WARP TECHNOLOGY HOLDINGS INC
Form S-2/A
June 21, 2005

As filed with the Securities and Exchange Commission on June 20, 2005

Registration No. 333-123864

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 1
TO
FORM S-2
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

WARP Technology Holdings, Inc.
(Exact name of registrant as specified in charter)

Nevada	**151 Railroad Avenue, Greenwich, CT 06830** **203-422-2950**	**88-0467845**
(State or other jurisdiction of incorporation or organization)	(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)	(I.R.S. Employer Identification No.)

Rodney A. Bienvenu, Jr
Chairman and Chief Executive Officer
WARP Technology Holdings, Inc.
151 Railroad Avenue, Greenwich, CT 06830
203-422-2950
(Name, address including zip code, and telephone number, including area code, of agent for service)

Copies To:

Ernest C. Mysogland, Esq. **Chief Legal Officer** **WARP Technology Holdings, Inc.** **151 Railroad Avenue, Greenwich, CT 06830**	**R. Scott Beach, Esq.** **Day, Berry & Howard LLP** **One East Putnam Avenue** **Greenwich, CT 06830**

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933 check the following box. þ

If the registrant elects to deliver its latest annual report to security holders, or a complete and legible facsimile thereof, pursuant to Item 11(a)(1) of this Form, check the following box. þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. __________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. __________

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. __________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. __________

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	**Amount to be registered**	**Proposed maximum offering price per unit (2)**	**Proposed maximum aggregate offering price**	**Amount of registration fee**
Common Stock, par value $0.00001	38,233,078(1)	$2.13(2)	$81,436,456.14(2)	$9,585.07*

(1) Includes 13,993,095 shares issuable upon conversion of Series C convertible preferred stock held by certain selling stockholders, 20,474,696 shares issuable upon the exercise of outstanding warrants held by certain selling stockholders, 879,157 shares issuable in payment of dividends on outstanding shares of Series C convertible preferred stock held by certain selling stockholders, 386,130 shares issuable in payment of interest on outstanding subordinated debt held by certain selling stockholders under a Subordinated Note and Warrant Purchase Agreement as of January 31, 2005 by and among the Company and the purchasers named therein, and 2,500,000 shares issuable upon conversion of the outstanding principal amount of subordinated notes held by certain stockholders.

(2) Estimated solely for the purposes of computing the amount of the registration fee based on the average of the high and low price of the Common Stock as reported on the OTC Bulletin Board on June 14, 2005 pursuant to Rule 457(c).

Pursuant to Rule 416 under the Securities Act of 1933, this registration statement also covers any additional shares of Common Stock issuable upon conversion or exercise of any of the above securities or as dividends thereon by reason of stock splits, stock dividends or other anti-dilution adjustments.

* $7,712.99 of this fee previously paid.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

The information in the prospectus is not complete and may be changed. The selling stockholders may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, Dated June 20, 2005

PROSPECTUS

WARP Technology Holdings, Inc.

38,233,078 shares of Common Stock

The Common Stock offered by this prospectus involves a high degree of risk. You should carefully consider the Risk Factors beginning on page 6 in determining whether to purchase the Common Stock.

The selling stockholders identified in this prospectus are offering these shares of Common Stock. The selling stockholders may sell their shares from time to time for their own account at market prices prevailing at the time of sale, at prices relating to such prevailing market prices, or at negotiated prices. The selling stockholders will act independently of us in making decisions with respect to the timing, manner and size of each sale.

We will not receive any of the proceeds from the resale of the shares. We agreed to bear substantially all of the expenses in connection with the registration and resale of the shares (other than selling commissions).

For additional information on the methods of sale, you should refer to the section entitled Plan of Distribution on page 40.

WARP Technology s Common Stock is quoted on the OTC Bulletin Board under the symbol WARP. On June 15, 2005, the last sale price of the Common Stock on the OTC Bulletin Board was $2.00 per share.

A copy of our Annual Report on Form 10-KSB for the year ended June 30, 2004 and a copy of our Quarterly Report on Form 10-QSB for the quarter ended March 31, 2005 accompany this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities or passed on the adequacy or accuracy of the disclosures in this prospectus. Any representation to the contrary is a criminal offense.

Prospective investors should rely only on the information contained in this prospectus or information specifically incorporated by reference in this prospectus. We have not authorized anyone to provide prospective investors with information that is different.

Neither the delivery of this prospectus, nor any sale of the shares, shall create any implication that the information in this prospectus is correct after the date hereof.

The date of this prospectus is June 20, 2005

PROSPECTUS SUMMARY

Our Company

Warp Technology Holdings, Inc. (the Company) is a holding company whose subsidiaries operate enterprise software and information technology businesses. In addition to holding its existing subsidiaries, the Company s strategy is to pursue acquisitions of businesses which either complement the Company s existing businesses or expand the segments in which the Company operates.

On January 31, 2005, the Company completed the acquisition of Gupta Technologies, LLC (together with its subsidiaries, Gupta). Gupta is now a wholly owned subsidiary of the Company, and Gupta s wholly owned subsidiaries, Gupta Technologies GmbH, a German corporation, Gupta Technologies Ltd., a U.K. company, and Gupta Technologies, S.A. de C.V., a Mexican company, have become indirect subsidiaries of the Company. Currently, Gupta s operations produce more than 90% of the Company s revenue.

Gupta develops, markets and supports software products that enable software programmers to create enterprise class applications, operating on either the Microsoft Windows or Linux operating systems, that are used in large and small businesses and governmental entities around the world. Gupta s products include a popular database application and a well-known set of application development tools. The relational database product allows companies to manage data closer to the customer, where capturing and organizing information is becoming increasingly critical. This product is designed for applications being deployed in situations where there are little or no technical resources to support and administer databases or applications.

Gupta recently released its Linux product line. Compatible with its existing Microsoft Windows -based product line, the Linux line of products will enable developers to write one application to run in both Microsoft Windows and Linux operating systems.

Gupta has approximately 58 employees worldwide, with headquarters in California, a regional office in Munich, and sales offices in London and Paris.

In addition to the Gupta businesses, the Company operates in the United States, Canada and the U.K. through its subsidiaries, WARP Solutions, Inc., a Delaware corporation, Warp Solutions, Ltd., a U.K. corporation, 6043577 Canada, Inc., a Canadian corporation, and Spider Software, Inc., a Canadian corporation. These subsidiaries are collectively referred to in this prospectus as Warp Solutions.

Warp Solutions produce a series of application acceleration products that improve the speed and efficiency of transactions and information requests that are processed over the internet and intranet network systems. The subsidiaries suite of software products and technologies are designed to accelerate network applications, reduce network congestion, and reduce the cost of expensive server deployments for enterprises engaged in high volume network activities.

As used in this prospectus, we, us, our and WARP refer to WARP Technology Holdings, Inc., a Nevada corporation, and its wholly owned (direct and indirect) subsidiaries.

Our principal executive offices are located at 151 Railroad Avenue, Greenwich, CT 06830 and our telephone number is (203) 422-2950.

Common Stock Offered

We have authorized 150,000,000 shares of Common Stock, par value $0.00001 (Common Stock). We are registering for resale on behalf of the selling stockholders 38,233,078 shares of our Common Stock issuable from time to time to the selling stockholders under the circumstances described under the heading Issuance of Preferred Stock and Warrants to Selling Stockholders on page 36. The proceeds from the sale of the Common Stock offered by this prospectus are solely for the account of the selling stockholders. We will not receive any proceeds from the sale of these shares. We may receive cash proceeds from the exercise of warrants entitling the selling stockholders to purchase 20,474,696 shares of our Common Stock at an exercise prices ranging from $1.25 per share to $4.75 per share. The Company cannot anticipate whether any warrants will be exercised. If all warrants held by the selling stockholders are exercised, we will receive up to $26,648,370 in proceeds. We anticipate that any proceeds from the exercise of warrants by the selling stockholders will be used for working capital and other general corporate purposes. Pending the application of any proceeds from the exercise of warrants, if any, by the selling stockholders, we expect to invest the proceeds in short-term, interest-bearing, investment-grade securities.

Risk Factors

You should carefully consider all of the information contained in this prospectus before making an investment in our Common Stock. In particular, you should consider the risk factors described under Risk Factors below.

SUMMARY CONSOLIDATED FINANCIAL DATA

You should review the financial information and the consolidated financial statements of Warp included in our Annual Report filed on Form 10-KSB for the year ended June 30, 2004 and our Quarterly Report filed on Form 10-QSB for the three months ended March 31, 2005 filed on May 20, 2005. In addition, this information should be read in conjunction with the financial statements for Gupta for the years ended December 31, 2004 and 2003 included in this prospectus at page F-3 and the complete pro forma information for the Company, including notes describing various adjustments, included in this prospectus at page F-23.

RISK FACTORS

From time to time, information provided by us or statements made by our employees may contain forward-looking information involving risks and uncertainties. In particular, statements contained in this prospectus or incorporated by reference into this prospectus that concern future operating results or other statements using words such as anticipate, believe, could, estimate, intend, may, plan, project, should or will cons forward-looking statements and are made under the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Our actual results of operations and financial condition have varied in the past and may in the future vary significantly from those stated in any forward-looking statements. Factors that may cause such differences include, without limitation, the risks, uncertainties and other information discussed below. Each of these factors, and others, are discussed from time to time in our filings with the Securities and Exchange Commission. We do not assume any obligation to update any forward-looking statement we make.

Any investment in our Common Stock involves a high degree of risk. Prospective purchasers of the Common Stock offered by this prospectus should carefully consider the following Risk Factors in addition to the other information appearing in or incorporated by reference into this prospectus before you decide to buy the Common Stock. Additional risks and uncertainties not currently known to us or that we do not currently deem material may also become important factors that may harm our business. If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer, the trading price of our Common Stock would probably decline, and you may lose all or part of the money you paid to buy our Common Stock.

Risk Factors Relating to the Company

We Have a Limited Operating History

The Company has a limited operating history. Such limited operating history makes it more difficult to predict whether or not we will be successful in the future. Our future financial and operational success is subject to the risks, uncertainties, expenses, delays and difficulties associated with managing a new business, many of which may be beyond our control. In addition, the Company competes in a relatively new market known as the information technology market. Because this market rapidly evolves, companies competing in it may face many uncertainties. Our success will depend on many factors, including those described in this Risk Factors section.

We Have a History of Losses and May Need Additional Financing

We have experienced operating losses, as well as net losses, for each of the years during which we have operated.

The Company has incurred recurring operating losses since its inception. As of March 31, 2005, the Company had an accumulated deficit of approximately $53,962,000 and a working capital deficiency of approximately $12,186,000 and at March 31, 2005 had insufficient capital to fund all of its obligations. These conditions raised substantial doubt about the Company s ability to continue as a going concern. The Company s financial statements do not include any adjustments to reflect the possible future effect of the recoverability and classification of assets or the amounts and classifications of liabilities that may result from the outcome of this uncertainty.

Subsequent to the end of the fiscal quarter ended December 31, 2004, the Company acquired Gupta. Based principally on the expected results of Gupta s operations, the Company believes that no further financing will be required for the Company to continue in operation for the next twelve months.

However, conditions may arise, including potential risks described herein, that may require the Company to raise additional funds for its working capital needs and to continue to execute the requirements of its business plan. If these conditions arise, there can be no assurance that the Company will be successful in its efforts to raise sufficient capital.

If we achieve profitability, we cannot give any assurance that we would be able to sustain or increase profitability on a quarterly or annual basis in the future. Furthermore, the Company intends to pursue opportunities to acquire other businesses, and may need to raise capital in order to pursue such acquisitions.

To date, the Warp Solutions business has generated only limited revenue from the sale of its products. We have incurred significant costs in connection with the development of our technologies and proposed products and there is no assurance that they will achieve sufficient revenues to offset anticipated operating costs. Although we anticipate deriving revenues from the sale of SpiderSoftware and iMimic DataReactor products, no assurance can be given that these products will be successfully marketed. Management anticipates that Warp Solutions may continue to incur losses for at least the next twelve months. Included in such former and future losses are research and development expenses, marketing costs, and general and administrative expenses. We anticipate that our losses will continue until we are able to generate sufficient revenues to support our operations in Warp Solutions. The Company is dependent on the revenues from Gupta to sustain any operating deficiencies in Warp Solutions.

Similarly, in the future, we may not generate sufficient revenue from operations to pay our operating expenses. If we fail to generate sufficient cash from operations to pay these expenses, our management will need to identify other sources of funds. We may not be able to borrow money or issue more shares of Common Stock or Preferred Stock to meet our cash needs. Even if we can complete such transactions, they may not be on terms that are favorable or reasonable from our perspective. As a result, you may lose your entire investment.

We May Not Be Able to Borrow Funds

There currently are no legal limitations on our ability to borrow funds to increase the amount of capital available to us to carry out our business plan. However, our limited resources and limited operating history will make it difficult to borrow funds. The amount and nature of any such borrowings would depend on numerous considerations, including our capital requirements, our perceived ability to meet debt service on any such borrowings and the then prevailing conditions in the financial markets, as well as general economic conditions. There can be no assurance that debt financing, if required or sought, would be available on terms deemed to be commercially acceptable by us and in our best interest.

The Company s Senior Secured Notes in the aggregate principal amount of $6,825,000 (the Senior Debt) matures on July 31, 2005. In the event the Company is not able to refinance this debt on or prior to that date, the Company will incur higher interest rates and may default on the debt. In the event of a default, the senior secured creditors would have the rights pursuant to their security interests in all of the Company s assets to foreclose on such assets. In addition, any default under the senior debt would result in an event of default under the terms of the Company s outstanding subordinated debt. In such an event, the subordinated note holders would be entitled to exercise their security interests and, pursuant to the terms of the Company s collateral and security agreements, as well as the intercreditor agreement among the senior and subordinated lenders, the subordinated debt holders would receive the proceeds from the Company s assets after the payment of the claims of the senior creditors. At the present time, the Company is unable to predict whether it will have any difficulty in arranging a refinancing of the Senior Debt. Even if we can complete such refinancing, the terms of such transactions may not be favorable or reasonable from our perspective. Our inability to refinance the Senior Debt, or the refinancing on unfavorable terms, may result in the loss of your entire investment.

Rapidly Changing Markets

The markets for our products are characterized by:

- rapidly changing technologies;

- evolving and competing industry standards;

- changing customer needs;

- frequent new product introductions and enhancements;

- increased integration with other functions; and

- rapid product obsolescence.

To develop new products for our target markets, we must develop, gain access to and use leading technologies in a cost-effective and timely manner and continue to expand our technical and design expertise. In addition, we must maintain close working relationships with key customers and potential customers in order to develop new products that meet their changing needs.

Rapidly Changing Technology

The Company may not be able to identify new product opportunities successfully, develop and bring to market new products, achieve design wins or respond effectively to new technological changes or product announcements by its competitors. In addition, we may not be successful in developing or using new technologies or in developing new products or product enhancements that achieve market acceptance. Our pursuit of necessary technological advances may require substantial time and expense. Failure in any of these areas could harm our operating results.

Our Ability to Compete Successfully Will Depend, In Part, On Our Ability to Protect Our Intellectual Property Rights

The Company relies on a combination of patent, trade secrets, copyrights, nondisclosure agreements and other contractual provisions and technical measures to protect its intellectual property rights. Policing unauthorized use of our products, however, is difficult, especially in foreign countries. Litigation may be necessary in the future to enforce our intellectual property rights, to protect our trade secrets, to determine the validity and scope of the proprietary rights of others, or to defend against claims of infringement or invalidity. Litigation could result in substantial costs and diversion of resources and could harm our business, operating results and financial condition regardless of the outcome of the litigation. In addition, there can be no assurance that the courts will enforce the contractual arrangements which the Company has entered into to protect its intellectual property rights. Our operating results could be harmed by any failure to protect our intellectual property rights.

Competition

The Company s subsidiaries are engaged in businesses which are highly competitive and we expect significant competition for our technologies. Many of our competitors, for example, IBM, Microsoft, and Oracle (with respect to Gupta s business) and Cisco Systems, Inc. (with respect to Warp Solutions), have been in business for a number of years, have established customer bases, are larger, and have greater financial resources than the Company. There can be no assurance as to the degree to which we will be able to successfully compete in our industry.

Development of Products

The Company s subsidiaries are currently developing new products, as well as new applications of existing products. There can be no assurance that we will not experience difficulties that could delay or prevent the successful development, introduction or marketing of our products, or that our new or enhanced products will adequately meet the requirements of our current or prospective customers. Any failure by the Company or its subsidiaries to successfully design, develop, test and introduce such new products, or the failure of the Company s recently introduced products to achieve market acceptance, could prevent us from maintaining existing customer relationships, gaining new customers or expanding our markets and could have a material adverse effect on our business, financial condition and results of operations.

Dependence Upon a Small Number of Customers

Because a small number of customer accounts are responsible for our revenues, such revenues could decline due to the loss of one of these customer accounts. An early termination by one of our customers, or the failure of a potential customer to purchase our products, could harm our financial results as it is unlikely that we would be able to rapidly replace that revenue source. Warp Solutions has few customers and has recently focused on attracting two large customers. The failure of Warp Solutions to attract one or both of these customers would have a material adverse impact on the future prospects of Warp Solutions but not the business of the Company on a consolidated basis.

We are Dependent On Key Personnel

Our future success depends in part on the continued service of our key design engineering, sales, marketing and executive personnel and our ability to identify, recruit and retain additional personnel. At the date of this prospectus, there were four employment agreements between the Company and its executive officers.

Managing Growth and Expansion

The Company is currently anticipating a period of growth as a result of its recent marketing and sales efforts. The resulting strain on our managerial, operational, financial and other resources could be significant. Success in managing this expansion and growth will depend, in part, upon the ability of senior management to manage effectively. Any failure to manage the anticipated growth and expansion could have a material adverse effect on our business.

We Expect to Pay No Cash Dividends

We presently do not expect to pay cash dividends in the foreseeable future. The payment of cash dividends, if any, will be contingent upon our revenues and earnings, if any, capital requirements, and general financial condition. The payment of any cash dividends will be within the discretion of our Board of Directors. We presently intend to retain all earnings, if any, to implement our business plan, accordingly, we do not anticipate the declaration of any cash dividends in the foreseeable future.

Indemnification of Officers and Directors

Our Articles of Incorporation provide for the indemnification of our officers and directors to the fullest extent permitted by the laws of the State of Nevada and the federal securities laws. It is possible that the indemnification obligations imposed under these provisions could result in a charge against our earnings and thereby affect the availability of funds for other uses.

Our Common Stock Is Subject To Penny Stock Restrictions Under Federal Securities Laws, Which Could Reduce The Liquidity Of Our Common Stock

The Securities and Exchange Commission has adopted regulations, which generally define penny stocks to be an equity security that has a market price less than $5.00 per share or an exercise price of less than $5.00 per share, subject to certain exemptions. On March 31, 2005, the closing price for our Common Stock, as quoted on the OTC Bulletin Board, was $2.50 per share and therefore, our Common Stock is designated a Penny Stock. As a penny stock, our Common Stock may become subject to Rule 15g-9 under the Exchange Act or the Penny Stock Rules. These rules include, but are not limited to, Rules 3a5l-l, 15g-1, 15g-2, 15g-3, 15g-4, 15g-5, 15g-6 and 15g-7 under the Securities Exchange Act of 1934, as amended. These rules impose additional sales practice requirements on broker-dealers that sell such securities to persons other than established customers and accredited investors (generally, individuals with a net worth in excess of $1,000,000 or annual incomes exceeding $200,000, or $300,000 together with their spouses). For transactions covered by Rule 15g-9, a broker-dealer must make a special suitability determination for the purchaser and have received the purchaser s written consent to the transaction prior to sale. As a result, this rule may affect the ability of broker-dealers to sell our securities and may affect the ability of purchasers to sell any of our securities in the secondary market.

The rules may further affect the ability of owners of our shares to sell their securities in any market that may develop for them. There may be a limited market for penny stocks, due to the regulatory burdens on broker-dealers. The market among dealers may not be active. Investors in penny stock often are unable to sell stock back to the dealer that sold them the stock. The mark-ups or commissions charged by the broker-dealers may be greater than any profit a seller may make. Because of large dealer spreads, investors may be unable to sell the stock immediately back to the dealer at the same price the dealer sold the stock to the investor. In some cases, the stock may fall quickly in value. Investors may be unable to reap any profit from any sale of the stock, if they can sell it at all.

For any transaction involving a penny stock, unless exempt, the rules require delivery, prior to any transaction in a penny stock, of a disclosure schedule prepared by the Securities and Exchange Commission relating to the penny stock market. Disclosure is also required to be made about sales commissions payable to both the broker-dealer and the registered representative and current quotations for the securities. Finally, monthly statements are required to be sent disclosing recent price information for the penny stock held in the account and information on the limited market in penny stock.

The penny stock restrictions will no longer apply to our Common Stock if we become listed on a national exchange. In any event, even if our Common Stock were exempt from the penny stock restrictions, we would remain subject to Section 15(b)(6) of the Exchange Act, which gives the Securities and Exchange Commission the authority to restrict any person from participating in a distribution of penny stock, if the Securities and Exchange Commission finds that such a restriction would be in the public interest.

Risk Factors Related to Acquisition Strategy

Growth and Acquisition Risks

One of the Company s primary strategies is to pursue the acquisition of other companies or assets that either complement or expand its existing business. The Company completed the acquisition of Gupta in January 2005. The Company has also had preliminary acquisition discussions with, or has evaluated the potential acquisition of, several other companies. However, the Company is unable to predict the likelihood or timing of a material acquisition being completed in the future. If the Company proceeds with an acquisition for cash, the Company may use a portion or all of the proceeds the Company receives from the exercise of warrants to consummate such transaction. See Use of Proceeds. The Company may also seek to finance any such acquisition through additional debt or equity financings.

The Company anticipates that one or more potential acquisition opportunities, including those that would be material, may become available in the near future. If and when appropriate acquisition opportunities become available, the Company intends to pursue them actively. There can be no assurance that the Company will be able to identify, acquire or profitably manage additional companies or successfully integrate such additional companies into its operations without substantial costs, delays or other problems. In addition, there can be no assurance that any companies acquired will be profitable at the time of their acquisition or will achieve sales and profitability that justify the investment therein. Acquisitions may involve a number of special risks, including adverse effects on the Company s reported operating results, diversion of management s attention, dependence on retention and hiring of key personnel, risks associated with unanticipated problems or legal liabilities and amortization of acquired intangible assets, some or all of which could have a material adverse effect on the Company s operations and financial performance. The expansion of the Company s operations, whether through acquisitions or internal growth, may place substantial burdens on the Company s management resources and financial controls. There is no assurance that the increasing burdens on the Company s management resources and financial controls will not have an adverse effect on the Company s operations.

We May Not Be Able To Finance Future Acquisitions

We seek to use shares of our Common Stock to finance a portion of the consideration for acquisitions. If our Common Stock does not maintain a sufficient market value or the owners of businesses we may seek to acquire are otherwise unwilling to accept shares of Common Stock as part of the consideration for the sale of their businesses, we may be required to use more of our cash resources in order to implement our acquisition strategy. If we have insufficient cash resources, our ability to pursue acquisitions could be limited unless we are able to obtain additional funds through debt or equity financing. Our ability to obtain debt financing may be constrained by existing or future loan covenants, the satisfaction of which may be dependent upon our ability to raise additional equity capital through either offerings for cash or the issuance of stock as consideration for acquisitions. We cannot assure you that our cash resources will be sufficient, or that other financing will be available on terms we find acceptable. If we are unable to obtain sufficient financing, we may be unable to implement fully our acquisition strategy.

Additional Risk Factors Related to Gupta s Business

Gupta s Financial Results May Vary Significantly from Quarter to Quarter

Gupta s operating results have varied significantly from quarter to quarter at times in the past and may continue to vary significantly from quarter to quarter in the future due to a variety of factors. Because Gupta s financial results are a significant portion of the Company s revenue, this fluctuation could impact the Company s financial results. Many of these factors are outside of our control. These factors include:

- fluctuations in demand for Gupta s products, upgrades to Gupta s products, or services;
- fluctuations in the demand for and deployment of client/server applications in which Gupta s SQLBase products are designed to be embedded;
- fluctuations in demand for Gupta s products due to the potential deteriorating economic conditions of Gupta s customer base;
- seasonality of purchases and the timing of product sales and shipments;
- unexpected delays in introducing new products and services or improvements to existing products and services;
- new product releases, licensing models or pricing policies by Gupta s competitors;
- acquisitions or mergers involving Gupta s competitors or customers;
- impact of changes to Gupta s product distribution strategy and pricing policies;
- lack of order backlog;
- loss of a significant customer or distributor;
- changes in purchasing and/or payment practices by Gupta s distributors or other customers;
- a reduction in the number of independent software vendors, or ISVs, who embed Gupta s products or value-added resellers, or VARs, who sell and deploy Gupta s products;
- changes in the mix of domestic and international sales;
- impact of changes to Gupta s geographic investment levels and business models;
- gains or losses associated with discontinued operations; and
- changes in Gupta s business plan or strategy.

Gupta s revenue growth and profitability depend on the overall demand for Gupta s products and services, which in turn depends on general economic and business conditions. The nature and extent of the effect of the current economic climate on Gupta s ability to sell its products and services is uncertain. A softening of demand for Gupta s products and services caused by weakening of the economy may result in decreased revenues or lower growth rates. There can be no assurance that we will be able to effectively promote revenue growth rates in all economic conditions.

Significant portions of Gupta s expenses are not variable in the short term and cannot be quickly reduced to respond to decreases in revenues. Therefore, if Gupta s revenues are below expectations, Gupta s operating results are likely to be adversely and disproportionately affected. In addition, Gupta may change its prices, modify its distribution strategy and policies, accelerate its investment in research and development, sales or marketing efforts in response to competitive pressures or pursue new market opportunities. Any one of these activities may further limit Gupta s ability to adjust spending in response to revenue fluctuations.

Seasonality May Contribute to Fluctuations in Gupta s Quarterly Operating Results

Gupta s business has experienced seasonal customer buying patterns. In recent years, Gupta has generally experienced relatively weaker demand in the quarters ending June 30 and September 30. We believe that this pattern may continue.

Gupta Currently Operates Without a Backlog

Gupta generally operates with virtually no order backlog because Gupta s software products are shipped and revenue is recognized shortly after orders are received. This lack of backlog makes product revenues in any quarter substantially dependent on orders booked and shipped throughout that quarter.

Our Efforts to Develop and Maintain Brand Awareness of Gupta Products May Not be Successful

Brand awareness is important given competition in the general database and application development tools market. We are aware of other companies that use the Gupta name or Gupta product names in order to promote their competing products and services, including but not limited to services to port Gupta s customers applications to other database s and/or programming languages or development suites. We expect that it may be difficult or impossible to prevent third-party usage of the Gupta name and products names and variations of these names for competing goods and services. Competitors or others who use marks similar to Gupta brand names may cause confusion among actual and potential customers, which could prevent Gupta from achieving significant brand recognition. If we fail to promote and maintain the Gupta brand or incur significant related expenses, Gupta s business, operating results and financial condition could be materially adversely affected.

Gupta Must Succeed in the Cross Platform Application Development Market if it is to Realize the Expected Benefits of its Linux Development

Gupta s long-term strategic plan depends upon the successful development and introduction of products and solutions that address the needs of cross platform development of applications targeting both Microsoft Windows and Linux operating systems. In order for Gupta to succeed in these markets, it must implement strategies and products to ensure single-source code line compatibility on both platforms and provide a Web services model that is capable of consuming both J2EE and .Net Web services consistently on both the Microsoft Windows and Linux platforms. This will require focusing a significant portion of Gupta s resources on product development.

The challenges involved include the following:

- coordinating software development operations in a rapid and efficient manner to ensure timely release of products to market;
- combining product offerings and support services quickly and effectively;
- successfully managing difficulties associated with transitioning current customers to new technologies;

demonstrating to Gupta customers the new technology will provide greater integration throughout the enterprise; and

retaining key alliances.

In addition, Gupta s success in these markets will depend on several factors, many of which are outside Gupta s control including:

- General adoption of Web services as the preferred method of integrating data and applications and
- Gupta s ability to position itself as a premier provider of cross platform application development tools for integrating enterprise data and information.

If we are unable to succeed in this market, Gupta s business may be harmed and we may be prevented from realizing the anticipated benefits of Gupta s cross platform strategy.

Gupta May Face Problems in Connection With Contractual or Licensing Arrangements

Since January 2002, Gupta has been a party to an offshore development, consulting, and services agreement with Offshore Digital Services Inc., DBA Sonata, an outsourcing company based in Bangalore, India. Pursuant to the agreement, Sonata provides quality assurance testing and certain enhancements to Gupta s products. Gupta s product development plans are dependent on maintaining similar arrangements in the future. There is no assurance that such contractual arrangements will continue to be available on economically beneficial terms.

In September 2004, Gupta licensed technology from and entered into a services agreement with CodeWeavers, Inc., a software development company based in Minnesota that provides services pertaining to the open source software project known as The Wine Project. The licensed technology and services enable Gupta s Team Developer and Report Builder software products to run on Linux under CodeWeavers CrossOver software. Gupta s enhanced products, Team Developer and Report Builder, were launched in January 2005. We cannot be certain that the market acceptance or demand for these new products will meet our expectations.

In December 2004, Gupta licensed technology from Trolltech, Inc., a software development company based in California that provides a proprietary application development framework. Gupta is using the Qt product for the purpose of designing, developing, testing and deployment of Gupta s Team Developer family of software products which includes (i) Team Developer IDE, (ii) Report Builder, and (iii) Web Application Server (TD Product Suite). The licensed technology and services enable Gupta s TD Product Suite products to support UNICODE and provide a number of new and updated graphical user interface objects. We cannot be certain that the market acceptance or demand for these new products will meet our expectations.

Gupta May Face Problems in Connection With Product Line Expansion

In the future, Gupta may acquire, license or develop additional products. Future product line expansion may require Gupta to modify or expand its business. If Gupta is unable to fully integrate new products with its existing operations, Gupta may not receive the intended benefits of such product line expansion.

A Small Number of Distributors Account For a Significant Percentage of Gupta s Billings

The loss of a major distributor, changes in a distributor s payment practices, changes in the financial stability of a major distributor or any reduction in orders by such distributor, including reductions due to market or competitive conditions combined with the potential inability to replace the distributor on a timely basis, or any modifications to our pricing or distribution channel strategy could materially adversely affect Gupta s business, operating results and financial condition. Many of Gupta s ISVs, VARs and end users place their orders through distributors. A relatively small number of distributors have accounted for a significant percentage of Gupta s revenues. One of Gupta s distributors, accounted for 20% and 17% of Gupta s revenue for the years ended December 31, 2004 and 2003, respectively. The same distributor accounted for 28% of Gupta s accounts receivable at December 31, 2004. The loss of this Gupta distributor, unless it was offset by the attraction of sufficient new customers, could have a material adverse impact on the business of Gupta, and therefore, the business of the Company as a whole. Gupta expects it will continue to depend on a limited number of distributors for a significant portion of its revenues in future periods and the loss of a significant distributor could have a material adverse impact on Gupta. Gupta s distributors have not agreed to any minimum order requirements.

Gupta Depends on a Indirect Sales Channel

Gupta s failure to grow its indirect sales channel or the loss of a significant number of members of its indirect channel partners would have a material adverse effect on Gupta s business, financial condition and operating results. Gupta derives a substantial portion of its revenues from indirect sales through a channel consisting of independent software vendors, value-added resellers, systems integrators, consultants and distributors. Gupta s sales channel could be adversely affected by a number of factors including:

- the emergence of a new platform resulting in the failure of independent software vendors to develop and the failure of value-added resellers to sell Gupta s products based on Gupta s supported platforms;
- pressures placed on the sales channel to sell competing products;
- Gupta s failure to adequately support the sales channel;
- consolidation of certain of Gupta s indirect channel partners;
- competing product lines offered by certain of Gupta s indirect channel partners; and
- business model or licensing model changes of Gupta s channel partners or their competitors.

We cannot be certain Gupta will be able to continue to attract additional indirect channel partners or retain its current channel partners. In addition, we cannot be certain that Gupta s competitors will not attempt to recruit certain of Gupta s current or future channel partners. This may have an adverse effect on Gupta s ability to attract and retain channel partners.

Gupta May Not Be Able to Develop Strategic Relationships

Gupta s current collaborative relationships may not prove to be beneficial to us, and they may not be sustained. We may not be able to enter into successful new strategic relationships in the future, which could have a material adverse effect on Gupta s business, operating results and financial condition. From time to time, Gupta has collaborated with other companies in areas such as product development, marketing, distribution and implementation. However, many of Gupta s current and potential strategic relationships are with either actual or potential competitors. In addition, many of Gupta s current relationships are informal or, if written, terminable with little or no notice.

Gupta Depends on Third-Party Technology in Its Products

Gupta relies upon certain software that it licenses from third parties, including software integrated with Gupta s internally developed software and used in Gupta s products to perform key functions. These third-party software licenses may not continue to be available to Gupta on commercially reasonable terms. In addition, some of Gupta s software components have been licensed from the open source community. The loss of, or inability to maintain or obtain any of these software licenses, could result in shipment delays or reductions until Gupta develops, identifies, licenses and integrates equivalent software. Any delay in product development or shipment could damage Gupta s business, operating results and financial condition.

We May be Unable to Protect Gupta s Intellectual Property and Proprietary Rights

Gupta s success depends to a significant degree upon our ability to protect Gupta s software and other proprietary technology. We rely primarily on a combination of copyright, trademark and trade secret laws, confidentiality procedures and contractual provisions to protect Gupta s proprietary rights. However, these measures afford us only limited protection. Furthermore, Gupta uses third-party service providers in India for some of its development and the laws of India do not protect proprietary rights to the same extent as the laws of the United

States. In addition, Gupta relies in part on shrink wrap and click wrap licenses that are not signed by the end user and, therefore, may be unenforceable under the laws of certain jurisdictions. Therefore, our efforts to protect Gupta s intellectual property may not be adequate. We cannot be certain that others will not develop technologies that are similar or superior to Gupta s technology or design around the copyrights and trade secrets owned by Gupta. Unauthorized parties may attempt to copy aspects of Gupta s products or to obtain and use information we regard as proprietary. Although we believe software piracy may be a problem, we are unable to determine the extent to which piracy of Gupta s software products occurs. In addition, portions of Gupta s source code are developed in foreign countries with laws that do not protect our proprietary rights to the same extent as the laws of the United States.

We may be subjected to claims of intellectual property infringement by third parties as the number of products and competitors in Gupta s industry segment continues to grow and the functionality of products in different industry segments increasingly overlaps. Additionally, the fact that some of Gupta s software components have been licensed from the open source community may expose us to increased risk of infringement claims by third parties. Any infringement claims, with or without merit, could be time-consuming, result in costly litigation, divert management attention and resources, cause product shipment delays or the loss or deferral of sales or require Gupta to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to us, if at all. In the event of a successful claim of intellectual property infringement against Gupta, should we fail or be unable to either license the technology or similar technology or develop alternative technology on a timely basis, Gupta s business, operating results and financial condition could be materially adversely affected.

Gupta Must Adapt to Rapid Technological Change

Gupta s future success will depend upon its ability to continue to enhance its current products and to develop and introduce new products on a timely basis that keep pace with technological developments and new industry standards and satisfy increasingly sophisticated customer requirements. Rapid technological change, frequent new product introductions and enhancements, uncertain product life cycles, changes in customer demands and evolving industry standards characterize the market for Gupta s products. The introduction of products embodying new technologies and the emergence of new industry standards can render existing products obsolete and unmarketable. As a result of the complexities inherent in client/server and Web computing environments and in data and application integration solutions, new products and product enhancements can require long development and testing periods. As a result, significant delays in the general availability of such new releases or significant problems in the installation or implementation of such new releases could have a material adverse effect on Gupta s business, operating results and financial condition. Gupta has experienced delays in the past in the release of new products and new product enhancements. Gupta may not be successful in:

- developing and marketing, on a timely and cost-effective basis, new products or new product enhancements that respond to technological change, evolving industry standards or customer requirements;

- avoiding difficulties that could delay or prevent the successful development, introduction or marketing of these products; or

- achieving market acceptance for its new products and product enhancements.

Gupta s Software May Contain Errors or Defects

Errors or defects in Gupta s products may result in loss of revenues or delay in market acceptance, and could materially adversely affect Gupta s business, operating results and financial condition. Software products such as Gupta s may contain errors, sometimes called bugs, particularly when first introduced or when new versions or enhancements are released. From time to time, Gupta discovers software errors in certain of its new products after their introduction. Despite testing, current versions, new versions or enhancements of Gupta s products may still have errors after commencement of commercial shipments. Product errors can put us at a competitive disadvantage and can be costly and time-consuming to correct.

Gupta May Become Subject to Product or Professional Services Liability Claims

A product or professional services liability claim, whether or not successful, could damage Gupta s reputation and business, operating results and financial condition. Gupta s license and service agreements with its customers typically contain provisions designed to limit Gupta s exposure to potential product or service liability claims. However, these contract provisions may not preclude all potential claims. Product or professional services liability claims could require us to spend significant time and money in litigation or to pay significant damages.

Gupta Competes with Microsoft while Simultaneously Supporting Microsoft Technologies

Gupta currently competes with Microsoft in the market for application development tools and data management products while simultaneously maintaining a working relationship with Microsoft. Microsoft has a longer operating history, a larger installed base of customers and substantially greater financial, distribution, marketing and technical resources than Gupta. As a result, Gupta may not be able to compete effectively with Microsoft now or in the future, and Gupta s business, operating results and financial condition may be materially adversely affected.

We expect that Microsoft s commitment to and presence in the application development and data management products market will substantially increase competitive pressures. We believe that Microsoft will continue to incorporate SQL Server database technology into its operating system software and certain of its server software offerings, possibly at no additional cost to its users. We believe that Microsoft will also continue to enhance its SQL Server database technology and that Microsoft will continue to invest in various sales and marketing programs involving certain of Gupta s channel partners.

We believe Gupta must maintain a working relationship with Microsoft to achieve success. Many of Gupta s customers use Microsoft-based operating platforms. Thus it is critical to Gupta s success that Gupta s products be closely integrated with Microsoft technologies. Notwithstanding Gupta s historical and current support of Microsoft platforms, Microsoft may in the future promote technologies and standards more directly competitive with or not compatible with Gupta s technology.

Gupta Faces Significant Competition From Other Companies

Gupta encounters competition for its embedded database products primarily from large, public companies, including Microsoft, Oracle, Sybase, IBM, Progress, Pervasive Software, and Borland. In particular, Sybase s small memory footprint database software product, Adaptive Server Anywhere, and Microsoft s product, SQL Server, directly compete with Gupta s products. There is also competitive pressures for application development tools from Microsoft Visual Studio, SYBASE PowerBuilder and Borland Delphi and Kylix. And, because there are relatively low barriers to entry in the software market, Gupta may encounter additional competition from other established or emerging companies providing database products based on existing, new or open-source technologies.

Open-source software, which is an emerging trend in the software marketplace, may impact Gupta s business as interest, demand and use increases in the database segment and poses a challenge to Gupta s business model, including recent efforts by proponents of open-source software to convince governments worldwide to mandate the use of open-source software in their purchase and deployments of software products. Firms adopting the open-source software model typically provide customers software produced by loosely associated groups of unpaid programmers and made available for license to end users at nominal cost, and earn revenue on complementary services and products, without having to bear the full costs of research and development for the open-source software. Because the present demand for open-source database software is largely concentrated in major corporations, Gupta s embedded database business has not been adversely affected to date. However, it is likely that increased adoption of Linux will drive heightened interest in other more mature software categories such as database and certain business applications.

To the extent competing open-source software products gain increasing market acceptance, sales of Gupta s products may decline, Gupta may have to reduce prices it charges for its products, and Gupta s revenue and operating margins may decline. Mass adoption of open source databases in the SME market could have a material adverse impact on Gupta s database business.

Application service providers (ASPs) may enter Gupta s market and could cause a change in revenue models from licensing of client/server and Web-based applications to renting applications. Gupta s competitors may be more successful than it is in adopting these revenue models and capturing related market share.

In addition, Gupta competes or may compete against database vendors that currently offer, or may develop, products with functionalities that compete with Gupta s solutions. These products typically operate specifically with these competitors proprietary databases. Such competitors include IBM, Microsoft and Oracle. Competition also comes in the form of custom code, where potential customers have sufficient internal technical resources to develop solutions in-house without the aid of Gupta s products or those of its competitors.

Most of Gupta s competitors have longer operating histories, significantly greater financial, technical, marketing and other resources, significantly greater name recognition and a larger installed base of customers. In addition, some competitors have demonstrated willingness to, or may willingly in the future, incur substantial losses as a result of deeply discounted product offerings or aggressive marketing campaigns. As a result, Gupta s competitors may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of competitive products, than we can. There is also a substantial risk that changes in licensing models or announcements of competing products by competitors such as Microsoft, Oracle, Sybase, IBM, Progress, MySQL, or others could result in the cancellation of customer orders in anticipation of the introduction of such new licensing models or products. In addition, current and potential competitors have established or may establish cooperative relationships among themselves or with third parties to increase the ability of their products to address customer needs which may limit Gupta s ability to sell its products through particular partners. Accordingly, new competitors or alliances among, or consolidations of, current and new competitors may emerge and rapidly gain significant market share in Gupta s current or anticipated markets. We also expect that competition will increase as a result of software industry consolidation. Increased competition is likely to result in price reductions, fewer customer orders, reduced margins and loss of market share, any of which could materially adversely affect Gupta s business. We cannot be certain Gupta will be able to compete successfully against current and future competitors or that the competitive pressures Gupta faces will not materially adversely affect Gupta s business, operating results and financial condition.

Gupta is Susceptible to a Shift in the Market for Client/Server Applications toward Server based thin client or Web-Based Applications

Gupta has derived substantially all of its historical application development tool and embedded database product revenues from the use of its products in client/server applications. Gupta expects to rely on continued market demand for client/server applications indefinitely. However, we believe market demand may shift from client/server applications to server based solutions using Citrix or similar technology or, Web-based applications. If so, this shift could occur before Gupta s product line has achieved market acceptance for use in Web-based applications. In addition, we cannot be certain that Gupta s existing client/server developers will migrate to Web-based applications and continue to use Gupta s products or that other developers of Web-based applications would select Gupta s data management products. Further, this shift could result in a change in revenue models from licensing of client/server and Web-based applications to renting of applications from application service providers. A decrease in client/server application sales coupled with an inability to derive revenues from the Web-based application market could have a material adverse effect on Gupta s business, operating results and financial condition.

Gupta depends on International Sales and Operations

We anticipate that for the foreseeable future Gupta will derive a significant portion of its revenues from sources outside North America. In the year ended December 31, 2004, Gupta derived 68% of its revenues outside North America. Gupta s international operations are generally subject to a number of risks. These risks include:

foreign laws and business practices favoring local competition;

dependence on local channel partners;

compliance with multiple, conflicting and changing government laws and regulations;

longer sales cycles;

greater difficulty or delay in collecting payments from customers;

difficulties in staffing and managing foreign operations;

foreign currency exchange rate fluctuations and the associated effects on product demand and timing of payment;

increased tax rates in certain foreign countries;

difficulties with financial reporting in foreign countries;

quality control of certain development, translation or localization activities; and

political and economic instability.

Gupta may expand or modify its operations internationally. Despite Gupta s efforts, it may not be able to expand or modify its operations internationally in a timely and cost-effective manner. Such an outcome would limit or eliminate any sales growth internationally, which in turn would materially adversely affect Gupta s business, operating results and financial condition. Even if Gupta successfully expands or modifies its international operations, Gupta may be unable to maintain or increase international market demand for its products.

We expect Gupta s international operations will continue to place financial and administrative demands on us, including operational complexity associated with international facilities, administrative burdens associated with managing relationships with foreign partners, and treasury functions to manage foreign currency risks and collections.

Fluctuations in the Relative Value of Foreign Currencies Can Affect Gupta s Business

To date, the majority of Gupta s transactions have been denominated in U.S. dollars. The majority of Gupta s international operating expenses and substantially all of its international sales have been denominated in currencies other than the U.S. dollar. Therefore, Gupta s operating results may be adversely affected by changes in the value of the U.S. dollar. Certain of Gupta s international sales are denominated in U.S. dollars, especially in Europe. Any strengthening of the U.S. dollar against the currencies of countries where Gupta sells products denominated in U.S. dollars will increase the relative cost of Gupta s products and could negatively impact its sales in those countries. To the extent Gupta s international operations expand or are modified, our exposure to exchange rate fluctuations may increase. Although these transactions have not resulted in material gains and losses to date, similar transactions could have a damaging effect on Gupta s business, results of operations or financial condition in future periods.

Gupta Must Continue to Hire and Retain Skilled Personnel

Gupta s success depends in large part on its ability to attract, motivate and retain highly skilled employees on a timely basis, particularly executive management, sales and marketing personnel, software engineers and other senior personnel. Gupta s efforts to attract and retain highly skilled employees could be harmed by its past or any future workforce reductions. Gupta s failure to attract and retain the highly trained technical personnel who are essential to its product development, marketing, service and support teams may limit the rate at which Gupta can generate revenue and develop new products or product enhancements. This could have a material adverse effect on Gupta s business, operating results and financial condition.

WARP TECHNOLOGY HOLDINGS, INC.

Warp Technology Holdings, Inc. is a holding company whose subsidiaries operate enterprise software and information technology businesses. In addition to holding its existing subsidiaries, the Company s strategy is to pursue acquisitions of businesses which either complement the Company s existing businesses or expand the businesses segments in which the Company operates.

On January 31, 2005, the Company completed the acquisition of Gupta Technologies, LLC. Gupta is now a wholly owned subsidiary of the Company, and Gupta s wholly owned subsidiaries, Gupta Technologies GmbH, a German corporation, Gupta Technologies Ltd., a U.K. company, and Gupta Technologies, S.A. de C.V., a Mexican company, have become indirect subsidiaries of the Company. Currently, Gupta s operations produce the majority of the Company s revenue and expected earnings.

In addition to the Gupta businesses, the Company operates in the United States, Canada and the U.K. through its subsidiaries, WARP Solutions, Inc., a Delaware corporation, Warp Solutions, Ltd., a U.K. corporation, 6043577 Canada, Inc., a Canadian corporation, and Spider Software, Inc., a Canadian corporation. These subsidiaries are collectively referred to in this prospectus as Warp Solutions.

Warp Solutions produce a series of application acceleration products that improve the speed and efficiency of transactions and information requests that are processed over the internet and intranet network systems. The subsidiaries suite of software products and technologies are designed to accelerate network applications, reduce network congestion, and reduce the cost of expensive server deployments for enterprises engaged in high volume network activities.

Recent Developments

Gupta Acquisition and Financing Agreements

On January 31, 2005, the Company completed the acquisition of Gupta Technologies, LLC. The acquisition of Gupta (the Acquisition) was made pursuant to a Membership Interest Purchase Agreement (as amended, the Purchase Agreement) between the Company and Gupta Holdings, LLC (the Seller).

The Company s Board of Directors determined that acquiring Gupta would be in the best interests of the Company and its stockholders. Part of the Company s business strategy is to acquire well-managed, profitable, enterprise software companies. Gupta has these characteristics, and was available to be acquired at a price that the board determined to be fair and reasonable.

Under the Purchase Agreement, the total purchase price was $21,000,000, of which the Company delivered $15,750,000 in cash on or before the closing. The remainder of the purchase price was paid in equity and debt securities issued or provided by the Company with the terms described below.

In order to raise funds to pay the cash portion of the purchase price for Gupta, and in order to provide the non-cash portion of the purchase price, the Company entered into certain financing agreements. An Amendment to the Company s Articles of Incorporation was necessary to allow the Company to reserve for issuance sufficient shares of Common Stock to be issued upon conversion or exercise of the securities sold by the Company pursuant to the financing agreements. The financing agreements include the Subscription Agreement, the Bridge Notes, the Senior Note Agreement, the Subordinated Note Agreement, the Broker Warrants and the Assignment, as such terms are defined below.

Series C Subscription Agreement

On January 31, 2005, the Company entered into certain Series C Subscription Agreements (collectively, the Subscription Agreement), with the Investors (as identified therein). The Subscription Agreement has the following material terms:

an aggregate of $8,475,000 of Series C Notes were sold to Investors under the Subscription Agreement.

Most of the proceeds of the sale of the Series C Notes were used to fund a portion of the purchase price in the Gupta acquisition and the remainder of the proceeds were used for working capital purposes.

The Series C Notes are unsecured and bear interest at the rate of 6% per annum.

The Series C Notes were convertible into a new series of Preferred Stock, the Series C Stock with a par value of $.00001 per share, and Warrants to acquire Common Stock.

On March 31, 2005, all amounts due under the Series C Notes (principal and interest) automatically converted into (i) 8,559,750 shares of Series C Stock, and (ii) Warrants (the Warrants) to acquire 8,559,750 shares of Common Stock, and on April 4, 2005, under the Subscription Agreement, the Company issued an additional 3,000,000 shares of Series C Stock, and Warrants to acquire an additional 3,000,000 shares of Common Stock.

The Series C Notes contained a provision requiring the Company to pay to the Investors a penalty in cash equal to ten percent (10%) of the principal amount of the Series C Notes if the Series C Notes were not converted by March 17, 2005. Since the Series C Notes were not converted by such date, due to a delay in receiving approval required before effecting the Amendment to the Company s Articles of Incorporation, the Company may be required to pay this penalty if it cannot obtain a waiver or an acknowledgement that the penalty does not apply. The Company intends to work with the Investors to obtain a waiver of this penalty or an acknowledgement that no penalty is due, and has received such waiver and acknowledgement from certain Investors. However, there is no assurance that the Company will receive sufficient waivers or acknowledgements from other Investors. As such, the Company has accrued $647,500 for this penalty.

The Series C Stock which the investors received upon conversion of their Series C Notes has the following material terms:

The Series C Stock is convertible into Common Stock, at the option of the holder, at a conversion price (the Applicable Conversion Price) that is initially equal to $1.00. Accordingly, the Series C Stock is convertible into Common Stock at a one to one (1:1) ratio. However, the ratio is subject to adjustment pursuant to the anti-dilution protections extended to the holders of Series C Stock. Under the anti-dilution provisions, in the event the Company issues, at any time while shares of Series C Stock are still outstanding, shares of Common Stock or any type of securities convertible or exchangeable for, or otherwise giving a right to acquire, shares of Common Stock, at a price below the Applicable Conversion Price, then the Applicable Conversion Price will be adjusted to the price per share equal to the price per share paid for such Common Stock in such subsequent financing. This full-ratchet anti-dilution protection on the Series C Stock will also be extended to any warrants received in connection with the Subscription Agreement that are outstanding at such time. In addition to the full-ratchet protection, the Applicable Conversion Price will be equitably adjusted in the event of any stock split, stock dividend or similar change in the Company s capital structure.

If the Company s market capitalization based on the shares of Common Stock outstanding (including all shares of Common Stock underlying the Shares of Series C Stock on an as converted basis) exceeds $50,000,000, the shares of Common Stock underlying the Series C Stock are registered, and the Company has an average daily trading volume for 20 consecutive trading days of 100,000 shares per day, then the Company may require the holders of Series C Stock to convert the Series C Stock into Common Stock at the then Applicable Conversion Price.

The holders of shares of Series C Stock are entitled to receive dividends, at a 6% annual rate, payable quarterly in arrears, either in cash, or at the election of the Company, in shares of Common Stock. The dividends are preferred dividends, payable in preference to any dividends which may be declared on the Common Stock. Common Stock delivered in payment of dividends will be valued at 90% of the average of the volume weighted average price for the 20 trading day period ending on the trading day immediately prior to the date set for payment of the dividend.

An unconverted and non-redeemed Shares of Series C Stock outstanding on the third anniversary of the initial issuance of the Series C Stock, will be automatically redeemed on that date, in cash, at $1.00 per share, plus all accrued but unpaid dividends thereon (subject to equitable adjustment for all stock splits, stock dividends, or similar events involving a change in the capital structure of the Company).

The Warrants issued to the Investors upon conversion of their Series C Notes and under the Subscription Agreement allow the Investor to purchase an aggregate of 11,559,750 shares of Common Stock. The Warrants have an exercise price of $1.25 per share. The Warrants are exercisable over a five-year term.

Bridge Notes

In October, 2004, December, 2004 and January 2005, the Company raised funds from investors in order to make certain payments totaling $2,250,000 to the Seller, toward the purchase price of Gupta. In exchange for such investment the Company issued certain promissory notes (the Bridge Notes) in the aggregate principal amount of $2,250,000.

The Bridge Notes had the following material terms:

Interest accrues at the annual rate of 12%.

Contemporaneously with the closing of the Gupta Purchase Agreement, the Bridge Notes were automatically converted into an aggregate of $2,409,253 of Series C Notes.

On March 31, 2005, in accordance with their terms, the Series C Notes converted into 2,433,345 shares of Series C Preferred Stock and Warrants to acquire 2,433,345 shares of Common Stock. These warrants (the Bridge Warrants) have an exercise price of $1.25 per share and are exercisable for a period of five years from the date of issuance. The Company reserved sufficient common stock to issue upon conversion of these Series C shares and exercise of the Bridge Warrants.

Senior Note and Warrant Purchase Agreement

On January 31, 2005, the Company entered into that certain Senior Note and Warrant Purchase Agreement (the Senior Note Agreement), by and among the Company and the Purchasers (the Senior Noteholders) identified therein. The Senior Note Agreement has the following material terms:

225,011			10,250 (7)			
148,279		24,700	11,019 (7)			
20,246		60,971 (6)				

Timothy L. Wells	2005	336,154	336,667	195 (8)			10,750 (7)
President and Chief	2004	315,000	194,706		77,460 (9)	24,700	11,759 (7)
Operating Officer	2003	276,154	19,110			60,284 (6)	8,241 (7)
Mark E. Baldwin (10)	2005	276,923	400,000 (11)	12,612 (12)	265,375 (13)		11,154 (7)
Executive Vice President,	2004						
Chief Financial Officer	2003						
and Treasurer							
Larry L. Worden	2005	229,615	201,250	195 (8)			12,094 (7)
Vice President, General	2004	210,923	105,955			12,400	9,350 (7)
Counsel and Secretary	2003	194,039	14,834			29,736	5,657 (7)
						(6)	

(1) Bonuses are reported for the year in which they were earned. A portion of the bonus payments reported for fiscal year 2005 was paid in October 2005, a portion of the bonus payments reported for fiscal year 2004 was paid in March and April 2005, and a portion of the bonus payments reported for fiscal 2003 was paid in September 2003.

(2) Joined the company in March 2004.

(3) Includes a $75,000 lump-sum payment made to Mr. Pilenko upon his initial employment and an incentive bonus for fiscal year 2004 of $157,359 actually paid in April 2005.

(4) Includes payment of $5,643 for tax preparation assistance for calendar year 2004; reimbursement of expenses of $12,769 for the lease of an automobile; reimbursement of expenses of $323 incurred in connection with the purchase of a home in Houston, Texas, and payment of legal expenses of $12,547. Does not include $7,196 paid in October 2005 as reimbursement for U.S. taxes due on the previous payment of legal expenses.

(5) Reimbursement of legal expenses of $7,021 and payment of the following re-location expenses: cash moving allowance $37,500; freight for personal effects $23,177, temporary housing expenses $10,620, airfare to Houston for Mr. Pilenko and his family $18,351.

(6) Includes two option grants: one in August 2002, which would customarily have been made in March 2002 but was delayed pending the consummation of a business combination that was subsequently terminated in July 2002, and the other in March 2003.

(7) Company matching contributions pursuant to our 401(k) plan.

(8) Incentive payments made under our health and wellness program.

(9) 6,000 shares of restricted stock valued at $12.91 per share, the closing price of our Common Stock on the New York Stock Exchange on February 2, 2004, the day of the grant. Of the restricted shares issued to Mr. Wells, 2,000 vested on February 2, 2005, and, assuming that Mr. Wells is still then employed by us, the remaining shares will vest 2,000 shares on February 2, 2006, and 2,000 shares on February 2, 2007. On July 29, 2005, the remaining 4,000 unvested restricted shares granted to Mr. Wells had a value of $123,200 based on the closing price of our Common Stock of $30.80 per share on the New York Stock Exchange. We do not currently pay dividends on our Common Stock; however, we would pay dividends on the restricted stock should our dividend policy change.

(10) Joined the company in August 2004.

(11) Includes a $100,000 lump-sum payment made to Mr. Baldwin upon his initial employment and an incentive bonus for fiscal year 2005 of $300,000.

(12) Includes $12,547 in legal fees paid on behalf of Mr. Baldwin in April 2005 and a $65 incentive payment made under our health and wellness program. Does not include an additional $4,512 paid in October 2005 as reimbursement for U.S. income taxes due on the payment of legal expenses.

(13) 12,500 shares of restricted stock valued at $21.23 per share, the closing price of our Common Stock on the New York Stock Exchange on August 23, 2004, the day of the grant. On July 29, 2005, the restricted shares had a value of $385,000 based on the closing price of our Common Stock of $30.80 per share on the New York Stock Exchange. Of the restricted shares issued to Mr. Baldwin, 4,167 vested on August 23, 2005, and, assuming that Mr. Baldwin is still then employed by us, the remaining shares will vest 4,167 shares on August 23, 2006, and 4,166 shares on August 23, 2007. We do not currently pay dividends on our Common Stock; however, we would pay dividends on the restricted stock should our dividend policy change.

OPTION GRANTS IN FISCAL YEAR ENDED JULY 31, 2005

We did not grant any options to our named executive officers during the fiscal year ended July 31, 2005.

The following table sets forth information with respect to options to purchase our shares held by our named executive officers that were exercised during the fiscal year ended July 31, 2005 or were unexercised at fiscal year end.

AGGREGATED OPTION EXERCISES IN FISCAL YEAR

ENDED JULY 31, 2005 AND FISCAL YEAR END OPTION VALUES

	Options Exercised During Fiscal Year		Number of Unexercised Options Held at Fiscal Year End (#)		Value of In-the-Money Unexercised Options Held at Fiscal Year End ($)(1)	
Name	**Shares Acquired on Exercise (#)**	**Value Realized ($)**	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
Thierry Pilenko			40,000	80,000	596,800	1,193,600
Stephen J. Ludlow	21,418	377,871	53,750	27,593	378,671	563,191
Timothy L. Wells	62,699	1,091,311	25,084	27,421	63,408	559,779
Mark E. Baldwin						
Vincent M. Thielen	21,486	372,538	4,696	10,595	8,588	214,799
Larry L. Worden	36,906	642,930	12,398	13,634	39,234	278,404

(1) Based on the difference between the July 29, 2005 closing price of our Common Stock of $30.80 per share on the New York Stock Exchange and the exercise price.

Employment Agreements

We have entered into employment agreements with each of Messrs. Pilenko, Ludlow, Wells, Baldwin, Thielen and Worden. (Our agreement with Mr. Ludlow is separately described in the next paragraph). Our agreement with Mr. Pilenko continues until terminated by prior written notice of either party. Our agreements with Messrs. Wells, Baldwin, Thielen and Worden continue until the employee reaches age 65 unless the agreement is earlier terminated by prior written notice of either party. As of September 30, 2005, the executive officers are entitled to minimum annual salaries under their employment agreements as follows: Mr. Pilenko $475,000; Mr. Wells $350,000; Mr. Baldwin $300,000; Mr. Thielen $180,300 and Mr. Worden $240,000. In the event of a termination without cause (other than in connection with a change of control of Veritas DGC), each executive officer is entitled to payment under his employment agreement equal to one or more years of annual base salary as follows: Mr. Pilenko three years; Messrs. Wells and Baldwin two years; and Messrs. Thielen and Worden one year and to payment equal to the amount payable for group insurance premiums under COBRA for a period of 12 months. Payment of these amounts will be made over the specified period unless we exercise our option to pay them in a lump sum. Each such executive officer will have a period of 90 days within which to exercise options granted to him and he will forfeit options and restricted stock not vested at the time of his termination. In the event of a termination without cause by the company or by the executive officer for good reason (as defined in the agreement) within two years after a change of control of Veritas DGC, each executive officer is entitled to a lump sum payment under his employment agreement equal to the following number times the sum of his annual base salary and annual bonus: Messrs. Pilenko, Wells and Baldwin three; and Messrs. Thielen and Worden two. In addition, all options to purchase Common Stock granted to such executive officers will immediately become exercisable and all restrictions on restricted shares of the company will immediately lapse.

Our current agreement with Mr. Ludlow continues until March 31, 2006 unless it is extended by mutual agreement or unless we elect to terminate the agreement earlier. As of September 30, Mr. Ludlow is entitled to a minimum annual salary of $280,000 under his employment agreement. On March 31, 2006, unless the agreement is extended or earlier terminated (other than a termination in connection with a change of control of Veritas DGC), Mr. Ludlow is entitled to a lump sum payment under his employment agreement equal to two years of annual base salary and to a lump sum payment equal to the amount payable for group insurance premiums under COBRA for a period of 12 months. Options previously granted to Mr. Ludlow will continue to vest on the schedule set forth in his option grant agreements and will continue to be exercisable for the period specified in the applicable option grant agreement. In the event a change in control of Veritas DGC occurs within two years after such termination, under certain conditions Mr. Ludlow will be entitled to a lump sum payment under his employment agreement equal to three times the sum of his annual base salary and annual bonus less certain payments previously made. In addition, all options to purchase Common Stock granted to Mr. Ludlow will then immediately become exercisable.

Compensation Committee Interlocks and Insider Participation

None of the three members of our compensation committee Messrs. Carroll, Gibbs or Work is or has been at any time an officer or employee of Veritas DGC or any of its subsidiaries nor has any of them had any relationship with Veritas DGC that would otherwise require disclosure under Items 402 or 404 of Regulation S-K.

Compensation Committee Report on Executive Compensation

The following is the report of the compensation committee regarding executive compensation.

Philosophy

The committee s executive compensation philosophy is to provide a competitive total compensation package which will allow Veritas DGC to attract, motivate and retain senior management. Our executive compensation consists of three elements: (1) base salaries, which reflect competitive marketplace data and evaluated performance; (2) annual incentives, which are payable for the achievement of annual financial and individual performance goals; and (3) long-term stock-based incentives. We seek to relate a significant portion of potential total executive compensation to the company s financial performance. The committee believes that annual performance pay is appropriately linked to individual performance, annual financial performance of our company and stockholder value.

It is the committee s intent to fulfill its responsibilities according to the highest standards of corporate conduct and governance practices in the long-term best interests of the company and its shareholders.

The committee s policy with respect to tax deductibility of executive compensation under Section 162(m) of the Internal Revenue Code is to qualify such compensation for deductibility whenever reasonably practical. The Global Management Incentive Plan has not been approved by the company s shareholders and therefore does not meet the requirement of Section 162)(m) of the Internal Revenue Code.

Our Executive Compensation Package

Base Salary. We intend the base compensation for executive officers to afford a reasonable degree of financial security to those individuals performing the levels and types of responsibility implicit in the various executive positions. In setting base salaries we initially consider the compensation plans of executives in other companies, including companies in the oil services industry. We target base compensation at levels consistent with median levels for public companies of our size. In fiscal year 2005, we utilized a third party consulting firm to prepare compensation survey data for us and to make recommendations to us related to compensation of our officers, including our chief executive officer. In setting the base compensation of each of our executive officers, we also consider the executive s salary history, level of responsibility, breadth of knowledge, past performance, credentials, and experience with Veritas DGC, as well as his or her perceived future importance to the company.

Based on the above criteria, we increased the base compensation effective April 2, 2005, we increased the base compensation of the following officers to the amounts next to their names: Mr. Pilenko $475,000; Mr. Ludlow $280,000; Mr. Wells $350,000; and Mr. Worden $240,000.

Annual Cash Incentive Awards.

a. Cash Incentive Payments for Fiscal Year 2004. In March 2005, we paid incentive compensation earned by our executive officers in the fiscal year ended July 31, 2004 as follows: Mr. Ludlow $98,588; Mr. Wells $138,456; Mr. Thielen $57,777; and Mr. Worden $68,455. In April 2005, we paid Mr. Pilenko incentive compensation of $157,359 he earned in the fiscal year ended July 31, 2004. Although these incentive payments were earned in the fiscal year ended July 31, 2004 and would customarily have been paid in September 2004, payment was delayed due to the restatement of our financial results which we announced in September 2004.

b. Cash Incentive Payments for Fiscal Year 2005. In June 2004, we adopted a new Global Management Incentive Plan for senior executives and a new Key Contributor Plan for key employees other than senior executives. We then selected eighteen of our senior executives, including executive officers, to participate in the new Global Management Incentive Plan. The incentive plan was effective for fiscal year 2005 and subsequent years.

Under the terms of the Global Management Incentive Plan, which is administered by the compensation committee, each participant is assigned a target incentive percentage that is a percentage of his or her annual base salary. The target incentive percentages under the Global Management Incentive Plan for fiscal year 2005 range from 50% to 75% of annual base salary. Each participant is eligible to earn as incentive compensation a percentage of his or her target incentive percentage not to exceed two times his or her annual target payout if certain financial and individual goals are met. We have established the target percentages for each of our executive officers as follows: Mr. Pilenko 75%; Mr. Ludlow 50%; Mr. Wells 60%; Mr. Baldwin 60%; Mr. Thielen 50%; and Mr. Worden 50%.

Financial and individual goals under the Global Management Incentive Plan were set prior to the beginning of fiscal year 2005. In the case of participants who are officers or corporate personnel, 37.5% of any performance award is conditioned upon the company attaining a specified threshold amount of profit before income taxes and 37.5% is conditioned upon the company attaining a specified threshold amount of return on assets. To earn the remaining 25% of the performance award, the participant must attain discrete business goals set by the compensation committee.

The Global Management Incentive Plan provides that each participant will be paid a partial performance award, if earned, based on the financial results of the first six months of the fiscal year. It is contemplated that the mid-year award will be made in March each year. The mid-year payment is calculated by multiplying the target incentive percentage times 75% (the portion of the incentive associated with financial performance) times 50% times the percentage of the financial goal attained, not to exceed 100%. The mid-year payment will not take the achievement of individual goals into account this has the practical effect of limiting the mid-year payment to 37.5% of the target payout. On April 1, 2005, the mid-year payment was made to all participants in the Global Management Incentive Plan, including the following amounts to our executive officers: Thierry Pilenko $126,563; Stephen J. Ludlow $49,691; Timothy L. Wells $74,250; Mark E. Baldwin $67,500; Vincent M. Thielen $33,806; and Larry L. Worden $42,188.

In October 2005, the balance of the 2005 performance awards was paid to all participants in the Global Management Incentive Plan, including the following amounts to our executive officers: Thierry Pilenko $446,354; Stephen J. Ludlow $175,320; Timothy L. Wells $262,417; Mark E. Baldwin $232,500; Vincent M. Thielen $146,494; and Larry L. Worden $159,063.

c. Cash Incentive Payments for Fiscal Year 2006.

On October 12, 2005, the Compensation Committee established goals for each participant in the Global Management Incentive Plan for fiscal year 2006. In the case of the chief executive officer, the chief operating officer and the chief financial officer (the Senior Executive Officers), 50% of the incentive payment is conditioned upon the company attaining a specified amount of profit before income taxes and 50% is conditioned upon the company attaining a specified amount of pre-tax return on equity. At the end of the year, the Compensation Committee will determine whether the company has met the financial goals, calculate the amount due each Senior Executive Officer, if any, and then, if it chooses to do so, increase or decrease the amount due each Senior Executive Officer by an amount up to 25% of the amount due based on the Senior Executive Officer s performance in executing the business strategies or dealing with the strategic issues identified by the Board of Directors.

In the case of other participants, including executive officers other than the Senior Executive Officers, as in fiscal year 2005, 37.5% of the incentive payment is conditioned upon the company attaining a specified amount of profit before income taxes and 37.5% is conditioned upon the company attaining a specified amount of return on assets. To earn the remaining 25% of the incentive payment, such participants must attain one or more discrete business goals set by their immediate supervisors or, in the case of executive officers, by the Compensation Committee.

The current base annual salary and the target payouts for each of the company s named executive officers for fiscal year 2006 under the Global Management Incentive Plan are as follows:

Name	Title		Annual Salary	Target Payout
Thierry Pilenko	Chairman and Chief Executive Officer	$	475,000	75%
Stephen J. Ludlow	Vice Chairman	$	280,000	50%
Timothy L. Wells	President and Chief Operating Officer	$	350,000	60%
Mark E. Baldwin	Executive Vice President, Chief Financial Officer and Treasurer	$	300,000	60 %
Vincent M. Thielen	Vice President, Corporate Controller	$	180,300	50%
Larry L. Worden	Vice President, General Counsel and Secretary	$	240,000	50%

Equity-based Incentive Awards.

We believe periodic grants of stock options and other equity-based compensation to executive officers helps to align the executive s economic interests with those of stockholders and to provide a direct and continuing focus on the goal of increasing stockholder value. From time to time, we grant restricted stock to employees, including executive officers, for a variety of reasons, including, as examples, to recruit an employee, to reward an employee for exemplary service or as a means to retain a key employee.

a. Equity-based Incentive Awards for Fiscal Year 2005

During fiscal year 2005, we did not grant any options to our executive officers pending the outcome of the restatement of our financial results which we announced in September 2004. In August 2004, we granted 12,500 shares of restricted stock to Mr. Baldwin in connection with his initial employment. Of the shares granted, 4,167 became vested on August 23, 2005, and, assuming that Mr. Baldwin continues to be employed by us, 4,167 additional shares will vest on August 23 of 2006 and the remaining 4,166 will vest on August 23, 2007.

b. Equity-based Incentive Awards for Fiscal Year 2006

On October 13, 2005, our Compensation Committee approved a new method by which long-term equity-based incentive awards will be granted under the company s Share Incentive Plan to certain members of senior management of the company, including executive officers.

Under the new method, long term equity-based incentive awards were made effective October 17, 2005 (the Valuation Date) for the fiscal year ending July 31, 2006. All awards granted have an aggregate value (the Value Pool), calculated on October 17, 2005, equal to .65% of the company s market capitalization plus an additional amount for expected award forfeitures. Each participant s award was valued based on a percentage share of the Value Pool (a participant s Grant Value). Both the Value Pool and the Grant Value assigned to each participant were determined by the Compensation Committee in consultation with its outside compensation consultant based in part on the size of incentive awards made by similar size, similarly situated companies.

On October 17, 2005, each participant, including executive officers, was awarded 50% of his Grant Value in options to purchase our Common Stock and the right to earn an additional 50% of his Grant Value in restricted shares.

On October 17, 2005, the company granted each participant options to purchase our Common Stock with an aggregate value equal to one-half of his Grant Value. The exercise price for each option is $31.94, the price of one share of the Company s Common Stock as of the close of trading on the NYSE on October 14, 2005 (the Share Price). The number of options granted was determined by dividing (a) 50% of the Grant Value by (b) 46% of the Share Price. Each option has a term of five years. One-third of the options granted are exercisable one year after the Valuation Date and an additional one-third will become exercisable on each of the second and third anniversary of the Valuation Date.

Also on October 17, 2005, each participant was granted the right to earn restricted shares of the company. The restricted shares will be granted, if earned, on the third business day following the company s public release of its earnings for the fiscal year ended July 31, 2006 (the Restricted Stock Grant Date). For each participant, including the named executive officers, whose financial target percentages under the Global Management Incentive Plan are determined using the company s consolidated financial results (Corporate Financial Targets), the number of restricted shares then granted will be determined by dividing (i) the product of (A) 50% of the participant s Grant Value and (B) the target percentage actually earned by the participant for fiscal year 2006 under the Global Management Incentive Plan, by (ii) the closing price of one share of our Common Stock as of the close of trading on the NYSE on the last trading day before the Restricted Stock Grant Date. For each participant (such as regional personnel) whose financial target percentages under the Global Management Incentive Plan are determined using financial measures other than the Corporate Financial Targets, the number of restricted shares granted, if earned, will be calculated by dividing (i) the product of (A) 50% of the participant s Grant Value and (B) the target percentage which would have been earned by the participant for fiscal year 2006 under the Global Management Incentive Plan if his financial target percentages were determined using the Corporate Financial Targets instead of the financial measures actually used, by (ii) the closing price of one share of our Common Stock as of the close of trading on the NYSE on the last trading day before the Restricted Stock Grant Date. Each share awarded will be restricted and subject to forfeiture for the period beginning on the Restricted Stock Grant Date and ending July 31, 2008. In the event of death or disability prior to the Restricted Stock Grant Date, unrestricted shares will be granted to the participant valued as of the date of such death or disability as if he had achieved 100% of his target under the Global Management Incentive Plan prorated for the number of actual months worked. In the event of retirement prior to the Restricted Stock Grant Date, shares with the same vesting schedule set out above will be granted to the participant valued as of the date of retirement as if he had achieved 100% of his target under the Global Management Incentive Plan prorated for the number of actual months worked. In the event of a change in control (as defined in the Global Management Incentive Plan) of the company prior to the Restricted Stock Grant Date, 100% of the target award would be deemed earned with continued vesting based on the original schedule; restrictions on all restricted shares would lapse immediately in the event of termination of the participant by the company without cause or voluntary termination by the participant with good reason. In the event of a change in control of the company on or after the Restricted Stock Grant Date, restrictions on all restricted shares would lapse immediately in the event of termination of the participant by the company without cause or voluntary termination by the participant with good reason.

For fiscal year 2006, the long term equity-based incentive awards made to each executive officer are set forth in the following table:

Name	Title	Grant Value (%)	Grant Value ($) (1)	Stock Options Granted (#) (2)	Restricted Share Value ($) (3)
Thierry Pilenko	Chairman & Chief Executive Officer	10.80	1,101,930	37,500	550,965
Steven J. Ludlow	Vice Chairman	1.51	154,270	10,500	0(4)
Timothy L. Wells	President & Chief Operating Officer	5.76	587,696	20,000	293,848
Mark E. Baldwin	Executive Vice President, Chief Financial Officer & Treasurer	4.32	440,772	15,000	220,386
Vincent M. Thielen	Vice President, Corporate Controller	1.44	146,924	5,000	73,462
Larry L. Worden	Vice President, General Counsel & Secretary	2.09	213,040	7,250	106,520

(1) Total Pool Value = $10,207,085.

(2) Each option has an exercise price of $31.94 per share, based on the closing price on the NYSE on October 14, 2005, and a five-year term. One-third of the options granted become exercisable on October 17 of each of the following years: 2006, 2007 and 2008.

(3) Assumes achievement of 100% of Global Management Incentive Plan targets assigned.

(4) Mr. Ludlow was granted only options in light of his expected retirement in March 2006.

We believe that granting our key employees both stock options and the opportunity to earn restricted shares focuses them on long-term returns for the company, encourages them to remain in our employ and effectively aligns their interests with those of our stockholders.

CEO Compensation

Mr. Pilenko was appointed chairman and chief executive officer of Veritas DGC in March 2004. Prior to his appointment, we commissioned a third party consulting firm to prepare data relating to compensation plans of chief executive officers in other companies of our size, including companies in the oil services industry. After considering that data, we arrived at a compensation package for Mr. Pilenko we believe is consistent with median levels for public companies of our size.

As with all senior executives of the company, Mr. Pilenko s compensation is made up of a base salary, incentive compensation based primarily on company performance, and stock-based benefits. In April 2005, after consulting with a third party compensation consultant and reviewing his performance in light of the company s performance, we increased Mr. Pilenko s base salary from $450,000 to $475,000 per annum. Prior to the commencement of fiscal year 2005, we established performance goals for the company and individual goals for each participant in the Global Management Incentive Plan, including Mr. Pilenko. In fiscal year 2005, the company exceeded its financial goals and Mr. Pilenko achieved part of his individual goals. In light of that performance, we paid Mr. Pilenko incentive compensation of $572,917 for fiscal year 2005, consisting of a mid-year payment of $126,563 in April 2005 and a final payment of $446,354 in October 2005.

The remainder of Mr. Pilenko s compensation is stock based, which we feel aligns his interests with those of stockholders. We did not make any stock-based awards during fiscal year 2005 to Mr. Pilenko. On October 17, 2005, we made an award to Mr. Pilenko under our new long term equity-based incentive plan consisting of stock options and the opportunity to receive restricted shares. The options granted to Mr. Pilenko allow him to purchase

$37,500 shares of our Common Stock at an exercise price of $31.94. The option grant has a five-year term and one-third of the options vest on each of the first, second and third anniversaries of the date of grant. We also granted him the opportunity to earn restricted shares at the end of our fiscal year ended July 31, 2006, with a target value of $550,965, if the company reaches the target amounts of profit before income taxes and pre-tax return on equity. The value of the award will be adjusted by the percentage of the financial targets actually achieved by the company during fiscal year 2006. In the event the company achieves less than 75% of the target financial goals, Mr. Pilenko will receive no restricted shares. In the event the company achieves 75% or more but less than 125% of its financial targets, the value of the restricted shares granted to Mr. Pilenko at the end of fiscal year 2006 will be prorated based on the percentage of the target achieved. In the event the company achieves 125% or more of its financial targets, Mr. Pilenko will receive restricted shares with a value of 200% of his target value. Any shares earned by Mr. Pilenko will be granted when our financial results for the fiscal year ended July 31, 2006 become available, and will be restricted and subject to forfeiture until July 31, 2008.

Compensation Committee

David F. Work, Chairman

Loren K. Carroll

James R. Gibbs

COMMON STOCK PERFORMANCE GRAPH

The following graph illustrates the performance of our shares of Common Stock compared with the cumulative total return on (i) Standard & Poor s 500 Stock Index and (ii) an index of five peer companies we selected. The graph assumes that the value of the investment in our shares and each index was $100 at July 31, 2000. In all cases the cumulative total return assumes, as contemplated by the Securities and Exchange Commission rules, that any cash dividends were reinvested in that security. The peer group investment is weighted at the beginning of each period based on the market capitalization of each individual company within the group.

TOTAL RETURN TO STOCKHOLDERS
(Assumes $100 investment on 7/31/00)

Total Return Analysis

	7/31/2000	7/31/2001	7/31/2002	7/31/2003	7/31/2004	7/31/2005
Veritas DGC	**$ 100.00**	**$ 106.51**	**$ 57.30**	**$ 45.67**	**$ 114.56**	**$ 143.26**
Peer Group	**$ 100.00**	**$ 73.31**	**$ 56.88**	**$ 60.59**	**$ 87.31**	**$ 116.12**
S&P 500	**$ 100.00**	**$ 85.69**	**$ 65.46**	**$ 72.43**	**$ 81.91**	**$ 93.37**

Source: CTA Public Relations www.ctapr.com (303) 665-4200. Data from BRIDGE Information Systems, Inc.

The index of peer companies consists of Compagnie Générale de Géophysique, Dawson Geophysical Company, Petroleum Geo-Services ASA, Schlumberger Limited, and Seitel, Inc.

The graph above depicts the past performance of our shares and should not be used to predict future performance. We do not make or endorse any predictions as to future share performance. These price performance comparisons shall not be deemed incorporated by reference by any general statement incorporating by reference this proxy statement into any filing under the Securities Act of 1933 or under the Securities Exchange Act of 1934 except to the extent that we specifically incorporate this graph by reference, and shall not otherwise be deemed filed under such acts.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth certain information regarding the beneficial ownership of shares at September 30, 2005, by (i) each person we know to own beneficially more than 5% of the outstanding shares, (ii) all directors, (iii) each executive officer named in the Summary Compensation Table, and (iv) all directors and named executive officers as a group.

Name and Address	Amount and Nature of Beneficial Ownership(1)(2)	Percent of Class(3)
Beneficial Owners of 5% or more:		
Dimensional Fund Advisors Inc.(4) 1299 Ocean Avenue Santa Monica, CA 90401	2,474,000	7.12
Ziff Asset Management, L.P.(5) 153 East 53rd Street, 43rd Floor New York, NY 10022	2,149,700	6.19
Named Executive Officers, Directors and Director Nominees:		
Thierry Pilenko	40,998	*
Stephen J. Ludlow	74,479	*
Timothy L. Wells	39,327	*
Mark E. Baldwin	11,398	*
Vincent M. Thielen	7,091	*
Larry L. Worden	21,081	*
Loren K. Carroll	12,500	*
Clayton P. Cormier	22,004	*
James R. Gibbs	37,250	*
Jan Rask	31,500	*
Yoram Shoham	2,500	*
David F. Work	5,000	*
Terence K. Young	2,500	*
All directors, director nominees and executive officers as a group (13 persons)	307,626	*

* Does not exceed one percent

(1) Except as otherwise noted, each person has sole voting and investment power with respect to the shares listed.

(2) Includes the following shares subject to options granted pursuant to Veritas DGC option plans, including options exercisable within 60 days: Mr. Pilenko 40,000 shares; Mr. Ludlow 62,818 shares; Mr. Wells 33,980 shares; Mr. Baldwin 0 shares; Mr. Thielen 7,091; Mr. Worden 16,732 shares; Mr. Carroll 12,500 shares; Mr. Cormier 20,000 shares; Mr. Gibbs 36,250 shares; Mr. Rask 31,500 shares; Mr. Shoham 2,500 shares; Mr. Work 5,000 shares; and Mr. Young 2,500 shares and all directors, director nominees and executive officers as a group 270,871 shares. Includes 4,000 shares of restricted stock issued to Mr. Wells that become vested 2,000 shares on February 2, 2006 and 2,000 shares on February 2, 2007. Also includes 8,333 shares of restricted stock issued to Mr. Baldwin that become vested 4,167 on August 23, 2006, and 4,166 on August 23, 2007.

(3) Percentages are calculated based on a total of 34,728,014 shares outstanding as of September 30, 2005 plus, in calculating the percentage for each person or group, the number of any options and deferred share units exercisable within 60 days of September 30, 2005 owned by such person or group, in accordance with Rule 13d-3(d)(1).

(4) Based solely on information furnished in Schedule 13F filed with the Securities and Exchange Commission by such person on July 21, 2005. Such person has sole voting and investment power for all shares.

(5) Based solely on information furnished in Schedule 13G filed with the Securities and Exchange Commission by such person on April 14, 2005. Voting and investment power for all shares is shared.

SECTION 16 BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires our directors, our executive officers and persons who own more than 10% of a registered class of our equity securities to file reports of ownership and changes of ownership with the Securities and Exchange Commission. These persons are required to furnish us with copies of all Section 16(a) forms they file.

Based solely upon a review of the Section 16(a) forms furnished to us, we believe that, with respect to the fiscal year ended July 31, 2005, each of our directors and officers and greater than 10% stockholders met all applicable filing requirements under Section 16(a) of the Securities Act of 1934 with the exception of Mr. Timothy L. Wells, who filed a single late report on Form 4 which included a single transaction. We are not aware of any instances of a failure to file a required Form 3 or Form 5.

PROPOSAL 2

RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

PricewaterhouseCoopers LLP, an independent registered public accounting firm, has served as the independent registered public accounting firm of the company since November 1996. The audit committee has selected the firm to continue in this capacity for the current fiscal year. Accordingly, the company is asking the stockholders to ratify the selection of PricewaterhouseCoopers LLP as independent registered public accounting firm.

Representatives of the firm plan to attend the annual meeting and will be available to respond to appropriate questions. Its representatives will also have an opportunity to make a statement at the meeting if they so desire.

Audit Fees

The aggregate fees billed for professional services rendered for the audit of our consolidated financial statements, statutory audits in foreign jurisdictions, issuance of consents and the reviews of financial statements included in the company s Forms 10-Q for the fiscal years ended July 31, 2005 and 2004 were $1,744,100 and $819,000, respectively. Our audit committee pre-approved all fees for professional services for the audit of our consolidated financial statements for the fiscal year ended July 31, 2005.

Audit Related Fees

The aggregate fees billed for audit related services (audits of our employee benefit plans, accounting consultations, due diligence related to mergers and acquisitions and certain services related to compliance with the Sarbanes-Oxley Act of 2002) for the fiscal years ended July 31, 2005 and 2004 were $20,750 and $474,000, respectively. Our audit committee pre-approved all fees for audit related services incurred during the fiscal year ended July 31, 2005.

Tax Fees

The aggregate fees billed for income tax and tax related services for the fiscal years ended July 31, 2005 and 2004 were $46,362 and $169,000, respectively. Our audit committee pre-approved all fees for tax and tax related services incurred during the fiscal year ended July 31, 2005.

All Other Fees

The aggregate fees billed by PricewaterhouseCoopers LLP during the fiscal years ended July 31, 2005 and 2004 for other services totaled $3,599 and $17,000, respectively. Our audit committee pre-approved all fees for such other services incurred during the fiscal year ended July 31, 2005. These services include primarily subscriptions to PricewaterhouseCoopers on-line research tools.

In conjunction with our annual plan, we prepare a budget for non-audit services we intend to obtain from PricewaterhouseCoopers LLP. This budget includes a description of the specific projects and services and an estimated cost. We submit this budget to our audit committee for review and approval. We conduct our business with PricewaterhouseCoopers LLP according to this approved budget and, if circumstances require alternation of the budget, we request approval from the audit committee before deviating from the budget in any manner. We submit a quarterly update of our spending with PricewaterhouseCoopers LLP to the audit committee.

Vote Required

Approval of this proposal requires a number of votes FOR the proposal that represents a majority of the outstanding shares present or represented and entitled to vote on this matter at the annual meeting. As a result, abstentions will have the same effect as a vote against this proposal.

Recommendation of the Board of Directors

The Board of Directors recommends a vote FOR ratification of the selection of PricewaterhouseCoopers LLP as the company s independent registered public accounting firm for the fiscal year ending July 31, 2005.

AVAILABILITY OF ANNUAL REPORT AND FORM 10-K

We have mailed our annual report to stockholders covering the fiscal year ended July 31, 2005 to each stockholder entitled to vote at the annual meeting.

Our annual report on Form 10-K for the fiscal year ended July 31, 2005 is available on our Internet website at www.veritasdgc.com. In addition, we will provide a copy of our annual report on Form 10-K for the fiscal year ended July 31, 2005 without charge to any stockholder making written request to Larry L. Worden, Vice President, General Counsel and Secretary, 10300 Town Park Drive, Houston, Texas 77072.

STOCKHOLDER PROPOSALS AND DIRECTOR NOMINATIONS

Proposals for the Next Annual Meeting

Pursuant to rules promulgated by the Securities and Exchange Commission, any proposals of stockholders intended to be presented at our next annual meeting of stockholders and included in our proxy statement and form of proxy relating to that meeting, must be received at our principal executive offices, 10300 Town Park Drive, Houston, Texas 77072 Attention: Corporate Secretary, a reasonable time before we begin to print and mail our proxy materials for our 2005 annual meeting. We currently expect to hold our next annual meeting in December 2006 and to begin printing and mailing our proxy materials on or before October 15, 2006, so proposals should be received no later than September 15, 2006. Such proposals must be in conformity with all applicable legal provisions, including Rule 14a-8 of the General Rules and Regulations under the Securities Exchange Act.

In addition to the Securities and Exchange Commission rules described in the preceding paragraph, our bylaws provide that for business to be properly brought before any annual meeting of stockholders, it must be either (i) specified in the notice of meeting (or any supplement thereto) given by or at the direction of our Board of Directors, (ii) otherwise brought before the meeting by or at the direction of our Board of Directors, or (iii) otherwise properly brought before the meeting by a stockholder of our company who is a stockholder of record at the time of giving of the required notice described below, who shall be entitled to vote at such meeting and who complies with the following procedures. For business to be properly brought before an annual meeting by a stockholder of our company, the stockholder must have given timely notice in writing of the business to be brought before such annual meeting to the secretary of our company. To be timely for our next annual meeting (expected to be held in December 2006), a stockholder s notice must be delivered to or mailed and received at our principal executive offices, 10300 Town Park Drive, Houston, Texas 77072 Attention: Corporate Secretary, no later than the tenth day following the day on which public announcement is first made of the date of the next annual meeting. As used in our Bylaws, public announcement means disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the company with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934. A stockholder s notice to the secretary of our company must set forth (a) as to any business that the stockholder proposes to bring before the meeting, the reasons for conducting such business at the meeting, any material interest in such business of such stockholder and the beneficial owner, if any, on whose behalf the proposal is made, and a representation that the stockholder will appear in person or by proxy at the meeting to present the proposal; and (b) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address, as they appear on our books, of such stockholder, and (ii) the class and number of shares of capital stock of our company that are beneficially owned by the stockholder.

Nominations for the 2006 Annual Meeting and for Any Special Meetings

Stockholder Recommendations of Nominee(s)

Stockholders or a group of stockholders may recommend potential candidates for consideration by our nominating and corporate governance committee by sending a written request to the company s corporate secretary no later than the tenth day following the day on which public announcement is first made of the date of the next annual meeting. Such written request must be sent to our principal executive offices, 10300 Town Park Drive, Houston, Texas 77072, Attention: Corporate Secretary. The written request must include the candidate s name, contact information, biographical information and qualifications. The request must also include the potential candidate s written consent to being named in the proxy statement as a nominee and to serving as a director if nominated and elected. The stockholder or group of stockholders making the recommendation must also disclose, with the written request described above, the number of shares that the stockholder or group beneficially owns and the period of time the stockholder or group has beneficially owned the shares. The committee may request additional information from time to time from the nominee or the stockholder.

Direct Nominations by Stockholders

Pursuant to our bylaws, only persons who are nominated in accordance with the following procedures are eligible for election as directors. Nominations of persons for election to our Board of Directors may be made at a meeting of stockholders only (a) by or at the direction of our Board of Directors or (b) by any stockholder of our company who is a stockholder of record at the time of giving of the required notice described below, who is entitled to vote for the election of directors at the meeting, and who complies with the following notice procedures. All nominations, other than those made by or at the direction of our Board of Directors, must be made pursuant to timely notice in writing to the secretary of our company. To be timely, a stockholder s notice must be delivered to or mailed and received at our principal executive offices, 10300 Town Park Drive, Houston, Texas 77072 Attention: Corporate Secretary, (i) with respect to an election to be held at our next annual meeting, no later than the tenth day following the day on which public announcement is first made of the date of our next annual meeting, and (ii) with respect to any election to be held at a special meeting of stockholders, no earlier than the ninetieth day prior to such special meeting and not later than the close of business on the later of the seventieth day prior to such special meeting or the tenth day following the day on which public announcement is first made of the date of the special meeting or of the nominees proposed by our Board of Directors to be elected at such meeting. As used in our Bylaws, public announcement means disclosure in a press release reported by the Dow Jones News Service, Associated Press or a comparable national news service or in a document publicly filed by the company with the Securities and Exchange Commission pursuant to Section 13, 14 or 15(d) of the Securities Exchange Act of 1934. A stockholder s notice to the secretary of our company must set forth (a) as to each person whom the stockholder proposes to nominate for election as a director, all information relating to the person that is required to be disclosed in solicitations for proxies for election of directors, or is otherwise required, pursuant to Regulation 14A under the Securities Exchange Act (including the written consent of such person to be named in the proxy statement as a nominee and to serve as a director if elected); and (b) as to the stockholder giving the notice and the beneficial owner, if any, on whose behalf the nomination or proposal is made (i) the name and address, as they appear on our books, of such stockholder, and (ii) the class and number of shares of capital stock of our company that are beneficially owned by the stockholder.

VERITAS DGC INC.

PROXY FOR ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD ON DECEMBER 15, 2005

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS

The undersigned hereby appoints Thierry Pilenko, Stephen J. Ludlow, Timothy L. Wells, Mark E. Baldwin, Vincent M. Thielen and Larry L. Worden, or any of them, attorneys and proxies, with power of substitution and revocation, to vote, as designated on the reverse side, all shares of stock which the undersigned is entitled to vote, with all powers which the undersigned would possess if personally present, at the Annual Meeting (including all adjournments thereof) of Stockholders of Veritas DGC Inc. to be held on Thursday, December 15, 2005 at 10:00 a.m., Houston time, at the offices of the Company, 10300 Town Park Drive, Houston, Texas 77072.

This proxy, when properly executed, will be voted in the manner directed herein by the undersigned. In the absence of such instructions, this proxy will be voted FOR the nominees listed in Item 1, FOR ratification of the selection of PricewaterhouseCoopers LLP as the company s independent accountants in Item 2, and as the designated proxies may determine in their discretion for issues covered by Item 3.

(THIS PROXY CONTINUES AND MUST BE SIGNED ON THE REVERSE SIDE)

Address Change/Comments (Mark the corresponding box on the reverse side)

FOLD AND DETACH HERE

Please
Mark Here O
for Address
Change or
Comments
SEE REVERSE SIDE

Item 1 - Election of Directors.

Nominees:				Item 2 -	Ratify the selection of	**FOR**		**AGAINST**		**ABSTAIN**
01 Loren K. Carroll,	**FOR** all nominees	**WITHHOLD AUTHORITY**			PricewaterhouseCoopers LLP	O		O		O
02 Clayton P. Cormier,	(except as specified	to vote for all nominees			as the company s independent					
	hereon)	listed below.			registered public accounting firm.					
03 James R. Gibbs,	O	O								
04 Thierry Pilenko,				Item 3 -	As such proxies may determine in their discretion upon such other business (including procedural and other matters relating to the conduct of the meeting) that may properly come before the meeting and any adjournment thereof.					
05 Jan Rask,										
06 Yoram Shoham,										
07 David F. Work and										
08 Terence K. Young.										

(INSTRUCTION: TO WITHHOLD AUTHORITY TO VOTE FOR AN INDIVIDUAL NOMINEE WRITE THAT NOMINEE S NAME IN THE SPACE PROVIDED BELOW.)

The undersigned hereby acknowledges receipt of the Notice of Annual Meeting of Stockholders and the Proxy Statement furnished therewith.

PLEASE DATE, SIGN AND RETURN THIS PROXY IN THE ENCLOSED BUSINESS ENVELOPE.

Signature **Signature** **Date**

(Sign exactly as name(s) appear on your stock certificate. If shares are held jointly each holder should sign. If signing for estate, trust or corporation, title or capacity should be stated.)

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Vote by Internet or Telephone or Mail

24 Hours a Day, 7 Days a Week

**Internet and telephone voting are available through 11:59 PM Eastern Time
the day prior to annual meeting day.**

Your Internet or telephone vote authorizes the named proxies to vote your shares in the same manner as if you marked, signed and returned your proxy card.

Internet		Telephone		Mail
http://www.proxyvoting.com/vts		**1-866-540-5760**		Mark, sign and date your proxy card and return it in the enclosed postage-paid envelope.
Use the Internet to vote your proxy. Have your proxy card in hand when you access the web site.	**OR**	Use any touch-tone telephone to vote your proxy. Have your proxy card in hand when you call.	**OR**	

**If you vote your proxy by Internet or by telephone,
you do NOT need to mail back your proxy card.**

You can view the Annual Report and Proxy Statement on the Internet

Annual Reports: www.veritasdgc.com/investors/annuals/

Proxies: www.veritasdgc.com/investors/proxies/