

LAYNE CHRISTENSEN CO

Form 10-Q

September 10, 2007

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**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 July 31, 2007

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 0-20578
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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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 15,997,858 shares of common stock, \$.01 par value per share, outstanding on September 7, 2007.

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

	July 31, 2007 (unaudited)	January 31, 2007 (unaudited)
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 16,295	\$ 13,007
Customer receivables, less allowance of \$7,055 and \$7,020, respectively	114,926	109,615
Costs and estimated earnings in excess of billings on uncompleted contracts	61,042	51,210
Inventories	20,652	18,456
Deferred income taxes	17,043	16,551
Income taxes receivable	447	521
Restricted cash-current	9,085	8,270
Other	5,006	5,578
Total current assets	244,496	223,208
Property and equipment:		
Land	8,643	8,180
Buildings	21,411	21,457
Machinery and equipment	281,856	263,049
Gas transportation facilities and equipment	26,402	24,939
Oil and gas properties	66,059	58,458
Mineral interests in oil and gas properties	16,060	12,515
	420,431	388,598
Less Accumulated depreciation and depletion	(191,760)	(174,081)
Net property and equipment	228,671	214,517
Other assets:		
Investment in affiliates	27,262	24,280
Goodwill	78,436	65,184
Other intangible assets, net	15,489	16,017
Other	5,459	3,958
Total other assets	126,646	109,439
	\$ 599,813	\$ 547,164

See Notes to Consolidated Financial Statements.

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

	July 31, 2007 (unaudited)	January 31, 2007 (unaudited)
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	\$ 62,500	\$ 52,156
Current maturities of long-term debt	13,333	
Accrued compensation	25,887	29,616
Accrued insurance expense	7,426	7,303
Other accrued expenses	26,007	14,462
Acquisition escrow obligation-current	9,566	9,395
Income taxes payable	2,756	9,045
Billings in excess of costs and estimated earnings on uncompleted contracts	32,213	34,242
Total current liabilities	179,688	156,219
Noncurrent and deferred liabilities:		
Long-term debt	151,067	151,600
Accrued insurance expense	7,674	8,160
Deferred income taxes	24,701	23,302
Other	8,466	2,849
Total noncurrent and deferred liabilities	191,908	185,911
Common stock, par value \$.01 per share, 30,000,000 shares authorized, 15,738,260 and 15,517,724 shares issued and outstanding, respectively		
	157	155
Capital in excess of par value	153,690	149,187
Retained earnings	82,331	64,145
Accumulated other comprehensive loss	(7,961)	(8,453)
Total stockholders equity	228,217	205,034
	\$ 599,813	\$ 547,164

See Notes to Consolidated Financial Statements.

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

	Three Months Ended July 31, (unaudited)		Six Months Ended July 31, (unaudited)	
	2007	2006	2007	2006
Revenues	\$ 217,844	\$ 187,146	\$ 419,459	\$ 343,863
Cost of revenues (exclusive of depreciation shown below)	160,217	139,048	307,535	256,085
Selling, general and administrative expenses	29,112	26,236	58,520	48,600
Depreciation, depletion and amortization	10,361	7,400	20,699	14,466
Other income (expense):				
Equity in earnings of affiliates	2,379	1,139	3,870	1,504
Interest	(2,797)	(2,498)	(5,227)	(4,629)
Other income, net	318	573	525	847
Income before income taxes	18,054	13,676	31,873	22,434
Income tax expense	8,486	6,484	14,152	10,600
Net income	\$ 9,568	\$ 7,192	\$ 17,721	\$ 11,834
Basic income per share	\$ 0.61	\$ 0.47	\$ 1.14	\$ 0.78
Diluted income per share	\$ 0.60	\$ 0.47	\$ 1.12	\$ 0.77
Weighted average shares outstanding	15,565,000	15,277,000	15,541,000	15,255,000
Dilutive stock options	333,000	180,000	321,000	194,000
	15,898,000	15,457,000	15,862,000	15,449,000

See Notes to Consolidated Financial Statements.

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

	Six Months Ended July 31, (unaudited)	
	2007	2006
Cash flow from operating activities:		
Net income	\$ 17,721	\$ 11,834
Adjustments to reconcile net income to cash from operations:		
Depreciation, depletion and amortization	20,699	14,466
Deferred income taxes	354	678
Share-based compensation	1,252	1,121
Share-based compensation excess tax benefits	(1,541)	246
Equity in earnings of affiliates	(3,870)	(1,504)
Dividends received from affiliates	888	579
Gain from disposal of property and equipment	(325)	(507)
Changes in current assets and liabilities, net of effects of acquisitions:		
Increase in customer receivables	(4,815)	(16,948)
Increase in costs and estimated earnings in excess of billings on uncompleted contracts	(10,018)	(8,812)
Increase in inventories	(2,063)	(687)
Decrease in other current assets	795	1,297
Increase in accounts payable and accrued expenses	7,140	17,290
Increase (decrease) in billings in excess of costs and estimated earnings on uncompleted contracts	(2,029)	3,308
Other, net	(1,339)	(158)
Cash provided by operating operations	22,849	22,203
Cash flow from investing activities:		
Additions to property and equipment	(21,208)	(15,288)
Additions to gas transportation facilities and equipment	(1,463)	(8,245)
Additions to oil and gas properties	(7,587)	(12,749)
Additions to mineral interests in oil and gas properties	(3,544)	(209)
Acquisition of oil and gas properties and mineral interests		(1,500)
Proceeds from disposal of property	924	783
Payment of cash purchase price adjustments on prior year acquisitions	(2,270)	(6,120)
Acquisition of businesses, net of cash acquired		(3,940)
Deposit of cash into restricted accounts	(644)	(1,887)
Release of cash from restricted accounts		5,597
Net investment in affiliates		400
Cash used in investing activities	(35,792)	(43,158)
Cash flow from financing activities:		
Borrowings under revolving credit facility	219,500	176,600
Repayments under revolving credit facility	(206,700)	(153,500)

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Excess tax benefit on exercise of share-based instruments	1,542	191
Issuance of common stock upon exercise of stock options	1,678	385
Cash provided by financing activities	16,020	23,676
Effects of exchange rate changes on cash	211	222
Net increase in cash and cash equivalents	3,288	2,943
Cash and cash equivalents at beginning of period	13,007	17,983
Cash and cash equivalents at end of period	\$ 16,295	\$ 20,926

See Notes to Consolidated Financial Statements.

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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, 2007 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.

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

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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 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. 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 there from 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 continues to be appropriate.

Restricted Cash - Included in restricted cash as of July 31, 2007 are escrow funds associated with the acquisition of Reynolds, Inc.

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.

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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.

The Company adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of FASB Statement 109 (*FIN 48*), effective February 1, 2007. *FIN 48* prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. *FIN 48* also provides guidance on derecognition of income tax assets or liabilities, classification of current and deferred income tax assets and liabilities, accounting for interest and penalties associated with tax positions, accounting for income taxes in interim periods and income tax disclosures. The cumulative effects of applying *FIN 48* have been recorded as an increase to retained earnings and a decrease to income taxes payable of \$465,000 as of February 1, 2007. As of July 31, and February 1, 2007, the total amount of unrecognized tax benefits was \$6,006,000 and \$6,061,000, 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.

In conjunction with the adoption of *FIN 48*, the Company has classified uncertain tax positions as non-current income tax liabilities unless expected to be paid in one year. Consistent with its historical financial reporting, the Company reports income tax-related interest and penalties as a component of income tax expense. As of July 31 and February 1, 2007, the total amount of accrued income tax-related interest and penalties included in the balance sheet was \$1,369,000 and \$1,489,000, respectively.

The Company has been examined for federal income tax purposes for the 1999-2003 tax years. During the previous quarter, the Company effectively settled certain tax years which resulted in the recognition of \$706,000 in previously unrecognized tax benefits. The 2004-2007 tax years are open to possible federal and state examination. The Company is also open to examination in various foreign jurisdictions for various tax years ranging from 2002-2007 subject to the normal statute of limitation rules in each country. Tax liabilities are recorded based on estimates of additional taxes which will be due upon the conclusion of these examinations. Estimates of these tax liabilities are made based upon prior experience and are updated in light of changes in facts and circumstances. However, due to the uncertain and complex application of tax regulations, examination outcomes and the timing of settlements are subject to significant uncertainty.

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.

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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 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), Shared-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 July 31, 2007, the Company had unrecognized compensation expense of \$6,049,000 to be recognized over a weighted average period of 2.77 years. The Company determines the fair value of stock-based compensation using the Black-Scholes model.

Consolidated Statements of Cash Flows - Highly liquid investments with an original maturity of three months or less at the time of purchase are considered cash equivalents.

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

	Six Months Ended July 31,	
	2007	2006
Income taxes	\$11,727	\$5,245
Interest	4,495	4,482

The Company had earnings on restricted cash of \$171,000 and \$75,000 for the six months ended July 31, 2007 and 2006, which were treated as non-cash items as they were restricted for the account of the escrow beneficiaries.

2. Acquisitions

On September 28, 2005, the Company acquired 100% of the outstanding stock of Reynolds Inc. (Reynolds). Under the terms of the purchase, there was contingent consideration up to a maximum of \$15,000,000 (the Reynolds Earnout), based on Reynolds operating performance over a period of thirty-six months from the closing date. During July 2007, the Company determined that it was probable that the maximum consideration would be achieved, and agreed to settle the Reynolds Earnout on a discounted basis for \$13,252,000, consisting of \$2,270,000 in cash and \$10,982,000 of Layne common stock. The Company paid the cash portion of the settlement on July 31, 2007, and issued 249,023 shares of Layne common stock in August 2007 in payment of the stock portion. The liability for the stock portion was recorded in Other Accrued Expenses as of July 31, 2007. The Reynolds Earnout has been accounted for as additional purchase consideration, and accordingly the Company recorded \$13,252,000 of additional Goodwill as of July 31, 2007.

On November 20, 2006, the Company acquired 100% of the stock of American Water Services Underground Infrastructure, Inc. (UIG), a wholly-owned subsidiary of American Water (USA), Inc. UIG is engaged in the business of providing trenchless pipeline rehabilitation services for sewer and stormwater systems and will be combined with a similar service line acquired in the acquisition of Reynolds, Inc. The purchase price for UIG was \$27,662,000, consisting of cash of \$27,524,000 and costs of \$138,000. The cash portion of the purchase price is net of certain purchase price adjustments based on the amount of tangible net worth at the closing date, \$1,101,000 of which was received by the Company in February 2007.

The purchase price has been allocated based on the fair value of the assets and liabilities acquired, determined based on UIG s historical cost basis of assets and liabilities, appraisals and other analyses. Such amounts may be subject to revision as UIG 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.

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

Working capital	\$ 11,723
Property and equipment	13,602
Goodwill	3,891
Trade names	143
Other intangible assets	69
Deferred income taxes	(1,766)
 Total purchase price	 \$ 27,662

The results of operations of UIG have been included in the Company's consolidated statements of income commencing with the closing date. Assuming UIG had been acquired as of the beginning of each period, the unaudited consolidated revenues, net income from continuing operations, net income and net income per share would have been as follows (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	July 31,		July 31,	
	2007	2006	2007	2006
Revenues	\$217,844	\$198,207	\$419,459	\$354,924
Net income	9,568	7,257	17,721	11,899
Basic earnings per share	0.61	0.48	1.14	0.77
Diluted earnings per share	0.60	0.47	1.12	0.75

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 and depreciation and amortization expense on the acquisition adjustments to property and equipment and other intangible assets.

In July 2006 and January 2007, the Company purchased certain gas wells and mineral interests in oil and gas properties from unrelated operators totaling \$1,988,000 in cash. The acquisitions complemented the Company's existing operation in the mid-continent region of the United States. The purchase price was allocated \$1,376,000 to oil and gas properties and \$612,000 to mineral interests in oil and gas properties.

On June 16, 2006 (the CWI Closing Date), 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. The purchase price for CWI was \$5,442,000, consisting of \$3,150,000 cash, 45,563 shares of Layne common stock (valued at \$1,263,000), cash purchase price adjustments and costs of \$1,029,000. Layne common stock was valued in the transaction based upon a five-day average of the closing price of the stock two days before and two days after the CWI Closing Date. The stock was placed in escrow to secure certain representations, warranties and indemnifications under the purchase agreement and will be released in three annual installments. The cash purchase price adjustments were based on the amount by which working capital at the CWI Closing Date exceeded a threshold amount established in the purchase agreement. In addition, 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 interest, taxes, depreciation and amortization exceed a threshold amount during the thirty-six 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.

The purchase price has been allocated based on the fair value of the assets and liabilities acquired, determined based on CWI's historical cost basis of assets and liabilities and other analyses. Such amounts may be subject to revision as CWI 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.

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

Working capital	\$ 1,016
Property and equipment	1,580
Goodwill	3,436
Deferred income taxes	(590)
 Total Purchase Price	 \$ 5,442

The results of operations of CWI have been included in the Company's consolidated statements of income commencing with the CWI Closing Date. The acquisition did not have a significant effect on the Company's results of operations or cash flows.

3. Goodwill and Other Intangible Assets

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

	July 31, 2007			January 31, 2007		
	Gross Carrying Amount	Accumulated Amortization	Weighted Average Amortization Period in years	Gross Carrying Amount	Accumulated Amortization	Weighted Average Amortization Period in years
Goodwill (non tax deductible)	\$ 78,436	\$		\$ 65,184	\$	
Other amortizable intangible assets						
Tradenames	\$ 16,000	\$ (1,124)	32	\$ 16,000	\$ (818)	32
Customer-related	332	(238)	3	332	(134)	3
Patents	359	(219)	3	359	(160)	3
Non-competition agreements	379	(250)	5	379	(227)	5
Other	762	(512)	23	762	(476)	23
 Total amortizable intangible assets	 \$ 17,832	 \$ (2,343)		 \$ 17,832	 \$ (1,815)	

Amortizable intangible assets are being amortized over their estimated useful lives of one to 40 years with a weighted average amortization period of 30 years. Total amortization expense for other intangible assets was \$236,000 and \$241,000 for three months ended July 31, 2007 and 2006, respectively, and \$528,000 and \$487,000 for the six months ended July 31, 2007 and 2006, respectively.

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

	Energy	Water and Wastewater Infrastructure	Total
Balance February 1, 2007	\$ 950	\$ 64,234	\$ 65,184
Additions		13,252	13,252
 Balance, July 31, 2007	 \$ 950	 \$ 77,486	 \$ 78,436

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 July 31, 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. Concurrent with the acquisition of Reynolds, the Company amended the Master Shelf Agreement to increase the amount of senior notes available to be issued from \$60,000,000 to \$100,000,000, thus, creating an available facility amount of \$40,000,000, and reinstated and extended the available issuance period to September 15, 2007.

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Also, concurrent with the acquisition of Reynolds, the Company expanded its existing revolving credit facility with LaSalle Bank National Association, as Administrative Agent, and a group of additional banks by entering into 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 increased the Company's revolving loan commitment from \$70,000,000 to \$130,000,000, less any outstanding letter of credit commitments (which are subject to a \$30,000,000 sublimit). Approximately \$80,000,000 of the facility was used to pay the cash portion of the acquisition of Reynolds and refinance the outstanding borrowings under the previous credit agreement. The Credit Agreement was also amended in November 2006, concurrent with the acquisition of UIG, and the revolving loan commitment was increased to \$200,000,000.

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 July 31, 2007, there were letters of credit of \$12,715,000 and borrowings of \$104,400,000 outstanding on the Credit Agreement resulting in available capacity of \$82,885,000.

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, maximum debt to EBITDA and minimum tangible net worth. The Company was in compliance with its covenants as of July 31, 2007.

Debt outstanding as of July 31, 2007 and January 31, 2007 was as follows (in thousands):

	July 31, 2007	January 31, 2007
Credit Agreement	\$ 104,400	\$ 91,600
Senior Notes	60,000	60,000
Total debt	164,400	151,600
Less current maturities	13,333	
Total long-term debt	\$ 151,067	\$ 151,600

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 July 31, 2007, the Company had committed to deliver 5,846,000 million British Thermal Units (MMBtu) of natural gas through March 2010. The prices on these contracts range from \$7.31 to \$8.925 per MMBtu.

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 July 31, 2007 was \$655,000.

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. 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		Six Months Ended	
	July 31,		July 31,	
	2007	2006	2007	2006
Net income	\$ 9,568	\$ 7,192	\$ 17,721	\$ 11,834
Other comprehensive income, net of taxes:				
Foreign currency translation adjustments	239	311	492	202
Unrealized gain on foreign exchange contracts		45		109
Other comprehensive income	\$ 9,807	\$ 7,548	\$ 18,213	\$ 12,145

The components of accumulated other comprehensive loss as of July 31, 2007 and 2006 are as follows (in thousands):

	Cumulative	Unrecognized	Unrealized	Accumulated
	Translation	Pension	Gain	Other
	Adjustment	Liability	on	Comprehensive
			Exchange	Loss
			Contracts	
Balance, February 1, 2007	\$ (7,151)	\$ (1,302)	\$	\$ (8,453)
Period change	492			492
Balance, July 31, 2007	\$ (6,659)	\$ (1,302)	\$	\$ (7,961)

	Cumulative	Unrecognized	Unrealized	Accumulated
	Translation	Pension	Gain	Other
	Adjustment	Liability	on	Comprehensive
			Exchange	Loss
			Contracts	
Balance, February 1, 2006	\$ (7,442)	\$	\$	\$ (7,442)
Period change	202		109	311
Balance, July 31, 2006	\$ (7,240)	\$	\$ 109	\$ (7,131)

7. 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. 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 months ended July 31, 2007 and 2006 includes the following components (in thousands):

	Three Months Ended	Six Months Ended
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	July 31,		July 31,	
	2007	2006	2007	2006
Service cost	\$ 26	\$ 25	\$ 48	\$ 43
Interest cost	123	110	236	219
Expected return on assets	(136)	(137)	(268)	(258)
Net amortization	52	56	120	123
Net periodic pension cost	\$ 65	\$ 54	\$ 136	\$ 127

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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 months ended July 31, 2007 and 2006 include the following components (in thousands):

	Three Months Ended July 31,		Six Months Ended July 31,	
	2007	2006	2007	2006
Service cost	\$ 63	\$ 20	\$ 88	\$ 50
Interest cost	29	25	51	44
Net periodic pension cost	\$ 92	\$ 45	\$ 139	\$ 94

8. Stock and Stock Option Plans

In October 1998, the Company adopted a Rights Agreement 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 25% 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 \$45.00. The Company is entitled to redeem the Right at \$0.01 per Right at any time before a person has acquired 25% or more of the Company's outstanding common stock. The Rights expire 10 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 up to an aggregate of 2,600,000 shares of common stock at a price fixed by the Board of Directors or a committee. As of July 31, 2007, there were 337,000 shares available to be granted under the plans. 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.

Significant option groups outstanding at July 31, 2007, related exercise price and remaining contractual term follows:

Grant Date	Options Outstanding	Options Exercisable	Exercise Price	Remaining Contractual Term (Months)
2/98	20,900	20,900	\$14.000	6
4/98	5,144	5,144	10.290	9
4/99	9,773	9,773	4.125	21
4/99	24,875	24,875	5.250	21
2/00	3,500	3,500	5.500	31
4/00	14,794	14,794	3.495	33
6/04	25,000	25,000	16.600	83
6/04	179,666	110,916	16.650	84
6/05	12,000	12,000	17.540	96
9/05	235,000	47,500	23.050	99
1/06	201,481	43,808	27.870	103
6/06	12,000	12,000	29.290	108
6/06	70,000	17,500	29.290	108

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6/07	70,000		42.260	118
7/07	33,000		42.760	119
	917,133	347,710		

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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 5 to 10 years from the date of grant and generally vest ratably over periods of 4 to 5 years. Transactions for stock options for the period ended July 31, 2007 were as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Intrinsic Value (in thousands)
Stock Option Activity Summary:				
Outstanding at February 1, 2007	963,529	\$ 20.028	7.410	\$ 14,454
Granted	103,000	42.420		
Exercised	148,673	6.949		
Canceled				
Forfeited				
Expired	723	11.400		
Outstanding at July 31, 2007	917,133	23.996	7.36	17,337
Shares Exercisable	347,710	17.944	6.34	8,698

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.

9. 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 and Wastewater 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 include the design and construction of water treatment facilities and 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. The division also offers environmental services to assess and monitor groundwater contaminants. With the acquisition of CWI in June 2006 and UIG in November 2006, the division expanded its capabilities in the area of the design and build of water and wastewater treatment plants, Ranney collector wells, sewer rehabilitation and water and wastewater transmission lines.

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 in the United States. To date this division has primarily been 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

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executive management (chief executive officer, chief financial officer and general counsel) and board of directors.

	Three Months Ended July 31,		Six Months Ended July 31,	
	2007	2006	2007	2006
Revenues				
Water and wastewater infrastructure	\$ 159,840	\$ 134,328	\$ 313,349	\$ 251,021
Mineral exploration	46,408	38,238	83,505	71,866
Energy	9,401	5,925	18,953	10,989
Other	2,195	8,655	3,652	9,987
Total revenues	\$ 217,844	\$ 187,146	\$ 419,459	\$ 343,863
Equity in earnings of affiliates				
Mineral exploration	\$ 2,379	\$ 1,139	\$ 3,870	\$ 1,504
Income before income taxes				
Water and wastewater infrastructure	\$ 11,941	\$ 9,425	\$ 23,775	\$ 17,408
Mineral exploration	11,291	7,189	17,042	12,174
Energy	2,752	1,921	6,571	3,978
Other	372	2,416	596	2,721
Unallocated corporate expenses	(5,505)	(4,777)	(10,884)	(9,218)
Interest	(2,797)	(2,498)	(5,227)	(4,629)
Total income before income taxes	\$ 18,054	\$ 13,676	\$ 31,873	\$ 22,434
Geographic Information				
Revenue				
United States	\$ 177,055	\$ 154,865	\$ 348,109	\$ 281,770
Africa/Australia	23,832	21,172	41,743	40,165
Mexico	10,451	7,921	18,663	14,511
Other foreign	6,506	3,188	10,944	7,417
Total revenues	\$ 217,844	\$ 187,146	\$ 419,459	\$ 343,863

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 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.

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, 2007.

Table of Contents**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 words. Forward-looking 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 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		Six Months		Period-to-Period Change	
	Ended July 31, 2007	2006	Ended July 31, 2007	2006	Three Months	Six Months
Revenues:						
Water and wastewater infrastructure	73.4%	71.8%	74.7	73.0%	19.0%	24.8%
Mineral exploration	21.3	20.4	19.9	20.9	21.4	16.2
Energy	4.3	3.2	4.5	3.2	58.7	72.5
Other	1.0	4.6	0.9	2.9	(74.6)	(63.4)
Total net revenues	100.0%	100.0%	100.0%	100.0%	16.4	22.0
Cost of revenues	73.5%	74.3	73.3	74.5	15.2	20.1
Gross profit, as adjusted*	26.5	25.7	26.7	25.5	19.8	27.5
Selling, general and administrative expenses	13.4	14.0	14.0	14.1	11.0	20.4
Depreciation, depletion and amortization	4.8	4.0	4.9	4.2	40.0	43.1
Other income (expense):						
Equity in earnings of affiliates	1.1	0.6	0.9	0.4	108.9	157.3
Interest	(1.3)	(1.3)	(1.2)	(1.3)	12.0	12.9
Other, net	0.1	0.3	0.1	0.2	(44.5)	(38.0)
Income before income taxes	8.3	7.3	7.6	6.5	32.0	42.1
Income tax expense	3.9	3.5	3.4	3.1	30.9	33.5

Net income	4.4%	3.8%	4.2%	3.4%	33.0	49.7
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* As used, gross profit is defined as revenues less cost of revenues, excluding depreciation, depletion and amortization.

Revenues, equity in earnings of affiliates and income before income taxes 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 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):

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	Three Months Ended July 31,		Six Months Ended July 31,	
	2007	2006	2007	2006
Revenues				
Water and wastewater infrastructure	\$ 159,840	\$ 134,328	\$ 313,349	\$ 251,021
Mineral exploration	46,408	38,238	83,505	71,866
Energy	9,401	5,925	18,953	10,989
Other	2,195	8,655	3,652	9,987
Total revenues	\$ 217,844	\$ 187,146	\$ 419,459	\$ 343,863
Equity in earnings of affiliates				
Mineral exploration	\$ 2,379	\$ 1,139	\$ 3,870	\$ 1,504
Income before income taxes				
Water and wastewater infrastructure	\$ 11,941	\$ 9,425	\$ 23,775	\$ 17,408
Mineral exploration	11,291	7,189	17,042	12,174
Energy	2,752	1,921	6,571	3,978
Other	372	2,416	596	2,721
Unallocated corporate expenses	(5,505)	(4,777)	(10,884)	(9,218)
Interest	(2,797)	(2,498)	(5,227)	(4,629)
Total income before income taxes	\$ 18,054	\$ 13,676	\$ 31,873	\$ 22,434

Revenues increased \$30,698,000, or 16.4%, to \$217,844,000 for the three months ended July 31, 2007, and \$75,596,000, or 22.0%, to \$419,459,000 for the six months ended July 31, 2007, as compared to the same periods last year. Revenues were up across all divisions with the main increase in the water and wastewater infrastructure division, including the impact of the acquisitions of American Water Services Underground Infrastructure, Inc. (*UIG*) in November 2006 and Collector Wells International Inc. (*CWI*) in June 2006. A further discussion of results of operations by division is presented below.

Gross profit, as adjusted, as a percentage of revenues was 26.5% and 26.7% for the three and six months ended July 31, 2007, respectively, compared to 25.7% and 25.5% for the same periods in the prior year.

Selling, general and administrative expenses were \$29,112,000 and \$58,520,000 for the three and six months ended July 31, 2007, respectively, compared to \$26,236,000 and \$48,600,000 for the same periods in the prior year. The increases for the three and six months, respectively, were primarily the result of \$1,619,000 and \$3,350,000 in expenses added from the acquisitions of *UIG* and *CWI*, wage and benefit increases of \$1,255,000 and \$2,757,000 and additional incentive compensation expense of \$472,000 and \$2,457,000 from increased profitability in the periods. Equity in earnings of affiliates were \$2,379,000 and \$3,870,000 for the three and six months ended July 31, 2007, respectively, compared to \$1,139,000 and \$1,504,000 for the same periods in the prior year. The increases reflect continued strong performance in mineral exploration by affiliates in Latin America and the absence of inclement weather which affected their results in the first three months of the prior year.

Depreciation, depletion and amortization were \$10,361,000 and \$20,699,000 for the three and six months ended July 31, 2007, respectively, compared to \$7,400,000 and \$14,466,000 for the same periods last year. The increases were primarily the result of increased depletion expense of \$926,000 and \$2,479,000 resulting from the increase in production of unconventional gas from the Company's energy operations and increased depreciation from property additions and acquisitions in the other divisions.

Interest expense increased to \$2,797,000 and \$5,227,000 for the three and six months ended July 31, 2007, respectively, compared to \$2,498,000 and \$4,629,000 for the same periods last year. The increases were primarily a

result of increases in the Company's average borrowings in conjunction with the financing of the UIG and CWI acquisitions.

Income tax expense was \$8,486,000 (an effective rate of 47.0%) and \$14,152,000 (an effective rate of 44.4%) for the three and six months ended July 31, 2007, respectively, compared to \$6,484,000 (an effective rate of 47.4%) and \$10,600,000 (an effective rate of 47.2%) for the same periods last year. The improvements in the effective rates were primarily attributable to increased pre-tax earnings, especially in international operations, and the resolution of certain tax contingencies. The effective rates in excess of the statutory federal rate for the periods were due primarily to the impact of nondeductible expenses and the tax treatment of certain foreign operations.

Table of Contents**Water and Wastewater Infrastructure Division**

(in thousands)

	Three months ended July 31,		Six months ended July 31,	
	2007	2006	2007	2006
Revenues	\$159,840	\$134,328	\$313,349	\$251,021
Income before income taxes	11,941	9,425	23,775	17,408

Water and wastewater infrastructure revenues increased 19.0% to \$159,840,000 and 24.8% to \$313,349,000 for the three and six months ended July 31, 2007, respectively, as compared to \$134,328,000 and \$251,021,000 for the same periods in the prior year. The increases in revenues for the three and six months ended, respectively, were primarily attributable to \$13,547,000 and \$28,263,000 from the UIG and CWI acquisitions, \$2,561,000 and \$11,222,000 from increases in Reynolds water and wastewater projects currently in progress in the southeastern region of the United States and \$7,204,000 and \$17,163,000 in increased revenues from Layne's traditional water supply businesses, which were particularly strong for contracts currently in progress in the southeastern and western regions of the United States. The backlog for the water and wastewater infrastructure division at July 31, 2007 was \$364,248,000 compared to \$244,899,000 at July 31, 2006.

Income before income taxes for the water and wastewater infrastructure division increased 26.7% to \$11,941,000 and 36.6% to \$23,775,000 for the three and six months ended July 31, 2007, respectively, compared to \$9,425,000 and \$17,408,000 for the same periods in the prior year. The increases in income before taxes for the three and six months ended, respectively, were primarily attributable to increases of \$436,000 and \$836,000 from the UIG and CWI acquisitions, \$997,000 and \$3,397,000 from the Reynolds projects currently in progress in the southeastern region of the United States, \$1,247,000 and \$1,825,000 from Layne's traditional water supply businesses and, for the six months ended, \$1,626,000 from the recovery of previously written off costs associated with a groundwater transfer project in Texas.

Mineral Exploration Division

(in thousands)

	Three months ended July 31,		Six months ended July 31,	
	2007	2006	2007	2006
Revenues	\$46,408	\$38,238	\$83,505	\$71,866
Income before income taxes	11,291	7,189	17,042	12,174

Mineral exploration revenues increased 21.4% to \$46,408,000 and 16.2% to \$83,505,000 for the three and six months ended July 31, 2007, respectively, compared to \$38,238,000 and \$71,866,000 for the same periods in the prior year. The increases were primarily attributable to continued 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 57.1% to \$11,291,000 and 40.0% to \$17,042,000 for the three and six months ended July 31, 2007, respectively, compared to \$7,189,000 and \$12,174,000 for the same periods in the prior year. The improved earnings in the division were primarily attributable to the impact of increased exploration activity, especially in the Company's North American markets, and an increase of \$1,240,000 and \$2,366,000 in equity earnings of affiliates in Latin America for the three and six month periods, respectively.

Energy Division

(in thousands)

	Three months ended July 31,		Six months ended July 31,	
	2007	2006	2007	2006
Revenues	\$9,401	\$5,925	\$18,953	\$10,989

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Income before income taxes	2,752	1,921	6,571	3,978
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Energy revenues increased 58.7% to \$9,401,000 and 72.5% to \$18,953,000 for the three and six months ended July 31, 2007, respectively, compared to \$5,925,000 and \$10,989,000 for the same periods last year. The increases in revenues were primarily attributable to increased production from the Company's unconventional gas properties. Production for the quarter was negatively impacted by flooding of the Company's leased properties in southeast Kansas.

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Income before income taxes for the energy division increased 43.3% to \$2,752,000 and 65.2% to \$6,571,000 for the three and six months ended July 31, 2007, respectively, compared to \$1,921,000 and \$3,978,000 for the same periods last year. The increases in income before income taxes were primarily due to the increase in production noted above. Offsetting income before income taxes for the quarter were estimated expenses and lost revenues of \$175,000 associated with recovery from the flooding discussed above.

Other

(in thousands)

	Three months ended		Six months ended	
	July 31,		July 31,	
	2007	2006	2007	2006
Revenues	\$2,195	\$8,655	\$3,652	\$9,987
Income before income taxes	372	2,416	596	2,721

The decreases in revenues and income before income taxes in both the three and six month periods ended July 31, 2007 as compared to the prior year were primarily due to a non recurring contract in the prior year to provide equipment and supplies to an international oil exploration company.

Unallocated Corporate Expenses

Corporate expenses not allocated to individual divisions, primarily included in selling, general and administrative expenses, were \$5,505,000 and \$10,884,000 for the three and six months ended July 31, 2007, respectively, compared to \$4,777,000 and \$9,218,000 in the prior periods. The increases for the periods were primarily due to wage and benefit increases and increased incentive compensation.

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 \$100,000,000 of unsecured notes available to be issued before September 15, 2007. At July 31, 2007, the Company had \$60,000,000 in notes outstanding under the Master Shelf Agreement. Additionally, the Company holds a revolving credit facility (the Credit Agreement) 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 July 31, 2007, the Company had \$104,400,000 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 July 31, 2007 and expects to remain in compliance through the foreseeable future.

The Company's working capital as of July 31, 2007 and July 31, 2006 was \$64,808,000 and \$84,031,000, respectively. Excluding current maturities of long-term debt, and the non-cash liability for stock to be issued in settlement of the Reynolds Earnout (see Note 2 to the consolidated financial statements) working capital at July 31, 2007 would be \$89,123,000. 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 2008.

Operating Activities

Cash provided by operating activities was \$22,849,000 for the six months ended July 31, 2007 as compared to cash provided by operating activities of \$22,203,000 for the six months ended July 31, 2006. Increased cash from improved earnings was offset by greater growth in working capital.

Investing Activities

The Company's capital expenditures, net of disposals, of \$32,878,000 for the six months ended July 31, 2007, were directed primarily toward the Company's expansion into unconventional gas exploration and production. Expenditures related to the Company's unconventional gas efforts totaled \$12,594,000 for the six months ended July 31, 2007, including the construction of gas pipeline infrastructure near the Company's development projects.

Table of Contents**Financing Activities**

For the six months ended July 31, 2007, the Company had net borrowings of \$12,800,000 under its credit facilities primarily to fund capital expenditures

The Company's contractual obligations and commercial commitments as of July 31, 2007, are summarized as follows (in thousands):

	Total	Payments/Expiration by Period			More than 5 years
		Less than 1 year	1-3 years	4-5 years	
Contractual obligations and other commercial commitments					
Senior Notes	\$ 60,000	\$ 13,333	\$ 20,000	\$ 26,667	\$
Credit Agreement	104,400			104,400	
Operating leases	25,752	8,447	10,074	7,231	
Mineral interest obligations	552	118	211	208	15
Total contractual cash obligations	190,704	21,898	30,285	138,506	15
Standby letters of credit	12,715	12,715			
Asset retirement obligations	851				851
Total contractual obligations and commercial commitments	\$ 204,270	\$ 34,613	\$ 30,285	\$ 138,506	\$ 866

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. Payments related to the Credit Agreement and Senior Notes do not include interest payments. 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).

The Company incurs additional obligations in the ordinary course of operations. These obligations, including but not limited to, interest payments on debt, 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 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 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.

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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.

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 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 there from 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

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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.

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.

Due to the breadth of the Company's international operations, numerous tax examinations may be ongoing throughout the world at any point in time. Tax liabilities are recorded based on estimates of additional taxes which will be due upon the conclusion of these examinations. Estimates of these tax liabilities are made based upon prior experience and are updated in light of changes in facts and circumstances. However, due to the uncertain and complex application of tax regulations, examination outcomes and the timing of settlements are subject to significant uncertainty.

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.

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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, 2007 Form 10-K and Note 4 of this Form 10-Q. As of July 31, 2007, \$60,000,000 of the Company's long-term debt outstanding carries a fixed-rate and \$104,400,000 is variable rate debt. An instantaneous change in interest rates of one percentage point would change the Company's annual interest expense by \$1,044,000. 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, 2007 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.

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 from continuing operations for the three months ended July 31, 2007. 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 July 31, 2007, the Company held contracts for physical delivery of 5,846,000 million British Thermal Units (MMBtu) of natural gas through March 2010 at prices ranging from \$7.31 to \$8.925 per MMBtu. The estimated fair value of such contracts at July 31, 2007 was \$655,000. We estimate that a ten percent change in the price of natural gas would have impacted income from continuing operations before taxes by approximately \$731,000 for the six months ended July 31, 2007.

ITEM 4. Controls and Procedures

Based on an evaluation of disclosure controls and procedures for the period ended July 31, 2007, 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 July 31, 2007, the Company concluded that its internal control over financial reporting is effective as of July 31, 2007. The Company has not made any significant changes in internal controls or in other factors that could significantly affect internal controls since such evaluation. The Company excluded from its assessment any changes in internal control over financial reporting at American Water Services Underground Infrastructure, Inc. (UIG), which was acquired on November 20, 2006, and whose financial statements reflect total assets and revenues constituting 6% and 5%, respectively, of the related consolidated financial statement amounts as of and for the six months ended July 31, 2007. The Company will include UIG in its evaluation of the design and effectiveness of internal control over financial reporting as of January 31, 2008.

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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

An annual meeting of stockholders was held on June 7, 2007. Set forth below is a brief description of each matter voted upon at the meeting and the results of the balloting:

- a) Election of J. Samuel Butler as a Director to hold office for a term expiring at the 2008 Annual Meeting of the Stockholders of the Company and until his successor is duly elected and qualified or until his earlier death, retirement, resignation or removal:

For	Against	Withheld Authority
12,775,602	0	363,676

- b) Election of Nelson Obus as a Director to hold office for a term expiring at the 2008 Annual Meeting of the Stockholders of the Company and until his successor is duly elected and qualified or until his earlier death, retirement, resignation or removal:

For	Against	Withheld Authority
12,808,337	0	330,941

- c) Approval of the Layne Energy, Inc. 2007 Stock Option Plan:

For	Against	Withheld Authority
10,257,730	786,867	10,678

- d) Approval of the stockholder proposal to spin off the Water and Wastewater Infrastructure Division of the Company to the stockholders:

For	Against	Withheld Authority
767,784	10,189,458	98,033

- e) Ratification and approval of the selection of the accounting firm of Deloitte and Touche LLP as the independent public accountants of the Company for the fiscal year ended January 31, 2008:

For	Against	Withheld Authority
12,945,194	129,106 25	64,980

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ITEM 5 Other Information

NONE

ITEM 6 Exhibits and Reports on Form 8-K

a) Exhibits

4(1) - Registration Rights Agreement, dated September 28, 2005, among Layne Christensen Company and the holders of Layne common stock listed on the signature page thereto.

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 May 31, 2007, related to the Company's first quarter earnings press release.

Form 8-K filed on June 13, 2007, related to various stock option and incentive compensation plans adopted by the Company.

Form 8-K filed on June 20, 2007, disclosing the goals for named executive officer Colin Kinley to earn a bonus under the Company's Energy Division Incentive Compensation Plan.

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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: September 7, 2007

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

DATE: September 7, 2007

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

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