FORM 10–Q

LAYNE CHRISTENSEN CO – LAYN

Filed: December 10, 2004 (period: October 31, 2004)

Quarterly report which provides a continuing view of a company's financial position

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

(Mark One)

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

For the quarterly period ended October 31, 2004

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 33-48432

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 [X]. No [ ].

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

There were 12,599,444 shares of common stock, $.01 par value per share, outstanding on December 7, 2004.

PART I

ITEM 1. Financial Statements

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

	October 31, 2004 (unaudited)	January 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 13,482	$ 21,602
Customer receivables, less allowance of $4,512 and $4,104, respectively	61,291	55,336
Costs and estimated earnings in excess of billings on uncompleted contracts	13,627	13,746
Inventories	16,093	13,947
Deferred income taxes	10,852	9,357
Income taxes receivable	285	724
Other	4,186	6,057
Total current assets	119,816	120,769
Property and equipment:		
Land	7,580	7,861
Buildings	14,001	14,648
Machinery and equipment	174,896	160,327
Gas transportation facilities and equipment	5,809	2,267
Mineral interest in oil and gas properties	3,553	1,441
Oil and gas properties	19,035	10,376
	224,874	196,920
Less - Accumulated depreciation and depletion	(136,583)	(132,120)
Net property and equipment	88,291	64,800
Other assets:		
Investment in affiliates	20,556	19,239
Goodwill	8,024	2,449
Deferred income taxes	7,554	7,717
Other	2,736	2,353
Total other assets	38,870	31,758
	$ 246,977	$ 217,327

See Notes to Consolidated Financial Statements.

- Continued -

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

	October 31, 2004	January 31, 2004
	(unaudited)	
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 23,977	$ 25,568
Accrued compensation	13,595	11,925
Accrued insurance expense	6,527	6,392
Other accrued expenses	10,008	8,511
Lease termination costs	-	6,603
Income taxes payable	7,436	463
Billings in excess of costs and estimated earnings on uncompleted contracts	9,230	8,901
Total current liabilities	70,773	68,363
Noncurrent and deferred liabilities:		
Long-term debt	60,000	42,000
Accrued insurance expense	8,604	7,690
Other	5,148	5,589
Total noncurrent and deferred liabilities	73,752	55,279
Contingencies		
Stockholders' equity:		
Preferred stock, par value $.01 per share, 5,000,000 shares authorized, none issued and outstanding	-	-
Common stock, par value $.01 per share, 30,000,000 shares authorized, 12,599,444 and 12,533,818 shares issued and outstanding, respectively	126	125
Capital in excess of par value	90,515	89,759
Retained earnings	22,041	13,458
Accumulated other comprehensive loss	(9,879)	(9,629)
Unearned compensation	(351)	-
Notes receivable from management stockholders	-	(28)
Total stockholders' equity	102,452	93,685
	$ 246,977	$ 217,327

See Notes to Consolidated Financial Statements.

- Concluded -

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

	Three Months Ended October 31, (unaudited)		Nine Months Ended October 31, (unaudited)	
	2004	2003	2004	2003
Revenues	$ 91,480	$ 69,860	$ 253,875	$ 199,793
Cost of revenues (exclusive of depreciation shown below)	66,201	50,812	184,523	143,075
Gross profit	25,279	19,048	69,352	56,718
Selling, general and administrative expenses	15,048	13,066	43,444	40,689
Depreciation, depletion and amortization	3,592	2,788	10,115	8,799
Other income (expense):				
Equity in earnings of affiliates	449	23	2,138	723
Interest	(841)	(687)	(2,257)	(1,918)
Debt extinguishment costs	-	-	-	(2,320)
Other income (expense), net	86	(42)	1,235	445
Income from continuing operations before income taxes and minority interest	6,333	2,488	16,909	4,160
Income tax expense	2,827	1,488	8,116	3,015
Minority interest	1	(163)	1	-
Net income from continuing operations before discontinued operations	3,507	837	8,794	1,145
Loss from discontinued operations, net of income tax benefit of $29 and $194 for the three months ended October 31, 2004 and 2003, respectively, and $125 and $301 for the nine months ended October 31, 2004 and 2003, respectively	(49)	(333)	(211)	(472)
Gain on sale of discontinued operations, net of income taxes of $23	-	37	-	37
Net income	$ 3,458	$ 541	$ 8,583	$ 710
Basic income (loss) per share:				
Net income from continuing operations	$ 0.28	$ 0.07	$ 0.70	$ 0.10
Loss from discontinued operations, net of income taxes	-	(0.03)	(0.02)	(0.04)
Net income per share	$ 0.28	$ 0.04	$ 0.68	$ 0.06
Diluted income (loss) per share:				
Net income from continuing operations	$ 0.27	$ 0.07	$ 0.68	$ 0.09
Loss from discontinued operations, net of income taxes	-	(0.03)	(0.02)	(0.03)
Net income per share	$ 0.27	$ 0.04	$ 0.66	$ 0.06
Weighted average shares outstanding	12,574,000	12,039,000	12,556,000	11,957,000
Dilutive stock options	335,000	266,000	352,000	230,000
	12,909,000	12,305,000	12,908,000	12,187,000

See Notes to Consolidated Financial Statements.

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

	Nine Months Ended October 31,	
	2004	2003
	(unaudited)	
Cash flow from operating activities:		
Net income	$ 8,583	$ 710
Adjustments to reconcile net income to cash from operations:		
Loss on discontinued operations, net of tax	211	435
Depreciation, depletion and amortization	10,115	8,799
Deferred income taxes	(849)	365
Equity in earnings of affiliates	(2,138)	(723)
Dividends received from foreign affiliates	1,043	605
Minority interest	(1)	-
Loss on extinguishment of debt	-	2,320
Gain from disposal of property and equipment	(1,574)	(199)
Changes in current assets and liabilities:		
Increase in customer receivables	(14,945)	(4,794)
(Increase) decrease in costs and estimated earnings in excess of billings on uncompleted contracts	242	(5,516)
Increase in inventories	(1,528)	(1,471)
(Increase) decrease in other current assets	1,710	(2,388)
Increase in accounts payable and accrued expenses	13,703	3,424
Increase in billings in excess of costs and estimated earnings on uncompleted contracts	359	844
Other, net	25	462
Cash from continuing operations	14,956	2,873
Cash from (used in) discontinued operations	(3,277)	837
Cash from operating activities	11,679	3,710
Cash flow used in investing activities:		
Additions to property and equipment	(12,444)	(6,007)
Additions to gas transportation facilities and equipment	(1,757)	(37)
Additions to mineral interest in properties	(1,003)	(496)
Additions to oil and gas properties	(7,083)	(5,112)
Proceeds from disposal of property and equipment	2,945	117
Proceeds from sale of business	300	-
Acquisition of business	(14,743)	(1,150)
Acquisition of gas transportation facilities and equipment	(654)	-
Acquisition of oil and gas working interest	(2,728)	-
Investment in joint ventures	(274)	(40)
Cash used in investing activities from continuing operations	(37,441)	(12,725)
Cash used in discontinued operations	-	(2,778)
Cash used in investing activities	(37,441)	(15,503)
Cash flow from financing activities:		
Net repayments under revolving facility	(2,000)	-
Issuance of long-term debt	20,000	40,000
Repayment of long-term debt	-	(32,370)
Prepayment penalty on early extinguishment of debt	-	(671)
Debt issuance costs	-	(160)
Payments on DrillCorp promissory note	(1,380)	-
Payments on notes receivable from management stockholders	28	17
Issuance of common stock	239	1,403
Cash from financing activities	16,887	8,219
Effects of exchange rate changes on cash	755	1,061
Net decrease in cash and cash equivalents	(8,120)	(2,513)
Cash and cash equivalents at beginning of period	21,602	10,770
Cash and cash equivalents at end of period	$ 13,482	$ 8,257

See Notes to Consolidated Financial Statements.

1. Accounting Policies and Basis of Presentation

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 on 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, 2004 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.

Revenue is recognized on large, long-term contracts using the percentage of completion method based upon materials installed and labor costs incurred. Changes in job performance, job conditions, and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Revenue is recognized on smaller, short-term contracts using the completed contract method. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

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.

The Company values inventories at the lower of cost (first in, first out) or market. Allowances are recorded for inventory considered to be excess or obsolete. Inventories consist primarily of parts and supplies.

Through its energy division, the Company engages in the operation, development, production and acquisition of oil and gas properties, principally focusing on coalbed methane gas projects. The Company follows the full-cost method of accounting for these 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, including salaries, benefits and other internal costs directly attributable to these activities. The capitalized costs associated with the Company's oil and gas properties are depleted using the units of production method. Costs associated with production and general corporate activities are expensed in the period incurred. As of October 31, 2004 and January 31, 2004, the Company has capitalized $22,588,000 and $11,817,000, respectively, related to oil and gas properties and mineral interest acquisition costs. The Company has also capitalized $5,809,000 and

$2,267,000 as of October 31, 2004 and January 31, 2004, respectively, related to gas transportation facilities and equipment.

The Company follows SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended, which requires all 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 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 (see Note 5 for disclosure regarding the fair value of foreign currency derivative instruments).

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 foreign affiliates is made only on those amounts in excess of those funds considered to be invested indefinitely.

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

Stock-based compensation may be accounted for either based on the estimated fair value of the awards at the date they are granted (the "SFAS 123 Method") or based on the difference, if any, between the market price of the stock at the date of grant and the amount the employee must pay to acquire the stock (the "APB 25 Method"). The Company uses the APB 25 Method to account for its stock-based compensation programs. Pro forma net income and earnings per share for the three and nine months ended October 31, 2004 and 2003, determined as if the SFAS 123 Method had been applied, are presented in the following table (in thousands, except per share amounts):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2004	2003	2004	2003
Net income, as reported	$ 3,458	$ 541	$ 8,583	$ 710
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax	(14)	(21)	(48)	(111)
Pro forma net income	$ 3,444	$ 520	$ 8,535	$ 599
Income per share:				
Basic - as reported	$ 0.28	$ 0.04	$ 0.68	$ 0.06
Basic - pro forma	$ 0.27	$ 0.04	$ 0.68	$ 0.05
Diluted - as reported	$ 0.27	$ 0.04	$ 0.66	$ 0.06
Diluted - pro forma	$ 0.27	$ 0.04	$ 0.66	$ 0.05

The amounts paid for income taxes, net of refunds, and interest are as follows (in thousands):

	Nine Months Ended October 31,	
	2004	2003
Income taxes	$ 1,099	$ 2,801
Interest	2,132	1,771

Supplemental Non-cash Transactions - The Company issued 217,504 shares of common stock at fair market value related to compensation awards during the nine months ended October 31, 2003. In connection with the Beylik acquisition (see Note 4), the Company issued 24,576 shares of restricted common stock during the nine months ended October 31, 2004. The shares have a fair market value of $375,000 and vest over two years. The value will be recognized as compensation expense over the vesting period.

Reclassifications - Certain fiscal 2004 amounts, primarily related to discontinued operations and segment allocation of incentive compensation, have been reclassified to conform with the fiscal 2005 presentation.

2. Discontinued Operations

During the third quarter of fiscal 2004, the Company reclassified the results of operations of its Toledo Oil and Gas ("Toledo") business to discontinued operations. Toledo was historically reported in the Company's energy segment and offered conventional oilfield fishing services and coil tubing fishing services (see Note 9). On January 6, 2004, the Company sold the Toledo operation for $2,500,000 and recorded a gain on the sale of $57,000, net of income taxes of $30,000, for the year ended January 31, 2004. The Company received $2,200,000 upon the sale and an additional $300,000 in February 2004 at the end of a contingency period.

In connection with the sale of Toledo, the Company recorded a contract termination liability for a long-term lease of the Toledo facilities. The contract termination liability represents the present value of the rental payments specified in the lease reduced by an estimate for sublease rentals (based on market value of similar properties). The Company will record accretion expense due to the passage of time for the difference between the expected lease obligations, net of sublease rentals, and the present value of such operations as a loss from discontinued operations. The present value liability was adjusted during the nine months ended October 31, 2004 to reflect lower than anticipated sublease rentals during June and July netted against higher than anticipated sublease rentals during February and March. A summary of the lease liability follows (in thousands):

	Amounts
February 1, 2004	$ 117
Payments	(19)
Accretion	5
Adjustments	25
October 31, 2004	$ 128

Lease obligations of $163,000, net of sublease rentals, are expected to be paid over the term of the lease which extends to 2008. Payments for the nine months ended October 31, 2004 totaled approximately $14,000.

On January 30, 2004, the Company sold its Layne Christensen Canada Ltd. ("Layne Canada") subsidiary for $15,914,000. Layne Canada was a component of the Company's energy segment (see Note 9) and provided drilling services to the shallow gas and unconventional oil and gas markets. The Company recorded a gain on the sale of $1,652,000, net of income taxes of $994,000 for the year ended January 31, 2004.

In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the results of operations for Toledo and Layne Canada have been classified as discontinued operations. Revenues and net income (loss) from discontinued operations for the three and nine months ended October 31, 2004 and 2003 were as follows (in thousands):

	Three Months Ended		Nine Months Ended	
	October 31, 2004	October 31, 2003	October 31, 2004	October 31, 2003
Revenues:				
Canada	$ -	$ 2,916	$ -	$ 11,673
Toledo	-	781	-	1,980
Total	$ -	$ 3,697	$ -	$ 13,653
Income (loss) from discontinued operations before income taxes:				
Canada	$ (78)	$ (392)	$ (294)	$ 65
Toledo	-	(135)	(42)	(838)
Total	$ (78)	$ (527)	$ (336)	$ (773)

3. 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 ("Senior Notes") under the Master Shelf Agreement. The Senior Notes bear a fixed interest rate of 6.05% and are due on July 31, 2010, with annual principal payments of $13,333,000 beginning July 31, 2008. Proceeds from issuance of the Senior Notes were used to refinance borrowings outstanding under the Company's previous term loan and revolving credit facility ("Previous Loan Facilities"). The Company issued an additional $20,000,000 of notes under the Master Shelf Agreement in October 2004. The additional 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 the acquisition of Beylik Drilling and Pump Services, Inc. (see Note 4) and general corporate purposes.

Concurrent with the signing of the Master Shelf Agreement, the Company closed on a new bank revolving credit facility ("Credit Agreement"). The Credit Agreement is an unsecured $30,000,000 revolving facility to be used for working capital requirements and general corporate purposes. The maximum available under the Credit Agreement is $30,000,000, less any outstanding letter of credit commitments (which are subject to a $15,000,000 sublimit). The Credit Agreement provides interest at variable rates equal to, at the Company's option, a Eurodollar rate plus 1.75% to 2.75% (depending upon certain ratios) or an alternative reference rate as defined in the Credit Agreement. The Credit Agreement will be due and payable on July 31, 2006. On October 31, 2004, there were letters of credit of $10,976,000 outstanding on the Credit Agreement.

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, maximum debt to EBITDA, minimum tangible net worth and minimum asset coverage. The Company was in compliance with its covenants as of October 31, 2004.

The Company's previous floating rate debt exposed it to changes in interest rates going forward. During September 2002, the Company entered into an interest rate swap agreement (the "Swap Agreement"), as required by the Previous Loan Facilities. The Swap Agreement effectively converted a portion of the previous variable rate loan to a fixed rate basis, thus reducing the impact of interest rate changes. Upon entering the Master Shelf Agreement, a fixed interest rate contract, the Swap Agreement no longer qualified for hedge accounting and gains and losses related to the Swap Agreement were included in Other, net in the Company's Consolidated Statements of Income as incurred. The Swap Agreement terminated on September 9, 2004 and is no longer outstanding. Debt outstanding as of October 31, 2004 and January 31, 2004 was as follows (in thousands):

	October 31, 2004	January 31, 2004
Long-term debt:		
Credit Agreement	$ -	$ 2,000
Senior Notes	60,000	40,000
Total long-term debt	$ 60,000	$ 42,000

In connection with refinancing the Previous Loan Facilities on July 31, 2003, the Company recorded debt extinguishment costs of $2,320,000. The costs included a prepayment penalty of $671,000, the write-off of deferred loan costs related to the Previous Loan Facilities of $1,447,000 and the write-off of the unrealized loss on the Company's interest rate swap of $202,000.

4. Acquisitions

On October 1, 2004, the Company acquired substantially all the assets of Beylik Drilling and Pump Service, Inc. ("Beylik"), a water drilling business located in California, for cash of $13,750,000 plus acquisition costs of $993,000. Working in conjunction with the Company's current California locations, the acquisition significantly strengthened the Company's water resources presence on the West Coast. Based on the Company's preliminary allocation of the purchase price, the acquisition had the following effect on the Company's consolidated financial position (in thousands):

	Amounts
Property, plant and equipment	$ 8,383
Inventories	659
Costs and estimated earnings in excess of billings on uncompleted contracts	126
Goodwill	5,575
Total purchase price	$14,743

Assuming Beylik had been acquired as of the beginning of the period and included in the accompanying consolidated statements of income, unaudited pro forma

consolidated revenues, net income from continuing operations, net income (loss) and net income per share would have been as follows (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	October 31, 2004	October 31, 2003	October 31, 2004	October 31, 2003
Revenues	$ 96,550	$ 73,465	$ 267,221	$ 213,415
Net income from continuing operations	3,313	721	8,655	416
Net income (loss)	3,264	425	8,444	(19)
Basic earnings per share from continuing operations	$ 0.26	$ 0.06	$ 0.69	$ 0.03
Diluted earnings per share from continuing operations	$ 0.26	$ 0.06	$ 0.67	$ 0.03
Basic earnings per share	$ 0.26	$ 0.04	$ 0.67	$ -
Diluted earnings per share	$ 0.25	$ 0.03	$ 0.65	$ -

The pro forma information provided above is not necessarily indicative of the results of operations that would actually have resulted if the acquisition were made as of those dates or of results that may occur in the future. Pro forma results includes adjustments for interest expense on the portion of the $20,000,000 additional Senior Notes issued under the Master Shelf Agreement to fund the acquisition and depreciation on acquisition adjustments related to acquired property, plant and equipment.

In September 2004, the Company purchased 75% of various gas wells, saltwater disposal wells and a pipeline from a working interest partner. As consideration for the purchase, the Company paid approximately $2,382,000 in cash. Concurrent with the acquisition in September, the Company contributed the acquired pipeline assets and $685,000 of existing gas gathering assets to a newly formed pipeline company, owned 75% by the Company and 25% by the working interest partner. The Company consolidates the newly formed entity and accordingly recorded an initial minority interest liability of $446,000.

In April 2004, the Company acquired the remaining 50% working interest in oil and gas properties, including mineral interests, held by a working interest partner under an August 2002 development agreement for $1,000,000 cash and forgiveness of approximately $489,000 in joint interest receivables from such partner.

The September and April acquisitions further the Company's expansion of its energy presence in the mid-continent region of the United States. The acquisitions did not have significant effect on the Company's results of operations or cash flows. The acquisitions had the following effect on the Company's consolidated financial position (in thousands):

	Amounts
Gas transportation facilities and equipment	$ 654
Mineral interest in oil and gas properties	1,110
Oil and gas properties	2,107
Total purchase price	$ 3,871

On June 3, 2003, the Company acquired substantially all the assets of Mohajir Engineering Group, Inc., a full service engineering, geophysical, and geological consulting firm serving the energy industry. The acquisition did not have a significant effect on the Company's financial position, results of operations or cash flows.

5. Derivatives

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. The Company does not enter into foreign currency derivative financial instruments for speculative or trading purposes.

As of October 31, 2004, the Company held option contracts with an aggregate U.S. dollar notional value of $6,000,000 to hedge the risks associated with forecasted Australian dollar denominated costs in its African operations. The contracts settle in various increments through January 2005. The fair value of the instruments of $89,000 at October 31, 2004, is recorded in other current assets and, net of income taxes of $33,000, in accumulated other comprehensive income. Aggregate losses of $179,000 on foreign currency hedging transactions were recognized for the nine months ended October 31, 2004 as the forecasted transactions being hedged occurred and were recorded primarily in cost of revenues in the Company's Consolidated Statements of Income.

Additionally, the Company's energy division is exposed to fluctuations in the price of natural gas and has entered into fixed-price physical delivery collar contracts to manage natural gas price risk for a portion of its production. As of October 31, 2004, the Company had committed to deliver 608,000 million British Thermal Units ("MMBtu") of natural gas through October 2005. The floor and ceiling prices on these contracts range from $6.30 to $9.65 per MMBtu.

In accordance with SFAS 133, 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 on the contracts are recognized as the natural gas is delivered under the terms of the contracts.

6. Severance Costs

During the second quarter of fiscal 2004, the Company announced involuntary workforce reductions of 189 employees. The actions were primarily necessary to align the Company's cost structure with current market conditions. As of July 31, 2003, the Company had notified all applicable employees affected by these actions.

The Company recorded severance and benefit charges of approximately $530,000 related to these actions in the second quarter of fiscal 2004 in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." As of October 31, 2004, the Company had paid all costs associated with these workforce reductions. A summary of the severance costs and related activity follows:

	Number of Employees	Amount (in 000's)
Balance February 1, 2003	-	$ -
Charges	189	530
Payments	(187)	(502)
Balance January 31, 2004	2	28
Payments	(2)	(28)
Balance October 31, 2004	-	$ -

7. 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,	
	2004	2003	2004	2003
Net income	$ 3,458	$ 541	$ 8,583	$ 710
Other comprehensive income (loss), net of taxes:				
Foreign currency translation adjustments	2,685	528	549	866
Unrealized gain on available for sale investments	-	55	-	42
Reclassification of unrealized loss on swap	-	-	-	134
Unrealized loss on exchange contracts	(3)	-	(799)	-
Other comprehensive income	$ 6,140	$ 1,124	$ 8,333	$ 1,752

The components of accumulated other comprehensive income (loss) for the nine months ended October 31, 2004 are as follows (in thousands):

	Cumulative Translation Adjustment	Unrealized Unrecognized Pension Liability	Accumulated Gain (loss) on Exchange Contracts	Other Comprehensive Loss
Balance, February 1, 2004	$ (8,701)	$ (1,784)	$ 856	$ (9,629)
Period change	550	-	(800)	(250)
Balance, October 31, 2004	$ (8,151)	$ (1,784)	$ 56	$ (9,879)

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 and recorded a curtailment loss of approximately $20,000 for the year ended January 31, 2004. Benefit levels were frozen as of December 31, 2003, and no further employees will be added to the Plan. The Company expects to maintain the assets of the Plan to pay normal benefits accrued through December 31, 2003. 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, 2004 and 2003 includes the following components (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2004	2003	2004	2003
Service cost	$ 17	$ 53	$ 51	$ 159
Interest cost	110	105	330	315
Expected return on assets	(113)	(104)	(339)	(312)
Net amortization	48	48	144	144
Net periodic pension cost	$ 62	$ 102	$ 186	$ 306

The Company has recognized the full amount of its actuarially determined pension liability and the related intangible asset (if applicable). The unrecognized pension cost has been recorded as a charge to consolidated stockholders' equity after giving effect to the related future tax benefit.

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, 2004 and 2003 include the following components (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2004	2003	2004	2003
Service cost	$ 25	$ 25	$ 75	$ 75
Interest cost	18	17	54	51
Net periodic pension cost	$ 43	$ 42	$ 129	$ 126

9. Operating Segments

The Company is a multinational company which provides sophisticated services and related products to a variety of markets. The Company is organized into discrete divisions based on its primary product lines. The Company's reportable segments are defined as follows:

Water Resources Division

This division provides a full line of water-related services and products including hydrological studies, site selection, well design, drilling and well development, pump installation, and repair and maintenance. The division's offerings include design and construction of water treatment facilities and the manufacture and sale of products to treat volatile organics and other contaminants such as nitrates, iron, manganese, arsenic, radium and radon in groundwater. 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.

Geoconstruction Division

This division focuses on services that improve soil stability, primarily jet grouting, grouting, vibratory ground improvement, drilled micropiles, stone columns, anchors and tiebacks. The division also manufactures a line of high-pressure pumping equipment used in grouting operations and geotechnical drilling rigs used for directional drilling.

Energy Division

This division primarily focuses on exploration and production of coalbed methane ("CBM") properties in the United States. To date it has been concentrated on projects in the mid-continent region of the United States. Historically, the division has also included Layne Canada, Toledo and two small specialty energy service companies. During fiscal 2004, the division's strategy shifted to focus mainly on resource development rather than providing services to external customers. Accordingly, in January 2004, the Company sold Layne Canada and Toledo. The results of operations for these units have been reclassified to discontinued operations for all periods presented (see Note 2). The division is now composed of the Company's CBM development activities and the two small specialty energy service companies.

Revenues and income from continuing operations pertaining to 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. Previously, the unallocated corporate expenses included incentive compensation expenses for division-level personnel; however, beginning in the second quarter of fiscal 2005, the incentive compensation has been allocated to the segments to reflect a change in division performance evaluation. All periods presented have been reclassified to conform to the current presentation. Operating segment revenues and income from continuing operations are summarized as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2004	2003	2004	2003
Revenues				
Water resources	$ 51,852	$ 43,818	$145,058	$127,191
Mineral exploration	27,448	18,353	77,690	49,245
Geoconstruction	10,475	6,921	27,514	21,273
Energy	1,705	768	3,613	2,084
Total revenues	$ 91,480	$ 69,860	$253,875	$199,793

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2004	2003	2004	2003
Income (loss) from continuing operations				
Water resources	$ 7,167	$ 5,128	$ 17,497	$ 14,642
Mineral exploration	3,027	754	10,254	1,798
Geoconstruction	918	167	2,437	1,440
Energy	(625)	(270)	(1,644)	(978)
Unallocated corporate expenses	(3,313)	(2,604)	(9,378)	(8,504)
Debt extinguishment costs	-	-	-	(2,320)
Interest	(841)	(687)	(2,257)	(1,918)
Total income from continuing operations	$ 6,333	$ 2,488	$ 16,909	$ 4,160
Geographic Information:				
Revenues				
North America	$ 72,711	$ 56,713	$ 197,771	$ 163,073
Africa/Australia	17,240	11,645	50,623	31,762
Other foreign	1,529	1,502	5,481	4,958
Total revenues	$ 91,480	$ 69,860	$ 253,875	$ 199,793

10. 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 provision of 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 for 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. While the resolution of any of these matters may have an impact on the financial results for the period in which the matter is resolved, the Company believes that the ultimate disposition of these matters will not, in the aggregate, have a material adverse effect upon its business or consolidated financial position, results of operations or cash flows.

11. New Accounting Pronouncements

On April 30, 2004, the FASB staff issued FASB Staff Position (FSP) FAS 141-1 and FAS 142-1, which amends FASB Statement No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets." The FSP clarifies that mineral rights in oil and gas properties should be classified as tangible assets. This amendment is effective for the first reporting period beginning after April 29, 2004. The adoption of this amendment did not have a significant impact on the Company's results of operations or financial position as the Company's mineral interests in oil and gas properties are recorded as tangible assets.

In September 2004, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 106 ("SAB 106") regarding the application of FASB Statement No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"), by oil and gas producing companies following the full cost accounting method. SAB 106 provides interpretive responses related to (1) computing the full cost ceiling to avoid double-counting the expected future outflows associated with asset retirement obligations, (2) required disclosures relating to the interaction of SFAS 143 and the full cost rules and (3) the impact of SFAS 143 on the calculation of depreciation and amortization. SAB 106 is effective as of the beginning of the first fiscal quarter beginning after October 4, 2004. The adoption of SAB 106 is not expected to have a significant impact on the Company's results of operations or financial position.

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

Cautionary Language Regarding Forward-Looking Statements

This Form 10-Q contains 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 are those concerning the strategic plans, expectations and objectives for future operations and are generally indicated by words or phrases such as "anticipate," "estimate," "project," "believe," "intend", "expect," "plan" and similar words or phrases. Such 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 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 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.

Demand for the Company's mineral exploration drilling services and products depends 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 that often fluctuate widely.

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	
	2004	2003	2004	2003	Three Months	Nine Months
Revenues:						
Water resources	56.7%	62.7%	57.1%	63.7%	18.3	14.0
Mineral exploration	30.0	26.3	30.6	24.7	49.6	57.8
Geoconstruction	11.4	9.9	10.9	10.6	51.4	29.3
Energy	1.9	1.1	1.4	1.0	122.0	73.4
Total net revenues	100.0%	100.0%	100.0%	100.0%	30.9	27.1
Cost of revenues	72.4	72.7	72.7	71.6	30.3	29.0
Gross profit	27.6	27.3	27.3	28.4	32.7	22.3
Selling, general and administrative expenses	16.4	18.7	17.1	20.4	15.2	6.8
Depreciation and amortization	3.9	4.0	4.0	4.4	28.8	15.0
Other income (expense):						
Equity in earnings of affiliates	0.5	-	0.8	0.4	*	*
Interest	(0.9)	(1.0)	(0.8)	(0.9)	22.4	17.7
Debt extinguishment costs	-	-	-	(1.2)	*	*
Other income (expense), net	-	-	0.5	0.2	*	*
Income from continuing operations before income taxes and minority interest	6.9	3.6	6.7	2.0	*	*
Income tax expense	3.1	2.2	3.2	1.5	*	*
Minority interest	-	(0.2)	-	-	*	*
Net income from continuing operations before discontinued operations	3.8	1.2	3.5	0.5	*	*
Loss from discontinued operations, net of income taxes	-	(0.4)	(0.1)	(0.1)	*	*
Net income (loss)	3.8%	0.8%	3.4%	0.4%	*	*

* Not meaningful.

Results of Operations

Revenues for the three months ended October 31, 2004 increased $21,620,000, or 30.9%, to $91,480,000 while revenues for the nine months ended October 31, 2004 increased $54,082,000, or 27.1%, to $253,875,000 from the same periods last year. See further discussion of results of operations by division below.

Gross profit as a percentage of revenues was 27.6% and 27.3% for the three and nine months ended October 31, 2004 compared to 27.3% and 28.4% for the three and nine months ended October 31, 2003. The decrease in gross profit percentage for the nine-month period was primarily attributable to continued pricing pressures in the water resources division along with reduced margins associated with the promotion of certain new water treatment products. The decrease in the water

resources division margins was partially offset by increased margins in the mineral exploration division due to increased activity because of higher gold and base metal prices.

Selling, general and administrative expenses were $15,048,000 for the three months ended October 31, 2004 and $43,444,000 for the nine months ended October 31, 2004 (16.4% and 17.1% of revenues, respectively) compared to $13,066,000 and $40,689,000 for the three and nine months ended October 31, 2003 (18.7% and 20.4% of revenues, respectively). The increase in selling, general and administrative expenses for the periods was primarily related to the Company's expansion of its water treatment capabilities, increased expenses associated with the Company's CBM development efforts and incremental costs of approximately $275,000 for the three months and $925,000 for the nine months associated with the implementation of Sarbanes-Oxley requirements.

Depreciation, depletion and amortization increased to $3,592,000 and $10,115,000 for the three and nine months ended October 31, 2004 compared to $2,788,000 and $8,799,000 for the same periods last year. The increases were primarily a result of increased depletion associated with the expansion of Company's CBM operations and increased depreciation from new asset additions in the mineral exploration division due to increased demand and the water resources division to expand its water treatment capabilities.

The Company recorded a loss on extinguishment of debt of $2,320,000 for the nine months ended October 31, 2003. The loss represents prepayment penalties and the write-off of associated deferred fees in connection with refinancing of the Company's debts.

Other income (expense), net was income of $86,000 for the three months ended October 31, 2004, compared to an expense of $42,000 in the prior year, and income of $1,235,000 for the nine months ended October 31, 2004, compared to income of $445,000 in the prior year. The increase in income for both periods was primarily due to gains on sales of property, plant and equipment in fiscal 2005.

Income tax expense for continuing operations of $2,827,000 and $8,116,000 was recorded for the three and nine months ended October 31, 2004 compared to $1,488,000 and $3,015,000 for the same periods last year. The expense for the three months ended October 31, 2004, was impacted by a reduction in the Company's estimate of its effective tax rate for the year from 50% to 48%. The effective rate was 48.0% for the nine months ended October 31, 2004 compared to 72.5% for the same period last year. The improvement in the effective rate was primarily attributable to improved earnings, especially in international operations, and the treatment of debt extinguishment costs as discrete period items in the second quarter of fiscal 2004. The remaining difference between the effective rate of 48% and the statutory federal rate of 34% was a result of the impact of nondeductible expenses and the tax treatment of certain foreign operations.

WATER RESOURCES DIVISION
(in thousands)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2004	2003	2004	2003
Revenues	$ 51,852	$ 43,818	$145,058	$127,191
Income from continuing operations	7,167	5,128	17,497	14,642

Water resources revenue increased 18.3% to $51,852,000 for the three months ended October 31, 2004 and 14.0% to $145,058,000 for the nine months ended October 31, 2004 compared to $43,818,000 and $127,191,000 for the three and nine months ended October 31, 2003. The increases were primarily attributable to the improvements in municipal spending, results from the Company's water treatment initiatives and increased infrastructure needs in metropolitan areas, primarily in the western United States.

Income from continuing operations for the water resources division was $7,167,000 and $17,497,000 for the three and nine months ended October 31, 2004 compared to $5,128,000 and $14,642,000 for the three and nine months ended October 31, 2003. The increase in income from continuing operations for the three and nine months ended October 31, 2004 was primarily the combination of increased gross profit associated with the increase in revenues and essentially flat selling, general and administrative expenses. The impact of the relatively fixed selling, general and administrative expenses was a higher income from continuing operations as a percentage of revenues in both the three and nine month periods.

MINERAL EXPLORATION DIVISION
(in thousands)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2004	2003	2004	2003
Revenues	$ 27,448	$ 18,353	$ 77,690	$ 49,245
Income from continuing operations	3,027	754	10,254	1,798

Mineral exploration revenues increased 49.6% to $27,448,000 and 57.8% to $77,690,000 for the three and nine months ended October 31, 2004 compared to revenues of $18,353,000 and $49,245,000 for the three and nine months ended October 31, 2003. The increases for the periods were primarily the result of increased exploration activity in the Company's markets due to higher gold and base metal prices.

Income from continuing operations for the mineral exploration division was $3,027,000 and $10,524,000 for the three and nine months ended October 31, 2004, compared to $754,000 and $1,798,000 for the three and nine months ended October 31, 2003. The improved earnings in the division were primarily attributable to the increased activity levels noted above and increased earnings by the Company's Latin American affiliates. The improvements in earnings were partially offset by increased incentive compensation costs and additional depreciation on new asset additions.

GEOCONSTRUCTION DIVISION
(in thousands)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2004	2003	2004	2003
Revenues	$ 10,475	$ 6,921	$ 27,514	$ 21,273
Income from continuing operations	918	167	2,437	1,440

Geoconstruction revenues increased 51.4% to $10,475,000 and 29.3% to $27,514,000 for the three and nine months ended October 31, 2004 compared to $6,921,000 and $21,273,000 for the three and nine months ended October 31, 2003. The increases in revenues were primarily attributable to certain larger than normal domestic projects and increased product sales by the Company's manufacturing unit in Italy.

The geoconstruction division had income from continuing operations of $918,000 and $2,437,000 for the three and nine months ended October 31, 2004 compared to $167,000 and $1,440,000 for the three and nine months ended October 31, 2003. The increases were primarily a result of the income from the larger domestic projects noted above, improved gross profit margins and increased income from the product sales of the manufacturing unit in Italy.

ENERGY DIVISION
(in thousands)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2004	2003	2004	2003
Revenues	$ 1,705	$ 768	$ 3,613	$ 2,084
Loss from continuing operations	(625)	(270)	(1,644)	(978)

Energy revenues increased 122.0% to $1,705,000 and 73.4% to $3,613,000 for the three and nine months ended October 31, 2004 compared to revenues of $768,000 and $2,084,000 for the three and nine months ended October 31, 2003. Increased production from the Company's CBM projects resulted in the increases in revenues compared to the same periods last year.

Losses from continuing operations for the energy division were $625,000 and $1,644,000 for the three and nine months ended October 31, 2004 compared to $270,000 and $978,000 for the three and nine months ended October 31, 2003. The increase in the loss from continuing operations for each period was primarily a result of increased expenses associated with exploration and development activities For the Company's CBM properties. The loss for the nine-month period ended October 31, 2004 was partially offset by a gain on the sale of exploration equipment of approximately $906,000.

UNALLOCATED CORPORATE EXPENSES

Unallocated corporate expenses were $3,313,000 and $9,378,000 for the three and nine months ended October 31, 2004 compared to $2,604,000 and $8,504,000 for the three and nine months ended October 31, 2003. The increase in the three month period was primarily due to increased costs of approximately $275,000 associated with the implementation of Sarbanes-Oxley requirements and other increases in professional fees. The increase for the nine months was primarily due to increased costs of approximately $925,000 associated with the Sarbanes-Oxley implementation and higher travel expenses.

Operating segment revenues and income from continuing operations are summarized as follows (in thousands):

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2004	2003	2004	2003
Revenues				
Water resources	$ 51,852	$ 43,818	$ 145,058	$ 127,191
Mineral exploration	27,448	18,353	77,690	49,245
Geoconstruction	10,475	6,921	27,514	21,273
Energy	1,705	768	3,613	2,084
Total revenues	$ 91,480	$ 69,860	$ 253,875	$ 199,793
Income (loss) from continuing operations				
Water resources	$ 7,167	$ 5,128	$ 17,497	$ 14,642
Mineral exploration	3,027	754	10,254	1,798
Geoconstruction	918	167	2,437	1,440
Energy	(625)	(270)	(1,644)	(978)
Unallocated corporate expenses	(3,313)	(2,604)	(9,378)	(8,504)
Debt extinguishment costs	-	-	-	(2,320)
Interest	(841)	(687)	(2,257)	(1,918)
Total income from continuing operations	$ 6,333	$ 2,488	$ 16,909	$ 4,160

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's primary sources of liquidity have historically been cash from operations, supplemented by borrowings under its credit facilities.

The Company maintains an agreement (the "Master Shelf Agreement") whereby it can issue up to $60,000,000 in unsecured notes. The Company also holds a revolving credit facility (the "Credit Agreement") composed of an unsecured $30,000,000 revolving facility. Borrowings under the Master Shelf and Credit Agreements were used to refinance borrowings outstanding under the Company's previous credit facilities. At October 31, 2004, the Company had outstanding notes of $60,000,000 under the Master Shelf Agreement (see Note 3 of the Notes to Consolidated Financial Statements). The Company was in compliance with its financial covenants at October 31, 2004 and expects to remain in compliance through the foreseeable future.

The Company's working capital as of October 31, 2004 and January 31, 2004 was $48,916,000 and $52,406,000, respectively. The decrease in working capital at October 31, 2004 was primarily attributable to the use of available cash to fund capital expenditures and an increase in current income taxes payable as a result of the Company's increased profitability. 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 2005. At October 31, 2004, the Company had no material commitments outstanding for capital assets.

Operating Activities

Cash from operating activities, including discontinued operations, increased to $11,679,000 for the nine months ended October 31, 2004 from $3,710,000 for the same period last year. The cash from operating activities for the nine months ended October 31, 2004 included $3,277,000 used in discontinued operations. This was primarily attributable to the payment of lease termination liabilities and closing costs related to the sale of Layne Canada, partially offset by collection of receivables related to Layne Canada. Proceeds from the sale of Layne Canada of approximately $16,000,000 had been received on January 31, 2004.

Cash from continuing operations increased to $14,956,000 for the nine months ended October 31, 2004 compared to cash from operations of $2,873,000 for the same period in the prior year. The increase in cash from continuing operations was primarily a result of the improved earnings from operations for the nine months ended October 31, 2004 compared to the same period last year.

Investing Activities

The Company's capital expenditures of $22,287,000 for the nine months ended October 31, 2004 were directed primarily toward the Company's expansion into coalbed methane ("CBM") exploration and production including acquisitions of two CBM oil and gas projects totaling $2,728,000 and the acquisition of a 75% interest in gas transportation facilities and equipment for $654,000. In addition, the Company acquired the assets of Beylik Drilling and Pump Service, Inc. ("Beylik") for total proceeds of $14,743,000. The remaining expenditures were directed towards expansion and upgrading of the Company's equipment and facilities primarily in the water resources and mineral exploration divisions.

Additionally, the Company sold certain equipment for total proceeds of $2,945,000, which were reinvested in the Company for ongoing working capital requirements and capital expenditures.

Financing Activities

The Company's financing activities primarily related to borrowings of $20,000,000 from the issuance of Senior Notes under the Master Shelf Agreement to fund the acquisitions of Beylik and CBM-related assets totaling $18,125,000. In addition, the borrowings were used for working capital requirements, capital expenditures and the payment of $1,380,000 for the DrillCorp promissory note.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations discusses 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 to the financial statements, located elsewhere in this Form 10-Q and in Note 1 of our Annual Report on Form 10-K for the year ended January 31, 2004. 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 - Revenue is recognized on large, long-term contracts using the percentage of completion method based upon materials installed and labor costs incurred. Changes in job performance, job conditions and estimated profitability, including those arising from contract penalty provisions, and final contract settlements may result in revisions to costs and income and are recognized in the period in which the revisions are determined. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined.

Other Long-lived assets - In evaluating the fair value and future benefits of long-lived assets, including the Company's coalbed methane assets, the Company performs an analysis of the anticipated future net cash flows of the related long-lived assets and reduce their carrying value by the excess, if any, of the result of such calculation. The Company believes at this time that the long-lived assets' carrying values and useful lives 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 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, 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 foreign affiliates is made only on those amounts in excess of those funds considered to be invested indefinitely.

Litigation and Other Contingencies - The Company is involved in litigation incidental to its business, the disposition of which is expected to have no 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 best estimate of its probable liability in these matters may change.

The Company's contractual obligations and commercial commitments are summarized as follows (in thousands):

	Payments/Expiration by Period				
	Total	Less than 1 year	1-3 years	4-5 years	More than 5 years
Contractual obligations and other commercial commitments					
Credit facilities	$ 60,000	$ -	$ -	$ 33,332	$ 26,668
Operating leases	21,454	10,001	6,989	3,628	836
Mineral interest obligations	441	64	96	80	201
DrillCorp promissory note	1,440	1,440	-	-	-
Total contractual cash obligations	83,335	11,505	7,085	37,040	27,705
Standby letters of credit	10,976	10,976	-	-	-
Asset retirement obligations	248	-	-	-	248
Total contractual obligations and commercial commitments	$ 94,559	$ 22,481	$ 7,085	$ 37,040	$ 27,953

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 variable rate debt is in Note 12 of the Notes to Consolidated Financial Statements appearing in the Company's January 31, 2004 Form 10-K. As of October 31, 2004, the $60,000,000 of the Company's debt outstanding is fixed-rate debt. Accordingly, an instantaneous change in interest rates of one percentage point would not significantly impact the Company's annual interest expense.

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 operations are described in Note 1 of the Notes to Consolidated Financial Statements appearing in the Company's January 31, 2004 Form 10-K and Note 9 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 (see Note 5 of the Notes to Consolidated Financial Statements). As of October 31, 2004, the Company held option contracts with an aggregate U.S. dollar notional value of $6,000,000.

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 significantly impact income from continuing operations for the three and nine months ended October 31, 2004 and 2003. 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 natural 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, 2004, the Company held contracts for physical delivery of 608,000 million British Thermal Units ("MMBtu") of natural gas at prices ranging from $6.30 to $9.65 per MMBtu.

We estimate that a ten percent change in the price of natural gas would not significantly impact income from continuing operations for the three and nine months ended October 31, 2004 and 2003.

ITEM 4. Controls and Procedures

Based on an evaluation of disclosure controls and procedures for the period ended October 31, 2004 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 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 by management for the period ended October 31, 2004, we have concluded these controls are effective. There have been no significant changes in internal controls or in other factors that could significantly affect these controls since such evaluation.

PART II

ITEM 1 - Legal Proceedings

NONE

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 October 4, 2004, related to the Company's acquisition of certain assets of Beylik Drilling and Pump Service, Inc.

Form 8-K filed on December 7, 2004, related to the Company's third quarter press release.

* * * * * * * * * *

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, 2004 /s/ A.B. Schmitt

A.B. Schmitt, President and Chief Executive Officer

DATE: December 9, 2004 /s/ Jerry W. Fanska

Jerry W. Fanska, Vice President Finance and Treasurer

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EXHIBIT 31(1)

CERTIFICATIONS

I, Andrew B. Schmitt, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended October 31, 2004, of Layne Christensen Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 9, 2004

/s/ A.B. Schmitt

Andrew B. Schmitt
President and Chief Executive Officer

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EXHIBIT 31(2)

CERTIFICATIONS

I, Jerry W. Fanska, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended October 31, 2004, of Layne Christensen Company;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 9, 2004

/s/ Jerry W. Fanska

Jerry W. Fanska
Vice President -- Finance and Treasurer

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EXHIBIT 32(1)

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Andrew B. Schmitt, President and Chief Executive Officer of Layne Christensen Company (the "Company"), do hereby certify in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(a) the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2004, which this certification accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(b) the information contained in the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2004, which this certification accompanies, fairly presents, in all material aspects, the financial condition and results of operations of the Company.

Dated: December 9, 2004

/s/ A. B. Schmitt

Andrew B. Schmitt
President and Chief Executive Officer

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EXHIBIT 32(2)

CERTIFICATION OF PRINCIPAL ACCOUNTING OFFICER

I, Jerry W. Fanska, Vice President -- Finance and Treasurer, of Layne Christensen Company, do hereby certify in accordance with 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(a) the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2004, which this certification accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(b) the information contained in the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2004, which this certification accompanies, fairly presents, in all material aspects, the financial condition and results of operations of the Company.

Dated: December 9, 2004

/s/ Jerry W. Fanska

Jerry W. Fanska
Vice President -- Finance and Treasurer

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