LAYNE CHRISTENSEN CO

FORM 10-Q
(Quarterly Report)

Filed 11/30/01 for the Period Ending 10/31/01

Address	1900 SHAWNEE MISSION PKWY MISSION WOODS, KS 66205-2001
Telephone	9133620510
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Symbol	LAYN
SIC Code	1700 - Construction - Special Trade Contractors
Industry	Construction Services
Sector	Capital Goods
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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, 2001

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 .

There were 11,707,694 shares of common stock, $.01 par value per share, outstanding on October 25, 2001.

PART I

ITEM 1. Financial Statements

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

	October 31, 2001 (unaudited)	January 31, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 2,888	$ 3,421
Customer receivables, less allowance of $3,764 and $3,437, respectively	49,147	51,498
Costs and estimated earnings in excess of billings on uncompleted contracts	11,677	10,371
Inventories	24,362	30,762
Deferred income taxes	11,137	12,342
Other	3,194	2,781
Total current assets	102,405	111,175
Property and equipment:		
Land	8,066	8,926
Buildings	16,658	18,369
Machinery and equipment	161,095	163,488
	185,819	190,783
Less - Accumulated depreciation	(125,585)	(118,070)
Net property and equipment	60,234	72,713
Other assets:		
Investment in foreign affiliates	19,665	19,306
Goodwill and other intangible assets, at cost less accumulated amortization	23,519	26,058
Deferred income taxes	3,524	2,623
Other	1,295	1,993
Total other assets	48,003	49,980
	$ 210,642	$ 233,868

See Notes to Consolidated Financial Statements.

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

	October 31, 2001 (unaudited)	January 31, 2001
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 18,238	$ 18,684
Current maturities of long-term debt	26,571	3,571
Accrued compensation	14,881	15,726
Accrued insurance expense	5,657	6,425
Other accrued expenses	13,959	9,019
Billings in excess of costs and estimated earnings on uncompleted contracts	11,214	10,790
Total current liabilities	90,520	64,215
Noncurrent and deferred liabilities:		
Long-term debt	14,286	58,357
Accrued insurance expense	6,067	5,557
Other	2,396	2,526
Minority interest	748	9,288
Total noncurrent and deferred liabilities	23,497	75,728
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, 11,707,694 and 11,691,129 shares issued and outstanding, respectively	117	117
Capital in excess of par value	83,605	83,613
Retained earnings	24,723	23,224
Accumulated other comprehensive loss	(11,715)	(12,913)
Notes receivable from management stockholders	(105)	(116)
Total stockholders' equity	96,625	93,925
	$ 210,642	$ 233,868

See Notes to Consolidated Financial Statements.

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)	
	2001	2000	2001	2000
Revenues	$ 76,217	$ 82,475	$ 236,163	$ 234,821
Cost of revenues (exclusive of depreciation shown below)	54,680	61,672	172,087	176,266
Gross profit	21,537	20,803	64,076	58,555
Selling, general and administrative expenses	15,314	14,189	44,498	43,692
Depreciation and amortization	4,225	5,247	13,836	16,198
Operating income (loss)	1,998	1,367	5,742	(1,335)
Other income (expense):				
Equity in earnings of foreign affiliates	590	112	1,104	550
Interest	(853)	(1,602)	(3,271)	(4,646)
Other, net	294	161	1,170	997
Income (loss) before income taxes and minority interest	2,029	38	4,745	(4,434)
Income tax expense	1,319	-	3,084	-
Minority interest, net of income taxes	(12)	118	(162)	140
Net income (loss)	$ 698	$ 156	$ 1,499	$ (4,294)
Basic and diluted income (loss)per share	$ .06	$ .01	$ .12	$ (.37)
Weighted average shares outstanding	11,758,000	11,758,000	11,758,000	11,758,000
Dilutive stock options	337,000	70,000	261,000	-
	12,095,000	11,828,000	12,019,000	11,758,000

See Notes to Consolidated Financial Statements.

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

	Nine Months Ended October 31, (unaudited)	
	2001	2000
Cash flow from operating activities:		
Net income (loss)	$ 1,499	$ (4,294)
Adjustments to reconcile net income (loss) to cash from operations:		
Depreciation and amortization	13,836	16,198
Deferred income taxes	732	(2,991)
Equity in earnings of foreign affiliates	(1,104)	(550)
Dividends received from foreign affiliates	683	1,033
Minority interest	248	(191)
Gain from disposal of property and equipment	(678)	(443)
Gain on sale of business	(3,991)	-
Loss on sale of investment	3,329	-
Changes in current assets and liabilities:		
(Increase) decrease in customer receivables	2,130	(12,912)
Increase in costs and estimated earnings in excess of billings on uncompleted contracts	(1,183)	(899)
(Increase) decrease in inventories	2,001	(1,867)
Increase in other current assets	(501)	(1,472)
Increase in accounts payable and accrued expenses	891	8,338
Increase in billings in excess of costs and estimated earnings on uncompleted contracts	438	1,498
Other, net	(2,212)	(798)
Cash from operating activities	16,118	650
Cash flow from investing activities:		
Additions to property and equipment	(7,271)	(12,896)
Proceeds from disposal of property and equipment	3,045	1,516
Proceeds from sale of business	8,165	-
Cash from (used in)investing activities	3,939	(11,380)
Cash flow from financing activities:		
Net borrowings (repayments) under revolving facility	(17,500)	11,500
Repayment of long-term debt	(3,571)	(3,572)
Payments on notes receivable from management stockholders	11	-
Cash from (used in) financing activities	(21,060)	7,928
Effects of exchange rate changes on cash	470	4,058
Net increase (decrease) in cash and cash equivalents	(533)	1,256
Cash and cash equivalents at beginning of period	3,421	3,751
Cash and cash equivalents at end of period	$ 2,888	$ 5,007

See Notes to Consolidated Financial Statements.

LAYNE CHRISTENSEN COMPANY

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 (33% 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, 2001 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.

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. The effective tax rate in excess of the statutory federal rate for the three and nine months ended October 31, 2001 was a result of the impact of non-deductible expenses and the tax treatment of certain foreign operations.

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.

The Company adopted Statement of Financial Accounting Standards ("SFAS") No. 133, Accounting for Derivative Instruments and Hedging Activities, effective February 1, 2001. The adoption of SFAS 133 did not have any impact on the financial position, results of operations, or cash flow of the Company.

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

	Nine Months Ended October 31,	
	2001	2000
Income taxes	$3,052	$ 832
Interest	3,812	4,439

Reclassifications - Certain 2000 amounts have been reclassified to conform with the 2001 presentation.

2. Inventories

The Company values inventories at the lower of cost (first-in, first-out) or market (in thousands):

	As of	
	October 31, 2001	January 31, 2001
Raw materials	$ 307	$ 1,101
Work in process	1,103	1,639
Finished products, parts and supplies	22,952	28,022
Total	$ 24,362	$ 30,762

3. Indebtedness

During July 1997, the Company amended its existing credit agreement to provide a reducing revolving credit facility ("Credit Agreement"). As of October 31, 2001, the commitment had been reduced to $60,500,000, less any outstanding letter of credit commitments ($20,000,000 sublimit). The Company's Credit Agreement will terminate in July 2002 and any borrowings thereunder will mature at that time. During March 1996, the Company completed the private placement of an unsecured note agreement for $25,000,000 ("Senior Notes"). The Senior Notes bear a fixed interest rate of 6.75% and will be due in annual installments of $3,571,000, which began on March 15, 2000.

In July 2001, outstanding borrowings under the Credit Agreement were reclassified as current liabilities as the agreement will expire within twelve months. The Company intends to extend the Credit Agreement or negotiate a new credit agreement prior to that time. Debt outstanding as of October 31 and January 31, 2001 was as follows (in thousands):

	October 31, 2001	January 31, 2001
Current maturities of long-term debt:		
Senior notes	$ 3,571	$ 3,571
Revolving credit facility	23,000	-
Total current maturities of long-term debt	26,571	3,571
Long-term debt:		
Senior notes	14,286	17,857
Revolving credit facility	-	40,500
Total long-term debt	14,286	58,357
Total debt	$40,857	$61,928

4. Acquisitions

On September 25, 2001, the Company acquired the remaining 50% ownership in West African Drilling Services ("WADS") from its joint venture partner, Ausdrill Limited ("Ausdrill"), effective as of June 30, 2001. The Company issued a twenty-five month, non-interest bearing promissory note for $2,500,000 and surrendered, by way of an Ausdrill share repurchase agreement, the 6,014,615 shares of Ausdrill that the Company owned. The shares had a fair value of approximately $206,000 (see Note 5). The acquisition has been accounted for using the purchase method of accounting. Operations of the 50% interest in WADS during the Company's fiscal year 2002 prior to the acquisition were not material.

5. Investments

The Company, through its wholly owned subsidiary Layne Christensen Australia Pty Limited ("Layne Australia"), sold its investment in Ausdrill Limited, a publicly traded company on the Australian Stock Exchange. The investment was classified as available-for-sale and had a cost basis of $3,535,000. The Company recorded a loss on the sale of approximately $3,329,000 in the three months ended October 31, 2001.

6. Other Comprehensive Income (Loss)

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

	Three Months Ended October 31,		Nine Months Ended October,31,	
	2001	2000	2001	2000
Net income (loss)	$ 698	$ 156	$ 1,449	$(4,294)
Other comprehensive income (loss) net of taxes:				
Foreign currency translation adjustments	181	(2,324)	(662)	(5,491)
Unrealized gain (loss) on available for sale investments	2,143	(48)	1,859	7
Change in unrecognized pension liability	-	-	1	-
Comprehensive income (loss)	$ 3,022	$(2,216)	$ 2,647	$(9,778)

The components of accumulated other comprehensive loss for the nine months ended October 31, 2001 are as follows (in thousands):

	Cumulative Translation Adjustment	Unrealized Loss On Investments	Unrecognized Pension Liability	Accumulated Other Comprehensive Loss
Balance, February 1, 2001	$ (10,615)	$ (1,925)	$ (373)	$ (12,913)
Period changes	(662)	1,859	1	1,198
Balance, October 31, 2001	$ (11,277)	$ (66)	$ (372)	$ (11,715)

7. Operating Segments

The Company is a multi-national company operating predominantly in two operating segments. The first operating segment includes the Company's service operations with wholly owned operations in the United States, Australia, East Africa, West Africa, Mexico, Canada, Italy and Thailand which are consolidated into the Company's financial statements. The service segment primarily derives its revenues from the following service lines: water-related products and services, mineral exploration drilling services, geotechnical construction services and oil and gas services and exploration. The second operating segment, products, includes the manufacturing and supply of drilling equipment, parts and supplies. The products operations are primarily in the United States.

Revenues and operating income pertaining to the Company's operating segments are presented below. Total revenues of foreign subsidiaries are those revenues related to the operations of those subsidiaries. Intersegment sales are accounted for based on the estimated fair market value of the products sold. In computing operating income for foreign operations, no allocations of general corporate expenses have been made. Operating segment revenues and operating income are summarized as follows (in thousands):

	Nine Months Ended October 31,	
	2001	2000
REVENUES		
Services		
United States	$ 165,861	$ 173,979
Foreign:		
Canada	14,690	10,398
Australia	2,006	5,643
Africa	29,586	22,898
Other foreign	6,748	8,533
Total foreign	53,030	47,472
Total services	218,891	221,451
Products	25,018	20,507
Intersegment revenues	(7,746)	(7,137)
Total products	17,272	13,370
Total revenues	$ 236,163	$ 234,821
OPERATING INCOME (LOSS)		
Services		
United States	$ 18,568	$ 13,371
Foreign:		
Canada	1,041	361
Australia	(427)	(765)
Africa	(1,414)	
Other foreign	(625)	(345)
Total foreign	(1,425)	(6,434)
Total services	17,143	6,937
Products	(291)	(590)
Corporate	(11,110)	(7,682)
Total operating income (loss)	$ 5,742	$ (1,335)

Products segment revenues for the nine months ended October 31, 2001 and 2000, respectively, include $11,275,000 and $8,970,000 of revenue from Christensen Products. Intersegment revenues for the nine months ended October 31, 2001 and 2000, respectively, include $5,106,000 and $4,359,000 from Christensen Products. Products segment operating loss for the nine months ended October 31, 2001 and 2000, respectively, includes ($560,000) and ($431,000) from Christensen Products.

On August 8, 2001, the Company signed a definitive agreement to sell its Christensen Products business to a subsidiary of Atlas Copco. The Company received $8,165,000 in the third quarter and recorded a gain on the sale of $3,991,000. Approximately, 2,062,000 in additional cash is expected to be received in the fourth quarter upon the sale of certain assets and inventory at book value. After the Christensen Products plant is closed during the fourth quarter, the Company intends to sell the land and building which has a net book value of $3,401,000 at October 31, 2001.

8. 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 or business interruption 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.

9. New Accounting Pronouncements

The Financial Accounting Standards Board has recently issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations," SFAS No. 142, "Goodwill and Other Intangible Assets," SFAS No. 143, "Accounting for Asset Retirement Obligations," and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 141 requires that all business combinations be accounted for under the purchase method and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. SFAS No. 141 is effective for all business combinations after July 1, 2001. SFAS No. 142 requires that ratable amortization of goodwill be replaced with periodic tests of the goodwill's impairment and that intangible assets other than goodwill should be amortized over their useful lives. SFAS No. 142 is effective for the Company's fiscal year beginning February 1, 2002. SFAS No. 143 establishes accounting standards for recognition and measurement of a liability for an asset retirement obligation and the associated asset retirement cost. SFAS No. 143 is effective for fiscal years beginning after June 15, 2002, and therefore, effective for the Company for the fiscal year beginning February 1, 2003. SFAS No. 144 supercedes SFAS No. 121 and establishes accounting standards for long-lived assets to be disposed of. SFAS No. 144 is effective for the Company's fiscal year beginning February 1, 2002. Management is currently assessing the impact SFAS 142, 143 and 144 will have on the Company's results of operations.

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 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 metals, unanticipated slowdowns in the Company's major markets, 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. In this connection, the decline in the prices of various metals has continued to adversely impact the level of mineral exploration and development activities conducted by mining companies and has had, and could continue to have, a material adverse effect on the Company.

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	
	2001	2000	2001	2000	Three Months	Nine Months
Revenues:						
Water-related products and services	60.8%	55.2%	57.2%	56.0%	1.6%	2.8%
Mineral exploration drilling	21.6	25.1	24.5	24.0	(20.5)	2.7
Geotechnical construction	8.1	12.8	8.5	13.0	(41.3)	(34.0)
Oil and gas services	2.6	1.8	2.4	1.3	*	*
Other services	.6	.3	1.0	.2	*	*
Total net service revenues	93.7	95.2	93.6	94.5	(9.1)	(0.3)
Product sales	6.3	4.8	6.4	5.5	23.4	16.1
Total net revenues	100.0%	100.0%	100.0%	100.0%	(7.6)	.6
Cost of revenues:						
Cost of service revenues	70.5%	75.2%	72.1%	75.0%	(14.5)	(4.2)
Cost of product sales	89.6	71.6	84.5	76.6	54.3	28.0
Total cost of revenues	71.7	74.8	72.9	75.1	(11.3)	(2.4)
Gross profit	28.3	25.2	27.1	24.9	3.5	9.4
Selling, general and administrative expenses	20.1	17.2	18.8	18.6	7.9	1.8
Depreciation and amortization	5.6	6.3	5.9	6.9	(19.5)	(14.6)
Operating income (loss)	2.6	1.7	2.4	(0.6)	*	*
Other income (expense):						
Equity in earnings of foreign affiliates	0.8	0.1	0.5	0.2	*	*
Interest	(1.1)	(2.0)	(1.4)	(2.0)	(46.8)	(29.6)
Other, net	0.4	0.2	0.5	0.5	82.6	17.4
Income (loss) before income taxes and minority interest	2.7	-	2.0	(1.9)	*	*
Income tax expense	1.7	-	1.3	-	*	*
Minority interest (net of taxes)	-	0.2	(0.1)	0.1	*	*
Net income (loss)	1.0%	0.2%	0.6%	(1.8)%	*	*

* Not meaningful.

Results of Operations

Revenues for the three months ended October 31, 2001 decreased $6,258,000, or 7.6%, to $76,217,000 while revenues for the nine months ended October 31, 2001 increased $1,342,000, or 0.6%, to $236,163,000 from the same periods for the prior year.

Water-related products and service revenues increased 1.6%, to $46,269,000 from $45,534,000 for the three months ended October 31, 2001 and 2000, and increased 2.8%, to $135,073,000 from $131,393,000 for the nine months ended October 31, 2001 and 2000. The increase in revenues for the nine months was primarily the result of the Company's Integrated Groundwater Services project for the City of Azusa, California, and a water resources project for the Virgin Valley Water District in Mesquite, Nevada, combined with drought conditions in certain areas in the United States.

Mineral exploration drilling revenues decreased 20.5%, to $16,476,000, and increased 2.7%, to $57,905,000, for the three and nine months ended October 31, 2001, from $20,722,000 and $56,409,000 for the three and nine months ended October 31, 2000. The decrease for the three months ended October 31, 2001 was primarily a result of continued softness in the exploration market in the United States, Mexico, and Australia combined with lower revenue in Canada due to two large non-recurring projects performed last year. The increase for the nine months ended October 31, 2001 was attributable to increased activity in East Africa and Canada, partially offset by lower demand for the Company's services in the U.S., Australia, and Mexico as noted above.

Geotechnical construction revenues decreased 41.3%, to $6,211,000, and 34.0%, to $20,140,000, for the three and nine months ended October 31, 2001 compared to revenues of $10,578,000 and $30,514,000 for the three and nine months ended October 31, 2000. The decreases in geotechnical revenues for the three and nine months ended October 31, 2001 were a result of slowing construction activity in certain areas of the United States combined with competitive pricing pressures in certain markets served by the Company.

Oil and gas service revenues were $1,956,000 and $5,773,000 for the three and nine months ended October 31, 2001 compared to revenues of $1,504,000 and $3,135,000 in the three and nine months ended October 31, 2000. The increase for the quarter reflects the continued growth in the Company's service businesses in the United States. The increase for the nine months reflects the continued growth noted above and a significant offshore project completed in the second quarter by the Company's Vibration Technology operation.

Other service revenues were $494,000 and $2,260,000 for the three and nine months ended October 31, 2001 compared to revenues of $237,000 and $435,000 in the three and nine months ended October 31, 2000. The increases were primarily the result of two significant projects substantially completed by the Company's specialty construction group.

Product sales increased 23.4%, to $4,811,000, and increased 16.1%, to $15,012,000, for the three and nine months ended October 31, 2001 from $3,900,000 and $12,935,000 for the three and nine months ended October 31, 2000. The increases for the periods were primarily a result of increased demand for drill rigs in the mineral exploration market.

Gross profit was 28.3% and 27.1% of revenues for the three and nine months ended October 31, 2001 compared to 25.2% and 24.9% for the same periods last year. The increase in gross profit as a percentage of revenues for the three months ended October 31, 2001 was due to increased margins at the Company's domestic water supply locations and the Company's mineral exploration locations in Africa, offset by reduced margins in the products business. In addition to the above, the increase for the nine months ended October 31, 2001 was also attributable to reduced expenditures associated with the Company's oil and gas exploration activities.

Selling, general and administrative expenses increased to $15,314,000 and $44,498,000 (or 20.1% and 18.8%, respectively, of revenues) for the three and nine months ended October 31, 2001 compared to $14,189,000 and $43,692,000 (or 17.2% and 18.6%, respectively, of revenues) for the three and nine months ended October 31, 2000. The increases for the three and nine months ended October 31, 2001 were primarily a result of increased employee benefit and insurance premium costs.

Depreciation and amortization decreased to $4,225,000 and $13,836,000 for the three and nine months ended October 31, 2001 compared to $5,247,000 and $16,198,000 for the same periods last year. The decreases in depreciation were primarily attributable to the disposal of assets in certain international locations and the application of purchase accounting to assets associated with the purchase of the remaining 50% of WADS from Ausdrill (see Note 4 to the financial statements).

Equity in earnings of foreign affiliates was $590,000 and $1,104,000 for the three and nine months, respectively, ended October 31, 2001, compared to $112,000 and $550,000 for the same periods last year. The increase in earnings for the periods were attributable to cost control measures implemented during the year combined with an increase in exploration activity in Chile.

Interest expense decreased $749,000 and $1,375,000 for the three and nine months ended October 31, 2001 as compared to the same periods in the prior year. The decreases were primarily a result of decreases in the Company's average borrowings and in interest rates during the periods.

Income tax expense of $1,319,000 and $3,084,000 was recorded for the three and nine months ended October 31, 2001, compared to recording no benefit for losses for the same periods last year. The effective rate in excess of the statutory federal rate for the three and nine months ended October 31, 2001 was a result of the impact of non-deductible expenses and the tax treatment of certain foreign operations.

Changes in Financial Condition

Cash from operations was $16,118,000 for the nine months ended October 31, 2001 compared to $650,000 for the same period last year. The increase in cash from operations was primarily attributable to improved margins at the Company's domestic water supply locations and mineral exploration locations in Africa and lower expenditures related to its domestic oil and gas exploration activities. Cash from operations was primarily used for additions to property and equipment of $7,271,000 and net repayments of debt of $21,071,000 for the nine-month period ended October 31, 2001.

The Company believes that borrowings from its available credit agreement and cash from operations will be sufficient for the Company's seasonal cash requirements and to fund its budgeted capital expenditures for at least the balance of the fiscal year.

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, equity risk on investments, and foreign exchange rates giving rise to translation and transaction gains and losses.

The Company centrally manages its debt and investment portfolios considering overall financing strategies and tax consequences. A description of the Company's variable rate debt is in Note 8 to the Notes to Consolidated Financial Statements appearing on page 46 of the Company's January 31, 2000 Form 10-K. Assuming then existing debt levels, an instantaneous change in interest rates of one percentage point would impact the Company's interest expense by $230,000 and $405,000 at October 31, 2001 and January 31, 2001, respectively. The Company's investments are described in Note 1 to the Consolidated Financial Statements appearing in the Company's January 31, 2001 Form 10-K. The investments are carried at market value and are held for long-term investing purposes rather than trading purposes.

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, Canada, Italy and Thailand. The operations are described in Note 1 to the Consolidated Financial Statements appearing in the Company's January 31, 2001 Form 10-K and Note 7 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.

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. The Company estimates that a ten percent change in foreign exchange rates would have impacted operating income for the three months ended October 31, 2001 and 2000 by approximately $54,000 and $24,000, respectively. This represents approximately ten percent of the international segment operating income after adjusting for primarily U.S. dollar-based operations. 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.

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

NONE

b) Reports on Form 8-K

NONE

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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:	*November 30, 2001*	*/s/ A.B. Schmitt* *---* *A.B. Schmitt, President and Chief Executive Officer*
DATE:	*November 30, 2001*	*/s/ Jerry W. Fanska* *---* *Jerry W. Fanska, Vice President Finance and Treasurer*

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