-Q
June 17, 2005

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended April 30, 2005

OR

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

For the transition period from to

Commission file number 1-7427

Veritas DGC Inc.

(Exact name of registrant as specified in its charter)

Delaware	**76-0343152**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
10300 Town Park **Houston, Texas**	**77072**
(Address of principal executive offices)	(Zip Code)

(832) 351-8300

(Registrant s telephone number, including area code)

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

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

The number of shares of the Company s common stock, $.01 par value, outstanding at May 31, 2005 was 33,849,816 (including 155,370 Veritas Energy Services Inc. exchangeable shares which are identical to the company s common stock in all material respects).

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VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(Unaudited)

	Three Months Ended April 30, 2005	Three Months Ended April 30, Restated 2004	Nine Months Ended April 30, 2005	Nine Months Ended April 30, Restated 2004
	(In thousands, except per share amounts)			
Revenues	$ 175,510	$ 180,714	$ 497,319	$ 428,177
Cost of services	132,957	147,911	393,898	376,625
Research and development	4,676	4,118	13,790	11,258
General and administrative	8,632	7,240	23,597	19,823
Operating income	29,245	21,445	66,034	20,471
Interest expense	1,140	8,874	2,803	17,350
Other (income), net	(2,454)	(562)	(4,043)	(1,067)
Income before provision for income taxes	30,559	13,133	67,274	4,188
Provision for income taxes	12,152	3,069	30,521	7,515
Net income (loss)	$ 18,407	$ 10,064	$ 36,753	$ (3,327)
Net income (loss) per share:				
Basic:				
Net income (loss) per common share	$ .54	$ .30	$ 1.09	$ (.10)
Weighted average common shares (including exchangeable shares)	33,792	33,455	33,775	33,598
Diluted:				
Net income (loss) per common share	.52	$ .29	$ 1.05	$ (.10)
Weighted average common shares (including exchangeable shares)	35,131	34,601	34,970	33,598
Comprehensive income (loss):				
Net income (loss)	$ 18,407	$ 10,064	$ 36,753	$ (3,327)
Other comprehensive income (loss) (net of tax, $0 in all periods):				
Foreign currency translation adjustments	(889)	(3,654)	5,699	2,373
Other unrealized gain (loss)	(342)	19	(116)	(585)
Total other comprehensive income (loss)	(1,231)	(3,635)	5,583	1,788
Comprehensive income (loss)	$ 17,176	$ 6,429	$ 42,336	$ (1,539)

See Notes to Consolidated Financial Statements

Item 1. Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except par value)

(Unaudited)

		April 30, 2005		July 31, 2004
ASSETS				
Current assets:				
Cash and cash equivalents	$	238,453	$	116,299
Restricted cash investments		236		111
Accounts and notes receivable (net of allowance of $858 and $1,109 respectively)		144,727		166,810
Materials and supplies inventory		4,899		4,198
Prepayments and other		11,493		15,599
Income taxes receivable				12,617
Total current assets		399,808		315,634
Property and equipment		494,777		479,639
Less accumulated depreciation		373,695		357,976
Property and equipment, net		121,082		121,663
Multi-client data library		293,228		313,153
Deferred tax asset		1,513		1,223
Other assets		23,311		24,573
Total	$	838,942	$	776,246
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Trade accounts payable	$	49,274	$	44,907
Accrued and deferred income taxes		12,946		7,145
Other accrued liabilities		70,909		67,650
Total current liabilities		133,129		119,702
Non-current liabilities:				
Long-term debt		155,000		155,000
Other non-current liabilities		15,330		11,854
Total non-current liabilities		170,330		166,854
Stockholders equity:				
Common stock, $.01 par value; issued: 35,014,376 shares and 34,821,298 shares, respectively (excluding Exchangeable Shares of 155,370 and 185,921, respectively)		350		348
Additional paid-in capital		445,470		441,982
Accumulated earnings		99,897		63,144
Accumulated other comprehensive income:				
Cumulative foreign currency translation adjustment		13,030		7,331
Other comprehensive income (loss)		(999)		(883)
Unearned compensation		(606)		(604)
Treasury stock, at cost; 1,319,930 shares and 1,317,532 shares, respectively		(21,659)		(21,628)
Total stockholders equity		535,483		489,690
Total	$	838,942	$	776,246

See Notes to Consolidated Financial Statements

VERITAS DGC INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended April 30, 2005	Restated 2004
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ 36,753	$ (3,327)
Non-cash items included in net income (loss):		
Depreciation and amortization, net (other than multi-client data library)	33,164	31,871
Amortization of multi-client data library	103,559	163,837
Loss (gain) on disposition of property and equipment	(638)	137
Equity in loss of joint venture		959
Deferred taxes	(372)	782
Amortization of unearned compensation	263	311
Change in operating assets and liabilities:		
Accounts and notes receivable	26,870	(39,379)
Materials and supplies inventory	(696)	1,814
Prepayments and other	4,013	873
Income tax payable	19,632	3,764
Accounts payable and other accrued liabilities	6,637	(3,388)
Other	10,625	(6,083)
Net cash provided by operating activities	239,810	152,171
Cash flows from investing activities:		
(Increase) decrease in restricted cash	(125)	94
Investment in multi-client data library, net cash	(77,558)	(97,366)
Purchase of property and equipment	(43,533)	(20,652)
Sale of property and equipment	1,240	1,225
Sale of (RC)2 software operation		2,000
Net cash used by investing activities	(119,976)	(114,699)
Cash flows from financing activities:		
Borrowing of long-term debt		155,000
Payments on long-term debt		(167,238)
Net proceeds from sale of common stock	1,918	9,119
Purchase of treasury stock		(20,000)
Net cash provided (used) by financing activities	1,918	(23,119)
Currency loss on foreign cash	402	68
Change in cash and cash equivalents	122,154	14,421
Beginning cash and cash equivalents balance	116,299	72,097
Ending cash and cash equivalents balance	$ 238,453	$ 86,518
Schedule of non-cash transactions:		
Capitalization of depreciation and amortization resulting in an increase in multi-client data library	$ 7,015	$ 14,380

See Notes to Consolidated Financial Statements

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VERITAS DGC INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Summary of significant accounting policies

Restatement of Financial Statements

The historical financial information for the three and nine months ended April 30, 2004 have been restated due to accounting errors. In September 2004, we found various types of errors in our balance sheet related primarily to clerical and account reconciliation errors associated with the intercompany transfers of property and foreign currency items. In addition, we found errors in the accounting for certain customer contracts that contained provisions for customer payment of equipment mobilization fees, revenue sharing with customers and certain other contingencies. Correction of these errors resulted in a decrease of net income of $1.4 million relating to the first three fiscal quarters of fiscal 2004 and $2.6 million related to periods prior to fiscal 2004. Since recording the required adjustments in the fourth quarter of fiscal 2004 would have had a material impact on the financial statements of the fourth quarter and those of the full fiscal year, we determined that a restatement of our prior years financial statements was appropriate. The impact of the restatement resulted in a decrease in the net income and net income per share of $105,000 and $0.00, respectively, for the three months ended April 30, 2004 and an increase in the net loss and net loss per common share of $1,388,000 and $0.04, respectively, for the nine months ended April 30, 2004. (See Note 9 for the details of this restatement.)

The restatement has not caused us to be in default under any of our debt covenants or lease agreements. We obtained waivers from our lenders under our Credit Facility extending the due date for our delivery of our third quarter financial statements to them to July 29, 2005. Additionally, the restatement has delayed the registration of our Convertible Senior Notes resulting in liquidated damages in the amount of $2,153 per day from August 31, 2004 until the registration is completed.

Consolidation

The accompanying consolidated financial statements include our accounts and the accounts of majority-owned domestic and foreign subsidiaries. All material intercompany balances and transactions have been eliminated. All material adjustments consisting only of normal recurring adjustments that, in the opinion of management, are necessary for a fair statement of the results for the interim periods have been reflected. These interim financial statements should be read in conjunction with our annual audited consolidated financial statements.

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

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In October 2004, the Emerging Issues Task Force of the Financial Accounting Standards Board issued EITF 04-8, *The Effect of Contingently Issuable Debt on Earnings per Share*, which is effective for periods ending after December 15, 2004. This statement requires us to include shares of our stock issuable upon the assumed conversion of our Convertible Senior Notes in the calculation of diluted weighted average common shares. We adopted the EITF during the first quarter of fiscal 2005; however, the contingently issuable shares related to our Convertible Senior Notes had no impact on our weighted average shares calculation for the three and nine month periods ended April 30, 2005, as the calculation would have been anti-dilutive.

2. Multi-client library accounting change

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

3. Other (income), net

Other (income) expense, net consists of the following:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2005	Restated 2004	2005	Restated 2004
	(In thousands)			
Interest income	$ (1,553)	$ (250)	$ (3,080)	$ (734)
Net gain on foreign currency exchange	(308)	(492)	(90)	(745)
Loss from unconsolidated joint venture		345		958
Other	(593)	(165)	(873)	(546)
Total	$ (2,454)	$ (562)	$ (4,043)	$ (1,067)

4. Earnings per common share

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

	Three Months Ended April 30, 2005	Three Months Ended April 30, Restated 2004	Nine Months Ended April 30, 2005	Nine Months Ended April 30, Restated 2004
	(In thousands, except per share amounts)			
Net income (loss)	$ 18,407	$ 10,064	$ 36,753	$ (3,327)
Basic:				
Weighted average common shares (including exchangeable shares)	33,792	33,455	33,775	33,598
Income (loss) per share	$ .54	$ .30	$ 1.09	$ (.10)
Diluted:				
Weighted average common shares (including exchangeable shares)	33,792	33,455	33,775	33,598
Shares issuable from assumed exercise of options	1,295	1,146	1,149	
Shares issuable from assumed vesting of restricted stock	44		46	
Total	35,131	34,601	34,970	33,598
Income (loss) per share	$ .52	$ .29	$ 1.05	$ (.10)

The Convertible Senior Notes were not convertible as of April 30, 2005 and the shares issuable from such conversion, while considered, are not included in this income per share calculation as they are anti-dilutive (See Note 5 for a description of our Convertible Senior Notes.)

The following options to purchase common shares have been excluded from the computation assuming dilution because the exercise prices of the options exceed the average market price of the underlying common shares or the options are anti-dilutive due to a net loss.

	Three Months Ended April 30, 2005	Three Months Ended April 30, 2004	Nine Months Ended April 30, 2005	Nine Months Ended April 30, 2004
Number of options	397,130	1,012,682	729,496	3,503,724
Exercise price range	$27.81-55.13	$19.38-55.13	$24.44-55.13	$5.25-55.13
Expiring through	March 2012	March 2012	March 2012	March 2012

5. Long-term debt

As of April 30, 2005, our long-term debt outstanding consisted of $155.0 million of Convertible Senior Notes due 2024. In addition, we have a Credit Facility consisting primarily of a revolving loan facility permitting borrowings of up to $55.0 million and various unsecured lines of credit totaling $8.5 million which may be used exclusively for letters of credit and bank guarantees.

The Convertible Senior Notes bear interest at a per annum rate which equals the three-month LIBOR rate, adjusted quarterly, minus a spread of 0.75%. The current interest rate on the Convertible Senior Notes from March 15, 2004 through June 14, 2005 equated to 2.26% and equates to 2.66% for the subsequent three month period. The Convertible Senior Notes are our senior unsecured obligations and are convertible under certain circumstances into a combination of cash and our common stock. In general, upon conversion of a note, the holder of such note will receive cash equal to the principal amount of the note and shares of our common stock for the note s conversion value in excess of such principal amount. We entered into a registration rights agreement in which we agreed to file a registration statement with the Securities and Exchange Commission within 90 days of March 3, 2004 to register resales of the notes and the associated shares of common stock. We filed a registration statement on May 28, 2004 in compliance with the registration rights agreement; however, the registration statement is not yet effective. Because our registration statement was not effective on or before August 31, 2004 as required by the indenture, we have been incurring liquidated damages in the amount of $2,153 per day since August 31, 2004. We will continue to incur these damages until our registration statement is effective.

Under certain circumstances and at the option of the holder, the Convertible Senior Notes are convertible prior to the maturity date into cash and shares of our common stock. Certain of these circumstances may result in classification of the Convertible Senior Notes as current on our balance sheet. These circumstances include:

1. the closing sale price of our common stock is over 120% of the conversion price, which is currently $24.03 (with 120% being $28.84) for 20 trading days in the period of 30 consecutive trading days ending on the last trading day of the fiscal quarter preceding the quarter in which the conversion occurs;

2. if we called the notes for redemption and the redemption has not occurred;

3. the occurrence of a five consecutive trading day period in which the trading price of the notes was less than 95% of the closing sale price of our common stock on such day multiplied by the number of shares of our common stock issuable upon conversion of the notes; or

4. the occurrence of specified corporate transactions.

Should any of these circumstances occur, the Convertible Senior Notes would be convertible at the then current stock price times the conversion ratio of 41.6146. This amount would be payable in cash equal to the principal amount of the notes, the par value adjusted for dividends or other equity transactions, with the additional amount payable in shares of our common stock. Currently, the maximum amount payable by us on conversion is $155 million in cash plus approximately 6.5 million shares. For clarity, conversion at a $40 stock price would result in our payment of $155 million in cash and 2.575 million shares of common stock. This settlement method is prescribed in the indenture and is not optional at the discretion of any party. The shares issuable from such conversion are considered in the calculation of diluted earnings per share.

As of April 30, 2005, there were no borrowings and $3.1 million in letters of credit outstanding under the Credit Facility. Borrowings under the Credit Facility, including swing-line loans, bear interest at a variable rate determined on the date of borrowing that is related to various base rates and margins depending upon our leverage ratio and the location of the borrowing. The Credit Facility expires in February 2006. Borrowings under the Credit Facility are secured by substantially all of our assets, including the accounts receivable from certain of our foreign subsidiaries.

We obtained waivers from our lenders under our Credit Facility allowing us to deliver our required reports for the second and third quarters of fiscal 2005 to the lenders by no later than July 29, 2005.

We have various unsecured lines of credit, with lending institutions that operate in geographic areas not covered by the lending institutions in our Credit Facility, totaling $8.5 million that may be used exclusively for the issuance of letters of credit and bank guarantees. As of April 30, 2005, $3.5 million in letters of credit were outstanding under these lines.

6. Pension plan

We maintain a contributory defined benefit pension plan for eligible participating employees in the United Kingdom. The following is the net periodic benefit cost by component:

	Three Months Ended April 30, 2005	Three Months Ended April 30, 2004 Restated	Nine Months Ended April 30, 2005	Nine Months Ended April 30, 2004 Restated
	(In thousands)			
Service cost (benefits earned during the period)	$ 155	$ 134	$ 459	$ 423
Interest cost on projected benefit obligation	316	260	935	824
Expected return on plan assets	(225)	(194)	(666)	(615)
Amortization of prior service cost	(38)	(35)	(112)	(110)
Amortization of net gain	79	82	235	258
Amortization of transition obligation	2	2	6	5
Net periodic benefit costs	$ 289	$ 249	$ 857	$ 785

We have made contributions to this plan based on the schedule of contributions on which the above service cost was based and expect to complete these contributions, totaling approximately $1.0 million for the year, during fiscal 2005.

7. Segment information

Beginning in fiscal 2005, we organized the company into three geographic regions: North and South America (NASA); Europe, Africa, the Middle East and CIS (EAME); and Asia Pacific (APAC). Our geographic segments offer a common suite of products and services to their customers, although each product or service may be adapted to meet the needs of the local markets. This segmentation of our company is representative of the manner in which it is viewed and managed by our senior managers and our Board of Directors. The information related to the three and nine months ended April 30, 2004 has been restated to reflect the new segment structure. A reconciliation of the reportable segments results to those of the total enterprise is given below:

	For the Three Months Ended April 30, 2005				
	NASA	EAME	APAC (In thousands)	Corporate	Total
Revenues	$ 115,478	$ 30,636	$ 29,396	$	$ 175,510
Operating income (loss)	25,635	7,498	4,336	(8,224)	29,245
Assets	472,130	103,251	51,508	212,053	838,942

	For the Three Months Ended April 30, 2004 Restated				
	NASA	EAME	APAC (In thousands)	Corporate	Total
Revenues	$ 143,535	$ 17,169	$ 20,010	$	$ 180,714
Operating income (loss)	28,573	790	1,405	(9,323)	21,445
Assets	513,400	103,425	48,913	99,274	765,012

	For the Nine Months Ended April 30, 2005				
	NASA	EAME	APAC (In thousands)	Corporate	Total
Revenues	$ 330,335	$ 95,487	$ 71,497	$	$ 497,319
Operating income (loss)	68,692	14,998	5,453	(23,109)	66,034
Assets	472,130	103,251	51,508	212,053	838,942

	For the Nine Months Ended April 30, 2004 Restated (In thousands)				
	NASA	EAME	APAC	Corporate	Total
Revenues	$ 322,750	$ 62,690	$ 42,737	$	$ 428,177
Operating income (loss)	44,984	(1,132)	2,682	(26,063)	20,471
Assets	513,400	103,425	48,913	99,274	765,012

Corporate operating income (loss) includes certain general and administrative and research and development expenses not allocated to the segments. Corporate assets consist primarily of cash and cash equivalents.

8. Stock based compensation

We account for stock based employee compensation using the intrinsic method prescribed in Accounting Principles Board Opinion No. 25 and have adopted the disclosure only provisions of Statement of Financial Accounting Standards (SFAS) No. 148. As required by SFAS No. 148, we disclose the effect on net income and earnings per share of equity-based employee compensation, including stock options, that would have been recorded using the fair value based method. SFAS No. 123R, which will become effective for us beginning with our first quarter of fiscal 2006, will require us to record the cost of this equity-based compensation in our income statement based on the estimated fair value of the awards.

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2005	Restated 2004	2005	Restated 2004
	(In thousands)			
Net income (loss) as reported	$ 18,407	$ 10,064	$ 36,753	$ (3,327)
Add: Compensation expense, net of related tax effects	84	47	263	203
Less: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(648)	(835)	(2,002)	(4,187)
Pro forma net income (loss)	$ 17,843	$ 9,276	$ 35,014	$ (7,311)
Earnings (loss) per share:				
Basic:				
As reported	$ .54	$ .30	$ 1.09	$ (.10)
Pro-forma	.53	.28	1.04	(.22)
Diluted:				
As reported	$ .52	$ .29	$ 1.05	$ (.10)
Pro-forma	.51	.27	1.00	(.22)

9. Restatement

The historical financial information in this document for the three and nine month periods ended April 30, 2004 has been restated due to accounting errors. These errors were discovered during two separate reviews, a comprehensive review of our balance sheet and a review of specific types of our customer contracts.

Balance Sheet Review

During our fiscal 2004 year-end balance sheet review, we found various types of clerical and account reconciliation errors related primarily to the intercompany transfer of property and foreign currency items. The fixed asset errors of approximately $1.9 million affected depreciation and amortization charges over the past seven years. We corrected all matters identified in the balance sheet review in our restatement, although such items were not individually material.

Contract Review

We also reviewed our accounting for our customer contracts, including those that contain provisions for customer payment of mobilization fees, revenue sharing with customers and certain date contingencies. Because our contracts vary widely in terms and conditions, we reviewed the deliverables of each type of contract and, where required, applied the guidance of EITF 00-21. We determined that our accounting treatment for certain of these customer contracts was not in accordance with generally accepted accounting principles and adjusted our accounts accordingly. We had recognized mobilization fees as revenue during the period of mobilization rather than during the period of seismic data acquisition, as required by Staff Accounting Bulletin (SAB) No. 104. In contracts with revenue sharing clauses and date contingencies, we recognized revenue before the price to be ultimately paid by the related customer was fixed or determinable under SAB No.104. In all cases, our errors related to customer contracts were related to the timing of revenue recognition.

The following is a summary of the effect of the restatement adjustments on our previously reported net income, earnings per share and total assets:

	Increase / (Decrease) from Previously Reported Amounts for the			
	Three Months Ended April 30, 2004		Nine Months Ended April 30, 2004	
	(In thousands, except per share amounts)			
Net income (loss) as previously reported	$	10,169	$	(1,939)
Pretax adjustments resulting from:				
Balance sheet review		15		(886)
Contract review		(172)		(659)
Total pretax adjustments		(157)		(1,545)
Tax effect of restatement adjustments		(52)		(157)
Total net adjustments		(105)		(1,388)
Net Income (loss) restated	$	10,064	$	(3,327)
Income (loss) per common share diluted:				
As reported	$	.29	$	(.06)
Effect of the net adjustments		.00		(.04)
As restated	$	.29	$	(.10)

9. Restatement

Total assets as reported	$	763,316
Adjustments		1,696
Total assets as adjusted	$	765,012

The following are excerpts from the restated financial statements for the three and nine months ended April 30, 2004 compared to the previously reported amounts:

RESTATED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)

(UNAUDITED)

(In thousands, except per share amounts)

	Three Months Ended April 30, 2004			Nine Months Ended April 30, 2004		
	As Reported	Adjustments	Restated	As Reported	Adjustments	Restated
Statement of Operations:						
Revenues	$ 176,547	$ 4,167	$ 180,714	$ 428,667	$ (490)	$ 428,177
Cost of services	143,487	4,424	147,911	375,492	1,133	376,625
Research and development	4,118		4,118	11,258		11,258
General and administrative	7,217	23	7,240	19,791	32	19,823
Operating income (loss)	21,725	(280)	21,445	22,126	(1,655)	20,471
Interest expense	8,874		8,874	17,349	1	17,350
Other income, net	(439)	(123)	(562)	(956)	(111)	(1,067)
Income (loss) before provision for income taxes	13,290	(157)	13,133	5,733	(1,545)	4,188
Income taxes	3,121	(52)	3,069	7,672	(157)	7,515
Net income (loss)	$ 10,169	$ (105)	$ 10,064	$ (1,939)	$ (1,388)	$ (3,327)
Net income (loss), per share:						
Basic:						
Income (loss) per common share	$ .30	$ .00	$ .30	$ (.06)	$ (.04)	$ (.10)
Weighted average common shares (including exchangeable shares)	33,455		33,455	33,598		33,598
Diluted:						
Income (loss) per common share	$ .29	$ .00	$ .29	$ (.06)	$ (.04)	$ (.10)
Weighted average common shares (including exchangeable shares)	34,601		34,601	33,598		33,598
Comprehensive income (loss):						
Net income (loss)	$ 10,169	$ (105)	$ 10,064	$ (1,939)	$ (1,388)	$ (3,327)
Other comprehensive income (loss) (net of tax, $0 in all periods):						
Foreign currency translation adjustments	(3,541)	(113)	(3,654)	2,394	(21)	2,373
Other unrealized gain (loss)	19		19	(585)		(585)
Total other comprehensive income (loss)	(3,522)	(113)	(3,635)	1,809	(21)	1,788
Comprehensive income (loss)	$ 6,647	$ (218)	$ 6,429	$ (130)	$ (1,409)	$ (1,539)

11

RESTATED

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED APRIL 30, 2004

(UNAUDITED)

(Dollars in thousands)

	As Reported	Adjustments	Restated
Cash flows from operating activities:			
Net income (loss)	$ (1,939)	$ (1,388)	$ (3,327)
Non-cash items included in net income (loss):			
Depreciation and amortization, net (other than multi-client)	31,655	216	31,871
Amortization of multi-client library	163,390	447	163,837
(Gain) / loss on disposition of property and equipment	137		137
Equity in loss of joint venture	958	1	959
Deferred taxes	782		782
Amortization of unearned compensation	311		311
Change in operating assets/liabilities:			
Accounts and notes receivable	(39,730)	351	(39,379)
Materials and supplies inventory	1,802	12	1,814
Prepayments and other	603	270	873
Income tax receivable	4,328	(564)	3,764
Accounts payable and other accrued liabilities	(3,815)	427	(3,388)
Other	(6,126)	43	(6,083)
Total cash provided by operating activities	152,356	(185)	152,171
Cash flows from investing activities:			
Decrease (increase) in restricted cash investments	94		94
Investment in multi-client library, net cash	(97,333)	(33)	(97,366)
Purchase of property and equipment	(20,652)		(20,652)
Sale of property and equipment	1,225		1,225
Sale of (RC) (2) software operating	2,000		2,000
Total cash used by investing activities	(114,666)	(33)	(114,699)
Cash flows from financing activities:			
Borrowing of long-term debt	155,000		155,000
Payments on long-term debt	(167,238)		(167,238)
Net proceeds from the sale of common stock	9,119		9,119
Purchase of treasury stock	(20,000)		(20,000)
Total cash provided by financing activities	(23,119)		(23,119)
Currency loss (gain) on foreign cash	68		68
Change in cash and cash equivalents	14,639		