GENERAL CABLE CORP /DE/
Form 10-Q
August 12, 2009

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended July 3, 2009

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: 1-12983

GENERAL CABLE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware	06-1398235
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
4 Tesseneer Drive Highland Heights, KY	41076-9753
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code: (859) 572-8000

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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

Class	Outstanding at August 5, 2008

Common Stock, $0.01 per value	51,976,537

GENERAL CABLE CORPORATION AND SUBSIDIARIES
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ON FORM 10-Q

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PART I. FINANCIAL STATEMENTS
ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

GENERAL CABLE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(in millions, except per share data)
(unaudited)

	Three Fiscal Months Ended		Six Fiscal Months Ended	
	July 3, 2009	June 27, 2008	July 3, 2009	June 27, 2008
Net sales	$ 1,133.1	$ 1,742.8	$ 2,174.4	$ 3,311.2
Cost of sales	956.4	1,515.5	1,810.2	2,871.2
Gross profit	176.7	227.3	364.2	440.0
Selling, general and administrative expenses	81.7	96.7	176.7	194.1
Operating income	95.0	130.6	187.5	245.9
Other income (expense)	6.6	(1.8)	10.1	(0.4)
Interest income (expense):				
Interest expense	(22.1)	(25.1)	(44.6)	(48.8)
Interest income	0.6	3.5	1.8	6.3
	(21.5)	(21.6)	(42.8)	(42.5)
Income before income taxes	80.1	107.2	154.8	203.0
Income tax provision	(24.5)	(37.0)	(49.5)	(71.2)
Equity in earnings of affiliated companies	0.2	1.7	0.3	2.8
Net income including noncontrolling interest	55.8	71.9	105.6	134.6
Less: preferred stock dividends	0.1	0.1	0.2	0.2
Less: net income attributable to noncontrolling interest	2.8	3.2	4.2	6.8
Net income attributable to Company common shareholders	$ 52.9	$ 68.6	$ 101.2	$ 127.6
Earnings per share				

Earnings per common share-basic	$	1.02	$	1.30	$	1.95	$	2.42
Weighted average common shares-basic		52.0		52.8		51.9		52.7
Earnings per common share-assuming dilution	$	1.00	$	1.24	$	1.92	$	2.32
Weighted average common shares-assuming dilution		52.8		55.4		52.8		55.0

See accompanying Notes to Condensed Consolidated Financial Statements.

GENERAL CABLE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(in millions, except share data)
(unaudited)

	July 3, 2009	December 31, 2008
Assets		
Current Assets:		
Cash and cash equivalents	$ 301.3	$ 282.6
Receivables, net of allowances of $24.1 million at July 3, 2009 and $19.3 million at December 31, 2008	980.6	1,032.0
Inventories	975.5	953.2
Deferred income taxes	118.1	132.3
Prepaid expenses and other	78.3	71.5
Total current assets	2,453.8	2,471.6
Property, plant and equipment, net	971.1	880.9
Deferred income taxes	14.1	56.0
Goodwill	150.0	171.9
Intangible assets, net	199.4	201.8
Unconsolidated affiliated companies	8.1	7.5
Other non-current assets	45.4	46.7
Total assets	$ 3,841.9	$ 3,836.4
Liabilities and Shareholders Equity		
Current Liabilities:		
Accounts payable	$ 680.8	$ 757.2
Accrued liabilities	344.8	423.3
Current portion of long-term debt	179.0	230.5
Total current liabilities	1,204.6	1,411.0
Long-term debt	1,074.1	1,023.5
Deferred income taxes	118.5	133.6
Other liabilities	260.0	276.2
Total liabilities	2,657.2	2,844.3
Commitments and Contingencies (Note 16)		
Shareholders Equity:		
Redeemable convertible preferred stock, at redemption value (liquidation preference of $50.00 per share):		
July 3, 2009 - 76,202 outstanding shares		

December 31, 2008 - 76,233 shares outstanding	3.8	3.8
Common stock, $0.01 par value, issued and outstanding shares:		
July 3, 2009 - 51,981,549 (net of 6,148,591 treasury shares)		
December 31, 2008 - 51,775,200 (net of 6,177,498 treasury shares)	0.6	0.6
Additional paid-in capital	493.0	486.6
Treasury stock	(73.3)	(71.9)
Retained earnings	699.2	597.9
Accumulated other comprehensive income (loss)	(73.0)	(146.0)
Total Company shareholders equity	1,050.3	871.0
Noncontrolling interest	134.4	121.1
Total equity	1,184.7	992.1
Total liabilities and equity	$ 3,841.9	$ 3,836.4

See accompanying Notes to Condensed Consolidated Financial Statements.

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GENERAL CABLE CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(in millions)
(unaudited)

	Six Fiscal Months Ended	
	July 3, 2009	June 27, 2008
Cash flows of operating activities:		
Net income including noncontrolling interest	$ 105.6	$ 134.6
Adjustments to reconcile net income to net cash flows of operating activities:		
Depreciation and amortization	51.0	48.4
Foreign currency exchange (gain) loss	(10.1)	0.4
Deferred income taxes	16.9	(5.5)
Excess tax benefits from stock-based compensation	(0.7)	(6.8)
Changes in inventory provision	(14.6)	(4.3)
Convertible debt instruments noncash interest charges	19.4	17.6
Loss on disposal of property	2.6	5.2
Changes in operating assets and liabilities, net of effect of acquisitions and divestitures:		
(Increase) decrease in receivables	62.9	(323.2)
(Increase) decrease in inventories	12.3	(90.9)
(Increase) decrease in other assets	0.2	(0.8)
Increase (decrease) in accounts payable, accrued and other liabilities	(109.2)	165.2
Net cash flows of operating activities	136.3	(60.1)
Cash flows of investing activities:		
Capital expenditures	(87.1)	(93.0)
Proceeds from properties sold	0.8	3.6
Acquisitions, net of cash acquired		(36.2)
Other, net	1.4	(0.5)
Net cash flows of investing activities	(84.9)	(126.1)
Cash flows of financing activities:		
Preferred stock dividends paid	(0.2)	(0.2)
Excess tax benefits from stock-based compensation	0.7	6.8
Proceeds from revolving credit borrowings	91.4	93.3
Repayments of revolving credit borrowings	(80.8)	(47.3)
Proceeds (repayments) of other debt, net	(40.5)	202.9
Proceeds from exercise of stock options	0.4	2.3
Net cash flows of financing activities	(29.0)	257.8
Effect of exchange rate changes on cash and cash equivalents	(3.7)	14.1

Increase in cash and cash equivalents		18.7		85.7
Cash and cash equivalents beginning of period		282.6		325.7
Cash and cash equivalents end of period	$	301.3	$	411.4
Supplemental Information				
Cash paid during the period for:				
Income tax payments (refunds), net	$	(17.2)	$	31.6
Interest paid	$	23.4	$	20.1
Non-cash investing and financing activities:				
Issuance of nonvested shares	$	3.2	$	2.6

See accompanying Notes to Condensed Consolidated Financial Statements.

GENERAL CABLE CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (unaudited)

1. Basis of Presentation and Principles of Consolidation

The accompanying unaudited condensed consolidated financial statements of General Cable Corporation and Subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results of operations for the three and six fiscal months ended Jul 3, 2009, are not necessarily indicative of results that may be expected for the full year. The December 31, 2008, condensed consolidated balance sheet amounts are derived from the audited financial statements but do not include all disclosures herein required by accounting principles generally accepted in the United States of America.

As discussed below in Note 2, effective January 1, 2009, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 160, *Noncontrolling Interests in Consolidated Financial Statements,* FASB Staff Position (FSP) EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities* and FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (including Partial Cash Settlement).* These accounting pronouncements, which relate to noncontrolling interest, earnings per share computation and convertible debt instruments, respectively, require retrospective application. On August 12, 2009, a Current Report on Form 8-K was filed with the Securities and Exchange Commission (SEC) to recast prior-period annual financial information to reflect certain accounting changes described above with respect to the financial information contained in the Company s Annual Report on Form 10-K for the year ended December 31, 2008, which was filed with the United States Securities and Exchange Commission (SEC) on March 2, 2009 and subsequently amended on Form 10-K/A which was filed with the SEC on May 8, 2009 (2008 Form 10-K). These financial statements should be read in conjunction with the Current Report on Form 8-K filed on August 12, 2009 and the audited financial statements and notes thereto in the Company s 2008 Form 10-K.

The condensed consolidated financial statements include the accounts of General Cable Corporation and its wholly-owned subsidiaries. Investments in 50% or less owned joint ventures in which the Company has the ability to exercise significant influence are accounted for under the equity method of accounting. All intercompany transactions and balances among the consolidated companies have been eliminated. The Company s fiscal year end is December 31. The Company s fiscal quarters consist of 13-week periods ending on the Friday nearest to the end of the calendar months of March, June and September.

2. New Accounting Standards

In December 2008, the FASB issued Staff Position No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP No. FAS 132(R)-1). FSP No. FAS 132(R)-1 amends FASB Statement No. 132 (revised 2003), Employers Disclosures about Pensions and Other Postretirement Benefits, to provide guidance on an employer s disclosures about plan assets of a defined benefit pension or other postretirement plan. The additional requirements of FSP No. FAS 132(R)-1 are designed to enhance disclosures regarding (i) investment policies and strategies, (ii) categories of plan assets, (iii) fair value measurements of plan assets, and (iv) significant concentrations of risk. FSP No. FAS 132(R)-1 is effective for fiscal years ending after December 15, 2009, with earlier application permitted. Because FSP No. FAS 132(R)-1 affects only disclosure requirements, the adoption of FSP No. FAS 132(R)-1 will not affect our financial position or results of operations.

During the six fiscal months ended July 3, 2009, the Company did not change any of its existing accounting policies with the exception of the following accounting standards all of which became effective for the Company January 1, 2009:

The Company adopted Statement of Financial Accounting Standard (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities an Amendment of FASB Statement No. 133* as discussed in Note 8 of the condensed consolidated financial statements. SFAS No. 161 requires qualitative disclosures about the Company s objectives and strategies for using derivatives, quantitative disclosures about the fair

value of gains and losses on derivative instruments and disclosures about credit-risk-related contingent features in derivative agreements.

The Company adopted FASB Staff Position (FSP) SFAS No. 157-2 which had no impact on the Company s condensed consolidated balance sheet, statement of operations or cash flows. As discussed below in Note 18, FSP SFAS No. 157-2 partially delayed the effective date of SFAS No. 157 *Fair Value Measurements* for non-financial assets and non-financial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis.

The Company adopted SFAS No. 141 (revised 2007), *Business Combinations* which had no impact on the Company s condensed consolidated balance sheet, statement of operations or cash flows. SFAS No. 141 (revised 2007) requires an acquirer to measure the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree at their fair values on the acquisition date, with goodwill being the excess value over the net identifiable assets acquired. This standard also requires the fair value measurement of certain other assets and liabilities related to the acquisition such as contingencies and research and development.

The Company adopted SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements.* SFAS No. 160 established new standards governing the accounting for and reporting of noncontrolling interests (NCIs) in partially owned consolidated subsidiaries and the loss of control of subsidiaries. Certain provisions of this standard indicate, among other things, that NCIs (previously referred to as minority interests) be treated as a separate component of equity and that increases and decreases in the parent s ownership interest that leave control intact be treated as equity transactions, rather than as step acquisitions or dilution gains or losses; and that losses of a partially owned consolidated subsidiary be allocated to the NCI even when such allocation might result in a deficit balance. Consolidated net income should include the net income for both the parent and the noncontrolling interest with disclosure of both amounts on the consolidated statement of operations. SFAS No. 160 also requires that a retained noncontrolling interest upon the deconsolidation of a subsidiary be initially measured at its fair value. SFAS No. 160 is to be applied prospectively as of the beginning of the fiscal year in which it is initially adopted, except for the presentation and disclosure requirements which are to be applied retrospectively for all periods presented. As a result, the condensed consolidated balance sheet has been adjusted to reflect the reclassification of noncontrolling interest to equity, the condensed consolidated statement of operations has been adjusted to include the net income attributable to the noncontrolling interest and the disclosure of condensed consolidated comprehensive income, in Note 11, has been adjusted to include comprehensive income attributable to the noncontrolling interest.

The Company adopted FSP EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*. The FSP specifies that all outstanding unvested share-based payment awards that contain rights to non-forfeitable dividends shall be considered participating securities in undistributed earnings along with common shareholders. As a result, the Company retrospectively applied the two-class method of computing basic and diluted earnings per share resulting in a decrease in earnings per share basic of $0.04 and $0.07 for the three and six months ended June 27, 2008, respectively. Historically and for the three and six fiscal months ended July 3, 2009 and June 27, 2008, the Company did not declare, pay or otherwise accrue a dividend payable to the holders of the Company s common stock or holders of unvested share-based payment awards (restricted stock). The adoption of FSP EITF 03-6-1 had no impact on the Company s earnings per common share assuming dilution computation. For additional information see Note 14 of the consolidated financial statements.

The Company adopted FSP APB 14-1, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (including Partial Cash Settlement)* as discussed in Note 7 of the condensed consolidated financial statements. The FSP specifies that when issuers of convertible debt instruments recognize interest cost, they should separately account for the liability and equity components of the instrument in a manner that will reflect the entity s non-convertible debt borrowing rate on the instrument s issuance date. As a result, the Company s condensed consolidated balance sheet, statement of operations and cash flows have been adjusted for all periods presented in accordance with the retrospective application of the FSP. As of July 3, 2009, the Company s condensed consolidated balance sheet has been adjusted to reflect the reduction in the carrying value of the Company s senior convertible notes of approximately $172.9 million, the increase in additional paid-in capital of approximately $198.2 million and net deferred taxes of approximately $32.8 million. Transaction costs of approximately $21.7 million directly related to the issuance of the Company s convertible debt instruments have been allocated to the liability and equity components in proportion to the allocation of proceeds and accounted for as $13.3 million of debt issuance costs and $8.4 million of equity issuance costs. As a result of the retrospective application, certain amounts

in the Company s 2008 consolidated balance sheet were changed and are presented below:

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	December 31, 2008		
	As Reported	Adjustments	As Adjusted
Prepaid expenses and other	$ 77.6	$ (6.1)	$ 71.5
Deferred income taxes	53.9	2.1	56.0
Total assets	$ 3,840.4	(4.0)	$ 3,836.4
Long-term debt	$ 1,216.1	(192.6)	$ 1,023.5
Deferred income taxes	96.4	37.2	133.6
Total liabilities	$ 2,999.7	(155.4)	$ 2,844.3
Additional paid-in capital	$ 288.4	198.2	$ 486.6
Retained earnings	644.7	(46.8)	597.9
Total liabilities and equity	$ 3,840.4	(4.0)	$ 3,836.4

For the three and six fiscal months ended July 3, 2009, the Company s condensed consolidated statement of operations reflects the impact of incremental pre-tax noncash interest expense of approximately $10.0 million and $19.4 million, respectively. For the three and six fiscal months ended July 3, 2009, the Company s condensed consolidated statement of operations includes amortization expense related to debt issuance costs of approximately $0.6 million and $1.2 million. As a result of the retrospective application, certain amounts in the Company s 2008 condensed consolidated statement of operations were changed and are presented below for the three and six fiscal months ended June 27, 2008:

	Three fiscal months ended June 27, 2008		
	As Reported	Adjustments	As Adjusted
Interest expense	$ 16.2	$ 8.9	$ 25.1
Income tax provision (benefit)	38.9	(1.9)	37.0
Net income attributable to Company common shareholders	$ 75.6	(7.0)	$ 68.6

	Six fiscal months ended June 27, 2008		
	As Reported	Adjustments	As Adjusted
Interest expense	$ 31.2	$ 17.6	$ 48.8
Income tax provision (benefit)	75.0	(3.8)	71.2
Net income attributable to Company common shareholders	$ 141.4	(13.8)	$ 127.6

The Company adopted Emerging Issues Task Force Issue (EITF) 07-5 *Determining whether an Instrument (or Embedded Feature) is Indexed to an Entity s Own Stock* as discussed in Note 7 of the condensed consolidated financial statements. Paragraph 11(a) of SFAS No 133 *Accounting for Derivatives and Hedging Activities* specifies that a contract that would otherwise meet the definition of a derivative but is both (a) indexed to the Company s own stock and (b) classified in stockholders equity in the statement of financial position would not be considered a derivative financial instrument. EITF 07-5 provides a new two-step model to be applied in determining whether a financial instrument or an embedded feature is indexed to an issuer s own stock and thus able to qualify for the SFAS 133 paragraph 11(a) scope exception. This standard was applied to the embedded conversion options contained in the Company s two convertible debt instruments. The Company determined that the embedded conversion option is indexed to the Company s own stock and classified in shareholders equity, thereby qualifying for the SFAS 133 paragraph 11(a) scope exception.

3. Acquisitions and Divestitures

On June 30, 2008, the Company and its joint venture partner, A. Soriano Corporation (Anscor), announced that the Company acquired and consolidated Phelps Dodge Philippines (PDP) through an increase of its equity investment from 40% to 60%. The Company paid approximately $16.4 million (at prevailing exchange rates) in cash to the sellers in consideration for the additional equity interest in PDP and incurred insignificant fees and expenses related to the transaction. PDP is a joint venture established in 1955 by Anscor, a Philippine public holding company with diverse investments, and Phelps Dodge International Corporation (PDIC), a subsidiary of the Company which was acquired in the fourth quarter of 2007. PDP employs approximately 277 associates and operates one of the largest wire and cable manufacturing facilities in the Philippines. The investment complements the Company s strategy in the region by providing a platform for further penetration into Southeast Asia markets as well as supporting ongoing operations in Australia, the Middle East and South Africa. In 2007, the last full year before the purchase of additional equity ownership, PDP reported net revenues of approximately $100 million. Net assets and pro forma results of the PDP acquisition are immaterial.

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On May 21, 2008, the Company entered a joint venture for majority ownership of E.P.E / EN.I.CA.BISKRA/SPA (Enica Biskra), an Algerian state-owned manufacturer of low and medium voltage power and construction cables. Enica Biskra employs approximately 1,000 associates and is a leading provider of utility cables to the principal Algerian state-owned power utility and gas producer. The Company paid approximately $64.9 million in cash for its investment in Enica Biskra which included $19.1 million for the purchase of additional shares in the joint venture itself and assumed existing debt of $43.0 million (at prevailing foreign currency exchange rates on the date of purchase). Fees and expenses related to the acquisition totaled approximately $1.0 million. In 2007, the last full year before the joint venture was established, Enica Biskra reported net sales of approximately $102.0 million (based on 2007 average exchange rates). Net assets and pro forma results of the Enica Biskra acquisition are immaterial. The purchase price allocation was finalized in May 2009, see Note 6 for additional information.

The results of operations of the acquired businesses discussed above have been included in the condensed consolidated financial statements since the respective dates of acquisition.

4. Inventories

General Cable values all of its North American inventories and all of its non-North American metal inventories using the last-in first-out (LIFO) method and all remaining inventories using the first-in first-out (FIFO) method. Inventories are stated at the lower of cost or market value. The Company determines whether a lower of cost or market provision is required on a quarterly basis by computing whether inventory on hand, on a LIFO basis, can be sold at a profit based upon current selling prices less variable selling costs.

Inventories consisted of the following (in millions):

	July 3, 2009	December 31, 2008
Raw materials	$ 184.1	$ 197.4
Work in process	153.8	168.9
Finished goods	637.6	586.9
Total	$ 975.5	$ 953.2

At July 3, 2009 and December 31, 2008, $624.4 million and $610.1 million, respectively, of inventories were valued using the LIFO method before lower of cost or market provisions. Approximate replacement costs of inventories valued using the LIFO method totaled $687.3 million at July 3, 2009 and $505.9 million at December 31, 2008.

If the Company is not able to recover the LIFO value of its inventory when replacement costs are lower than the LIFO value of the inventory, the Company is required to record a lower of cost or market LIFO inventory adjustment to recognize the charge in its consolidated statement of operations. As of December 31, 2008, a lower of cost or market provision of approximately $36.3 million for copper and aluminum raw material inventory was recorded in which the replacement costs at the end of the year were lower than the LIFO value of the acquired copper and aluminum raw material inventory. Replacement costs remained below the Company s LIFO value but increased as compared to replacement costs at the end of the year resulting in a favorable adjustment to the lower of cost or market provision of approximately $9.9 million and $14.6 million for the three and six fiscal months ended July 3, 2009. The resulting lower of cost or market provision of $21.7 million is attributable to LIFO values exceeding to a lesser extent than at year end the replacement costs for acquired copper and aluminum raw material metal inventory.

5. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Costs assigned to property, plant and equipment relating to acquisitions are based on estimated fair values at that date. Depreciation is provided using the straight-line method over the estimated useful lives of the assets: buildings, from 15 to 50 years; and machinery, equipment and office furnishings, from 2 to 15 years. Leasehold improvements are depreciated over the life of the lease unless acquired in a business combination, in which case the leasehold improvements are amortized over the shorter of the useful life of the assets or a term that includes the reasonably assured life of the lease.

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	Unrealized Gain/(Loss)	Fair Value
	(In thousands)	
Interest rate swaps	(37)(37)	(777)(777)

In March 2004, we entered into a contract in which we receive payments in pounds sterling. In order to minimize our exposure to currency risk, we purchased a put option in the notional amount of 658,000 pounds sterling and a call option in the amount of 366,000 pounds sterling. As of April 30, 2004, we realized a gain of $31,000 from this hedge.

7. Segment information

We have two segments, land and marine operations, both of which provide geophysical products and services to the petroleum industry. The two segments have been aggregated, as they are similar in their economic characteristics and the nature of their products, production processes and customers. A reconciliation of the reportable segments' results to those of the total enterprise is given below:

	Three Months Ended April 30,					
	2004			2003		
	Segments	Corporate	Total	Segments	Corporate	Total
	(In thousands)					
Revenues	$ 176,547		$ 176,547	$ 120,636		$ 120,636
Operating income (loss)	32,628	$ (10,903)	21,725	21,884	$ (8,280)	13,604
Income (loss) before provision for income taxes	28,539	(18,370)	10,169	21,558	(13,753)	7,805

	Nine Months Ended April 30,					
	2004			2003		
	Segments	Corporate	Total	Segments	Corporate	Total
	(In thousands)					
Revenues	$ 428,667		$ 428,667	$ 383,464		$ 383,464
Operating income (loss)	49,830	$ (27,704)	22,126	59,665	$ (25,718)	33,947
Income (loss) before provision for income taxes	40,880	(42,819)	(1,939)	57,746	(39,612)	18,134

8. Pension Plan

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 increase 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.

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The components of net periodic pension costs are as follows:

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2004	2003	2004	2003
	(In thousands)			
Service cost	$ 133	$ 147	$ 396	$ 434
Interest cost on projected benefit obligation	237	205	713	601
Expected return on plan assets	(177)	(149)	(527)	(439)
Net amortization and deferral	44	37	129	110
Net periodic pension costs	$ 237	$ 240	$ 711	$ 706

Contributions for fiscal 2004 are expected to be approximately $528,000.

9. 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 No. 148. The effect on net income and earnings per share that would have been recorded using the fair value based method for stock options is as follows:

	Three Months Ended April 31,		Nine Months Ended April 30,	
	2004	2003	2004	2003
	(In thousands)			
Net income (loss), as reported	$ 10,169	$ 4,728	$ (1,939)	$ 10,781
Add: Stock-based employee compensation expense included in net income (loss), net of related tax effects	47	108	203	338
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(835)	(1,891)	(4,187)	(6,435)
Pro forma net income (loss)	$ 9,381	$ 2,945	$ (5,923)	$ 4,684
Earnings (loss) per share:				
Basic as reported	$ .30	$ .14	$ (.06)	$ .32
Basic pro forma	.28	.09	(.18)	.14
Diluted as reported	..29	..14	(.06)	..32
Diluted pro forma	.27	.09	(.18)	.14

10. Subsequent event

On June 10, 2004, we repaid the remaining $27.0 million of our bank debt and settled our interest rate swaps. We incurred prepayment penalties of $218,000 and losses on the swaps of $25,000.

Item 2. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

This report on Form 10-Q 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 from other documents we file 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 similar expressions or the negatives thereof. These expectations are based on management's assumptions and current beliefs based on currently available information. Although we believe that the expectations reflected in such statements are reasonable, we can give no assurance that such expectations 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-Q. 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 our Annual Report on Form 10-K.

Overview

We have seen positive trends in the petroleum industry continue during the third quarter of our current fiscal year. Oil prices have climbed to over $40 per barrel, we believe driven primarily by speculation related to Middle East supply disruptions. While this supply condition is perhaps temporary, the industry is experiencing increased demand fostered in part by development in emerging economies, such as China and India. We are encouraged that many of our customers seem to be reflecting these higher oil prices into their budgets. While we think they are still using conservative figures, these should be sufficient to drive exploration budgets upward. Although the majority of these budgets will be spent on drilling activity, we believe that seismic spending will increase to fill the need for drillable prospects.

As a more direct indicator that higher seismic spending is at hand, we have seen a definite increase in bid invitations over the last two quarters of the current fiscal year. Unfortunately, there is plenty of capacity in the market to absorb a substantial rise in activity. We have seen extreme price competition when large projects are proposed and have seen new entrants into some markets based upon single projects.

Our response to this difficult marketplace has been consistent for a number of quarters, and is designed to deliver positive margins and significant free cash flow while allowing for continued investment in our technology and data library. In the contract market, we do not compete aggressively to win the larger awards where discounting is extreme, but have positioned ourselves to win a series of smaller jobs that allow us to work profitably. In the multi-client market, we have continued to invest in our library and have been rewarded with substantial margins and positive cash flow. Finally, we continue to invest in technology to give ourselves a differentiated, higher margin, service offering.

We have generated two quarters in a row of solid financial performance, but it is the nature of our business to have uneven quarterly results. About 75% of our annual operating margin comes from our multi-client business and much of this comes from sales of completed surveys. These sales are volatile and difficult to predict. Additionally, we are subject to seasonal trends in our contract business, exemplified by the winter acquisition work. Not withstanding, we have a conservative balance sheet, a large cash balance and relatively low debt, and feel secure in our ability to compete for the long term in this industry.

Results of operations

Three months ended April 30, 2004 compared with three months ended April 30, 2003

Revenues. Revenues increased by 46% overall. Multi-client revenue increased by 56% compared to the prior year's third quarter. Much of this was due to an increase in revenue from completed surveys, which were up by 78% to $51.7 million. Revenue from pre-funding of ongoing surveys increased by 27%. The strong multi-client results were generated by increasing sales from surveys around the world, with our North America land, Gulf of Mexico, Brazil, and North Sea portfolios all showing increased revenue over the prior year's third quarter. Contract revenue increased by 32% compared to the prior year's third quarter. Marine contract revenue increased by 53% due to work in India and Australia. Land contract revenue increased by 31% due to additional work in Canada, the United States and Argentina.

Revenues consist of the following:

	Three Months Ended April 30,		
	2004	2003	% Increase
	(In thousands)		
Multi-client:			
Land	$ 22,436	$ 18,964	18%
Marine	58,022	32,687	78%
Subtotal	80,458	51,651	56%
Contract:			
Land	58,487	44,460	32%
Marine	37,602	24,525	53%
Subtotal	96,089	68,985	39%
Total Revenues	$ 176,547	$ 120,636	46%

Operating income. Operating income as a percentage of revenue increased from 11% to 12%. Contract margins increased primarily due to excellent crew and equipment utilization during the quarter; we operated as many as 15 land crews during the quarter and had four of our six boats working on contract jobs. Contract pricing has not improved noticeably during the recent quarter, but the terms of most projects are more favorable, with customers bearing more risk of downtime for weather and other factors. Multi-client margins decreased due to increased amortization of surveys.

Research and development increased by $0.8 million as a result of an increase in the number of employees engaged in advanced processing.

General and administrative increased by $1.0 million with the largest portion due to compliance with requirements of the Sarbanes-Oxley Act and related rules.

*Interest exp*ense. Interest expense increased by $2.9 million. The current quarter includes $6.4 million of charges relating to retirement of $154.0 million of bank debt, including the expensing of debt issuance costs, cancellation of interest rate swaps and prepayment penalties.

Income taxes. The effective tax rate decreased from 39% to 23% as compared to the prior year's second quarter. The 23% effective rate is based upon the expected annual rate (excluding the effect of the multi-client amortization change) using the expected annual mix of income by jurisdictions. The lower rate compared to the prior fiscal year is due to the current use of previously unbenefited loss carryforwards and other tax credits.

Nine months ended April 30, 2004 compared with nine months ended April 30, 2003

Revenues. Revenues increased by 12% overall. Multi-client revenue increased by 17% due to an increase in sales of completed surveys over the prior year's comparable period. Contract revenue increased by 7%. Land contract revenue remained relatively flat while marine contract revenue increased by 15%. A greater proportion of our vessel time in the current period was spent on contract work, versus multi-client work, than during the prior year.

Revenues consist of the following:

	Nine Months Ended April 30,		
	2004	2003	% Increase
	(In thousands)		
Multi-client:			
Land	$ 52,263	$ 48,904	7%
Marine	151,551	124,589	22%
Subtotal	203,814	173,493	17%
Contract:			
Land	126,929	124,843	2%
Marine	97,924	85,128	15%
Subtotal	224,853	209,971	7%
Total Revenues	$ 428,667	$ 383,464	12%

Operating income. Operating income as a percentage of revenue decreased from 8.9% to 5.2%. The decreased results for the current fiscal year were due mostly to a change in accounting for our multi-client library, which resulted in a charge of $22.1 million, included in cost of services on the "Consolidated Statements of Operations and Comprehensive Income (Loss)." This charge represents the adjustment necessary to reduce each of our surveys as of August 1, 2003 to a balance no greater than that which would have been recorded had we been using the new method. While the sales forecast method remains our primary means of expensing multi-client surveys, we have now established a minimum cumulative amortization for each survey based upon straight-line amortization over five years. The monthly expense recognized for each survey is the greater of the amount derived by the sales forecast method or the amount of minimum amortization. This is a change from the prior method that provided for a minimum amortization only during the last two years of the survey's book lives.

Before the charge for the change in accounting method, operating income as a percentage of revenue increased from 8.9% to 10.3%. The favorable mix of multi-client revenue to contract revenue in the current period was largely offset by increased required multi-client amortization expense of $26.6 million, compared with $2.8 million in the prior year. Contract margins were higher for the nine months of fiscal 2004 than in the prior year's comparable period, although the prior fiscal period's margins reflect several operational disruptions and low margins on a large land acquisition job in Peru. Contract pricing has not improved noticeably during the recent quarters, but the terms of most projects are more favorable, with customers bearing more risk of downtime for weather and other factors.

Research and development increased by $1.9 million as a result of an increase in the number of employees engaged in advanced processing.

General and administrative expense decreased by $2.0 million. The decrease was due to primarily to higher severance expense in the prior year's first nine months partially offset in the current nine months by expenses associated with compliance with requirements of the Sarbanes-Oxley Act and related rules.

Other expense (income), net. Other expense (income), net changed from expense of $1.5 million to income of $1.0 million. A combination of items accounted for this, with proceeds from the sale of Miller Exploration stock in the prior year and declining foreign currency exchange losses in the current year accounting for the largest portion of the change.

Income taxes. Our effective tax rate for the first nine months of fiscal 2004 (excluding the $22.1 million charge for the catch-up entry for the change in multi-client amortization policy) was 28% compared to 41% for the first nine months of fiscal 2003. The 28% effective rate is the expected annual rate (excluding the effect of the multi-client amortization change) using the expected mix of income by jurisdiction. The lower rate compared to the prior fiscal year is due to the current use of previously unbenefited loss carryforwards and other tax credits.

Liquidity and capital resources

Cash flow and liquidity

Our internal sources of liquidity are cash, cash equivalents and cash flow from operations. External sources include public financing, equity sales, equipment financing, our revolving loan facility, and trade credit. We believe that our current cash balance will be adequate to meet our liquidity needs for fiscal 2004. While we believe that we have adequate sources of funds to meet our longer term 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.

Net cash provided by operating activities decreased by $9.8 million for the nine months ended April 30, 2004 compared to the nine months ended April 30, 2003. The strong sales of the current quarter led to a large increase in accounts receivable, collection of which should result in higher cash from operating activities during the next quarter. Cash used by investing activities decreased by $34.6 million for the nine months ended April 30, 2004 compared to the nine months ended April 30, 2003 primarily due to the purchase of Hampson-Russell in fiscal 2003 for $9.3 million and a $25.3 million decrease in our multi-client investment in the current year. Cash flow for the nine months ended April 30, 2004 was enhanced by $2.0 million from the sale of $(RC)^2$. Our capital expenditure estimate for fiscal 2004 is approximately $42 million and will be spent on replacement and upgrading of existing equipment, with very little spent on capacity expansion. For fiscal 2004, we are forecasting approximately $120 million to $130 million cash investment in our data library. We expect to fund these investments from our current cash balance and from internally generated cash flows. Net cash provided by financing activities decreased from $49.4 million in the nine months of 2003 to a use of cash of $23.1 million in the nine months ended April 30, 2004. In the prior fiscal year, we entered into the Credit Agreement to satisfy the obligations under the previous credit agreement and the Senior Notes. As of April 30, we sold $155.0 million of Convertible Senior Notes and paid down $167.2 million of bank debt.

Free cash flow is an important measure of liquidity for us. We define free cash flow as cash from operating activities less cash multi-client spending and capital expenditures. This non-GAAP liquidity measure is useful as an addition to the most directly comparable GAAP measure of "net cash provided by operating activities" because free cash flow includes investments in operational assets and therefore presents a more complete picture of net cash flow from ongoing operations. This measure excludes items such as proceeds from the disposal of assets, cash paid for acquisitions and all financing activities. Some portion of free cash flow may ultimately be committed to items such as debt repayment obligations and so it is not necessarily a measure of residual cash flow available for discretionary expenditures.

Our free cash flow for the nine months ended April 30, 2004 was $14.4 million higher than for the same period last year and indicates that we are progressing toward our goal of generating more free cash flow for the year than we did in fiscal 2003. We are managing our business to achieve positive free cash flow by maintaining flexibility in our capital and multi-client investments and spending within the constraints established by our operational cash flow.

A reconciliation of free cash flow to net cash provided by operating activities is presented in the following table:

	Nine Months Ended April 30,	
	2004	2003
	(In thousands)	
Net cash provided by operating activities	$ 152,356	$ 162,142
Multi-client expenditures, net cash	(97,333)	(122,652)
Capital expenditures	(20,652)	(19,530)
Free cash flow	$ 34,371	$ 19,960

The following represents our financial contractual obligations and commitments as of April 30, 2004 for the specified periods:

	Payments Due				
Contractual Cash Obligations	Total	Less than 1 year	1 - 3 years	3 - 5 years	Greater than 5 years
	(In thousands)				
Payments due for operating lease obligations	$ 144,137	$ 37,540	$ 54,123	$ 21,179	$ 31,295
Scheduled principal payments under debt obligations	181,987	444(1)	26,543(1)		155,000
Potential payments under letters of credit	2,173	1,135	1,038		

(1) We repaid the $27.0 million remainder of our bank debt during the fourth quarter of fiscal 2004. See Note 10, "Subsequent events" of Notes to Consolidated Financial Statements for more detail.

Debt structure

On February 14, 2003, we entered into a Credit Agreement (the "Credit Agreement") with Deutsche Bank AG, New York Branch, as Administrative Agent, Deutsche Bank AG, Canada Branch, as Canadian Administrative Agent, and certain other lending institutions. The Credit Agreement provides term financing of $195.0 million under term A, term B and term C tranches (the "Term Loans"), a revolving loan facility aggregating $55.0 million, including a facility for swing line loans of up to $10.0 million and the issuance of letters of credit in an aggregate amount of up to $40.0 million. As of January 31, 2004, there were $3.1 million in letters of credit outstanding, leaving $51.9 million available for borrowings. Among other restrictions, the Credit Agreement prohibits us from paying cash dividends. Proceeds from the Term Loans were used to satisfy the obligations under our previous credit agreement and our Senior Notes due October 2003.

The term A loan was in the original principal amount of $30.0 million, matures in February 2006, and requires quarterly interest payments at a rate, at our election, of LIBOR plus a margin ranging from 3.5% to 4.0% or a base rate plus a margin ranging from 2.25% to 2.75%. These margins are based on certain of our financial ratios. The term B loan was in the original principal amount of $125.0 million, matures in February 2007, and requires quarterly interest payments at a rate, at our election, of LIBOR plus 5.0%, subject to a 2% LIBOR floor or a base rate plus 3.75%. The term C loan was in the original principal amount of $40.0 million, would have matured in February 2008, and

required quarterly interest payments at a rate, at our election, of LIBOR plus 7.5%, subject to a 3% LIBOR floor or a base rate plus 6.25%.

The term A and term B loans required quarterly combined principal payments of $387,500 representing 0.25% of the initial principal balances. Should there be an event of default or if an unmatured event of default exists, or the credit rating of any of the debt is below Moody's Ba2 or S&P's BB, or our leverage ratio as of the last day of the most recent excess cash flow calculation period rises above certain levels, the term A and B loans also require principal payments of 50% of the prior fiscal year's cash flow, calculated as per the loan agreement. This payment is due 100 days after the end of the fiscal year and results in a ratable reduction of the future required quarterly principal payments. As our lowest debt rating by Moody's is below the minimum level, we paid $12.4 million of principal in November 2003 related to the company's cash flow from January 1, 2003 through July 31, 2003. Future excess cash flow payments of this type, if any, will be based on cash flow for full fiscal years. We used $129.0 million of net proceeds from the Floating Rate Convertible Senior Notes described below to repay in full the term C loan and to prepay portions of the term A and B loans. In addition, in March 2004, we repaid an additional $25.0 million of the term A and B loans using cash on hand. We recorded $6.4 million in charges relating to the retirement of the $154.0 million term debt which included expensing of debt issuance costs, cancellation of interest rate swaps and prepayment penalties. These charges are included in interest expense on the "Consolidated Statement of Operations and Comprehensive Income (Loss)." Based upon the payments in November 2003 and March 2004 for the term A and B loans, our required quarterly combined principal payment was reduced to $110,916.

Loans made under the revolving loan 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 revolving loan facility expires in February 2006.

Borrowings under the Credit Agreement are secured by assets, including equipment, vehicles, multi-client data library, intellectual property, and stock of certain material subsidiaries, owned by us and certain of our subsidiaries. At April 30, 2004, the carrying value of the secured assets, including intercompany receivables, was $1.1 billion. The Credit Agreement and related documents contain a number of covenants, including financial covenants relating to interest coverage, leverage and net worth. At April 30, 2004, we were in compliance with these covenants.

On March 3, 2004, we sold $125 million aggregate principal amount of Floating Rate Convertible Senior Notes Due 2024 in a private placement. On March 11, 2004, we sold an additional $30 million of Convertible Senior Notes to the initial purchaser. The notes are our senior unsecured obligations and are convertible under certain circumstances into a combination of cash and our common stock at a fixed conversion price of $24.03 (subject to adjustment in certain circumstances), which is equivalent to an initial conversion ratio of approximately 41.6 shares of our common stock per $1,000 principal amount of Convertible Senior Notes, or a maximum of approximately 6.4 million shares for the $155 million aggregate principal amount. 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 used $129 million of net proceeds from the sale of Convertible Senior Notes to repay in full the term C loan and to prepay portions of the term A and B loans. The remaining $20 million of net proceeds from the Convertible Senior Notes was used to repurchase, in negotiated transactions, 1,222,494 shares of our common stock sold by certain purchasers of the Convertible Senior Notes in connection with the offering.

The Convertible Senior Notes bear interest at a per annum rate which will equal the three-month LIBOR rate, adjusted quarterly, minus a spread of 0.75%. The initial interest rate of the notes (through June 14, 2004) will be 0.37%. The notes will mature on March 15, 2024 and may not be

redeemed by us prior to March 20, 2009. Holders of the notes may require us to repurchase some, or all, of the notes on March 15, 2009, 2014 and 2019. They could also require repurchase upon a change of control (as defined in the indenture under which the Convertible Senior Notes were issued).

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. These circumstances include:

(1) the closing sale price of our common stock is over 120% of the conversion price for a specified number of trading days

(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

(4) the occurence of specified corporate transactions

The Convertible Senior Notes were sold to Deutsche Bank Securities Inc., the initial purchaser under an exemption provided by section 4 (3) of the Securities Act. The initial purchaser concurrently sold the notes only to qualified institutional buyers in accordance with Rule 144A under the Securities Act of 1933, as amended. The notes and the underlying common stock issuable upon conversion have not been registered under the Securities Act or any applicable state securities laws and may not be offered or sold in the United States absent registration or an applicable exemption from such registration requirements. We have entered into a registration rights agreement in which we have agreed to file within 90 days of March 3, 2004 a registration statement with the Securities and Exchange Commission to register resales of the notes and associated shares of common stock. We filed a registration statement on May 28, 2004 in compliance with the registration rights agreement. We will be required to pay liquidated damages in the form of additional interest in the event the registration statement is not effective on or before the 180th day after March 3, 2004 or under certain other circumstances.

Off-balance sheet instruments

Our limited hedging program consists of off-balance sheet instruments to minimize the currency risk of pounds sterling receivables and to fix the interest rate on $10.9 million of our variable rate long-term debt through interest rate swap contracts. None of these hedges are critical to our operations but they reduce our exposure to currency and interest rate fluctuations and allow us to better plan our future cash flows. These instruments are described in detail in Item 3, Quantitative and Qualitative Disclosures Regarding Market Risk, as well as in Note 6 of Notes to Consolidated Financial Statements.

Critical accounting policies

While all of our accounting policies are important in assuring that we adhere to current accounting standards, certain policies are particularly important due to their impact on our financial statements. These are described in detail in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Significant Accounting Policies included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2003 which description is incorporated herein by reference. Since our last annual filing, we have changed our accounting policy regarding the amortization of our multi-client data library. This new policy is described below.

Multi-client data library

In our multi-client data library business, we collect and process geophysical data for our own account and retain all ownership rights. We license the data to multiple clients on a non-transferable basis. We capitalize the costs associated with acquiring and processing the multi-client data on a survey-by-survey basis (versus a pooled basis). We amortize these costs using the sales forecast method, but require a minimum amortization expense equal to that which would have been recorded had the survey been amortized over a five-year period on a straight line basis. The sales forecast method amortizes the capitalized cost of multi-client data in the period revenue is recognized in an amount equal to the period revenue multiplied by the percentage of total estimated costs to total estimated revenue. Therefore, multi-client margins recognized in any given period are the product of estimated costs and estimated sales and may not reflect the ultimate cash margins recognized from a survey. We periodically review the carrying value of the multi-client data library to assess whether there has been a permanent impairment of value and then record losses when it is determined that estimated sales will not be sufficient to cover the carrying value of the asset.

Until August 1, 2003, we required a minimum amortization of surveys only during the last twenty-four months of book life, versus from the date of survey completion as we currently require. This change in policy resulted in a charge of $22.1 million in the current year as a catch-up adjustment to multi-client amortization and is included in cost of services on the "Consolidated Statements of Operations and Comprehensive Income (Loss)."

Accounting policies recently adopted

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 joint venture accounted for under the equity method prior to our adoption of FIN 46R. This entailed consolidating the 80% owned joint venture as of April 30, 2004 on a prospective basis. The 80% owned joint venture provides processing and acquisition services and licenses to our multi-client data. This change is reflected in an increase of multi-client data of $2.3 million, an increase in other assets and liabilities of $0.8 million and a decrease in investment in and advances to joint ventures of $3.1 million.

In December 2003, the Financial Accounting Standards Board issued SFAS No. 132 (Revised 2003), Employer's Disclosures about Pension and Other Postretirement Benefits. This statement retains the disclosures required by SFAS No. 132 and adds additional disclosures. Those disclosures include information describing the types of plan assets, investment strategy, measurement date(s), plan obligations, cash flows, and components of net periodic benefit cost recognized during interim periods. We adopted SFAS No. 132 (Revised 2003) in the quarter ended April 30, 2004.

Item 3. ***Quantitative and Qualitative Disclosures Regarding Market Risk***

At April 30, 2004, 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 against 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. This contract expired on April 30, 2004. We renewed our charter for the M/V Seisquest, with payments in Norwegian kroner, but have not entered into a new hedge agreement.

We are exposed to interest rate risk based upon fluctuations in the LIBOR rate. To partially mitigate this risk, on February 25, 2003, we entered into interest rate swaps in the notional amounts totaling $80.0 million, effectively hedging 41% of our then current exposure to interest rate changes for the two-year term of the swaps. These swaps had no value at inception. On March 29, 2004, upon prepayment of certain amounts outstanding under our current bank credit facility, the swap agreement was amended to an amount totaling $10.9 million.

Details of the interest rate swaps as of April 30, 2004 are summarized in the following table:

Tranche Hedged	**Amount**	**Term**	**Pay %**	**Receive**	**LIBOR Floor**
	(in thousands)				
Term A	$ 2,900	24 months	1.86	LIBOR	None
Term B	$ 8,000	24 months	2.49	LIBOR	2%

The fair value of the swaps on April 30, 2004 was a negative $37,000 and is included in other accrued liabilities on the "Consolidated Balance Sheets."

As of April 30, 2004, we had $155.0 million Convertible Senior Notes bearing interest at LIBOR less 0.75% with a fair vale of $181.2 million. These notes are not hedged in any manner.

In March 2004, we entered into a contract in which we receive payments in pounds sterling. In order to minimize our exposure to currency risk, we purchased a put option in the notional amount of 658,000 pounds sterling and a call option in the amount of 366,000 pounds sterling. As of April 30, 2004, we realized a gain of $31,000 from this hedge.

Item 4. ***Controls and Procedures***

Our management, including the Chief Executive Officer and the principal financial officer, has conducted an evaluation of the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Exchange Act Rule 13a-15. Based on that evaluation, our Chief Executive Officer and the principal financial officer concluded that the disclosure controls and procedures are effective in ensuring that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms. There have been no changes in our internal controls over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with the evaluation described above that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

On occasion, we are named as a defendant in litigation relating to our normal business operations. Although we are insured against various business risks to the extent we believe prudent, there is no assurance that the nature and amount of such insurance will be adequate in every case.

Item 2. ***Changes in Securities, Use of Proceeds and Purchases of Securities***

In March 2004, we sold $155.0 million of our Convertible Senior Notes. For a description of the notes and terms of the sale, see Note 5 "Long-term debt" of Notes to Consolidated Financial Statements, which is incorporated herein by reference.

Set forth in the table below are all of our repurchases of our common stock during the quarter ended April 30, 2004, all of which were purchased in privately negotiated transactions in connection with the sale of our Convertible Senior Notes.

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs	Maximum number (or approximate dollar value) of shares that may yet be purchased under the plans or programs
March 2004	1,224,494	$ 16.36	0	0

Item 5. ***Other Information***

b) On June 2, 2004, the Nominating and Corporate Governance Committee of our Board of Directors adopted certain criteria and procedures regarding director nominations by stockholders. A copy of these criteria and procedures are attached hereto as Exhibit 99.1 and are incorporated herein by reference.

Item 6. ***Exhibits and Reports on Form 8-K***

a) **Exhibits filed with this report:**

Exhibit No.	Description
10.1	Indenture dated March 3, 2004 between Veritas DGC Inc. and U.S. Bank National Association, as trustee (Exhibit 4.2 to Veritas DGC Inc.'s Current Report on Form 8-K dated March 3, 2004 is incorporated herein by reference.)
10.2	Third Amendment to Credit Agreement dated February 20, 2004 by and among Veritas DGC Inc., Veritas DGC Limited, Veritas Energy Services Inc., Veritas Energy Services Partnership, Deutsche Bank AG, New York Branch, as Administrative Agent, Deutsche Bank AG, Canada Branch, as Canadian Administrative Agent, and the various lending institutions named therein (Exhibit 10.2 to Veritas DGC Inc.'s Form 10-Q for the quarter ended January 31, 2004 is incorporated herein by reference.)
10.3	Employee Agreement between Veritas DGC Inc. and Thierry Pilenko dated January 26, 2004 (Exhibit 10.3 to Veritas DGC Inc.'s Form 10-Q for the quarter ended January 31, 2004 is incorporated herein by reference.)

Exhibit No.	Description
10.4	Retirement Agreement between Veritas DGC Inc. and David B. Robson dated January 1, 2004 (Exhibit 10.4 to Veritas DGC Inc.'s Form 10-Q for the quarter ended January 31, 2004 is incorporated herein by reference.)
*31.1	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer

*31.2	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 by principal financial officer
*32.1	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by Chief Executive Officer.
*32.2	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 by principal financial officer.
*99.1	Criteria and Procedures Regarding Director Nominations

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* filed herewith

b) Reports on Form 8-K

On February 26, 2004, we filed a Current Report on Form 8-K reporting information under Item 12, 7 and 5 regarding our Results of Operations and Financial Condition and our intention to offer a new issue of Floating Rate Convertible Senior Notes Due 2024.

On February 27, 2004, we filed a Current Report on Form 8-K reporting information under Item 5 regarding our private offering of $125 million aggregate principal amount of Floating Rate Convertible Senior Notes Due 2024 with an option to purchase up to an additional $30 million of convertible notes in connection with the offering.

On March 3, 2004, we filed a Current Report on Form 8-K reporting information under Item 5 regarding our close on the previously announced private offering of $125 million aggregate principal amount of Floating Rate Convertible Senior Notes Due 2024 with an option to purchase up to an additional $30 million of convertible notes in connection with the offering.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 14th day of June 2004.

VERITAS DGC INC.

By: /s/ VINCENT M. THIELEN

VINCENT M. THIELEN
Vice President, Corporate Controller
(Chief Accounting Officer)

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