

LAYNE CHRISTENSEN CO

Form 10-Q

December 09, 2008

Table of Contents

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

(Mark One)

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

For the quarterly period ended October 31, 2008

OR

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

For the transition period from _____ to _____

Commission File Number 001-34195

Layne Christensen Company

(Exact name of registrant as specified in its charter)

Delaware

48-0920712

State or other jurisdiction of
incorporation or organization)

(I.R.S. Employer Identification No.)

1900 Shawnee Mission Parkway, Mission Woods,
Kansas

66205

(Address of principal executive offices)

(Zip Code)

(Registrant's telephone number, including area code) (913) 362-0510

Not Applicable

(Former name, former address and former fiscal year, if changed since last report.)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large
accelerated filer ☐
☐

Accelerated filer ☒

Non-accelerated filer ☐

Smaller reporting company ☐

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

There were 19,401,274 shares of common stock, \$.01 par value per share, outstanding on December 1, 2008.

TABLE OF CONTENTS

PART I

Item 1. Financial Statements

Item 1A. Risk Factors

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

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

ITEM 4. Controls and Procedures

PART II

ITEM 1 Legal Proceedings

ITEM 2 Changes in Securities

ITEM 3 Defaults Upon Senior Securities

ITEM 4 Submission of Matters to a Vote of Security Holders

ITEM 5 Other Information

ITEM 6 Exhibits and Reports on Form 8-K

SIGNATURES

EX-31.1

EX-31.2

EX-32.1

EX-32.2

Table of Contents**PART I****Item 1. Financial Statements**

LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

	October 31, 2008 (unaudited)	January 31, 2008 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 42,988	\$ 73,068
Customer receivables, less allowance of \$8,580 and \$7,571, respectively	146,710	125,091
Costs and estimated earnings in excess of billings on uncompleted contracts	71,962	60,796
Inventories	34,735	21,020
Deferred income taxes	15,798	18,711
Income taxes receivable	7,332	866
Restricted deposits-current	500	500
Other	8,163	5,288
Total current assets	328,188	305,340
Property and equipment:		
Land	8,593	8,643
Buildings	26,215	21,868
Machinery and equipment	328,130	299,642
Gas transportation facilities and equipment	38,234	30,266
Oil and gas properties	87,344	76,844
Mineral interests in oil and gas properties	20,957	18,165
	509,473	455,428
Less Accumulated depreciation and depletion	(238,415)	(208,061)
Net property and equipment	271,058	247,367
Other assets:		
Investment in affiliates	38,871	29,835
Goodwill	90,423	85,706
Other intangible assets, net	21,314	20,930
Restricted deposits-long term	2,352	505
Other	8,272	7,272
Total other assets	161,232	144,248
	\$ 760,478	\$ 696,955

See Notes to Consolidated Financial Statements.

- Continued -

Table of Contents

LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (Continued)
(in thousands, except per share data)

	October 31, 2008 (unaudited)	January 31, 2008 (unaudited)
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 76,527	\$ 67,777
Current maturities of long term debt	20,000	13,333
Accrued compensation	33,264	36,763
Accrued insurance expense	9,390	8,158
Other accrued expenses	25,098	15,222
Acquisition escrow obligation-current	550	550
Income taxes payable	5,428	4,200
Billings in excess of costs and estimated earnings on uncompleted contracts	37,554	31,641
Total current liabilities	207,811	177,644
Noncurrent and deferred liabilities:		
Long-term debt	26,667	46,667
Accrued insurance expense	10,175	9,736
Deferred income taxes	34,957	28,329
Acquisition escrow obligation-long term	2,352	505
Minority interest	75	398
Other	11,391	10,304
Total noncurrent and deferred liabilities	85,617	95,939
Common stock, par value \$.01 per share, 30,000 shares authorized, 19,379 and 19,161 shares issued and outstanding, respectively	194	192
Capital in excess of par value	336,486	328,301
Retained earnings	139,707	101,866
Accumulated other comprehensive loss	(9,337)	(6,987)
Total stockholders' equity	467,050	423,372
	\$ 760,478	\$ 696,955

See Notes to Consolidated Financial Statements.

Table of Contents

LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands, except per share data)

	Three Months Ended October 31, (unaudited)		Nine Months Ended October 31, (unaudited)	
	2008	2007	2008	2007
Revenues	\$ 264,483	\$ 225,226	\$ 778,665	\$ 644,685
Cost of revenues (exclusive of depreciation, depletion and amortization shown below)	199,232	164,887	580,067	472,422
Selling, general and administrative expenses	35,684	31,457	105,257	89,977
Depreciation, depletion and amortization	13,573	11,228	38,969	31,927
Other income (expense):				
Equity in earnings of affiliates	4,803	2,157	11,112	6,027
Interest	(838)	(2,517)	(2,798)	(7,744)
Other income, net	467	244	1,114	769
Income before income taxes and minority interest	20,426	17,538	63,800	49,411
Income tax expense	8,561	7,688	26,277	21,840
Minority interest	362	79	362	79
Net income	\$ 12,227	\$ 9,929	\$ 37,885	\$ 27,650
Basic income per share	\$ 0.64	\$ 0.60	\$ 1.98	\$ 1.74
Diluted income per share	\$ 0.63	\$ 0.59	\$ 1.94	\$ 1.70
Weighted average shares outstanding-basic	19,246	16,477	19,157	15,857
Dilutive stock options	202	397	336	376
Weighted average shares outstanding-diluted	19,448	16,874	19,493	16,233

See Notes to Consolidated Financial Statements.

Table of Contents

LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOW
(in thousands)

	Nine Months Ended October 31, (unaudited)	
	2008	2007
Cash flow from operating activities:		
Net income	\$ 37,885	\$ 27,650
Adjustments to reconcile net income to cash from operations:		
Depreciation, depletion and amortization	38,969	31,927
Deferred income taxes	10,256	824
Share-based compensation	3,063	2,139
Share-based compensation excess tax benefits	(1,798)	(2,204)
Equity in earnings of affiliates	(11,112)	(6,027)
Dividends received from affiliates	2,076	1,369
Minority interest	(362)	(79)
(Gain) loss from disposal of property and equipment	42	24
Impairment of oil and gas properties	2,014	
Changes in current assets and liabilities, net of effects of acquisitions:		
Increase in customer receivables	(15,038)	(15,102)
Increase in costs and estimated earnings in excess of billings on uncompleted contracts	(11,177)	(7,770)
Increase in inventories	(14,319)	(918)
(Increase) decrease in other current assets	(2,702)	1,116
Increase in accounts payable and accrued expenses	12,142	21,678
Increase (decrease) in billings in excess of costs and estimated earnings on uncompleted contracts	5,913	(2,801)
Other, net	(4,588)	(1,374)
Cash provided by operating activities	51,264	50,452
Cash flow from investing activities:		
Additions to property and equipment	(39,398)	(33,152)
Additions to gas transportation facilities and equipment	(5,149)	(2,958)
Additions to oil and gas properties	(14,817)	(13,171)
Additions to mineral interests in oil and gas properties	(2,792)	(4,908)
Proceeds from disposal of property and equipment	867	1,339
Acquisition of businesses, net of cash acquired	(8,895)	
Distribution of restricted cash for prior year acquisitions		(9,627)
Payment of cash purchase price adjustments on prior year acquisitions	(33)	(2,270)
Deposit of cash into restricted accounts	(15,200)	(1,075)
Release of cash from restricted accounts	15,200	9,627
Cash used in investing activities	(70,217)	(56,195)
Cash flow from financing activities:		
Borrowings under revolving credit facility		483,800

Edgar Filing: LAYNE CHRISTENSEN CO - Form 10-Q

Repayments under revolving credit facility		(575,400)
Repayments of long-term debt	(13,333)	
Proceeds from public offering of common stock, net of issuance costs		159,879
Issuance of common stock upon exercise of stock options	3,170	2,845
Excess tax benefit on exercise of share-based instruments	1,798	2,204
Contribution from minority interest	39	450
Cash (used in) provided by financing activities	(8,326)	73,778
Effects of exchange rate changes on cash	(2,801)	493
Net increase (decrease) in cash and cash equivalents	(30,080)	68,528
Cash and cash equivalents at beginning of period	73,068	13,007
Cash and cash equivalents at end of period	\$ 42,988	\$ 81,535

See Notes to Consolidated Financial Statements.

Table of Contents

LAYNE CHRISTENSEN COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Accounting Policies and Basis of Presentation

Principles of Consolidation The consolidated financial statements include the accounts of Layne Christensen Company and its subsidiaries (together, the Company). All significant intercompany transactions have been eliminated. Investments in affiliates (20% to 50% owned) in which the Company exercises influence over operating and financial policies are accounted for by the equity method. The unaudited consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company for the year ended January 31, 2008 as filed in its Annual Report on Form 10-K.

The accompanying unaudited consolidated financial statements include all adjustments (consisting only of normal recurring accruals) which, in the opinion of management, are necessary for a fair presentation of financial position, results of operations and cash flows. Results of operations for interim periods are not necessarily indicative of results to be expected for a full year.

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

Revenue Recognition Revenues are recognized on large, long-term construction contracts meeting the criteria of Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts (SOP 81-1), using the percentage-of-completion method based upon the ratio of costs incurred to total estimated costs at completion. Contract price and cost estimates are reviewed periodically as work progresses and adjustments proportionate to the percentage of completion are reflected in contract revenues in the reporting period when such estimates are revised. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions, change orders and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. As allowed by SOP 81-1, revenue is recognized on smaller, short-term construction contracts using the completed contract method. Provisions for estimated losses on uncompleted construction contracts are made in the period in which such losses are determined. Revenues for direct sales of equipment and other ancillary products not provided in conjunction with the performance of construction contracts are recognized at the date of delivery to, and acceptance by, the customer. Provisions for estimated warranty obligations are made in the period in which the sales occur. Contracts for the Company's mineral exploration drilling services are billable based on the quantity of drilling performed. Thus, revenues for these drilling contracts are recognized on the basis of actual footage or meterage drilled.

Revenues for the sale of oil and gas by the Company's energy division are recognized on the basis of volumes sold at the time of delivery to an end user or an interstate pipeline, net of amounts attributable to royalty or working interest holders.

The Company's revenues are presented net of taxes imposed on revenue-producing transactions with its customers, such as, but not limited to, sales, use, value-added, and some excise taxes.

Oil and Gas Properties and Mineral Interests The Company follows the full-cost method of accounting for oil and gas properties. Under this method, all productive and nonproductive costs incurred in connection with the exploration for and development of oil and gas reserves are capitalized. Such capitalized costs include lease acquisition, geological and geophysical work, delay rentals, drilling, completing and equipping oil and gas wells, and salaries, benefits and other internal salary-related costs directly attributable to these activities. Costs associated with production and general corporate activities are expensed in the period incurred. Normal dispositions of oil and gas properties are accounted for as adjustments of capitalized costs, with no gain or loss recognized. Separate full-cost pools are established for each country in which the company has exploration activities.

The Company is required to review the carrying value of its oil and gas properties each quarter under the full cost accounting rules of the SEC. Under these rules, capitalized costs of proved oil and gas properties, as adjusted for asset

retirement obligations, may not exceed the present value of estimated future net revenues from proved reserves, discounted at 10% (the ceiling test). Application of the ceiling test generally requires pricing future revenue at the unescalated prices in effect as

Table of Contents

of the last day of the quarter, with effect given to the Company's fixed-price natural gas contracts, and requires a write-down for accounting purposes if the ceiling is exceeded. Unproved oil and gas properties are not amortized, but are assessed for impairment either individually or on an aggregated basis using a comparison of the carrying values of the unproved properties to net future cash flows. See Note 7 for discussion of the impairment recorded in 2009. The Company believes at this time that the carrying value of its oil and gas properties is appropriate.

Reserve Estimates The Company's estimates of natural gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent in the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is a subjective process of estimating underground accumulations of gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable gas reserves and future net cash flows depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing natural gas prices, future operating costs, severance, ad valorem and excise taxes, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery, and estimates of the future net cash flows expected therefrom may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of the Company's oil and gas properties and the rate of depletion of the oil and gas properties. Actual production, revenues and expenditures with respect to the Company's reserves will likely vary from estimates, and such variances may be material.

Goodwill and Other Intangibles Goodwill and other intangible assets with indefinite useful lives are not amortized, and instead are periodically tested for impairment. The Company performs its annual impairment test as of December 31 each year, or more frequently if events or changes in circumstances indicate that an asset might be impaired. The process of evaluating goodwill for impairment involves the determination of the fair value of the Company's reporting units. Inherent in such fair value determinations are certain judgments and estimates, including the interpretation of current economic indicators and market valuations, and assumptions about the Company's strategic plans with regard to its operations. The Company believes at this time that the carrying value of the remaining goodwill is appropriate, although to the extent additional information arises or the Company's strategies change, it is possible that the Company's conclusions regarding impairment of the remaining goodwill could change and result in a material effect on its financial position or results of operations.

Other Long-lived Assets In the event of an indication of possible impairment, the Company evaluates the fair value and future benefits of long-lived assets, including the Company's gas transportation facilities and equipment, by performing an analysis of the anticipated future net cash flows of the related long-lived assets and reducing their carrying value by the excess, if any, of the result of such calculation. The Company believes at this time that the carrying values and useful lives of its long-lived assets continue to be appropriate.

Cash and Cash Equivalents The Company considers investments with an original maturity of three months or less when purchased to be cash equivalents. As of October 31, 2008 and January 31, 2008 the Company's cash equivalents included \$31,000,000 and \$56,000,000 of short term commercial paper. The Company's cash equivalents are subject to potential credit risk. The Company's cash management and investment policies restrict investments to investment grade, highly liquid securities. The carrying value of cash and cash equivalents approximates fair value.

Restricted Deposits Included in restricted deposits are escrow funds associated with various acquisitions as described in Note 2, and certain margin deposits to collateralize fixed-price physical delivery contracts.

Accrued Insurance Expense The Company maintains insurance programs where it is responsible for a certain amount of each claim up to a self-insured limit. Estimates are recorded for health and welfare, property and casualty insurance costs that are associated with these programs. These costs are estimated based on actuarially determined projections of future payments under these programs. Should a greater amount of claims occur compared to what was estimated or costs of the medical profession increase beyond what was anticipated, reserves recorded may not be sufficient and additional costs to the consolidated financial statements could be required.

Costs estimated to be incurred in the future for employee medical benefits, property, workers' compensation and casualty insurance programs resulting from claims which have occurred are accrued currently. Under the terms of the Company's agreement with the various insurance carriers administering these claims, the Company is not required to remit the total premium until the claims are actually paid by the insurance companies. These costs are not expected to significantly impact liquidity in future periods.

Table of Contents

Income Taxes Income taxes are provided using the asset/liability method, in which deferred taxes are recognized for the tax consequences of temporary differences between the financial statement carrying amounts and tax bases of existing assets and liabilities. Deferred tax assets are reviewed for recoverability and valuation allowances are provided as necessary. Provision for U.S. income taxes on undistributed earnings of foreign subsidiaries and affiliates is made only on those amounts in excess of funds considered to be invested indefinitely. In general, the Company records income tax expense during interim periods based on its best estimate of the full year's effective tax rate. However, income tax expense relating to adjustments to the Company's liabilities for FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement 109 (FIN48), is accounted for discretely in the interim period in which it occurs.

As of October 31 and January 31, 2008, the total amount of unrecognized tax benefits recorded under FIN 48 was \$7,311,000 and \$6,642,000, respectively, of which substantially all would affect the effective tax rate if recognized. The Company does not expect the unrecognized tax benefits to change materially within the next 12 months. The Company classifies uncertain tax positions as non-current income tax liabilities unless expected to be paid in one year. The Company reports income tax-related interest and penalties as a component of income tax expense. As of October 31 and January 31, 2008, the total amount of accrued income tax-related interest and penalties included in the balance sheet was \$3,249,000 and \$2,752,000, respectively.

Litigation and Other Contingencies The Company is involved in litigation incidental to its business, the disposition of which is not expected to have a material effect on the Company's business, financial position, results of operations or cash flows. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in the Company's assumptions related to these proceedings. The Company accrues its best estimate of the probable cost for the resolution of legal claims. Such estimates are developed in consultation with outside counsel handling these matters and are based upon a combination of litigation and settlement strategies. To the extent additional information arises or the Company's strategies change, it is possible that the Company's estimate of its probable liability in these matters may change.

Derivatives The Company follows SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133), as amended, which requires derivative financial instruments to be recorded on the balance sheet at fair value and establishes criteria for designation and effectiveness of hedging relationships. Under SFAS 133, the Company accounts for its unrealized hedges of forecasted costs as cash flow hedges, such that changes in fair value for the effective portion of hedge contracts, if material, are recorded in accumulated other comprehensive income in stockholders' equity. Changes in the fair value of the effective portion of hedge contracts are recognized in accumulated other comprehensive income until the hedged item is recognized in operations. The ineffective portion of the derivatives change in fair value, if any, is immediately recognized in operations. In addition, the Company has entered into fixed-price natural gas contracts to manage fluctuations in the price of natural gas. These contracts result in the Company physically delivering gas, and as a result, are exempt from the requirements of SFAS 133 under the normal purchases and sales exception. Accordingly, the contracts are not reflected in the balance sheet at fair value and revenues from the contracts are recognized as the natural gas is delivered under the terms of the contracts (see Note 5 for disclosure regarding the fair value of derivative instruments). The Company does not enter into derivative financial instruments for speculative or trading purposes.

Earnings per share Earnings per share are based upon the weighted average number of common and dilutive equivalent shares outstanding. Options to purchase common stock and unvested restricted shares are included based on the treasury stock method for dilutive earnings per share, except when their effect is antidilutive.

Share-based compensation The Company adopted SFAS No. 123R (revised December 2004), Share-Based Compensation effective February 1, 2006, which requires the recognition of all share-based instruments in the financial statements and establishes a fair-value measurement of the associated costs. The Company elected to adopt the standard using the Modified Prospective Method which requires recognition of all unvested share-based instruments as of the effective date over the remaining term of the instrument. As of October 31, 2008, the Company had unrecognized compensation expense of \$6,965,000 to be recognized over a weighted average period of 2.15 years. The Company determines the fair value of stock-based compensation granted in the form of stock options using the Black-Scholes model.

Table of Contents

Supplemental Cash Flow Information The amounts paid for income taxes and interest are as follows (in thousands):

	Nine Months Ended October 31,	
	2008	2007
Income taxes	\$17,767	\$15,761
Interest	2,687	7,717

The Company had earnings on restricted deposits of \$28,000 and \$282,000 for the nine months ended October 31, 2008 and 2007, respectively, which were treated as non-cash items as the earnings were restricted for the account of the escrow beneficiaries.

The Company also entered into financing obligations for software licenses during the nine months ended October 31, 2008 amounting to \$1,220,000, payable over the next three years. The associated assets are recorded as Other Intangible Assets in the balance sheet.

New Accounting Pronouncements In September 2006, the FASB issued SFAS 157, Fair Value Measurements (SFAS 157), which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. On February 1, 2008 the Company adopted SFAS 157 for its financial assets and liabilities. The adoption of SFAS 157 did not impact the Company's financial position, results of operations, liquidity or disclosures as there are no financial assets or liabilities that are measured at fair value on a recurring basis. In February 2008, the FASB issued Staff Position 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), which delays the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. The adoption of SFAS 157 for those nonfinancial assets within the scope of FSP 157-2 is not expected to have a material impact on the Company's financial position, results of operations or liquidity.

In September 2006, the FASB issued SFAS 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158), which requires a company that sponsors a postretirement benefit plan to fully recognize, as an asset or liability, the overfunded or underfunded status of its benefit plan(s) in its year-end balance sheet. These provisions of SFAS 158 were effective for the Company's fiscal year ended January 31, 2007. In addition, beginning with the Company's fiscal year ending January 31, 2009, SFAS 158 also generally requires a company to measure its plan assets and benefit obligations as of its fiscal year-end balance sheet date. The Company elected to apply the transition option under which a 13-month measurement was determined as of December 31, 2007 that covers the period until the fiscal year-end measurement is required on January 31, 2009. As a result, the Company recorded an approximate \$44,000 decrease to retained earnings as of February 1, 2008.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115 (SFAS 159). SFAS 159 permits the measurement of specified financial instruments and warranty and insurance contracts at fair value on a contract-by-contract basis, with changes in fair value recognized in earnings each reporting period. The Company adopted this standard as of February 1, 2008. The adoption of SFAS 159 did not impact our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations (SFAS 141R). SFAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. SFAS 141R also establishes disclosure requirements to enable the evaluation of the nature and financial effects of the business combination. The Company will be required to adopt this standard beginning in the first quarter of the fiscal year ending January 31, 2010.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statement an amendment of Accounting Research Bulletin No. 51 (SFAS 160). SFAS 160 requires noncontrolling interests, previously referred to as minority interests, to be treated as a separate component of equity, not as a liability or other item outside of permanent equity and applies to the accounting for noncontrolling interest holders in consolidated financial statements. The Company will be required to adopt this standard beginning in the first quarter of the fiscal year ending January 31, 2010. The

Table of Contents

Company anticipates that the adoption of SFAS 160 will result in a reclassification of minority interest into equity. In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities and amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. The Company will be required to adopt this standard in the first quarter of the fiscal year ending January 31, 2010. The Company does not anticipate that adoption of SFAS 161 will have a material impact on our consolidated results of operations and financial condition.

2. Acquisitions

On October 24, 2008 (the Meadors Closing Date), the Company acquired 100% of the stock of Meadors Construction Co., Inc. (Meadors), a construction company operating primarily in Florida. The operation will be combined with similar service lines and will serve to foster our further expansion into Florida and the southeast. The purchase price for Meadors was \$4,557,000, consisting of cash of \$4,504,000 (\$700,000 of which was placed in escrow to secure certain representations, warranties and indemnifications under the purchase agreement) and costs of \$53,000.

The preliminary purchase price has been allocated based on the fair value of the assets and liabilities acquired, determined based on the Company's internal operational assessments and other analyses. Such amounts may be subject to revision as Meadors is integrated into the Company and the revisions may be significant and will be recorded by the Company as further adjustments to the purchase price allocation.

Based on the Company's preliminary allocation of the purchase price, the acquisition had the following effect on the Company's consolidated financial position as of the Meadors Closing Date (in thousands):

Working capital	\$ 823
Property and equipment	1,500
Goodwill	2,234
Total purchase price	\$ 4,557

The \$2,234,000 of goodwill was assigned to the water infrastructure segment and is expected to be deductible for tax purposes.

The results of operations of Meadors have been included in the Company's consolidated statements of income commencing with the Meadors Closing Date. Proforma amounts for prior periods have not been presented since the acquisition would not have had a significant effect on the Company's consolidated revenues or net income.

On August 7, 2008 (the M&T Closing Date), the Company acquired certain assets and liabilities of Moore & Tabor (M&T), a geotechnical construction firm operating in California. The purchase price for M&T was \$1,818,000, consisting of cash of \$1,785,000 (\$150,000 of which was placed in escrow to secure certain representations, warranties and indemnifications under the purchase agreement) and costs of \$33,000. The cash portion of the purchase price is net of certain adjustments based on the value of working capital at the closing date.

The preliminary purchase price has been allocated based on the fair value of the assets and liabilities acquired, determined based on the Company's internal operational assessment and other analyses. Such amounts may be subject to revision as M&T is integrated into the Company and the revisions may be significant and will be recorded by the Company as further adjustments to the purchase price allocation.

Based on the Company's preliminary allocation of the purchase price, the acquisition had the following effect on the Company's consolidated financial position as of the M&T Closing Date (in thousands):

Working capital	\$ 427
Property and equipment	798
Goodwill	593
Total purchase price	\$ 1,818

The \$593,000 of goodwill was assigned to the water infrastructure segment and is expected to be deductible for tax purposes.

Table of Contents

The results of operations of M&T have been included in the Company's consolidated statements of income commencing with the M&T Closing Date. Proforma amounts for prior periods have not been presented since the acquisition would not have had a significant effect on the Company's consolidated revenues or net income.

On May 5, 2008 (the WHPA Closing Date), the Company acquired certain assets and liabilities of Wittman Hydro Planning Associates (WHPA), a water consulting firm specializing in hydrologic systems modeling and analysis. The purchase price for WHPA was \$2,519,000, consisting of cash of \$2,494,000 (\$300,000 of which was placed in escrow to secure certain representations, warranties and indemnifications under the purchase agreement) and costs of \$25,000. The cash portion of the purchase price is net of certain adjustments based on the value of working capital at the closing date.

The preliminary purchase price has been allocated based on the fair value of the assets and liabilities acquired, determined based on the Company's internal operational assessments and other analyses. Such amounts may be subject to revision as WHPA is integrated into the Company and the revisions may be significant and will be recorded by the Company as further adjustments to the purchase price allocation.

Based on the Company's preliminary allocation of the purchase price, the acquisition had the following effect on the Company's consolidated financial position as of the WHPA Closing Date (in thousands):

Working capital	\$ 393
Property and equipment	16
Goodwill	1,857
Patents	250
Other assets	3
 Total purchase price	 \$ 2,519

The \$250,000 of acquired identifiable intangible assets comprised of patents have a weighted-average useful life of 15 years. The \$1,857,000 of goodwill was assigned to the water infrastructure segment and is expected to be deductible for tax purposes.

The results of operations of WHPA have been included in the Company's consolidated statements of income commencing with the WHPA Closing Date. Proforma amounts for prior periods have not been presented since the acquisition would not have had a significant effect on the Company's consolidated revenues or net income.

In addition to the initial purchase price, there is contingent consideration up to a maximum of \$2,500,000 (the WHPA Earnout Amount), which is based on a percentage of the amount by which WHPA's earnings before interest, taxes, depreciation and amortization exceed a threshold amount during the 36 months following the acquisition. If earned, up to 80% of the WHPA Earnout Amount may be paid with Layne common stock, at the Company's discretion. Any portion of the WHPA Earnout Amount which is ultimately paid will be accounted for as additional purchase consideration.

On December 31, 2007 (the Tierdael Closing Date), the Company acquired certain assets and liabilities of Tierdael Construction (Tierdael), a pipeline and utility construction contractor in Denver which was combined with a similar service line acquired in the acquisition of Reynolds, Inc. The purchase price for Tierdael was \$7,110,000, consisting of cash of \$6,646,000 (\$665,000 of which was placed in escrow to secure certain representations, warranties and indemnifications under the purchase agreement) assumed liabilities of \$226,000 and costs of \$238,000. The cash portion of the purchase price is subject to certain adjustments based on the value of working capital at the closing date, settlement of which is expected in fiscal 2009. Any adjustment will be treated as an adjustment of the total purchase price.

The preliminary purchase price has been allocated based on the fair value of the assets and liabilities acquired, determined based on the Company's internal operational assessments and other analyses. Such amounts may be subject to revision as Tierdael is integrated into the Company and the revisions may be significant and will be recorded by the Company as further adjustments to the purchase price allocation.

Edgar Filing: LAYNE CHRISTENSEN CO - Form 10-Q

Based on the Company's preliminary allocation of the purchase price, the acquisition had the following effect on the Company's consolidated financial position as of the Tierdael Closing Date (in thousands):

Working capital	\$ 3,983
Property and equipment	3,127
Total purchase price	\$ 7,110

Table of Contents

The results of operations of Tierdael have been included in the Company's consolidated statements of income commencing with the Tierdael Closing Date. Assuming Tierdael had been acquired as of the beginning of each period, the unaudited pro forma consolidated revenues, net income and net income per share would be as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2008	2007	2008	2007
Revenues	\$264,483	\$231,358	\$778,665	\$663,081
Net income	12,227	10,157	37,885	28,334
Basic earnings per share	0.64	0.62	1.98	1.79
Diluted earnings per share	0.63	0.60	1.94	1.75

The pro forma information provided above is not necessarily indicative of the results of operations that would actually have resulted if the acquisition was made as of those dates or of results that may occur in the future. Pro forma results include adjustments for interest expense on the cash purchase price.

On November 30, 2007 (the SolmeteX Closing Date), the Company acquired certain assets and liabilities of SolmeteX, Inc. (SolmeteX), a water and wastewater research and development business and a supplier of wastewater filtration products to the dental market. The purchase price for SolmeteX was \$13,586,000, consisting of cash of \$13,500,000 (\$1,000,000 of which was placed in escrow to secure certain representations, warranties and indemnifications under the purchase agreement) and costs of \$86,000. In addition, there is contingent consideration up to a maximum of \$1,000,000 (the SolmeteX Earnout Amount), which is based on a percentage of the amount of SolmeteX's revenues during the 36 months following the acquisition. The SolmeteX Earnout Amount that is ultimately paid will be accounted for as additional purchase consideration. A payment of \$33,000 was made in the nine months ended October 31, 2008.

The purchase price has been allocated based on the fair value of the assets and liabilities acquired, determined based on the Company's internal operational assessments, appraisals and other analyses.

Based on the Company's allocation of the purchase price, the acquisition had the following effect on the Company's consolidated financial position as of the SolmeteX Closing Date (in thousands):

Working capital	\$ 64
Property and equipment	115
Goodwill	7,270
Tradenames	2,962
Patents	2,543
Other intangible assets	551
Deferred income taxes	81
Total purchase price	\$ 13,586

Of the \$6,056,000 of acquired identifiable intangible assets, \$21,000 was assigned to research and development assets that were written off in selling, general and administrative expenses at the date of acquisition in accordance with FASB Interpretation 4, Applicability of FASB Statement No. 2 to Business Combinations Accounted for by the Purchase Method. The remaining \$6,035,000 of acquired identifiable intangible assets have a weighted-average useful life of approximately 15.4 years, comprised of trade names (15-year weighted-average useful life), patents (15-year weighted-average useful life), and other assets (20-year average useful life). The \$7,270,000 of goodwill was assigned to the water infrastructure segment. Of that total amount, \$7,053,000 is expected to be deductible for tax purposes.

Table of Contents

The results of operations of SolmeteX have been included in the Company's consolidated statements of income commencing with the SolmeteX Closing Date. Assuming SolmeteX had been acquired as of the beginning of each period, the unaudited pro forma consolidated revenues, net income and net income per share would be as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2008	2007	2008	2007
Revenues	\$264,483	\$226,471	\$778,665	\$648,420
Net income	12,227	9,644	37,885	26,795
Basic earnings per share	0.64	0.59	1.98	1.69
Diluted earnings per share	0.63	0.57	1.94	1.65

The pro forma information provided above is not necessarily indicative of the results of operations that would actually have resulted if the acquisition was made as of those dates or of results that may occur in the future. Pro forma results include adjustments for interest expense on the cash purchase price.

On June 16, 2006, the Company acquired 100% of the stock of Collector Wells International, Inc. (CWI), a privately held specialty water services company that designs and constructs water supply systems. CWI was combined with a similar service line acquired in the acquisition of Reynolds, Inc. In addition to the initial purchase price, there is contingent consideration up to a maximum of \$1,400,000 (the CWI Earnout Amount), which is based on a percentage of the amount by which CWI's earnings before interests, taxes, depreciation and amortization exceed a threshold amount during the thirty-months following the acquisition. If earned, up to 20% of the CWI Earnout Amount may be paid with Layne common stock, at the Company's discretion. Any portion of the CWI Earnout Amount which is ultimately paid will be accounted for as additional purchase consideration.

3. Goodwill and Other Intangible Assets

Goodwill and other intangible assets consist of the following (in thousands):

	October 31, 2008			January 31, 2008		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Amortization Period in years	Gross Carrying Amount	Accumulated Amortization	Weighted Average Amortization Period in years
Goodwill	\$ 90,423	\$		\$ 85,706	\$	
Amortizable intangible assets:						
Tradenames	\$ 18,962	\$ (2,072)	29	\$ 18,962	\$ (1,464)	29
Customer-related	332	(332)	2	332	(340)	2
Patents	3,152	(523)	14	2,902	(307)	14
Non-competition agreements	379	(307)	5	379	(273)	5
Other	2,512	(789)	13	1,292	(553)	22
Total amortizable intangible assets	\$ 25,337	\$ (4,023)		\$ 23,867	\$ (2,937)	

Amortizable intangible assets are being amortized over their estimated useful lives of two to 40 years with a weighted average amortization period of 25 years. Total amortization expense for other intangible assets was \$471,000 and \$265,000 for the three months ended October 31, 2008 and 2007, respectively and \$1,085,000 and \$793,000 for the nine months ended October 31, 2008 and 2007 respectively.

The carrying amount of goodwill attributed to each operating segment was as follows (in thousands):

	Energy	Water Infrastructure	Total
Balance February 1, 2008	\$ 950	\$ 84,756	\$ 85,706
Additions		4,717	4,717
Balance, October 31, 2008	\$ 950	\$ 89,473	\$ 90,423

Table of Contents**4. Indebtedness**

On July 31, 2003, the Company entered into an agreement (Master Shelf Agreement) whereby it could issue up to \$60,000,000 in unsecured notes. Upon closing, the Company issued \$40,000,000 of notes (Series A Senior Notes) under the Master Shelf Agreement. The Series A Senior Notes bear a fixed interest rate of 6.05% and are due on August 2, 2010, with annual principal payments of \$13,333,000 beginning July 31, 2008. Proceeds from the issuance were used to refinance borrowings outstanding under the Company's previous term loan and revolving credit facility. The Company issued an additional \$20,000,000 of notes under the Master Shelf Agreement in October 2004 (Series B Senior Notes). The Series B Senior Notes bear a fixed interest rate of 5.40% and are due on September 29, 2011, with annual principal payments of \$6,667,000 beginning September 29, 2009. Proceeds of the issuance were used to finance an acquisition and for general corporate purposes. As of October 15, 2007, the Company amended the Master Shelf Agreement to increase the amount of senior notes available to be issued to \$105,000,000, which created an available facility amount of \$45,000,000, and reinstated and extended the available issuance period to September 15, 2009.

The Company also maintains a revolving credit facility under an Amended and Restated Loan Agreement (the Credit Agreement) with LaSalle Bank National Association, as Administrative Agent and as Lender (the Administrative Agent), and the other Lenders listed therein (the Lenders), which contains a revolving loan commitment of \$200,000,000, less any outstanding letter of credit commitments (which are subject to a \$30,000,000 sublimit). The Credit Agreement provides for interest at variable rates equal to, at the Company's option, a LIBOR rate plus 0.75% to 2.00%, or a base rate, as defined in the Credit Agreement, plus up to 0.50%, depending upon the Company's leverage ratio. The Credit Agreement is unsecured and is due and payable November 15, 2011. On October 31, 2008, there were letters of credit of \$16,864,000 and no borrowings outstanding on the Credit Agreement resulting in available capacity of \$183,136,000.

The Master Shelf Agreement and the Credit Agreement contain certain covenants including restrictions on the incurrence of additional indebtedness and liens, investments, acquisitions, transfer or sale of assets, transactions with affiliates, payment of dividends and certain financial maintenance covenants, including among others, fixed charge coverage, leverage and minimum tangible net worth. The Company was in compliance with its covenants as of October 31, 2008.

Debt outstanding as of October 31, 2008 and January 31, 2008 was as follows (in thousands):

	October 31, 2008	January 31, 2008
Long-term debt:		
Credit Agreement	\$	\$
Senior Notes	46,667	60,000
Total debt	46,667	60,000
Less current maturities	(20,000)	(13,333)
Total long-term debt	\$ 26,667	\$ 46,667

5. Derivatives

The Company's energy division is exposed to fluctuations in the price of natural gas and has entered into fixed-price physical delivery contracts to manage natural gas price risk for a portion of its production. As of October 31, 2008, the Company had committed to deliver 6,834,000 million British Thermal Units (MMBtu) of natural gas through March 2010 at prices ranging from \$7.66 to \$8.50 per MMBtu through March 2009 and from \$7.59 to \$10.58 per MMBtu from April 2009 to March 2010.

The fixed-price physical delivery contracts will result in the physical delivery of natural gas, and as a result, are exempt from the requirements of SFAS 133 under the normal purchases and sales exception. Accordingly, the

contracts are not reflected in the balance sheet at fair value and revenues from the contracts are recognized as the natural gas is delivered under the terms of the contracts. The estimated fair value of such contracts at October 31, 2008 was \$31,242,000.

Additionally, the Company has foreign operations that have significant costs denominated in foreign currencies, and thus is exposed to risks associated with changes in foreign currency exchange rates. At any point in time, the Company might use various hedge instruments, primarily foreign currency option contracts, to manage the exposures associated with forecasted expatriate labor costs and purchases of operating supplies. As of October 31, 2008, there were no such instruments outstanding. The Company does not enter into foreign currency derivative financial instruments for speculative or trading purposes.

Table of Contents**6. Other Comprehensive Income (Loss)**

Components of other comprehensive income (loss) are summarized as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2008	2007	2008	2007
Net income	\$ 12,227	\$ 9,929	\$ 37,885	\$ 27,650
Other comprehensive income, net of taxes:				
Foreign currency translation adjustments	(2,789)	23	(2,350)	515
Comprehensive income	\$ 9,438	\$ 9,952	\$ 35,535	\$ 28,165

The components of accumulated other comprehensive loss for the nine months ended October 31, 2008 and 2007 are as follows (in thousands):

	Cumulative Translation Adjustment	Unrecognized Pension Liability	Accumulated Other Comprehensive Loss
Balance, February 1, 2008	\$ (6,391)	\$ (596)	\$ (6,987)
Period change	(2,350)		(2,350)
Balance, October 31, 2008	\$ (8,741)	\$ (596)	\$ (9,337)

	Cumulative Translation Adjustment	Unrecognized Pension Liability	Accumulated Other Comprehensive Loss
Balance, February 1, 2007	\$ (7,151)	\$ (1,302)	\$ (8,453)
Period change	515		515
Balance, October 31, 2007	\$ (6,636)	\$ (1,302)	\$ (7,938)

7. Other Income (Expense)

Other income (expense) consisted of the following for the three and nine months ended October 31, 2008 and 2007:

	Three Months Ended October 31,		Nine Months Ended October 31,	
(in thousands)	2008	2007	2008	2007
Gain (loss) from disposal of property and equipment	\$ 77	\$ 293	\$ (42)	\$ (24)
Impairment of oil and gas properties	(2,014)		(2,014)	
Settlement income	2,173		2,173	
Interest income	123	54	949	132
Currency exchange gain (loss)	(22)	82	1	(138)
Other	130	(185)	47	799
Total	\$ 467	\$ 244	\$ 1,114	\$ 769

The impairment of oil and gas properties recorded in 2009 relates to the Company's exploration project in Chile, begun in 2008. Following initial core testing and further evaluation of infrastructure requirements, it was determined that recovery of our investment was not likely and the costs were written off.

In 2009, the Company initiated litigation against former officers of a subsidiary and associated energy production companies. During September 2008, the Company entered into a settlement agreement whereby it will receive certain payments over a period through September 2009. The expected payments, net of attorney fees, were recorded as settlement income in 2009.

Table of Contents

The gain (loss) from disposal of property and equipment relate to the Company's efforts to monetize non-strategic assets as well as gains from disposals in the ordinary course of business.

8. Employee Benefit Plans

The Company sponsors a pension plan covering certain hourly employees not covered by union-sponsored, multi-employer plans. Benefits are computed based mainly on years of service. The Company makes annual contributions to the plan substantially equal to the amounts required to maintain the qualified status of the plans. Contributions are intended to provide for benefits related to past and current service with the Company. Effective December 31, 2003, the Company froze the pension plan. Benefits will no longer be accrued after December 31, 2003, and no further employees will be added to the Plan. Depending on market conditions, the Company expects to use assets of the plan to settle its benefit obligations during 2010. Assets of the plan consist primarily of stocks, bonds and government securities.

Net periodic pension cost for the three and nine months ended October 31, 2008 and 2007 includes the following components (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2008	2007	2008	2007
Service cost	\$ 26	\$ 23	\$ 79	\$ 72
Interest cost	125	117	374	353
Expected return on assets	(148)	(133)	(443)	(402)
Net amortization	31	60	98	180
Net periodic pension cost	\$ 34	\$ 67	\$ 108	\$ 203

The Company also provides supplemental retirement benefits to its chief executive officer. Benefits are computed based on the compensation earned during the highest five consecutive years of employment reduced for a portion of Social Security benefits and an annuity equivalent of the chief executive's defined contribution plan balance. The Company does not contribute to the plan or maintain any investment assets related to the expected benefit obligation. The Company has recognized the full amount of its actuarially determined pension liability. Net periodic pension cost of the supplemental retirement benefits for the three and nine months ended October 31, 2008 and 2007 include the following components (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2008	2007	2008	2007
Service cost	\$ 62	\$ 44	\$ 186	\$ 132
Interest cost	32	26	98	77
Net periodic pension cost	\$ 94	\$ 70	\$ 284	\$ 209

9. Stock and Stock Option Plans

In October 2008, the Company amended the Rights Agreement signed October 1998 whereby the Company has authorized and declared a dividend of one preferred share purchase right (Right) for each outstanding common share of the Company. Subject to limited exceptions, the Rights are exercisable if a person or group acquires or announces a tender offer for 20% or more of the Company's common stock. Each Right will entitle shareholders to buy one one-hundredth of a share of a newly created Series A Junior Participating Preferred Stock of the Company at an exercise price of \$75.00. The Company is entitled to redeem the Right at \$0.01 per Right at any time before a person has acquired 20% or more of the Company's outstanding common stock. The Rights expire three years from the date of grant.

The Company has stock option and employee incentive plans that provide for the granting of options to purchase or the issuance of shares of common stock at a price fixed by the Board of Directors or a committee. As of October 31, 2008, there were an aggregate of 1,450,000 shares registered under the plans, 473,000 of which remain available to be granted under the plans. Of this amount, 250,000 shares may only be granted as stock in payment of bonuses, and 223,000 may be issued as stock or options. The Company has the ability to issue shares under the plans either from new issuances or from treasury, although it has previously always issued new shares and expects to continue to issue new shares in the future. For the nine months ended October 31, 2008, the Company granted approximately 39,000 restricted shares which generally ratably vest over periods of one to four years from the grant date.

Table of Contents

The Company recognized \$3,063,000 and \$2,139,000 of compensation cost for these share-based plans during the nine months ended October 21, 2008 and 2007, respectively. Of these amounts, \$1,026,000 and \$396,000, respectively, related to nonvested stock. The total income tax benefit recognized for share-based compensation arrangements was \$1,184,000 and \$827,000 for the nine months ended October 31, 2008 and 2007, respectively. A summary of nonvested share activity for the nine months ended October 31, 2008, is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value (in thousands)
Nonvested stock at January 31, 2008	73,863	\$42.76	
Granted	38,584	37.39	
Vested	22,638	42.67	
Nonvested stock at October 31, 2008	89,809	\$40.48	\$3,635

Significant option groups outstanding at October 31, 2008, related exercise price and remaining contractual term follows:

Grant Date	Options Outstanding	Options Exercisable	Exercise Price	Remaining Contractual Term (Months)
4/99	7,741	7,741	\$ 4.125	6
2/00	1,900	1,900	5.500	16
4/00	13,794	13,794	3.495	18
6/04	20,000	20,000	16.600	68
6/04	77,376	77,376	16.650	68
6/05	10,000	10,000	17.540	80
9/05	157,000	94,500	23.050	83
1/06	191,481	86,365	27.870	87
6/06	10,000	10,000	29.290	92
6/06	70,000	35,000	29.290	92
6/07	65,625	13,125	42.260	104
7/07	33,000	8,250	42.760	105
9/07	3,000	750	55.480	107
2/08	74,524		35.710	111
	735,441	378,801		

Table of Contents

All options were granted at an exercise price equal to the fair market value of the Company's common stock at the date of grant. The options have terms of five to ten years from the date of grant and generally vest ratably over periods of three to five years. Transactions for stock options for the months ended October 31, 2008 were as follows:

	Number of Shares	Weighted Average Exercise Price	Stock Options Weighted Average Remaining Contractual Term (years)	Intrinsic Value (in thousands)
Stock Option Activity Summary:				
Outstanding at February 1, 2008	849,950	\$ 24.54	7.36	\$ 13,955
Granted	74,524	35.71		
Exercised	(189,033)	17.58		6,385
Canceled				
Forfeited				
Expired				
Outstanding at October 31, 2008	735,441	\$ 27.46	7.22	\$ 1,491
Shares Exercisable	378,801	\$ 23.07	6.50	\$ 1,412

The aggregate intrinsic value was calculated using the difference between the current market price and the exercise price for only those options that have an exercise price less than the current market price.

10. Operating Segments

The Company is a multinational company that provides sophisticated services and related products to a variety of markets, as well as being a producer of unconventional natural gas for the energy market. Management defines the Company's operational organizational structure into discrete divisions based on its primary product lines. Each division comprises a combination of individual district offices, which primarily offer similar types of services and serve similar types of markets. The Company's reportable segments are defined as follows:

Water Infrastructure Division

This division provides a full line of water-related services and products including hydrological studies, site selection, well design, drilling and development, pump installation, and well rehabilitation. The division's offerings also include the design and construction of water and wastewater treatment facilities, the provision of filter media and membranes to treat volatile organics and other contaminants such as nitrates, iron, manganese, arsenic, radium and radon in groundwater, Ranney collector wells, sewer rehabilitation and water and wastewater transmission lines. The division also offers environmental services to assess and monitor groundwater contaminants.

Mineral Exploration Division

This division provides a complete range of drilling services for the mineral exploration industry. Its aboveground and underground drilling activities include all phases of core drilling, diamond, reverse circulation, dual tube, hammer and rotary air-blast methods.

Energy Division

This division focuses on exploration and production of unconventional gas properties, primarily concentrating on projects in the mid-continent region of the United States.

Other

Other includes two small specialty energy service companies and any other specialty operations not included in one of the other divisions.

Financial information (in thousands) for the Company's operating segments are presented below. Intersegment revenues are accounted for based on the fair market value of the services provided. Unallocated corporate expenses primarily consist of general and administrative functions performed on a company-wide basis and benefiting all operating segments. These costs include accounting, financial reporting, internal audit, safety, treasury, corporate and securities law, tax compliance, certain executive management (chief executive officer, chief financial officer and general counsel) and board of directors.

Table of Contents

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2008	2007	2008	2007
Revenues				
Water infrastructure	\$ 198,613	\$ 162,255	\$ 575,191	\$ 475,604
Mineral exploration	53,154	47,380	163,823	130,885
Energy	10,859	10,054	34,824	29,007
Other	1,857	5,537	4,827	9,189
Total revenues	\$ 264,483	\$ 225,226	\$ 778,665	\$ 644,685
Equity in earnings of affiliates				
Mineral exploration	\$ 4,803	\$ 2,157	\$ 11,112	\$ 6,027
Income before income taxes and minority interest				
Water infrastructure	\$ 13,131	\$ 10,647	\$ 35,470	\$ 34,422
Mineral exploration	11,908	9,033	38,823	26,075
Energy	2,631	3,263	10,673	9,834
Other	344	2,872	1,203	3,477
Unallocated corporate expenses	(6,750)	(5,760)	(19,571)	(16,653)
Interest	(838)	(2,517)	(2,798)	(7,744)
Total income before income taxes and minority interest	\$ 20,426	\$ 17,538	\$ 63,800	\$ 49,411
Geographic Information				
Revenue				
United States	\$ 222,799	\$ 182,125	\$ 643,181	\$ 530,234
Africa/Australia	23,222	23,027	78,059	64,770
Mexico	10,333	11,453	34,075	30,116
Other foreign	8,129	8,621	23,350	19,565
Total revenues	\$ 264,483	\$ 225,226	\$ 778,665	\$ 644,685

11. Contingencies

The Company's drilling activities involve certain operating hazards that can result in personal injury or loss of life, damage and destruction of property and equipment, damage to the surrounding areas, release of hazardous substances or wastes and other damage to the environment, interruption or suspension of drill site operations and loss of revenues and future business. The magnitude of these operating risks is amplified when the Company, as is frequently the case, conducts a project on a fixed-price, turnkey basis where the Company delegates certain functions to subcontractors but remains responsible to the customer for the subcontracted work. In addition, the Company is exposed to potential liability under foreign, federal, state and local laws and regulations, contractual indemnification agreements or otherwise in connection with its services and products. Litigation arising from any such occurrences may result in the Company being named as a defendant in lawsuits asserting large claims. Although the Company maintains insurance protection that it considers economically prudent, there can be no assurance that any such insurance will be sufficient or effective under all circumstances or against all claims or hazards to which the Company may be subject or that the Company will be able to continue to obtain such insurance protection. A successful claim or damage resulting from a hazard for which the Company is not fully insured could have a material adverse effect on the Company. In addition,

the Company does not maintain political risk insurance with respect to its foreign operations.

The Company is involved in various matters of litigation, claims and disputes which have arisen in the ordinary course of the Company's business. The Company believes that the ultimate disposition of these matters will not, individually and in the aggregate, have a material adverse effect upon its business or consolidated financial position, results of operations or cash flows.

On April 30, 2008, Levelland/Hockley County Ethanol, LLC ("Levelland") filed a Complaint against the Company in the District Court for Hockley County, Texas. On May 28, 2008, the Company removed the case to the United States District Court for the Northern District of Texas, Lubbock Division. On June 2, 2008, Levelland filed a First Amended Complaint against the Company in the Federal District Court for the Northern District of Texas, Lubbock Division. Levelland owns an ethanol plant located in Levelland, Texas. In July 2007, Levelland entered into a lease agreement with the Company for certain water treatment equipment for the ethanol plant. Levelland alleges that the equipment leased from the Company fails to treat the water coming into the ethanol plant to required levels. The First Amended Complaint seeks damages for breach of contract, breach of warranty, violation of the Texas Deceptive Trade Practices Act, negligence, negligent misrepresentation and fraud, in connection with the design and construction of the water treatment facility. The Company believes that it has meritorious defenses to the

Table of Contents

claims, intends to vigorously defend against them and does not believe that the claims will have a significant effect on its financial statements.

Item 1A. Risk Factors

There have been no significant changes to the risk factors disclosed under Item 1A in our Annual Report on form 10-K for the year ended January 31, 2008, except as noted below.

Risks Relating To Our Business And Industry

Demand for our services is vulnerable to economic downturns and reductions in private industry and municipal spending. If general economic conditions continue to weaken and current constraints on the availability of capital continue, then our revenues, profits and our financial condition may decline.

Our customers are vulnerable to general downturns in the domestic and international economies. Consequently, our results of operations could fluctuate depending on the demand for our services. Due to the current economic downturn caused by the decline in the credit markets, many of our customers may face considerable budget shortfalls or may delay capital spending that may decrease the overall demand for our services. In addition, our customers may find it more difficult to raise capital in the future due to substantial limitations on the availability of credit and other uncertainties in the municipal and general credit markets. Also, global demand for commodities has increased raw material costs, which increases the overall project cost and more rapidly depletes the funds already allocated to be spent on projects. In addition, our customers may demand better pricing terms and their ability to timely pay our invoices may be affected by an increasingly weakened economy. If the economy weakens further or municipal spending is reduced, then our revenues, net income and overall financial condition may decline.

A reduction in demand for our mineral exploration and development services could reduce our revenue.

Demand for our mineral exploration services depends in significant part upon the level of mineral exploration and development activities conducted by mining companies, particularly with respect to gold and copper. Mineral exploration is highly speculative and is influenced by a variety of factors, including the prevailing prices for various metals, which often fluctuate widely. In addition, the price of gold is affected by numerous factors, including international economic trends, currency exchange fluctuations, expectations for inflation, speculative activities, consumption patterns, purchases and sales of gold bullion holdings by central banks and others, world production levels and political events. In addition to prevailing prices for minerals, mineral exploration activity is influenced by the following factors:

- global and domestic economic considerations;
- the economic feasibility of mineral exploration and production;
- the discovery rate of new mineral reserves;
- national and international political conditions; and
- the ability of mining companies to access or generate sufficient funds to finance capital expenditures for their activities.

We cannot guarantee that overall demand for our mineral exploration services will increase or stay the same in the future. A material decrease in the rate of mineral exploration and development would reduce the revenue generated by our mineral exploration division. Based on current global economic uncertainties, we expect overall exploration spending to decrease at least in the short term.

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

Cautionary Language Regarding Forward-Looking Statements

This Form 10-Q may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. Such statements may include, but are not limited to, statements of plans and objectives, statements of future economic performance and statements of assumptions underlying such statements, and statements of management's intentions, hopes, beliefs, expectations or predictions of the future.

Forward looking statements can often be identified by the use of forward-looking terminology, such as should, intended, continue, believe, may, hope, anticipate, goal, forecast, plan, estimate and similar word statements are based on current expectations and are subject to certain risks, uncertainties and assumptions, including but not limited to prevailing prices for various commodities, unanticipated slowdowns in the Company's major markets, the risks and uncertainties normally incident to the construction industry and exploration for and

development and production of oil and gas, the impact of competition, the effectiveness of operational changes expected to increase efficiency and productivity, worldwide economic and political

Table of Contents

conditions and foreign currency fluctuations that may affect worldwide results of operations. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially and adversely from those anticipated, estimated or projected. These forward-looking statements are made as of the date of this filing, and the Company assumes no obligation to update such forward-looking statements or to update the reasons why actual results could differ materially from those anticipated in such forward-looking statements.

Results of Operations

The following table presents, for the periods indicated, the percentage relationship which certain items reflected in the Company's consolidated statements of income bear to revenues and the percentage increase or decrease in the dollar amount of such items period to period.

	Three Months Ended October 31,		Nine Months Ended October 31,		Period-to-Period Change	
	2008	2007	2008	2007	Three Months	Nine Months
Revenues:						
Water infrastructure	75.1%	72.0%	73.9%	73.8%	22.4	20.9
Mineral exploration	20.1	21.0%	21.0	20.3	12.2	25.2
Energy	4.1	4.5	4.5	4.5	8.0	20.1
Other	0.7	2.5	0.6	1.4	(66.5)	(47.5)
Total net revenues	100.0%	100.0%	100.0%	100.0%	17.4	20.8
Cost of revenues	75.3%	73.2%	74.5%	73.3%	20.8	22.8
Selling, general and administrative expenses	13.5	14.0	13.5	14.0	13.4	17.0
Depreciation, depletion and amortization	5.2	5.0	5.0	5.0	20.9	22.1
Other income (expense):						
Equity in earnings of affiliates	1.8	1.0	1.4	0.9	122.7	84.4
Interest	(0.3)	(1.1)	(0.4)	(1.2)	(66.7)	(63.9)
Other, net	0.2	0.1	0.2	0.1	91.4	44.9
Income before income taxes	7.7	7.8	8.2	7.7	16.5	29.1
Income tax expense	3.2	3.4	3.3	3.4	11.4	20.3
Minority interest	0.1				*	*
Net income	4.6%	4.4%	4.9%	4.3%	23.1	37.0

* not meaningful

Table of Contents

Revenues, equity in earnings of affiliates and income before income taxes pertaining to the Company's operating segments are presented below. Intersegment revenues, if any are accounted for based on the fair market value of the services provided. Unallocated corporate expenses primarily consist of general and administrative functions performed on a company-wide basis and benefiting all operating segments. These costs include accounting, financial reporting, internal audit, safety, treasury, corporate and securities law, tax compliance, certain executive management (chief executive officer, chief financial officer and general counsel), and board of directors. Operating segment revenues and income before income taxes are summarized as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2008	2007	2008	2007
Revenues				
Water infrastructure	\$ 198,613	\$ 162,255	\$ 575,191	\$ 475,604
Mineral exploration	53,154	47,380	163,823	130,885
Energy	10,859	10,054	34,824	29,007
Other	1,857	5,537	4,827	9,189
Total revenues	\$ 264,483	\$ 225,226	\$ 778,665	\$ 644,685
Equity in earnings of affiliates mineral exploration	\$ 4,803	\$ 2,157	\$ 11,112	\$ 6,027
Income before income taxes and minority interest				
Water infrastructure	\$ 13,131	\$ 10,647	\$ 35,470	\$ 34,422
Mineral exploration	11,908	9,033	38,823	26,075
Energy	2,631	3,263	10,673	9,834
Other	344	2,872	1,203	3,477
Unallocated corporate expenses	(6,750)	(5,760)	(19,571)	(16,653)
Interest	(838)	(2,517)	(2,798)	(7,744)
Total income before income taxes and minority interest	\$ 20,426	\$ 17,538	\$ 63,800	\$ 49,411

Revenues increased \$39,257,000, or 17.4%, to \$264,483,000 for the three months ended October 31, 2008, and \$133,980,000, or 20.8%, to \$778,665,000 for the nine months ended October 31, 2008, as compared to the same periods last year. Revenues were up across all primary divisions. A further discussion of results of operations by division is presented below.

Selling, general and administrative expenses were \$35,684,000 and \$105,257,000 for the three and nine months ended October 31, 2008, respectively, compared to \$31,457,000 and \$89,977,000 for the same periods last year. The increases for the three and nine months, respectively, were primarily the result of \$1,971,000 and \$5,592,000 in expenses added from acquisitions and start up operations, compensation related expense increases of \$132,000 and \$3,423,000 and increased insurance costs of \$160,000 and \$1,086,000, with the remainder spread in both periods across various categories.

Equity in earnings of affiliates were \$4,803,000 and \$11,112,000 for the three and nine months ended October 31, 2008, respectively, compared to \$2,157,000 and \$6,027,000 for the same periods last year. The increases reflect continued strong performance in mineral exploration by the Company's affiliates in Latin America, particularly in Chile.

Depreciation, depletion and amortization were \$13,573,000 and \$38,969,000 for the three and nine months ended October 31, 2008, respectively, compared to \$11,228,000 and \$31,927,000 for the same periods last year. The increases were primarily the result of increased depletion expense of \$509,000 and \$2,183,000 resulting from the

increase in production of unconventional gas from the Company's energy operations and additional depreciation from property additions in the other divisions.

Interest expense decreased to \$838,000 and \$2,798,000 for the three and nine months ended October 31, 2008, respectively, compared to \$2,517,000 and \$7,744,000 for the same periods last year. The decrease resulted from the retirement of debt with proceeds of the Company's stock offering in October 2007.

Income tax expense was \$8,561,000 (an effective rate of 41.9%) and \$26,277,000 (an effective rate of 41.2%) for the three and nine months ended October 31, 2008, respectively, compared to \$7,688,000 (an effective rate of 43.8%) and \$21,840,000 (an effective rate of 44.2%) for the same periods last year. The improvements in the effective rate primarily

Table of Contents

result from the favorable resolution of certain tax audits during the current year. The effective rates in excess of statutory federal rates for the periods were due primarily to the impact of non-deductible expenses and the tax treatment of certain foreign operations.

Water Infrastructure Division

(in thousands)

	Three months ended October 31,		Nine months ended October 31,	
	2008	2007	2008	2007
Revenues	\$198,613	\$162,255	\$575,191	\$475,604
Income before income taxes	13,131	10,647	35,470	34,422

Water infrastructure revenues increased 22.4% to \$198,613,000 and 20.9% to \$575,191,000 for the three and nine months ended October 31, 2008, respectively, as compared to \$162,255,000 and \$475,604,000 for the same periods last year. The increases in revenues for the three and nine months ended, respectively, were primarily attributed to \$12,184,000 and \$24,689,000 from acquisitions, \$8,169,000 and \$24,144,000 from increases in water and wastewater treatment plant construction primarily in the southeastern United States, \$5,189,000 and \$17,370,000 from increases in specialty geoconstruction and, for the nine months, \$10,328,000 in increased sewer rehabilitation.

Income before income taxes for the water infrastructure division increased 23.3% to \$13,131,000 and 3% to \$35,470,000 for the three and nine months ended October 31, 2008, respectively, compared to \$10,647,000 and \$34,422,000 for the same periods last year. Included in last year's income before income taxes for the nine months was \$1,626,000 in non-recurring income from the recovery of previously written off costs associated with a ground water transfer project in Texas. Excluding this item, the increases in income before income taxes for the three and nine months ended, respectively, were primarily attributable to increases of \$1,418,000 and \$3,157,000 in earnings from water and wastewater treatment plant construction and \$441,000 and \$2,133,000 from specialty geoconstruction and for the nine months \$1,189,000 from sewer rehabilitation, partially offset by reduced earnings from pipeline construction, primarily joint venture projects in the Atlanta area which were substantially completed in prior periods. The backlog for the water infrastructure division at October 31, 2008 was \$418,162,000 compared to \$376,506,000 at October 31, 2007.

Mineral Exploration Division

(in thousands)

	Three months ended October 31,		Nine months ended October 31,	
	2008	2007	2008	2007
Revenues	\$53,154	\$47,380	\$163,823	\$130,885
Income before income taxes	11,908	9,033	38,823	26,075

Mineral exploration revenues increased 12.2% to \$53,154,000 and 25.2% to \$163,823,000 for the three and nine months ended October 31, 2008, respectively, compared to \$47,380,000 and \$130,885,000 for the same periods last year. The increases were primarily attributable to strength in the Company's markets due to relatively high gold and base metal prices.

Income before income taxes for the mineral exploration division increased 31.8% to \$11,908,000 and 48.9% to \$38,823,000 for the three and nine months ended October 31, 2008, respectively, compared to \$9,033,000 and \$26,075,000 for the same periods last year. The improved earnings in the division were primarily due to increases of \$2,646,000 and \$5,085,000 in equity earnings of affiliates in Latin America for the three and nine month periods, respectively, and in the first two quarters of the nine month period strong incremental earnings from exploration activities in the Company's other markets. Excluding the affiliates activity in Latin America, incremental earnings were only slightly up in the third quarter, as exploration activity slowed due to reduced metals prices and uncertainty in the economy.

Table of Contents**Energy Division**

(in thousands)

	Three months ended October 31,		Nine months ended October 31,	
	2008	2007	2008	2007
Revenues	\$10,859	\$10,054	\$34,824	\$29,007
Income before income taxes	2,631	3,263	10,673	9,834

Energy revenues increased 8.0% to \$10,859,000 and 20.1% to \$34,824,000 for the three and nine months ended October 31, 2008, respectively, compared to \$10,054,000 and \$29,007,000 for the same periods last year. The increases in revenues were primarily attributable to increased production from the Company's unconventional gas properties.

Income before income taxes for the energy division decreased 19.4% to \$2,631,000 and increased 8.5% to \$10,673,000 for the three and nine months ended October 31, 2008, respectively, compared to \$3,263,000 and \$9,834,000 for the same periods last year. Profitability for the third quarter was negatively impacted as pricing fell for the portion of the division's production which was not covered by forward sales contracts. The increase in income before income taxes for the nine month period ending October 31, 2008, was due to the increases in production and favorable pricing in the first half of the year.

Also included in the three and nine months ended October 31, 2008, are two additional items. We recorded an impairment of oil and gas properties of \$2,014,000 related to the Company's exploration project in Chile, begun in 2008. Following initial core testing and further evaluation of infrastructure requirements, it was determined that recovery of our investment was not likely and the costs were written off. We also recorded settlement income related to litigation initiated in the current year against former officers of a subsidiary and associated energy production companies. During September 2008, the Company entered into a settlement agreement whereby it will receive certain payments over a period through September 2009. Settlement income of \$2,173,000, net of attorney fees, was recorded in the quarter.

Other

(in thousands)

	Three months ended October 31,		Nine months ended October 31,	
	2008	2007	2008	2007
Revenues	\$1,857	\$5,537	\$4,827	\$9,189
Income before income taxes	344	2,872	1,203	3,477

Included in Other for the three and nine months ended October 31, 2007 was \$3,166,000 in revenues associated with two contracts to provide consulting and logistical support for international projects in Canada and Africa. Excluding the effect of these contracts, the remainder of the operations included in this segment were consistent period over period.

Unallocated Corporate Expenses

Corporate expenses not allocated to individual divisions, primarily included in selling, general and administrative expenses, were \$6,750,000 and \$19,571,000 for the three and nine months ended October 31, 2008, respectively, compared to \$5,760,000 and \$16,653,000 for the same periods last year. The increases for the periods were primarily due to compensation related expenses.

Changes in Financial Condition

Management exercises discretion regarding the liquidity and capital resource needs of its business segments. This includes the ability to prioritize the use of capital and debt capacity, to determine cash management policies and to make decisions regarding capital expenditures.

The Company maintains an agreement (the "Master Shelf Agreement") whereby it has \$105,000,000 of unsecured notes available to be issued before September 15, 2009. At October 31, 2008, the Company had \$46,667,000 in notes

outstanding under the Master Shelf Agreement. Additionally, the Company holds a revolving credit facility (the Credit Agreement)

Table of Contents

composed of an unsecured \$200,000,000 revolving facility, less any outstanding letter of credit commitments (which are subject to a \$30,000,000 sublimit). At October 31, 2008, the Company had no borrowings outstanding under the Credit Agreement (see Note 4 of the Notes to Consolidated Financial Statements). The Company was in compliance with its financial covenants at October 31, 2008 and expects to remain in compliance through the foreseeable future. The Company's working capital as of October 31, 2008 and October 31, 2007 was \$120,377,000 and \$137,381,000, respectively, the primary difference being reduced cash levels as proceeds from the Company's October 2007 stock offering have been invested in capital expenditures and acquisitions. The Company believes it will have sufficient cash from operations and access to credit facilities to meet the Company's operating cash requirements and to fund its budgeted capital expenditures for fiscal 2009.

Operating Activities

Cash provided by operating activities was \$51,264,000 for the nine months ended October 31, 2008 as compared to cash provided by operating activities of \$50,452,000 for the nine months ended October 31, 2007. The change was primarily due to changes in working capital needs arising from business volume.

Investing Activities

The Company's capital expenditures, net of disposals, of \$61,289,000 for the nine months ended October 31, 2008, were split between \$38,531,000 to maintain and upgrade its construction equipment and \$22,758,000 toward the Company's expansion into unconventional gas exploration and production, including the construction of gas pipeline infrastructure near the Company's development projects. In the nine months ended October 31, 2008, the Company spent \$8,895,000 on acquisitions to complement its water infrastructure division.

Financing Activities

For the nine months ended October 31, 2008, the Company had no incremental borrowings under its credit facilities. The Company made the scheduled principal payment of \$13,333,000 on the Senior Notes in July 2008.

The Company's contractual obligations and commercial commitments as of October 31, 2008, are summarized as follows (in thousands):

	Total	Payments/Expiration by Period			
		Less than 1 year	1-3 years	4-5 years	More than 5 years
Contractual obligations and other commercial commitments					
Senior Notes	\$ 46,667	\$ 20,000	\$ 26,667	\$	\$
Credit Agreement					
Interest payments	7,386	3,500	3,886		
Software financing obligations	1,117	423	694		
Operating leases	39,277	13,533	15,914	6,535	3,295
Mineral interest obligations	722	122	400	175	25
Income tax uncertainties	1,192	1,192			
Total contractual obligations	96,361	38,770	47,561	6,710	3,320
Standby letters of credit	16,864	16,864			
Asset retirement obligations	1,090				1,090
Total contractual obligations and commercial commitments	\$ 114,315	\$ 55,634	\$ 47,561	\$ 6,710	\$ 4,410

The Company expects to meet its contractual cash obligations in the ordinary course of operations, and that the standby letters of credit will be renewed in connection with its annual insurance renewal process. Interest is payable on the Senior Notes at fixed interest rates of 6.05% and 5.40%. Interest is payable on the Credit Agreement at variable interest rates equal to, at the Company's option, a LIBOR rate plus 0.75% to 2.00%, or a base rate, as defined in the Credit Agreement plus up to 0.50%, depending on the Company's leverage ratio (See Note 4 of the Notes to Consolidated Financial Statements). Interest payments have been included in the table above based only on outstanding balances and interest rates as of October 31, 2008.

The Company has income tax uncertainties of \$6,952,000 at October 31, 2008, that are classified as non-current on the Company's balance sheet as resolution of these matters is expected to take more than a year. The ultimate timing of

Table of Contents

resolutions of these items is uncertain, and accordingly the amounts have not been included in the table above. The Company incurs additional obligations in the ordinary course of operations. These obligations, including but not limited to, income tax payments and pension fundings are expected to be met in the normal course of operations.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discuss the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgments, which are based on historical experience and on various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

Our accounting policies are more fully described in Note 1 of the Notes to Consolidated Financial Statements, located in Item 1 of this Form 10-Q. We believe that the following represent our more critical estimates and assumptions used in the preparation of our consolidated financial statements, although not all inclusive.

Revenue Recognition Revenues are recognized on large, long-term construction contracts meeting the criteria of Statement of Position 81-1, Accounting for Performance of Construction-Type and Certain Production-Type Contracts (SOP 81-1), using the percentage-of-completion method based upon the ratio of costs incurred to total estimated costs at completion. Contract price and cost estimates are reviewed periodically as work progresses and adjustments proportionate to the percentage of completion are reflected in contract revenues in the reporting period when such estimates are revised. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions, change orders and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. As allowed by SOP 81-1, revenue is recognized on smaller, short-term construction contracts using the completed contract method. Provisions for estimated losses on uncompleted construction contracts are made in the period in which such losses are determined. Revenues for direct sales of equipment and other ancillary products not provided in conjunction with the performance of construction contracts are recognized at the date of delivery to, and acceptance by, the customer. Provisions for estimated warranty obligations are made in the period in which the sales occur. Contracts for the Company's mineral exploration drilling services are billable based on the quantity of drilling performed. Thus, revenues for these drilling contracts are recognized on the basis of actual footage or meterage drilled.

Revenues for the sale of oil and gas by the Company's energy division are recognized on the basis of volumes sold at the time of delivery to an end user or an interstate pipeline, net of amounts attributable to royalty or working interest holders.

The Company's revenues are presented net of taxes imposed on revenue-producing transactions with its customers, such as, but not limited to, sales, use, value-added, and some excise taxes.

Oil and Gas Properties and Mineral Interests The Company follows the full-cost method of accounting for oil and gas properties. Under this method, all productive and nonproductive costs incurred in connection with the exploration for and development of oil and gas reserves are capitalized. Such capitalized costs include lease acquisition, geological and geophysical work, delay rentals, drilling, completing and equipping oil and gas wells, and salaries, benefits and other internal salary-related costs directly attributable to these activities. Costs associated with production and general corporate activities are expensed in the period incurred. Normal dispositions of oil and gas properties are accounted for as adjustments of capitalized costs, with no gain or loss recognized. Separate full-cost pools are established for each country in which the Company has exploration activities.

The Company is required to review the carrying value of its oil and gas properties each quarter under the full cost accounting rules of the SEC. Under these rules, capitalized costs of proved oil and gas properties, as adjusted for asset retirement obligations, may not exceed the present value of estimated future net revenues from proved reserves,

discounted at 10%. Application of the ceiling test generally requires pricing future revenues at the unescalated prices in effect as of the last day of the

Table of Contents

period, with effect given to the Company's fixed-price physical delivery contracts, and requires a write-down for accounting purposes if the ceiling is exceeded. Unproved oil and gas properties are not amortized, but are assessed for impairment either individually or on an aggregated basis using a comparison of the carrying values of the unproved properties to net future cash flows.

Reserve Estimates The Company's estimates of natural gas reserves, by necessity, are projections based on geologic and engineering data, and there are uncertainties inherent in the interpretation of such data as well as the projection of future rates of production and the timing of development expenditures. Reserve engineering is a subjective process of estimating underground accumulations of gas that are difficult to measure. The accuracy of any reserve estimate is a function of the quality of available data, engineering and geological interpretation and judgment. Estimates of economically recoverable gas reserves and future net cash flows necessarily depend upon a number of variable factors and assumptions, such as historical production from the area compared with production from other producing areas, the assumed effects of regulations by governmental agencies and assumptions governing natural gas prices, future operating costs, severance, ad valorem and excise taxes, development costs and workover and remedial costs, all of which may in fact vary considerably from actual results. For these reasons, estimates of the economically recoverable quantities of gas attributable to any particular group of properties, classifications of such reserves based on risk of recovery, and estimates of the future net cash flows expected therefrom may vary substantially. Any significant variance in the assumptions could materially affect the estimated quantity and value of the reserves, which could affect the carrying value of the Company's oil and gas properties and the rate of depletion of the oil and gas properties. Actual production, revenues and expenditures with respect to the Company's reserves will likely vary from estimates, and such variances may be material.

Goodwill and Other Intangibles The Company accounts for goodwill and other intangible assets in accordance with the Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets. Other intangible assets primarily consist of trademarks, customer-related intangible assets and patents obtained through business acquisitions. Amortizable intangible assets are being amortized over their estimated useful lives, which range from two to 40 years.

The impairment evaluation for goodwill is conducted annually, or more frequently, if events or changes in circumstances indicate that an asset might be impaired. The evaluation is performed by using a two-step process. In the first step, the fair value of each reporting unit is compared with the carrying amount of the reporting unit, including goodwill. The estimated fair value of the reporting unit is generally determined on the basis of discounted future cash flows. If the estimated fair value of the reporting unit is less than the carrying amount of the reporting unit, then a second step must be completed in order to determine the amount of the goodwill impairment that should be recorded. In the second step, the implied fair value of the reporting unit's goodwill is determined by allocating the reporting unit's fair value to all of its assets and liabilities other than goodwill (including any unrecognized intangible assets) in a manner similar to a purchase price allocation. The resulting implied fair value of the goodwill that results from the application of this second step is then compared to the carrying amount of the goodwill and an impairment charge is recorded for the difference.

The impairment evaluation of the carrying amount of intangible assets with indefinite lives is conducted annually or more frequently if events or changes in circumstances indicate that an asset might be impaired. The evaluation is performed by comparing the carrying amount of these assets to their estimated fair value. If the estimated fair value is less than the carrying amount of the intangible assets with indefinite lives, then an impairment charge is recorded to reduce the asset to its estimated fair value. The estimated fair value is generally determined on the basis of discounted future cash flows.

The assumptions used in the estimate of fair value are generally consistent with the past performance of each reporting unit and are also consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions.

Other Long-lived Assets In the event of an indication of possible impairment, the Company evaluates the fair value and future benefits of long-lived assets, including the Company's gas transportation facilities and equipment, by performing an analysis of the anticipated future net cash flows of the related long-lived assets and reducing their carrying value by the excess, if any, of the result of such calculation. The Company believes at this time that the

carrying values and useful lives of its long-lived assets continue to be appropriate.

Accrued Insurance Expense The Company maintains insurance programs where it is responsible for a certain amount of each claim up to a self-insured limit. Estimates are recorded for health and welfare, property and casualty insurance costs that are associated with these programs. These costs are estimated based on actuarially determined projections of future payments under these programs. Should a greater amount of claims occur compared to what was estimated or medical costs increase beyond what was anticipated, reserves recorded may not be sufficient and additional costs to the consolidated financial statements could be required.

Table of Contents

Costs estimated to be incurred in the future for employee medical benefits, property, workers' compensation and casualty insurance programs resulting from claims which have occurred are accrued currently. Under the terms of the Company's agreement with the various insurance carriers administering these claims, the Company is not required to remit the total premium until the claims are actually paid by the insurance companies. These costs are not expected to significantly impact liquidity in future periods.

Income Taxes Income taxes are provided using the asset/liability method, in which deferred taxes are recognized for the tax consequences of temporary differences between the financial statement carrying amounts and tax bases of existing assets and liabilities. Deferred tax assets are reviewed for recoverability and valuation allowances are provided as necessary. Provision for U.S. income taxes on undistributed earnings of foreign subsidiaries and affiliates is made only on those amounts in excess of funds considered to be invested indefinitely. In general, the Company records income tax expense during interim periods based on its best estimate of the full year's effective tax rate. However, income tax expense relating to adjustments to the Company's liabilities for FIN 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB statement 109 (FIN48), is accounted for discretely in the interim period in which it occurs.

Litigation and Other Contingencies The Company is involved in litigation incidental to its business, the disposition of which is not expected to have a material effect on the Company's financial position or results of operations. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in the Company's assumptions related to these proceedings. The Company accrues its best estimate of the probable cost for the resolution of legal claims. Such estimates are developed in consultation with outside counsel handling these matters and are based upon a combination of litigation and settlement strategies. To the extent additional information arises or the Company's strategies change, it is possible that the Company's estimate of its probable liability in these matters may change.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

The principal market risks to which the Company is exposed are interest rates on variable rate debt, foreign exchange rates giving rise to translation and transaction gains and losses and fluctuations in the price of natural gas.

The Company centrally manages its debt portfolio considering overall financing strategies and tax consequences. A description of the Company's debt is in Note 11 of the Notes to Consolidated Financial Statements appearing in the Company's January 31, 2008 Form 10-K and Note 4 of this Form 10-Q. As of October 31, 2008, an instantaneous change in interest rates of one percentage point would not change the Company's annual interest expense, as we have no variable rate debt outstanding.

Operating in international markets involves exposure to possible volatile movements in currency exchange rates. Currently, the Company's primary international operations are in Australia, Africa, Mexico and Italy. The Company's affiliates also operate in South America and Mexico. The operations are described in Notes 1 and 3 of the Notes to Consolidated Financial Statements appearing in the Company's January 31, 2008 Form 10-K and Note 10 of this Form 10-Q. The majority of the Company's contracts in Africa and Mexico are U.S. dollar based, providing a natural reduction in exposure to currency fluctuations. The Company also may utilize various hedge instruments, primarily foreign currency option contracts, to manage the exposures associated with fluctuating currency exchange rates. As of October 31, 2008, the Company held no such hedge instruments.

As currency exchange rates change, translation of the income statements of the Company's international operations into U.S. dollars may affect year-to-year comparability of operating results. We estimate that a ten percent change in foreign exchange rates would not have significantly impacted income before income taxes for the months ended July 31, 2008. This quantitative measure has inherent limitations, as it does not take into account any governmental actions, changes in customer purchasing patterns or changes in the Company's financing and operating strategies. The Company is also exposed to fluctuations in the price of natural gas, which result from the sale of the energy division's unconventional gas production. The price of natural gas is volatile and the Company has entered into fixed-price physical contracts covering a portion of its production to manage price fluctuations and to achieve a more predictable cash flow. As of October 31, 2008, the Company held contracts for physical delivery of 6,834,000 million British Thermal Units (MMBtu) of natural gas through March 2010 at prices ranging from \$7.66 to \$8.50 per MMBtu through March 2009 and from \$7.59 to \$10.58 per MMBtu from April 2009 to March 2010. The estimated fair value

of such contracts at October 31, 2008 was \$31,242,000. The Company generally intends to maintain contracts in place to cover 50% to 75% of its production. We estimate that a ten percent change in the price of natural gas would have impacted income before income taxes by approximately \$1,086,000 for the nine months ended October 31, 2008.

Table of Contents

ITEM 4. Controls and Procedures

Based on an evaluation of disclosure controls and procedures for the period ended October 31, 2008, conducted under the supervision and with the participation of the Company's management, including the Principal Executive Officer and the Principal Financial Officer, the Company concluded that its disclosure controls and procedures are effective to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management (including the Principal Executive Officer and the Principal Financial Officer) to allow timely decisions regarding required disclosure, and is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Based on an evaluation of internal controls over financial reporting conducted under the supervision and the participation of the Company's management, including the Principal Executive Officer and the Principal Financial Officer, for the period ended October 31, 2008, the Company concluded that its internal control over financial reporting is effective as of October 31, 2008. The Company has not made any significant changes in internal controls or in other factors that could significantly affect internal controls since such evaluation.

Table of Contents

PART II

ITEM 1 Legal Proceedings

On April 30, 2008, Levelland/Hockley County Ethanol, LLC ("Levelland") filed a Complaint against the Company in the District Court for Hockley County, Texas. On May 28, 2008, the Company removed the case to the United States District Court for the Northern District of Texas, Lubbock Division. On June 2, 2008, Levelland filed a First Amended Complaint against the Company in the Federal District Court for the Northern District of Texas, Lubbock Division. Levelland owns an ethanol plant located in Levelland, Texas. In July 2007, Levelland entered into a lease agreement with the Company for certain water treatment equipment for the ethanol plant. Levelland alleges that the equipment leased from the Company fails to treat the water coming into the ethanol plant to required levels. The First Amended Complaint seeks damages for breach of contract, breach of warranty, violation of the Texas Deceptive Trade Practices Act, negligence, negligent misrepresentation and fraud, in connection with the design and construction of the water treatment facility. The Company believes that it has meritorious defenses to the claims, intends to vigorously defend against them and does not believe that the claims will have a significant effect on its financial statements.

ITEM 2 Changes in Securities

NOT APPLICABLE

ITEM 3 Defaults Upon Senior Securities

NOT APPLICABLE

ITEM 4 Submission of Matters to a Vote of Security Holders

NONE

ITEM 5 Other Information

NONE

ITEM 6 Exhibits and Reports on Form 8-K

a) Exhibits

31(1) Section 302 Certification of Chief Executive Officer of the Company.

31(2) Section 302 Certification of Chief Financial Officer of the Company.

32(1) Section 906 Certification of Chief Executive Officer of the Company.

32(2) Section 906 Certification of Chief Financial Officer of the Company.

b) Reports on Form 8-K

Form 8-K filed on August 28, 2008, related to the Company's quarter ended July 31, 2008 earnings press release.

Form 8-K filed on October 14, 2008, related to the amended and restated rights agreement.

Table of Contents

* * * * *

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Layne Christensen Company
(Registrant)

DATE: December 9, 2008

/s/ A.B. Schmitt
A.B. Schmitt, President and
Chief Executive Officer

DATE: December 9, 2008

/s/ Jerry W. Fanska
Jerry W. Fanska, Sr. Vice President
Finance and Treasurer