

# LAYNE CHRISTENSEN CO

## FORM 10-Q (Quarterly Report)

Filed 12/08/16 for the Period Ending 10/31/16

Address	1800 HUGHES LANDING BLVD., STE. 700 THE WOODLANDS, TX 77380
Telephone	281-475-2600
CIK	0000888504
Symbol	LAYN
SIC Code	1700 - Construction - Special Trade Contractors
Industry	Construction & Engineering
Sector	Industrials
Fiscal Year	01/31

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 10-Q

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(Mark One)

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

For the quarterly period ended October 31, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-34195

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## Layne Christensen Company

(Exact name of registrant as specified in its charter)

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Delaware

(State or other jurisdiction of  
incorporation or organization)

48-0920712

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

1800 Hughes Landing Boulevard Ste 800 The Woodlands, TX

(Address of principal executive offices)

77380

(Zip Code)

(Registrant's telephone number, including area code) (281)475-2600

Not Applicable

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

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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

Indicated by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

There were 19,804,526 shares of common stock, \$.01 par value per share, outstanding on November 25, 2016.

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LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES  
FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED OCTOBER 31, 2016  
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**PART I****ITEM 1. Financial Statements****LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

(in thousands)	October 31, 2016 (unaudited)	January 31, 2016 (unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 72,711	\$ 65,569
Customer receivables, less allowance of \$3,856 and \$3,494, respectively	86,128	91,810
Costs and estimated earnings in excess of billings on uncompleted contracts	86,106	88,989
Inventories	21,711	19,540
Other	13,999	18,251
Assets held for sale	2,135	2,135
Total current assets	<u>282,790</u>	<u>286,294</u>
Property and equipment, net	106,192	113,497
Other assets:		
Investment in affiliates	56,629	57,364
Other	27,880	31,502
Total other assets	<u>84,509</u>	<u>88,866</u>
<b>Total assets</b>	<b><u>\$ 473,491</u></b>	<b><u>\$ 488,657</u></b>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 67,205	\$ 68,548
Accrued compensation	13,261	15,066
Accrued expenses and other current liabilities	42,443	47,242
Billings in excess of costs and estimated earnings on uncompleted contracts	27,279	24,158
Total current liabilities	<u>150,188</u>	<u>155,014</u>
Noncurrent liabilities:		
Convertible notes, net	161,466	158,971
Long-term debt	9	15
Other	47,229	45,951
Total noncurrent liabilities	<u>208,704</u>	<u>204,937</u>
Equity:		
Common stock, par value \$.01 per share, 60,000 shares authorized, 19,805 and 19,789 shares issued and outstanding, respectively	198	198
Capital in excess of par value	368,366	365,619
Accumulated deficit	(235,740)	(216,584)
Accumulated other comprehensive loss	(18,273)	(20,575)
Total Layne Christensen Company equity	<u>114,551</u>	<u>128,658</u>
Noncontrolling interests	48	48
Total equity	<u>114,599</u>	<u>128,706</u>
<b>Total liabilities and equity</b>	<b><u>\$ 473,491</u></b>	<b><u>\$ 488,657</u></b>

See Notes to Condensed Consolidated Financial Statements.

**LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(in thousands, except per share data)	Three Months Ended October 31, (unaudited)		Nine Months Ended October 31, (unaudited)	
	2016	2015	2016	2015
Revenues	\$ 153,567	\$ 173,179	\$ 472,355	\$ 523,767
Cost of revenues (exclusive of depreciation, amortization, and impairment charges shown below)	(125,945)	(142,941)	(386,668)	(437,421)
Selling, general and administrative expenses (exclusive of depreciation, amortization, and impairment charges shown below)	(22,046)	(25,372)	(72,520)	(83,447)
Depreciation and amortization	(6,865)	(7,940)	(20,247)	(24,929)
Impairment charges	—	—	—	(4,598)
Restructuring costs	(1,725)	(2,177)	(3,185)	(6,728)
Equity in earnings (losses) of affiliates	189	(540)	1,916	(2,133)
Gain on extinguishment of debt	—	—	—	4,236
Interest expense	(4,206)	(5,199)	(12,661)	(13,346)
Other income, net	3,340	744	3,678	2,037
Loss from continuing operations before income taxes	(3,691)	(10,246)	(17,332)	(42,562)
Income tax (expense) benefit	(1,352)	1,252	(1,824)	3,484
Net loss from continuing operations	(5,043)	(8,994)	(19,156)	(39,078)
Net income from discontinued operations	—	5,552	—	10,924
Net loss	\$ (5,043)	\$ (3,442)	\$ (19,156)	\$ (28,154)
Earnings (loss) per share information:				
Loss per share from continuing operations - basic and diluted	\$ (0.26)	\$ (0.45)	\$ (0.97)	\$ (1.98)
Earnings per share from discontinued operations - basic and diluted	—	0.28	—	0.55
Loss per share - basic and diluted	\$ (0.26)	\$ (0.17)	\$ (0.97)	\$ (1.43)
Weighted average shares outstanding - basic and dilutive	19,791	19,752	19,785	19,711

See Notes to Condensed Consolidated Financial Statements.

**LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME**

(in thousands)	Three Months Ended October 31, (unaudited)		Nine Months Ended October 31, (unaudited)	
	2016	2015	2016	2015
	Net loss	\$ (5,043)	\$ (3,442)	\$ (19,156)
Other comprehensive income (loss):				
Foreign currency translation adjustments (net of taxes of \$0.1 million and \$0.0 million for 2016 and 2015, respectively)	361	(1,726)	2,302	(3,834)
Other comprehensive income (loss)	361	(1,726)	2,302	(3,834)
Comprehensive loss	\$ (4,682)	\$ (5,168)	\$ (16,854)	\$ (31,988)

See Notes to Condensed Consolidated Financial Statements.

**LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)**

(in thousands)	Common Stock		Capital In Excess of Par Value	Accumulated Deficit	Accumulated Other Comprehensive (Loss) Income	Total Layne Christensen Company Equity	Noncontrolling Interest	Total
	Shares	Amount						
Balance February 1, 2016	19,789	\$ 198	\$ 365,619	\$ (216,584)	\$ (20,575)	\$ 128,658	\$ 48	\$ 128,706
Net loss	—	—	—	(19,156)	—	(19,156)	—	(19,156)
Other comprehensive income	—	—	—	—	2,302	2,302	—	2,302
Issuance of nonvested shares	14	—	—	—	—	—	—	—
Issuance of common stock for vested restricted stock units	2	—	—	—	—	—	—	—
Shares purchased and subsequently cancelled	—	—	(2)	—	—	(2)	—	(2)
Equity-based compensation	—	—	2,749	—	—	2,749	—	2,749
Balance October 31, 2016	<u>19,805</u>	<u>\$ 198</u>	<u>\$ 368,366</u>	<u>\$ (235,740)</u>	<u>\$ (18,273)</u>	<u>\$ 114,551</u>	<u>\$ 48</u>	<u>\$ 114,599</u>

See Notes to Condensed Consolidated Financial Statements.

**LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW**

(in thousands)	Nine Months Ended October 31, (unaudited)	
	2016	2015
<b>Cash flow from operating activities:</b>		
Net loss	\$ (19,156)	\$ (28,154)
Adjustments to reconcile net loss to cash flow from operating activities:		
Depreciation and amortization	20,247	28,168
Bad debt expense	1,418	4,776
Amortization of discount and deferred financing costs	3,133	4,129
Gain on extinguishment of debt	—	(4,236)
Deferred income taxes	656	(6,127)
Equity-based compensation	2,749	3,202
Equity in (earnings) losses of affiliates	(1,916)	1,028
Dividends received from affiliates	3,014	4,004
Restructuring costs	—	4,188
Write-down of inventory	—	7,563
Impairment charges	—	4,598
Gain on sale of discontinued operations	—	(8,131)
Gain from disposal of property and equipment	(3,051)	(1,068)
Changes in current assets and liabilities:		
Customer receivables	4,499	579
Costs and estimated earnings in excess of billings on uncompleted contracts	2,868	(7,589)
Inventories	662	1,624
Other current assets	(611)	721
Accounts payable and accrued expenses	(5,640)	(9,064)
Billings in excess of costs and estimated earnings on uncompleted contracts	3,122	(5,108)
Other, net	(225)	3,112
Cash provided by (used in) operating activities	<u>11,769</u>	<u>(1,785)</u>
<b>Cash flow from investing activities:</b>		
Additions to property and equipment	(14,969)	(18,780)
Proceeds from disposal of property and equipment	8,520	6,153
Proceeds from sale of discontinued operations, net of cash divested	—	42,348
Deposit of cash into restricted accounts	—	(2,678)
Release of cash from restricted accounts	1,944	679
Cash (used in) provided by investing activities	<u>(4,505)</u>	<u>27,722</u>
<b>Cash flow from financing activities:</b>		
Repayments under revolving loan facilities	—	(22,039)
Proceeds from 8.0% convertible notes	—	49,950
Payment of debt issuance costs	(9)	(5,480)
Principal payments under capital lease obligation	(63)	(139)
Purchases and retirement of company stock	(2)	(343)
Cash (used in) provided by financing activities	<u>(74)</u>	<u>21,949</u>
Effects of exchange rate changes on cash	(48)	140
Net increase in cash and cash equivalents	7,142	48,026
Cash and cash equivalents at beginning of period	65,569	21,661
Cash and cash equivalents at end of period	<u>\$ 72,711</u>	<u>\$ 69,687</u>

See Notes to Condensed Consolidated Financial Statements.



**LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. Accounting Policies and Basis of Presentation**

**Description of Business** —Layne Christensen Company (together with its subsidiaries “Layne,” the “Company,” “we,” “our,” or “us”) is a global water management, construction and drilling company. We primarily operate in North America and South America. During the fiscal year ended January 31, 2016, we implemented a plan to exit our operations in Africa and Australia. Our customers include government agencies, investor-owned water utilities, industrial companies, global mining companies, consulting and engineering firms, heavy civil construction contractors, oil and gas companies and agribusinesses. We have an ownership interest in certain foreign affiliates operating in Latin America.

**Fiscal Year** – Our fiscal year end is January 31. References to fiscal years (in the form of “FY2017,” etc.) are to the twelve months ended on January 31 of that year.

**Investment in Affiliated Companies** – Investments in affiliates in which we have the ability to exercise significant influence, but do not hold a controlling interest over operating and financial policies, are accounted for by the equity method. We evaluate our equity method investments for impairment when events or changes in circumstances indicate there is a loss in value of the investment that is other than a temporary decline. During the three months ended October 31, 2016, with the extended downturn in the minerals market due to lower commodity prices for the past few years, we extended our review of our equity method investments for impairment. Based on such analysis, no indication of impairment existed as of October 31, 2016.

**Principles of Consolidation** – The Condensed Consolidated Financial Statements include our accounts and the accounts of all of our subsidiaries where we exercise control. For investments in subsidiaries that are not wholly-owned, but where we exercise control, the equity held by the minority owners and their portions of net income (loss) are reflected as noncontrolling interests. All intercompany accounts and transactions have been eliminated in consolidation.

**Presentation**— The unaudited Condensed Consolidated Financial Statements included herein have been prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States of America (“U.S.”) and pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial information. Accordingly, certain information and disclosures normally included in our annual financial statements have been condensed or omitted. These unaudited Condensed Consolidated Financial Statements should be read in conjunction with our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2016 (“Annual Report”). We believe the unaudited Condensed Consolidated Financial Statements included herein reflect all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the interim periods. The results of operations for the interim periods are not necessarily indicative of the results of operations to be expected for the full year. In the Notes to Condensed Consolidated Financial Statements, all dollar amounts in tabulations are in thousands of dollars, unless otherwise indicated.

Beginning with the first quarter of FY2017, we are excluding nonvested restricted stock units (“RSU”) from the total shares issued and outstanding in our Condensed Consolidated Balance Sheets, since no shares are actually issued until the shares have vested and are no longer restricted. Once the restriction lapses on RSUs, the units are converted to unrestricted shares of our common stock and the par value of the stock is reclassified from additional paid-in-capital to common stock. RSU shares in prior periods have been reclassified to conform with this presentation.

As discussed further in Note 10 to the Condensed Consolidated Financial Statements, during the third quarter of FY2016, we completed the sale of our Geoconstruction business segment. The results of operations related to the Geoconstruction business segment have been classified as discontinued operations for all periods presented. Unless noted otherwise, discussion in these Notes to Condensed Consolidated Financial Statements pertain to continuing operations.

**Business Segments** – We report our financial results under four reporting segments consisting of Water Resources, Inliner, Heavy Civil and Mineral Services.

In the first quarter of FY2017, changes were made for certain of our smaller operations to reflect changes in organizational accountabilities as part of our strategy to simplify our business and streamline our operating and reporting structure. Our Collector Wells group was shifted from Heavy Civil to Water Resources to better align their operational expertise. We also shifted certain other smaller operations out of our “Other” segment and into our four reporting segments, and are no longer reporting the “Other” segment. Information for prior periods has been recast to conform to our new presentation.

We also report corporate activities under the title “Unallocated Corporate.” Unallocated corporate expenses primarily consist of general and administrative functions performed on a company-wide basis and benefiting all segments. These costs include accounting, financial reporting, internal audit, treasury, legal, tax compliance, executive management and board of directors. Corporate assets include all assets not directly associated with a segment, and consist primarily of cash and deferred income taxes.

**Use of and Changes in Estimates** – The preparation of the Condensed Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions about future events and their effects cannot be perceived with certainty, and accordingly, these estimates may change as new events occur, as more experience is acquired, as additional information is obtained and as our operating environment changes. While we believe that the estimates and assumptions used in the preparation of the Condensed Consolidated Financial Statements are appropriate, actual results could differ from those estimates.

**Foreign Currency Transactions and Translation** – In accordance with Accounting Standards Codification (“ASC”) Topic 830, “Foreign Currency Matters,” gains and losses resulting from foreign currency transactions are included in the Condensed Consolidated Statements of Operations. Assets and liabilities of non-U.S. subsidiaries whose functional currency is the local currency are translated into U.S. dollars at exchange rates prevailing at the balance sheet date. The net foreign currency exchange differences resulting from these translations are reported in accumulated other comprehensive income (loss). Revenues and expenses are translated at average foreign currency exchange rates during the reporting period.

The cash flows and financing activities of our operations in Mexico are primarily denominated in U.S. dollars. Accordingly, these operations use the U.S. dollar as their functional currency. Monetary assets and liabilities are remeasured at period end foreign currency exchange rates and nonmonetary items are measured at historical foreign currency exchange rates with exchange rate differences reported in the statement of operations.

Net foreign currency transaction losses were \$(0.1) million and \$(0.2) million for the three and nine months ended October 31, 2016, respectively, and less than \$(0.1) million and \$(0.1) million for the three and nine months ended October 31, 2015, respectively, and are recorded in other income (expense), net in the accompanying Condensed Consolidated Statements of Operations.

**Revenue Recognition** — Revenues are recognized on large, long-term construction contracts meeting the criteria of ASC Topic 605-35 “Construction-Type and Production-Type Contracts” (“ASC Topic 605-35”), 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. The nature of accounting for construction contracts using the percentage-of-completion method is such that refinements of the estimating process for changing conditions and new developments may occur and are characteristic of the process. Many factors can and do change during a contract performance period which can result in a change to contract profitability including differing site conditions (to the extent that contract remedies are unavailable), the availability of skilled contract labor, the performance of major material suppliers, the performance of major subcontractors, unusual weather conditions and unexpected changes in material costs. These factors may result in revisions to costs and income and are recognized in the period in which the revisions become known. When the estimate on a contract indicates a loss, the entire loss is recorded during the accounting period in which the facts that caused the revision become known. Management evaluates the performance of contracts on an individual basis. In the ordinary course of business, but at least quarterly, we prepare updated estimates of cost and profit or loss for each contract. The cumulative effect of revisions in estimates of the total forecasted revenue and costs, including unapproved change orders and claims, during the course of the contract is reflected in the accounting period in which the facts that caused the revision become known. Large changes in cost estimates on larger, more complex construction projects can have a material impact on our financial statements and are reflected in results of operations when they become known.

We record revenue on contracts relating to unapproved change orders and claims by including in revenue an amount less than or equal to the amount of the costs incurred by us to date for contract price adjustments that we seek to collect from customers for delays, errors in specifications or designs, change orders in dispute or unapproved as to scope or price, or other unanticipated additional costs, in each case when recovery of the costs is considered probable. The amount of unapproved change orders and claims revenues are included in our Condensed Consolidated Balance Sheets as part of costs and estimated earnings in excess of billings on uncompleted contracts. When determining the likelihood of eventual recovery, we consider such factors as our experience on similar projects and our experience with the customer. As new facts become known, an adjustment to the estimated recovery is made and reflected in the current period.

As allowed by ASC Topic 605-35, 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 become known. We determine when short-term construction contracts are completed based on acceptance by the customer.

Revenues for drilling contracts within Mineral Services are recognized in terms of the value of total work performed to date on the basis of actual footage or meterage drilled.

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.

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

**Inventories**— We value inventories at the lower of cost or market. Cost of U.S. inventories and the majority of foreign operations are determined using the average cost method, which approximates FIFO. Inventories consist primarily of supplies and raw materials. Supplies of \$19.5 million and \$16.8 million and raw materials of \$2.2 million and \$2.7 million were included in inventories in the Condensed Consolidated Balance Sheets as of October 31, 2016 and January 31, 2016, respectively.

**Goodwill** —In accordance with ASC Topic 350-20, “Intangibles – Goodwill and Other,” we are required to test for the impairment of goodwill on at least an annual basis. We conduct this evaluation annually or more frequently if events or changes in circumstances indicate that goodwill might be impaired. We believe at this time that the carrying value of the remaining goodwill is appropriate, although to the extent additional information arises or our strategies change, it is possible that our conclusions regarding impairment of the remaining goodwill could change and result in a material effect on our financial position and results of operations. As of October 31, 2016 and January 31, 2016, we had \$8.9 million of goodwill, included as part of Other Assets in the Condensed Consolidated Balance Sheets. The goodwill is all attributable to the Inliner reporting segment.

**Other Long-lived Assets** —Long-lived assets, including amortizable intangible assets, are reviewed for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Factors we consider important which could trigger an impairment review include but are not limited to the following:

- significant underperformance of assets;
- significant changes in the use of the assets; and
- significant negative industry or economic trends.

During the three months ended October 31, 2016, due to the extended downturn in the minerals market, and decreased activity levels for Heavy Civil compared to prior year, we reviewed the recoverability of the asset values of our long-lived assets in the Heavy Civil and Mineral Services segments. No impairments were indicated by such analyses as of October 31, 2016.

**Cash and Cash Equivalents** —We consider investments with an original maturity of three months or less when purchased to be cash equivalents. Our cash equivalents are subject to potential credit risk. Our cash management and investment policies restrict investments to investment grade, highly liquid securities. The carrying value of cash and cash equivalents approximates fair value.

**Restricted Deposits** – Restricted deposits consist of amounts associated with certain letters of credit for on-going projects, escrow funds related to a certain disposition, and judicial deposits associated with tax related legal proceedings in Brazil. Restricted deposits – current of \$1.5 million and \$3.5 million as of October 31, 2016 and January 31, 2016, respectively, are included in Other Current Assets in the Condensed Consolidated Balance Sheets. Restricted deposits – long term of \$5.0 million and \$4.3 million as of October 31, 2016 and January 31, 2016, respectively, are included in Other Assets in the Condensed Consolidated Balance Sheets.

**Allowance for Uncollectible Accounts Receivable**— We make ongoing estimates relating to the collectability of our accounts receivable and maintain an allowance for estimated losses resulting from the inability of our customers to make required payments. In determining the amount of the allowance, we make judgments about the creditworthiness of customers based on ongoing credit evaluations, and also consider a review of accounts receivable aging, industry trends, customer financial strength, credit standing and payment history to assess the probability of collection.

**Concentration of Credit Risk** —We grant credit to our customers, which may include concentrations in state and local governments or other customers. Although this concentration could affect our overall exposure to credit risk, we believe that our portfolio of accounts receivable is sufficiently diversified, thus spreading the credit risk. To manage this risk, we perform periodic credit

evaluations of our customers' financial condition, including monitoring our customers' payment history and current credit worthiness. We do not generally require collateral in support of our trade receivables, but may require payment in advance or security in the form of a letter of credit or bank guarantee.

**Fair Value of Financial Instruments**—The carrying amounts of financial instruments, including cash and cash equivalents, customer receivables and accounts payable, approximate fair value at October 31, 2016 and January 31, 2016, because of the relatively short maturity of those instruments. See Note 6 to the Condensed Consolidated Financial Statements for other fair value disclosures.

**Litigation and Other Contingencies**—We are involved in litigation incidental to our business, the disposition of which is not expected to have a material effect on our business, financial position, results of operations or cash flows. In addition, some of our contracts contain provisions that require payment of liquidated damages if we are responsible for the failure to meet specified contractual milestone dates and the applicable customer asserts a claim under these provisions. These contracts define the conditions under which our customers may make claims against us for liquidated damages. In many cases in which we have historically had potential exposure for liquidated damages, such damages ultimately were not asserted by our customers. It is possible, however, that future results of operations for any particular quarterly or annual period could be materially affected by changes in our assumptions related to these proceedings. If the assessment of a contingency indicates that it is probable that a material loss has been incurred and the amount of the liability can be estimated, then the estimated liability is accrued in our Condensed Consolidated Financial Statements. If the assessment indicates that a potentially material loss contingency is not probable but is reasonably possible, or is probable but cannot be estimated, then the nature of the contingent liability, and an estimate of the range of possible losses, if determinable and material, is disclosed. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case.

**Equity-based Compensation**— We recognize the cost of all equity-based instruments in the Condensed Consolidated Financial Statements using a fair-value measurement of the associated costs. The fair value of service-based equity-based compensation granted in the form of stock options is determined using a lattice valuation model and for certain market-based awards the fair value is determined using a Monte Carlo simulation model.

Unearned compensation expense associated with the issuance of nonvested shares is amortized on a straight-line basis as the restrictions on the shares expire, subject to achievement of certain contingencies.

**Income (loss) Per Share**—Income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. For periods in which we recognize losses, the calculation of diluted loss per share is the same as the calculation of basic loss per share. For periods in which we recognize net income, diluted earnings per common share is computed in the same way as basic earnings per common share except that the denominator is increased to include the number of additional common shares that would be outstanding if all potential common shares had been issued that were dilutive. Options to purchase common stock and nonvested shares are included based on the treasury stock method for dilutive earnings per share, except when their effect is antidilutive. The 4.25% Convertible Notes and the 8.0% Convertible Notes (see Note 3 to the Condensed Consolidated Financial Statements) are included in the calculation of diluted loss per share if their inclusion is dilutive under the if-converted method. Options to purchase 0.8 million shares have been excluded from weighted average shares in the three and nine months ended October 31, 2016, as their effect was antidilutive. A total of 1.9 million nonvested shares have been excluded from weighted average shares in the three and nine months ended October 31, 2016, as their effect was antidilutive. Options to purchase a total 0.9 million shares have been excluded from weighted average shares in the three and nine months ended October 31, 2015, as their effect was antidilutive. A total of 1.4 million nonvested shares have been excluded from weighted average shares in the three and nine months ended October 31, 2015, as their effect was antidilutive.

**Supplemental Cash Flow Information**—The amounts paid for income taxes, interest and noncash investing and financing activities were as follows:

(in thousands)	Nine Months Ended October 31,	
	2016	2015
Income taxes paid	\$ 783	\$ 1,531
Income tax refunds	(185)	(4,009)
Interest paid	6,843	5,143
Noncash investing and financing activities:		
Exchange of 4.25% convertible notes for 8.0% convertible notes	—	55,500
Contingent consideration on sale of discontinued operations	—	4,210
Accrued capital additions	2,184	964

**New Accounting Pronouncements**— In November 2016, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standards Update (“ASU”) 2016-18, “Statement of Cash Flows: Restricted Cash,” which provides guidance about the presentation of changes in restricted cash and restricted cash equivalents on the statement of cash flows. This ASU is effective for us beginning on February 1, 2018 and will be applied using a retrospective transition method to each period presented. We are currently evaluating the effect that the adoption of this ASU will have on our financial statements.

In October 2016, the FASB issued ASU 2016-17, “Consolidation: Interest Held through Related Parties That Are under Common Control,” which amends the consolidation guidance on how a reporting entity that is the single decision maker of a variable interest entity should treat indirect interests in the entity held through related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that variable interest entity. This ASU is effective for us beginning on February 1, 2017. We are currently evaluating the effect that the adoption of this ASU will have on our financial statements.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes: Intra-Entity Transfers of Assets Other Than Inventory,” which removes the prohibition against the immediate recognition of the current and deferred income tax effects of intra-entity transfers of assets other than inventory. This guidance is effective for us beginning on February 1, 2018 and will be applied using a modified retrospective basis. We are currently evaluating the effect that the adoption of this ASU will have on our financial statements.

In August 2016, the FASB issued ASU 2016-15, “Statement of Cash Flows: Classification of Certain Cash Receipts and Cash Payments.” This ASU provides guidance and clarification in regards to the classification of eight types of receipts and payments in the statement of cash flows, including debt repayment or extinguishment costs, settlement of zero-coupon bonds, proceeds from the settlement of insurance claims, distributions received from equity method investees and cash receipts from beneficial interest in securitization transactions. The guidance is effective for us beginning on February 1, 2018 and will be applied using a retrospective transition method to each period presented. We are currently evaluating the effect that the adoption of this ASU will have on our financial statements.

In June 2016, the FASB issued ASU 2016-13, “Financial Instruments – Credit Losses,” which requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within those years, beginning after December 15, 2018. Accordingly, the standard is effective for us on February 1, 2020 using a modified retrospective approach. We are currently evaluating the impact of the adoption of this ASU and do not believe the effect will be material on our financial statements.

In March 2016, the FASB issued ASU 2016-09, “Stock Compensation,” which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The guidance is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods, and early adoption is permitted. We are currently evaluating the impact of the adoption of this ASU and do not believe the effect will be material on our financial statements.

In March 2016, the FASB issued ASU No. 2016-06, “Derivatives and Hedging: Contingent Put and Call Options in Debt Instruments,” to clarify the steps required to assess whether a call or put option meets the criteria for bifurcation as an embedded derivative. ASU 2016-06 is effective for interim and annual periods beginning after December 15, 2016, and requires a modified retrospective approach to adoption. Early adoption is permitted. We are currently evaluating the impact of the adoption of this ASU and do not believe the effect will be material on our financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases,” which establishes a right-of-use (ROU) model that requires a lessee to record an ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. This ASU is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early adoption is permitted. ASU 2016-02 requires modified retrospective adoption for all leases existing at, or entered into after, the date of initial application, with an option to use certain transition relief. We are currently evaluating the effect of adoption of this ASU and do not believe the effect will be material on our financial statements.

On July 22, 2015, the FASB issued ASU 2015-11, “Inventory – Simplifying the Measurement of Inventory,” which applies to inventory measured using first-in, first-out or average cost. The guidance in this update states that inventory within scope shall be measured at the lower of cost or net realizable value, and when the net realizable value of inventory is lower than its cost, the difference shall be recognized as a loss in earnings. The new standard is effective for us beginning on February 1, 2017 and will be applied on a prospective basis. We are currently evaluating the effect of adoption of ASU 2015-11 and do not believe the effect will be material on our financial statements.

On February 18, 2015, FASB issued ASU 2015-02, “Consolidation: Amendments to the Consolidation Analysis.” This guidance which is effective for annual periods, and interim periods within those annual periods, beginning after December 15, 2015, changes the consolidation analysis required under U.S. GAAP for limited partnerships and other variable interest entities (“VIE”). The adoption of this ASU did not have a material impact on our financial statements.

The FASB issued ASU 2014-09, “Revenue from Contracts with Customers” on May 28, 2014. On August 12, 2015, the FASB issued ASU 2015-14, which defers the adoption of ASU 2014-09 to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. This guidance defines the steps to recognize revenue for entities that have contracts with customers as well as requiring significantly expanded disclosures regarding the qualitative and quantitative information of the nature, amount, timing, and uncertainty of revenue and cash flows arising from such contracts. This guidance provides companies with a choice of applying it retrospectively to each reporting period presented or by recognizing the cumulative effect of applying it at the date of initial application (February 1, 2018 in our case) and not adjusting comparative information. In March 2016, the FASB issued ASU 2016-08, Principal versus Agent Considerations, which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard pursuant to ASU 2014-09. In April 2016, the FASB issued ASU 2016-10, Identifying Performance Obligations and Licensing, and in May 2016, the FASB issued ASU 2016-12, Narrow-Scope Improvements and Practical Expedients, which amend certain aspects of the new revenue recognition standard pursuant to ASU 2014-09. At this point, we are currently evaluating the requirements and impact the provisions of the standard will have on our financial statements.

## 2. Property and Equipment

Property and equipment consisted of the following:

	October 31, 2016	January 31, 2016
Land	\$ 13,331	\$ 13,474
Buildings	33,718	36,175
Machinery and equipment	359,527	375,698
Property and equipment, at cost	406,576	425,347
Less - Accumulated depreciation	(300,384)	(311,850)
Property and equipment, net	<u>\$ 106,192</u>	<u>\$ 113,497</u>

## 3. Indebtedness

Debt outstanding as of October 31, 2016, and January 31, 2016, was as follows:

(in thousands)	October 31, 2016	January 31, 2016
4.25% Convertible Notes	\$ 63,708	\$ 61,766
8.0% Convertible Notes	97,758	97,205
Capitalized lease obligations	19	106
Less amounts representing interest	(1)	(3)
Total debt	161,484	159,074
Less current maturities of long-term debt	(9)	(88)
Total long-term debt	<u>\$ 161,475</u>	<u>\$ 158,986</u>

On March 2, 2015, we exchanged approximately \$55.5 million aggregate principal amount of our 4.25% Convertible Notes for approximately \$49.9 million aggregate principal amount of our 8.0% Convertible Notes. In accordance with the derecognition guidance for convertible instruments in an exchange transaction under ASC Topic 470-20, the fair value of the 8.0% Convertible Notes (“the exchange consideration”) and the transaction costs incurred were allocated between the liability and equity components of the 4.25% Convertible Notes. Of the \$49.9 million exchange consideration, \$42.1 million, which represented the fair value of the 4.25% Convertible Notes immediately prior to its derecognition, was allocated to the extinguishment of the liability component. Transaction costs of \$0.9 million were also allocated to the liability component. As a result, we recognized a gain on extinguishment of debt of \$4.2 million during the first quarter of FY2016. The remaining \$7.8 million of the exchange consideration and \$0.2 million of transaction costs were allocated to the reacquisition of the equity component and recognized as a reduction of stockholders’ equity.

The following table presents the carrying value of the Convertible Notes as of October 31, 2016:

(in thousands)	October 31, 2016	January 31, 2016
<b>4.25% Convertible Notes:</b>		
Carrying amount of the equity conversion component	\$ 3,106	\$ 3,106
Principal amount of the 4.25% Convertible Notes	\$ 69,500	\$ 69,500
Unamortized deferred financing fees	(1,162)	(1,523)
Unamortized debt discount (1)	(4,630)	(6,211)
Net carrying amount	<u>\$ 63,708</u>	<u>\$ 61,766</u>
<b>8.0% Convertible Notes:</b>		
Principal amount of the 8.0% Convertible Notes	\$ 99,898	\$ 99,898
Unamortized deferred financing fees	(2,140)	(2,693)
Net carrying amount	<u>\$ 97,758</u>	<u>\$ 97,205</u>

(1) As of October 31, 2016, the remaining period over which the unamortized debt discount will be amortized is 24 months using an effective interest rate of 9.0%.

We utilize surety bonds to secure performance of our projects. As of October 31, 2016 and January 31, 2016, the amount of surety bonds outstanding was \$170.8 million and \$259.7 million, respectively, as measured by the expected amount of contract revenue remaining to be recognized on the projects.

#### 4. Other Income, Net

Other income, net consisted of the following for the three and nine months ended October 31, 2016 and 2015:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2016	2015	2016	2015
Net gain from disposal of property and equipment	\$ 2,798	\$ 134	\$ 3,051	\$ 1,103
Interest income	9	109	72	495
Currency exchange losses	(89)	(38)	(235)	(86)
Other	622	539	790	525
Total	<u>\$ 3,340</u>	<u>\$ 744</u>	<u>\$ 3,678</u>	<u>\$ 2,037</u>

#### 5. Income Taxes

Income tax benefit (expense) for continuing operations of \$(1.4) million and \$(1.8) million were recorded in the three and nine months ended October 31, 2016, compared to \$1.3 million and \$3.5 million for the same periods last year. We recorded no tax benefit on domestic deferred tax assets and certain foreign deferred tax assets generated during the three and nine months ended October 31, 2016 and 2015. The effective tax rates for continuing operations for the three and nine months ended October 31, 2016 were (36.6%) and (10.5%), compared to 12.2% and 8.2% for the same periods last year. The difference between the effective tax rates and the statutory tax rates resulted primarily from valuation allowances recorded during the respective periods on current year losses.

After valuation allowances, we maintain no domestic net deferred tax assets and \$0.2 million of deferred tax assets from various foreign jurisdictions where management believes that realization is more likely than not. In order for our foreign subsidiaries to fully realize the deferred tax asset, they will need to generate taxable income totaling \$0.6 million in relation to where the deferred tax assets are recorded. We will continue to evaluate all of the evidence in future quarters and will make a determination as to whether it is more likely than not that deferred tax assets will be realized in future periods. The establishment of a valuation allowance does not have any impact on cash, nor does such an allowance preclude us from using our loss carryforwards or utilizing other deferred tax assets in the future.

As of October 31, 2016, and January 31, 2016, the total amount of unrecognized tax benefits recorded was \$10.2 million and \$10.8 million, respectively, of which substantially all would affect the effective tax rate if recognized. It is reasonably possible that the amount of unrecognized tax benefits will decrease during the next twelve months by approximately \$3.5 million due to settlements of audit issues. We classify uncertain tax positions as non-current income tax liabilities unless expected to be paid within one year. We

report income tax-related interest and penalties as a component of income tax expense. As of October 31, 2016, and January 31, 2016, the total amount of liability for income tax-related interest and penalties was \$8.3 million and \$7.8 million, respectively.

## 6. Fair Value Measurements

Our estimates of fair value for financial assets and financial liabilities are based on the framework established in the fair value accounting guidance. The framework is based on the inputs used in the valuation, gives the highest priority to quoted prices in active markets and requires that observable inputs be used in the valuations when available. The three levels of inputs used to measure fair value are listed below:

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than those included in Level 1, such as quoted market prices for similar assets and liabilities in active markets or quoted prices for identical assets in inactive markets.

Level 3 — Unobservable inputs reflecting our own assumptions and best estimate of what inputs market participants would use in pricing an asset or liability.

Our assessment of the significance of a particular input to the fair value in its entirety requires judgment and considers factors specific to the asset or liability. Our financial instruments held at fair value are presented below as of October 31, 2016, and January 31, 2016:

(in thousands)	Carrying Value	Fair Value Measurements		
		Level 1	Level 2	Level 3
October 31, 2016				
Financial Assets:				
Current restricted deposits held at fair value (1)	\$ 1,521	\$ 1,521	—	—
Long term restricted deposits held at fair value (1)	4,980	4,980	—	—
Contingent consideration receivable (2)	4,244	—	—	\$ 4,244
January 31, 2016				
Financial Assets:				
Current restricted deposits held at fair value (1)	\$ 3,466	\$ 3,466	—	—
Long term restricted deposits held at fair value (1)	4,252	4,252	—	—
Contingent consideration receivable (2)	4,244	—	—	\$ 4,244

- (1) Current restricted deposits are included in Other Current Asset in the Condensed Consolidated Balance Sheets. Long-term restricted deposits are included in Other Assets in the Condensed Consolidated Balance Sheets.
- (2) As discussed in Note 10 to the Condensed Consolidated Financial Statements, the contingent consideration receivable represents our share in the profits of one of the contracts assumed by the purchaser, as part of the sale of the Geoconstruction business on August 17, 2015. The amount was estimated based on the projected profits of the contract. There have been no changes in the estimated fair value since the closing date of the sale agreement.

## Other Financial Instruments

We use the following methods and assumptions in estimating the fair value disclosures for our other financial instruments:

Cash – The carrying amounts reported in the accompanying Condensed Consolidated Balance Sheets for cash approximate their fair values and are classified as Level 1 within the fair value hierarchy.

Short-term and long-term debt, other than the Convertible Notes – The fair value of debt instruments is classified as Level 2 within the fair value hierarchy and is valued using a market approach based on quoted prices for similar instruments traded in active markets. Where quoted prices are not available, the income approach is used to value these instruments based on the present value of future cash flows discounted at estimated borrowing rates for similar debt instruments or on estimated prices based on current yields for debt issues of similar quality and terms.

Convertible Notes – The Convertible Notes are measured using Level 1 inputs based upon observable quoted prices of the 4.25% Convertible Notes and the 8.0% Convertible Notes.



The following table summarized the carrying values and estimated fair values of the long-term debt:

(in thousands)	October 31, 2016		January 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
4.25% Convertible Notes	\$ 63,708	\$ 62,898	\$ 61,766	\$ 49,873
8.0% Convertible Notes	97,758	92,156	97,205	92,156

## 7. Equity-Based Compensation

We have equity-based compensation plans for Directors and certain employees that provide for the granting of options to purchase or the issuance of shares of common stock at a price fixed by the Board of Directors. As of October 31, 2016, there were 347,898 shares available to be granted under the plans. We have the ability to issue shares under the plans either from new issuances or from treasury, although we have previously issued new shares and expect to continue to issue new shares in the future. We granted 13,495 shares of restricted stock, 199,352 restricted stock units and 447,903 performance vesting restricted stock units under the Layne Christensen Company 2006 Equity Incentive Plan during the nine months ended October 31, 2016. The grants consist of both service-based awards and market-based awards. We also granted a total of 134,333 stock options during the nine months ended October 31, 2016 under the Layne Christensen Company 2006 Equity Incentive Plan.

We recognized compensation cost for equity-based compensation arrangements of \$0.7 million and \$2.7 million for the three and nine months ended October 31, 2016, respectively, and \$0.8 million and \$3.2 million for the three and nine months ended October 31, 2015, respectively. The total income tax benefit recognized for equity-based compensation arrangements were \$0.3 million and \$1.1 million for the three and nine months ended October 31, 2016, respectively, and \$0.3 million and \$1.2 million for the three and nine months ended October 31, 2015, respectively. As of October 31, 2016, no tax benefit is expected to be realized for equity-based compensation arrangements due to a full valuation allowance of our domestic deferred tax assets.

As of October 31, 2016, there was approximately \$4.4 million of total unrecognized compensation cost related to nonvested restricted stock awards and restricted stock units that is expected to be recognized over a weighted-average period of 1.9 years. As of October 31, 2016, total unrecognized compensation cost related to unvested stock options was approximately \$0.3 million, which is expected to be recognized over a weighted-average period of 1.1 years.

A summary of nonvested share activity for the nine months ended October 31, 2016, is as follows:

	Number of Shares	Weighted Average Grant Date Fair Value	Intrinsic Value (in thousands)
Nonvested stock at February 1, 2016	1,407,170	\$ 5.20	\$ 7,205
Granted - Directors' restricted stock	13,495	7.04	
Granted - Restricted stock units	199,352	7.04	
Granted - Performance vesting shares	447,903	4.70	
Vested	(26,349)	6.22	
Forfeitures	(168,840)	8.23	
Nonvested stock at October 31, 2016	1,872,731	\$ 5.00	\$ 16,049

A summary of stock option activity for the nine months ended October 31, 2016, is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Intrinsic Value (in thousands)
Outstanding at February 1, 2016	839,715	\$ 17.61	7.1	\$ —
Granted	134,433	7.04		
Expired	(10,000)	29.29		
Forfeited	(214,104)	21.19		
Outstanding at October 31, 2016	750,044	\$ 14.54	6.8	\$ 544
Exercisable at February 1, 2016	576,871	\$ 19.00	6.5	
Exercisable at October 31, 2016	606,503	\$ 15.49	6.5	\$ 541

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.

The fair value of equity-based compensation granted in the form of stock options is determined using a lattice valuation model. The valuations were made using the assumptions noted in the following table. Expected volatilities are based on historical volatility of the stock price. We use historical data to estimate early exercise and post-vesting forfeiture rates to be applied within the valuation model. The risk-free interest rate for the periods within the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The weighted-average fair value per share at the date of grant for options granted during the nine months ended October 31, 2016 was \$1.59.

Assumptions:	2016
Weighted-average expected volatility	56.1%
Expected dividend yield	0.0%
Risk-free interest rate	0.6%
Expected term (in years)	1.9
Exercise multiple factor	1.4
Post-vesting forfeiture	20.3%

Nonvested stock awards having service requirements only, are valued as of the grant date closing stock price and generally vest ratably over service periods of one to five years. Other nonvested stock awards vest based upon Layne meeting various performance goals. Certain nonvested stock awards provide for accelerated vesting if there is a change of control (as defined in the plans) or the disability or the death of the executive and for equitable adjustment in the event of changes in our equity structure. We granted certain performance based nonvested stock awards during the nine months ended October 31, 2016, which were valued using a Monte Carlo simulation model.

Assumptions used in the Monte Carlo simulation model for the nine months ended October 31, 2016 were as follows:

Assumptions:	2016
Weighted-average fair value	\$ 4.70
Weighted-average expected volatility	58.3%
Expected dividend yield	0.0%
Weighted-average risk free rate	0.9%

## 8. Investment in Affiliates

We have investments in affiliates that are engaged in mineral drilling services, and the manufacture and supply of drilling equipment, parts and supplies. Investment in affiliates may include other construction joint ventures from time to time.

A summary of material, jointly-owned affiliates, as well as their primary operating subsidiaries, if applicable, and the percentages directly and indirectly owned by us are as follows as of October 31, 2016:

	Percentage Owned Directly	Percentage Owned Indirectly
Boyles Bros Servicios Tecnicos Geologicos S. A. (Panama)	50.00%	
Boytec, S.A. (Panama)		50.00%
Boytec Sondajes de Mexico, S.A. de C.V. (Mexico)		50.00
Sondajes Colombia, S.A. (Columbia)		50.00
Mining Drilling Fluids (Panama)		25.00
Plantel Industrial S.A. (Chile)		50.00
Christensen Chile, S.A. (Chile)	50.00	
Christensen Commercial, S.A. (Chile)	50.00	
Geotec Boyles Bros., S.A. (Chile)	50.00	
Centro Internacional de Formacion S.A. (Chile)		50.00
Geostrella S.A. (Chile)		25.00
Diamantina Christensen Trading (Panama)	42.69	
Christensen Commercial, S.A. (Peru)	35.38	
Geotec, S.A. (Peru)	35.38	
Boyles Bros., Diamantina, S.A. (Peru)	29.49	

Financial information of the affiliates is reported with a one-month lag in the reporting period. The impacts of the lag on our investment and results of operations are not significant. Summarized financial information of the affiliates was as follows:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2016	2015	2016	2015
Income statement data:				
Revenues	\$ 29,716	\$ 29,139	\$ 89,623	\$ 99,275
Gross profit	5,141	4,563	16,674	14,226
Operating income	1,324	979	5,602	2,848
Net income (loss)	568	(943)	4,095	(4,033)

## 9. Operating Segments

We are a global solutions provider to the world of essential natural resources – water, minerals and energy. Management defines our operational organizational structure into discrete segments based on our primary product lines.

In the first quarter of FY2017, changes were made for certain of our smaller operations to reflect changes in organizational accountabilities as part of our strategy to simplify our business and streamline our operating and reporting structure. Our Collector Wells group was shifted from Heavy Civil to Water Resources to better align their operational expertise. We also shifted certain other smaller operations out of our “Other” segment and into our four reporting segments, and are no longer reporting the “Other” segment. We believe these changes better reflect how the business is managed and performance is evaluated. Information for prior periods has been reclassified to conform to our new presentation.

We manage and report our operations through four segments: Water Resources, Inliner, Heavy Civil, and Mineral Services.

Our segments are defined as follows:

### **Water Resources**

Water Resources provides its customers with an array of water management solutions, including discovery and defining of water sources through hydrologic studies, water supply development through water well drilling and intake construction, and water delivery through pipeline and pumping infrastructure. Water Resources also brings technologies to the water and wastewater markets and offers water treatment equipment engineering services, providing systems for the treatment of regulated and nuisance contaminants, specifically, iron, manganese, hydrogen sulfide, arsenic, radium, nitrate, perchlorate, and volatile organic compounds. Water Resources drills deep injection wells for industrial (primarily power) and municipal clients that need to dispose of wastewater associated with their processes. Water Resources also performs complete diagnostic and rehabilitation services for existing wells, pumps and related equipment, including conducting downhole closed circuit televideo inspections to investigate and resolve water well and pump performance problems. In addition, Water Resources constructs radial collector wells through its Ranney® Collector Wells technology, which is an alternative to conventional vertical wells and can be utilized to develop moderate to very high capacities of groundwater. Water Resources provides water systems and services in most regions of the U.S.

### **Inliner**

Inliner provides a wide range of process, sanitary and storm water rehabilitation solutions to municipalities and industrial customers dealing with aging infrastructure needs. Inliner focuses on its proprietary Inliner® cured-in-place pipe (“CIPP”) which allows it to rehabilitate aging sanitary sewer, storm water and process water infrastructure to provide structural rebuilding as well as infiltration and inflow reduction. Inliner’s trenchless technology minimizes environmental impact and reduces or eliminates surface and social disruption. Inliner has the ability to supply both traditional felt-based CIPP lining tubes cured with water or steam as well as a fiberglass-based lining tubes cured with ultraviolet light. Inliner holds the North American rights to the Inliner CIPP technology, owns and operates the liner manufacturer, as well as installation of Inliner CIPP product. While Inliner focuses on our proprietary Inliner CIPP, it provides full system renewal, including a wide variety of other rehabilitative methods including Janssen structural renewal for service lateral connections and mainlines, slip lining, traditional excavation and replacement, and form and manhole renewal with cementitious and epoxy products. Inliner provides services in most regions of the U.S.

### **Heavy Civil**

Heavy Civil performs design and build services of water and wastewater treatment plants, as well as pipeline installation, to government agencies and industrial clients. In addition, Heavy Civil builds surface water intakes, pumping stations, hard rock tunnels and marine construction services-all in support of the water infrastructure in the U.S. Beyond water solutions, Heavy Civil also designs and constructs biogas facilities (anaerobic digesters) for the purpose of generating and capturing methane gas, an emerging renewable energy resource. Heavy Civil provides services in most regions of the U.S.

### **Mineral Services**

Mineral Services conducts primarily above ground drilling activities, including all phases of core drilling, reverse circulation, dual tube, hammer and rotary air-blast methods. Our service offerings include both exploratory and definitional drilling. Global mining companies engage Mineral Services to extract samples from sites that the mining companies analyze for mineral content before investing heavily in development to extract the minerals. Mineral Services helps its clients determine if minable mineral deposit is on the site, the economic viability of the mining site and the geological properties of the ground, which helps in the determination of mine planning. Mineral Services also offers its customers water management and soil stabilization expertise. Mine water management consists of vertical, large diameter wells for sourcing and dewatering; and horizontal drains for slope de-pressurization. The primary markets are in the western U.S., Mexico, and South America. As discussed in Note 12 to the Condensed Consolidated Financial Statements, during FY 2016, we implemented a plan to exit our operations in Africa and Australia. Mineral Services also has ownership interests in foreign affiliates operating in Latin America that form its primary presence in Chile and Peru.

Financial information for our segments is presented below. Unallocated corporate expenses primarily consist of general and administrative functions performed on a company-wide basis and benefiting all segments. These costs include expenses related to accounting, financial reporting, internal audit, treasury, legal, tax compliance, executive management and board of directors.

Management evaluates segment performance based primarily on revenues and Adjusted EBITDA. Adjusted EBITDA represents income or loss from continuing operations before interest, taxes, depreciation and amortization, non-cash equity-based compensation, equity in earnings or losses from affiliates, certain non-recurring items such as impairment charges, restructuring costs, gain on extinguishment of debt, and certain other gains or losses, plus dividends received from affiliates. Refer to further discussion on Non-GAAP Financial Measures included in Part I, Item 2 in this Form 10-Q.

Three Months Ended October 31, 2016 (in thousands)	Water		Heavy	Mineral	Unallocated	Other Items/	Total
	Resources	Inliner	Civil	Services	Corporate Expenses	Eliminations	
Revenues	\$ 49,939	\$ 50,517	\$ 32,993	\$ 20,188	\$ —	\$ (70)	\$ 153,567
(Loss) income from continuing operations before income taxes	\$ (4,439)	\$ 8,109	\$ (580)	\$ 2,670	\$ (5,245)	\$ (4,206)	\$ (3,691)
Interest expense	—	—	—	—	—	4,206	4,206
Depreciation expense and amortization	2,970	1,500	348	1,753	294	—	6,865
Non-cash equity-based compensation	(84)	43	38	57	603	—	657
Equity in earnings of affiliates	—	—	—	(189)	—	—	(189)
Restructuring costs	1,705	—	14	6	—	—	1,725
Other (income) expense, net	(950)	(24)	(47)	(2,172)	(147)	—	(3,340)
Dividends received from affiliates	—	—	—	576	—	—	576
Adjusted EBITDA	<u>\$ (798)</u>	<u>\$ 9,628</u>	<u>\$ (227)</u>	<u>\$ 2,701</u>	<u>\$ (4,495)</u>	<u>\$ —</u>	<u>\$ 6,809</u>

Three Months Ended October 31, 2015 (in thousands)	Water		Heavy	Mineral	Unallocated	Other Items/	Total
	Resources	Inliner	Civil	Services	Corporate Expenses	Eliminations	
Revenues	\$ 63,007	\$ 51,529	\$ 36,212	\$ 22,879	\$ —	\$ (448)	\$ 173,179
(Loss) income from continuing operations before income taxes	\$ 3,800	\$ 6,011	\$ (1,742)	\$ (6,445)	\$ (6,671)	\$ (5,199)	\$ (10,246)
Interest expense	—	—	—	—	—	5,199	5,199
Depreciation expense and amortization	3,379	1,170	691	2,242	458	—	7,940
Non-cash equity-based compensation	98	33	37	55	564	—	787
Equity in losses of affiliates	—	—	—	540	—	—	540
Restructuring costs	(13)	(3)	13	2,191	(11)	—	2,177
Other (income) expense, net	(346)	(76)	(53)	32	(301)	—	(744)
Dividends received from affiliates	—	—	—	1,077	—	—	1,077
Adjusted EBITDA	<u>\$ 6,918</u>	<u>\$ 7,135</u>	<u>\$ (1,054)</u>	<u>\$ (308)</u>	<u>\$ (5,961)</u>	<u>\$ —</u>	<u>\$ 6,730</u>

Nine Months Ended October 31, 2016 (in thousands)	Water		Heavy	Mineral	Unallocated	Other Items/	Total
	Resources	Inliner	Civil	Services	Corporate Expenses	Eliminations	
Revenues	\$ 168,360	\$ 151,027	\$ 107,500	\$ 45,761	\$ —	\$ (293)	\$ 472,355
(Loss) income from continuing operations before income taxes	\$ (6,377)	\$ 20,562	\$ (1,259)	\$ 3,957	\$ (21,554)	\$ (12,661)	\$ (17,332)
Interest expense	—	—	—	—	—	12,661	12,661
Depreciation expense and amortization	9,138	4,016	1,245	4,773	1,075	—	20,247
Non-cash equity-based compensation	225	337	112	151	1,924	—	2,749
Equity in earnings of affiliates	—	—	—	(1,916)	—	—	(1,916)
Restructuring costs	2,308	72	409	243	153	—	3,185
Other (income) expense, net	(230)	(8)	(185)	(3,407)	152	—	(3,678)
Dividends received from affiliates	—	—	—	3,014	—	—	3,014
Adjusted EBITDA	\$ 5,064	\$ 24,979	\$ 322	\$ 6,815	\$ (18,250)	\$ —	\$ 18,930

Nine Months Ended October 31, 2015 (in thousands)	Water		Heavy	Mineral	Unallocated	Other Items/	Total
	Resources	Inliner	Civil	Services	Corporate Expenses	Eliminations	
Revenues	\$ 181,758	\$ 141,339	\$ 129,841	\$ 72,384	\$ —	\$ (1,555)	\$ 523,767
Income (loss) from continuing operations before income taxes	\$ 5,729	\$ 15,675	\$ (4,943)	\$ (23,419)	\$ (26,494)	\$ (9,110)	\$ (42,562)
Interest expense	—	—	—	—	—	13,346	13,346
Depreciation expense and amortization	10,140	3,198	2,041	8,131	1,419	—	24,929
Non-cash equity-based compensation	327	618	220	223	1,712	—	3,100
Equity in losses of affiliates	—	—	—	2,133	—	—	2,133
Impairment charges	4,598	—	—	—	—	—	4,598
Restructuring costs	5	14	44	13,887	341	—	14,291
Gain on extinguishment of debt	—	—	—	—	—	(4,236)	(4,236)
Other income, net	(513)	(118)	(593)	(509)	(304)	—	(2,037)
Dividends received from affiliates	—	—	—	3,287	—	—	3,287
Adjusted EBITDA	\$ 20,286	\$ 19,387	\$ (3,231)	\$ 3,733	\$ (23,326)	\$ —	\$ 16,849

The following table summarizes revenue for our continuing operations, by product line and by major geographic area, for the three and nine months ended October 31, 2016 and 2015:

(in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2016	2015	2016	2015
<b>Product Line Information</b>				
Water systems	\$ 44,182	\$ 57,842	\$ 149,054	\$ 165,247
Water treatment technologies	4,765	3,280	12,186	9,407
Sewer rehabilitation	50,517	51,529	151,027	141,339
Water and wastewater plant construction	15,010	29,916	57,450	103,073
Pipeline construction	16,945	6,265	47,487	25,240
Environmental and specialty drilling	2,378	1,175	8,654	4,773
Exploration drilling	19,014	21,381	42,926	66,869
Other	756	1,791	3,571	7,819
Total revenues	<u>\$ 153,567</u>	<u>\$ 173,179</u>	<u>\$ 472,355</u>	<u>\$ 523,767</u>
<b>Geographic Information</b>				
United States	\$ 143,025	\$ 161,272	\$ 449,293	\$ 483,223
Africa/Australia	—	3,698	123	11,660
South America	2,756	1,587	5,057	5,570
Mexico	7,629	6,358	17,595	21,825
Other foreign	157	264	287	1,489
Total revenues	<u>\$ 153,567</u>	<u>\$ 173,179</u>	<u>\$ 472,355</u>	<u>\$ 523,767</u>

## 10. Discontinued Operations

On August 17, 2015, we completed the sale of the Geoconstruction business segment to a subsidiary of Keller Foundations, LLC, a member of Keller Group plc (“Keller”), for a total purchase price of \$47.7 million. As of October 31, 2016, we have approximately \$1.5 million held in an escrow account, which is included in Other Assets in the Condensed Consolidated Balance Sheet, to be paid to us at a later date upon the satisfaction of certain conditions. In addition, as of October 31, 2016, we have \$4.2 million of contingent consideration receivable, included in Other Assets in the Condensed Consolidated Balance Sheet. The contingent consideration represents our best estimate of our share in the profits of one of the contracts assumed by Keller.

The results of operations associated with the Geoconstruction business segment for the three and nine months ended October 31, 2015 were as follows:

(in thousands)	Three Months Ended October 31, 2015	Nine Months Ended October 31, 2015
Revenue	\$ 2,923	\$ 45,875
Cost of revenues (exclusive of depreciation and amortization, shown below)	(2,959)	(34,114)
Selling, general and administrative expenses (exclusive of depreciation and amortization, shown below)	(5,394)	(8,412)
Depreciation and amortization	—	(3,239)
Equity in earnings of affiliates	197	1,104
Other income (expense) items	1,688	2,372
Total operating income on discontinued operations before income taxes	(3,545)	3,586
Income tax expense	966	(793)
Total operating (loss) income on discontinued operations	\$ (2,579)	\$ 2,793
Total consideration	\$ 47,717	\$ 47,717
Net book value of assets sold	(31,776)	(31,776)
Transaction costs associated with sale	(3,036)	(3,036)
Gain (loss) on sale of discontinued operations before income taxes	12,905	12,905
Income tax expense	(4,774)	(4,774)
Total income on discontinued operations	\$ 5,552	\$ 10,924

Prior to the completion of the sale, we owned 65% and 50% of Case-Bencor Joint Venture (Washington) and Case-Bencor Joint Venture (Iowa), respectively, which were both included as part of the Geoconstruction business segment as investments in affiliates, and were discontinued as a result of the sale. Summarized financial information of the entities, which were accounted for as equity method investments, for the three and nine months ended October 31, 2015 was as follows:

(in thousands)	Three Months Ended October 31, 2015	Nine Months Ended October 31, 2015
<b>Income statement data:</b>		
Revenues	\$ 2,859	\$ 10,720
Gross profit	640	2,466
Net income (loss)	640	2,466



In accordance with our adoption of ASU 2014-08 effective February 1, 2015, additional disclosure relating to cash flow is required for discontinued operations. Cash flow data relating to the Geoconstruction business segment for the nine months ended October 31, 2015 is presented below:

(in thousands)	Nine Months Ended	
	October 31, 2015	
Cash flow data:		
Depreciation and amortization	\$	3,239
Capital expenditures		207

## 11. Contingencies

Our 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 we, as is frequently the case, conduct a project on a fixed-price, bundled basis where we delegate certain functions to subcontractors but remain responsible to the customer for the subcontracted work. In addition, we are exposed to potential liability under foreign, federal, state and local laws and regulations, contractual indemnification agreements or otherwise in connection with our services and products. Litigation arising from any such occurrences may result in Layne being named as a defendant in lawsuits asserting large claims. Although we maintain insurance protection that we consider 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 we may be subject or that we will be able to continue to obtain such insurance protection. A successful claim or damage resulting from a hazard for which we are not fully insured could have a material adverse effect on us. In addition, we do not maintain political risk insurance with respect to our foreign operations.

Layne through one of our discontinued segments, Geoconstruction, was a subcontractor on the foundation for an office building in California in 2013 and 2014. Geoconstruction's work on the project was completed in September 2014. Certain anomalies were subsequently discovered in the structural concrete, which were remediated by the general contractor during 2015. We have participated in discussions with the owner and the general contractor for the project regarding potential causes for the anomalies. During FY 2016, the owner, the general contractor and Layne submitted a claim to the project's insurers to cover the cost of remedial work, which claim was denied on November 2, 2016. The owner and the general contractor have filed a legal proceeding against the insurers seeking coverage under the insurance policy. Management does not believe that we are liable for any of the remediation costs related to this project. As of the date of this report, no action has been filed against us. Accordingly, no provision has been made in these interim condensed consolidated financial statements.

As previously disclosed, on October 27, 2014, we entered into a settlement with the Securities and Exchange Commission ("SEC") to resolve allegations concerning potential violations of the Foreign Corrupt Practices Act. Under the terms of the settlement, among other things, we agreed to undertake certain compliance, reporting and cooperation obligations to the SEC for two years following the settlement date. On November 9, 2016, we made our final report to the SEC and have no further reporting obligations to the SEC under the settlement.

We are involved in various other matters of litigation, claims and disputes which have arisen in the ordinary course of business. We believe that the ultimate disposition of these matters will not, individually and in the aggregate, have a material adverse effect upon our business or consolidated financial position, results of operations or cash flows. However, it is possible, that future results of operations for any particular quarterly or annual period could be materially affected by changes in the assumptions related to these proceedings. In accordance with U.S. generally accepted accounting principles, we record a liability when it is both probable that a liability has been incurred and the amount of the loss can be reasonably estimated. These provisions are reviewed at least quarterly and adjusted to reflect the impacts of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular case. To the extent additional information arises or the strategies change, it is possible that our estimate of the probable liability in these matters may change.

## 12. Restructuring Costs

During the second quarter of FY 2017, we continued our efforts to reduce our cost structure and streamline our operations, by initiating a plan to reduce costs and improve our profitability in our Water Resources segment ("Water Resources Business Performance Initiative"). The Water Resources Business Performance Initiative involves cost rationalization, increased standardization of functions such as sales, pricing and estimation, disposal of underutilized assets, and process improvements to drive efficiencies. We recorded approximately \$1.7 million and \$2.3 million in restructuring costs related to the Water Resources Business

Performance Initiative for the three and nine months ended October 31, 2016, respectively. We estimate remaining amounts to be incurred for the Water Resources Business Performance Initiative of approximately \$0.6 million.

During FY 2016, we took steps to move towards a more focused strategy to simplify our business and build upon our capabilities in water (“FY2016 Restructuring Plan”). In response to these steps, and due to the continuing decline in the global minerals market, we implemented a plan to exit our operations in Africa and Australia. The FY2016 Restructuring Plan is expected to be completed by the end of FY2017. In FY 2017, we have incurred costs supporting this strategic focus, recognizing less than \$0.1 million and \$0.9 million of restructuring expenses for the three and nine months ended October 31, 2016, respectively. The FY2016 Restructuring Plan for the nine months ended October 31, 2016 related to the segments as follows: \$0.1 million in Inliner, \$0.4 million in Heavy Civil, \$0.2 million in Mineral Services, and \$0.2 million in Unallocated Corporate Expenses. Total costs incurred from inception to October 31, 2016 for the FY2016 Restructuring Plan amounts to \$17.1 million. We estimate remaining amounts to be incurred for the FY2016 Restructuring Plan of approximately \$0.1 million.

The following table summarizes the carrying amount of the accrual for the restructuring plans discussed above:

(in thousands)	Severance and other personnel- related costs	Other	Total
Balance at January 31, 2016	\$ 1,157	\$ 56	\$ 1,213
Restructuring Costs			
Water Resources Business Performance Initiative	301	2,007	2,308
FY2016 Restructuring Plan	196	681	877
Total restructuring costs	497	2,688	3,185
Cash expenditures	(1,069)	(2,361)	(3,430)
Adjustment to liability	10	32	42
Balance at October 31, 2016	<u>\$ 595</u>	<u>\$ 415</u>	<u>\$ 1,010</u>

## **ITEM 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations**

### **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” or other words that convey the uncertainty of future events or outcomes. Please see Part II, Item 1A, Risk Factors in this quarterly report on Form 10-Q for an additional discussion. Many of the factors that will impact our risk factors are beyond our ability to control or predict. 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 we assume 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.

### **Overview**

Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) should be read in conjunction with the unaudited Condensed Consolidated Financial Statements and the related notes included in Part I, Item 1 in this Form 10-Q, as well as our consolidated financial statements included in the Annual Report on Form 10-K for the fiscal year ended January 31, 2016. As used herein, phrases such as the “Company,” “we,” “our,” and “us” are intended to refer to Layne Christensen Company when used.

We are a global water management, construction and drilling company. We primarily operate in North America and South America. We manage and report our operations through four segments: Water Resources, Inliner, Heavy Civil, and Mineral Services. Our operations are cyclical and subject to seasonality. Drilling and construction activities and revenues tend to decrease in November through January.

### **Recent Developments**

As disclosed in Note 9 to the Condensed Consolidated Financial Statements, effective the first quarter of FY2017, changes were made for certain of our smaller operations to reflect changes in organizational accountabilities as part of our strategy to simplify our business and streamline our operating and reporting structure. Our Collector Wells group was shifted from Heavy Civil to Water Resources to better align their operational expertise. We also shifted certain other smaller operations out of our “Other” segment and into our four reporting segments, and are no longer reporting the “Other” segment. These changes better reflect how the business is managed and performance is evaluated. Information for prior periods has been recast to conform with the current presentation.

As disclosed in Note 11 to the Condensed Consolidated Financial Statements, on October 27, 2014, we entered into a settlement with the Securities and Exchange Commission (“SEC”) to resolve allegations concerning potential violations of the Foreign Corrupt Practices Act. Under the terms of the settlement, among other things, we agreed to undertake certain compliance, reporting and cooperation obligations to the SEC for two years following the settlement date. On November 9, 2016, we made our final report to the SEC and have no further reporting obligations to the SEC under the settlement.

### **Non-GAAP Financial Measures**

We use Adjusted EBITDA to assess our performance, which is not defined in generally accepted accounting principles (GAAP). Our measure of Adjusted EBITDA, which may not be comparable to other companies’ measure of Adjusted EBITDA, represents income or loss from continuing operations before interest, taxes, depreciation and amortization, non-cash equity-based compensation, equity in earnings or losses from affiliates, certain non-recurring items such as impairment charges, restructuring costs, gain on extinguishment of debt, and certain other gains or losses, plus dividends received from affiliates. Adjusted EBITDA is included as a complement to results provided in accordance with GAAP because management believes this non-GAAP financial measure helps us understand and evaluate our operating performance and trends and provides useful information to both management and investors. In addition, we use Adjusted EBITDA as a factor in incentive compensation decisions and our credit facility agreement uses measures similar to Adjusted EBITDA to measure compliance with certain covenants. Adjusted EBITDA should be considered in addition to results prepared in accordance with GAAP, but should not be considered a substitute for, or superior to, GAAP results. See Note 9 to the Condensed Consolidated Financial Statements for the reconciliation of Adjusted EBITDA to income (loss) from continuing operations before income taxes, which we consider to be the most directly comparable GAAP financial measure to Adjusted EBITDA.

## Consolidated Results of Operations – Three Months Ended October 31, 2016 and 2015

Revenues declined 11.3% to \$153.6 million, for the three months ended October 31, 2016, from \$173.2 million for the same period last year, due reduced Water Resources' drilling activity in the western U.S., Heavy Civil's continuing shift towards more selective opportunities, and lower Mineral Services' revenues reflecting the exit from operations in Africa and Australia.

Cost of revenues as a percentage of revenues for the three months ended October 31, 2016 decreased from the prior year primarily due to improved margins in Inliner. Cost of revenues (exclusive of depreciation, amortization, and impairment charges) decreased \$17.0 million, to \$125.9 million (82.0% of revenues) for the three months ended October 31, 2016, from \$142.9 million (82.5% of revenues) for the same period last year.

Selling, general and administrative expenses decreased \$3.3 million, or 13.1%, to \$22.0 million for the three months ended October 31, 2016. The decrease was primarily attributable to Mineral Services due to our exit from operations in Africa and Australia and reduced corporate overhead costs, including reductions in legal and professional fees, compensation expenses, and consulting costs.

Depreciation and amortization decreased \$1.1 million, or 13.5%, to \$6.9 million for the three months ended October 31, 2016. The decrease was primarily due to reductions in capital expenditures in prior years, and disposal of assets.

Restructuring costs of \$1.7 million were recorded for the three months ended October 31, 2016, compared to \$2.2 million for the same period last year. Restructuring costs for the current quarter primarily related to costs associated with our Water Resources Business Performance Initiative, as discussed in Note 12 to the Condensed Consolidated Financial Statements.

Equity in earnings (losses) of affiliates improved to earnings of \$0.2 million for the three months ended October 31, 2016, as compared to losses of \$0.5 million during the same period last year.

Interest expense decreased \$1.0 million, or 19.1%, to \$4.2 million for the three months ended October 31, 2016. The decrease was primarily due to a write-off in the prior year of a portion of unamortized deferred financing fees as a result of the amendment and restatement of our asset-based facility in August 2015.

Income tax (expense) benefit from continuing operations of \$(1.4) million was recorded for the three months ended October 31, 2016, compared to \$1.3 million for the same period last year. Current period tax expense is primarily related to income in Mexico and withholding tax related to our dividends from our Latin American Affiliate. We currently record no tax benefit on domestic deferred tax assets and certain foreign deferred tax assets. The effective tax rate for the three months ended October 31, 2016 was (36.6%), compared to 12.2% for the same period last year. The difference between the effective tax rate and the statutory tax rate resulted primarily from a valuation allowance recorded during the period on current year losses.

Net income from discontinued operations of \$5.6 million was recorded for the three months ended October 31, 2015, primarily related to the gain on sale of our Geoconstruction business segment.

## Segment Operating Results – Three Months Ended October 31, 2016 and 2015

### Water Resources

(in thousands)	Three Months Ended October 31,			
	2016	2015	\$ Change	% Change
Revenues	\$ 49,939	\$ 63,007	\$ (13,068)	(20.7) %
Adjusted EBITDA	(798)	6,918	(7,716)	n/m
Adjusted EBITDA as a percentage of revenues	(1.6%)	11.0%	n/m	n/m

n/m – not meaningful

Revenues for Water Resources decreased during the three months ended October 31, 2016 primarily due to reduced activity in agricultural drilling projects in the western U.S.

The decrease in Adjusted EBITDA for the three months ended October 31, 2016 was primarily due to lower drilling activity as well as execution and work site issues associated with certain drilling projects. Five large drilling projects, which are all currently complete or near completion, contributed almost \$5.0 million of job losses during the quarter.

## Inliner

(in thousands)	Three Months Ended October 31,			
	2016	2015	\$ Change	% Change
Revenues	\$ 50,517	\$ 51,529	\$ (1,012)	(2.0) %
Adjusted EBITDA	9,628	7,135	2,493	34.9
Adjusted EBITDA as a percentage of revenues	19.1%	13.8%	n/m	n/m

Revenues for Inliner decreased slightly during the three months ended October 31, 2016, primarily due to lower levels of subcontracted work as compared to the prior year.

The increase in Adjusted EBITDA represents improved results across most operating regions as compared to the same prior year period. The increase in Adjusted EBITDA as a percentage of revenues was primarily attributable to a higher mix of self-performed work in the current quarter as compared to the same period in the prior year, and increased crew efficiency.

## Heavy Civil

(in thousands)	Three Months Ended October 31,			
	2016	2015	\$ Change	% Change
Revenues	\$ 32,993	\$ 36,212	\$ (3,219)	(8.9) %
Adjusted EBITDA	(227)	(1,054)	827	78.5
Adjusted EBITDA as a percentage of revenues	(0.7%)	(2.9%)	n/m	n/m

Revenues for Heavy Civil decreased primarily as a result of the reduced activity associated with our continuing strategic shift towards more selective opportunities, including negotiated and alternative delivery contracts, and less emphasis on traditional fixed-price contracts.

Adjusted EBITDA improved as compared to the prior year primarily due to improved project execution, the continued completion of certain legacy troubled fixed-price contracts, as well as lower selling, general and administrative expenses as Heavy Civil continues to focus on effectively managing its cost structure.

## Mineral Services

(in thousands)	Three Months Ended October 31,			
	2016	2015	\$ Change	% Change
Revenues	\$ 20,188	\$ 22,879	\$ (2,691)	(11.8) %
Adjusted EBITDA	2,701	(308)	3,009	n/m
Adjusted EBITDA as a percentage of revenues	13.4%	(1.3%)	n/m	n/m
Equity in earnings (losses) of affiliates	\$ 189	\$ (540)	\$ 729	n/m

Revenues for Mineral Services declined primarily due to our exit from our operations in Africa and Australia during FY2016, which contributed to approximately \$3.7 million in revenue decline for the three months ended October 31, 2016, compared to the prior year period. Offsetting these declines were increased revenues in Mexico and Brazil.

Adjusted EBITDA increased for the three months ended October 31, 2016 due primarily to increased activity and margins in Mexico and Brazil.

Equity in earnings (losses) of affiliates improved during the three months ended October 31, 2016, due to improved profitability in our Latin American affiliates.

## Unallocated Corporate Expenses

Unallocated corporate expenses reflected in our Adjusted EBITDA were \$4.5 million for the three months ended October 31, 2016, compared to \$6.0 million for the same period last year. The improvement was primarily due to reduction in legal and professional fees, as well as reductions in compensation expense.

## Consolidated Results of Operations – Nine Months Ended October 31, 2016 and 2015

Revenues decreased 9.8% to \$472.4 million, for the nine months ended October 31, 2016, from \$523.8 million for the same period last year, due primarily to declines in Heavy Civil resulting from the continuing shift towards more selective opportunities, lower revenues in Mineral Services as a result of the overall slowdown in mining activity around the world, and decreased revenues in Water Resources resulting from the decline in drilling activity in the western U.S. Inliner's revenue increased 6.9% compared to the prior year due to increased activity levels and additional investment in new crews.

Cost of revenues as a percentage of revenues for the nine months ended October 31, 2016 decreased from the prior year primarily due to improved margins in Heavy Civil and Inliner. Cost of revenues decreased \$50.8 million, to \$386.7 million (81.9% of revenues), from \$437.4 million (83.5% of revenues) for the same period last year.

Selling, general and administrative expenses decreased \$10.9 million, or 13.1%, to \$72.5 million, for the nine months ended October 31, 2016, as compared to \$83.4 million in the same period last year. The decrease was primarily due to reduced overhead costs, including reductions in legal and professional fees and compensation expenses.

Depreciation and amortization decreased \$4.7 million, or 18.8%, to \$20.2 million, for the nine months ended October 31, 2016, as compared to \$24.9 million in the same period last year. The decrease was primarily due to reductions in capital expenditures, and the disposal of underutilized assets.

Restructuring costs of \$3.2 million were recorded for the nine months ended October 31, 2016, compared to \$6.7 million for the same period last year. Restructuring costs for the current year primarily related to costs associated with our Water Resources Business Performance Initiative, and other costs to support our business focus and strategy, as discussed in Note 12 to the Condensed Consolidated Financial Statements.

Equity in earnings (losses) of affiliates improved to earnings of \$1.9 million for the nine months ended October 31, 2016, compared to losses of \$2.1 million during the same period last year, due to improved profitability in our Latin American affiliates.

A gain on extinguishment of debt of \$4.2 million was recognized during the nine months ended October 31, 2015, in connection with the partial exchange of the 4.25% Convertible Notes for 8.0% Convertible Notes, as discussed in Note 3 to the Condensed Consolidated Financial Statements.

Interest expense for the nine months ended October 31, 2016, decreased \$0.7 million, or 5.1%, to \$12.7 million, as compared to \$13.3 million in the same period last year. The decrease was primarily due to a write-off in the prior year of a portion of unamortized deferred financing fees as a result of the amendment and restatement of our asset-based facility in August 2015.

Income tax (expense) benefit from continuing operations of \$(1.8) million was recorded for the nine months ended October 31, 2016, compared to \$3.5 million for the same period last year. We currently record no tax benefit on domestic deferred tax assets and certain foreign deferred tax assets. The effective tax rate for the nine months ended October 31, 2016 was (10.5%), compared to 8.2% for the same period last year. The differences between the effective tax rates and the statutory tax rate resulted primarily from valuation allowances recorded during each period on current year losses.

Net income from discontinued operations of \$10.9 million was recorded for the nine months ended October 31, 2015, primarily related to the gain on sale of our Geoconstruction business segment.

## Segment Operating Results – Nine Months Ended October 31, 2016 and 2015

### Water Resources

(in thousands)	Nine Months Ended October 31,			
	2016	2015	\$ Change	% Change
Revenues	\$ 168,360	\$ 181,758	\$ (13,398)	(7.4) %
Adjusted EBITDA	5,064	20,286	(15,222)	(75.0)
Adjusted EBITDA as a percentage of revenues	3.0%	11.2%	n/m	n/m

Revenues at Water Resources decreased for the nine months ended October 31, 2016, primarily due to reduced activity in agricultural drilling projects in the western U.S. and reduced activity in the energy sector.

The decrease in Adjusted EBITDA for the nine months ended October 31, 2016 was primarily due to lower drilling activity, as well as execution and work site issues with certain drilling projects, and higher maintenance costs on equipment.

### Inliner

(in thousands)	Nine Months Ended October 31,			
	2016	2015	\$ Change	% Change
Revenues	\$ 151,027	\$ 141,339	\$ 9,688	6.9 %
Adjusted EBITDA	24,979	19,387	5,592	28.8
Adjusted EBITDA as a percentage of revenues	16.5%	13.7%	n/m	n/m

Revenues for Inliner increased during the nine months ended October 31, 2016, primarily due to increased activity and growth in the number of crews, from 34 during the first half of the prior year to 38 crews operating in the current year. Favorable product mix with a higher volume of larger diameter pipe and a higher mix of subcontracted work in the current year also contributed to the increase in revenues.

The increase in Adjusted EBITDA represents improved results across most operating regions as compared to the same prior year period. The increase in Adjusted EBITDA as a percentage of revenues was attributable to a higher volume of large diameter pipe installations combined with increased crew efficiency.

### Heavy Civil

(in thousands)	Nine Months Ended October 31,			
	2016	2015	\$ Change	% Change
Revenues	\$ 107,500	\$ 129,841	\$ (22,341)	(17.2) %
Adjusted EBITDA	322	(3,231)	3,553	n/m
Adjusted EBITDA as a percentage of revenues	0.3%	(2.5%)	n/m	n/m

Revenues for Heavy Civil for the nine months ended October 31, 2016 decreased primarily as a result of a reduced volume of contracts due to our continuing strategic shift towards more selective opportunities.

The increase in Adjusted EBITDA was primarily due to improved job margins related to the strategic shift towards more selective opportunities where we believe we are better able to manage our risks, as well as improved project execution, and the completion of certain legacy troubled fixed-price contracts.

### Mineral Services

(in thousands)	Nine Months Ended October 31,			
	2016	2015	\$ Change	% Change
Revenues	\$ 45,761	\$ 72,384	\$ (26,623)	(36.8) %
Adjusted EBITDA	6,815	3,733	3,082	82.6
Adjusted EBITDA as a percentage of revenues	14.9%	5.2%	n/m	n/m
Equity in earnings (losses) of affiliates	\$ 1,916	\$ (2,133)	\$ 4,049	n/m

Revenues for Mineral Services declined primarily due to lower activity levels in the United States and Mexico as a result of weak market conditions particularly during the first half of the year. Furthermore, our exit from our operations in Africa and Australia during FY2016 contributed to approximately \$11.5 million in revenue decline for the nine months ended October 31, 2016, compared to the prior year period.

Adjusted EBITDA for the nine months ended October 31, 2016 increased primarily due to value added tax recovery of \$2.2 million during the current year and increased margins in Mexico during the nine months ended October 31, 2016.

Equity in earnings (losses) of affiliates improved during the nine months ended October 31, 2016, due to improved profitability in our Latin American affiliates.

## Unallocated Corporate Expenses

Unallocated corporate expenses reflected in our Adjusted EBITDA were \$18.3 million for the nine months ended October 31, 2016, compared to \$23.3 million for the same period last year. The improvement was primarily due to reductions in legal and professional fees, consulting expenses and compensation expenses. Corporate staffing levels decreased from 103 employees as of October 31, 2015 to 85 employees as of October 31, 2016.

## Backlog Analysis

Backlog represents the dollar amount of revenues we expect to recognize in the future from contracts that have been awarded. We include a project in backlog at such time as contracts are executed or notices to proceed are obtained. Backlog amounts include anticipated revenues associated with the original contract amounts, executed change orders, and any claims that may be outstanding with customers for which recovery is considered probable. It does not include contracts that are in the bidding stage or have not been awarded. The backlog figures are subject to modifications, alterations or cancellation provisions contained in the various contracts. Historically, those provisions have not had a material effect on the Condensed Consolidated Financial Statements.

Our backlog at October 31, 2016, was approximately \$244.1 million compared to \$346.3 million at January 31, 2016.

(in millions)	Backlog at	New Business	Revenues Recognized	Backlog at	Backlog at
	January 31, 2016	Awarded <sup>(1)</sup>	during nine months ended October 31, 2016	October 31, 2016	October 31, 2015
Water Resources	\$ 97.6	\$ 130.7	\$ 168.4	\$ 59.9	\$ 113.4
Inliner	113.6	149.8	151.0	112.4	122.5
Heavy Civil	135.1	44.2	107.5	71.8	150.5
Total	<u>\$ 346.3</u>	<u>\$ 324.7</u>	<u>\$ 426.9</u>	<u>\$ 244.1</u>	<u>\$ 386.4</u>

(1) New business awarded consists of the original contract price of projects added to backlog plus or minus subsequent changes to the estimated total contract price of existing contracts.

## Liquidity and Capital Resources

Our primary source of liquidity is cash flow generated from operations, supplemented by borrowings under our credit facilities, issuances of debt, and sales of assets. Our cash flow is affected by prices of raw materials, demand for our services, operational risks, volatility in commodity prices, industry and economic conditions, and conditions in the global markets.

As of October 31, 2016, our total liquidity was \$145.0 million, consisting of Excess Availability under our asset-based credit facility and total cash and cash equivalents. Our cash and cash equivalents as of October 31, 2016, were \$72.7 million, compared to \$65.6 million and \$69.7 million as of January 31, 2016 and October 31, 2015, respectively. Of our cash and cash equivalents, amounts held by foreign subsidiaries as of October 31, 2016, January 31, 2016 and October 31, 2015 were \$7.4 million, \$10.8 million and \$11.7 million, respectively. Of the amounts held by foreign subsidiaries at October 31, 2016, \$0.1 million could be subject to repatriation restrictions if the amounts were needed for domestic operations. If the cash held at our foreign subsidiaries is repatriated to the U.S., we would be required to accrue and pay U.S. income taxes on these funds, based on the unremitted amount. As a consequence of our exit from operations in Africa and Australia, we intend to bring back any remaining residual cash to the U.S. through intercompany debt repayment. We believe the cash remitted from our subsidiaries in Africa and Australia would not result in a repatriation of earnings and therefore will not result in a U.S. tax liability. With respect to our remaining foreign subsidiaries in Mexico, Canada and South America, it is our intention to permanently reinvest their earnings and our current plans do not demonstrate a need to repatriate them to fund our U.S. operations.

Our working capital as of October 31, 2016 was \$132.6 million and \$131.3 million as of January 31, 2016. Adjusted Working Capital (working capital excluding cash and cash equivalents of \$72.7 million at October 31, 2016 and \$65.6 million at January 31, 2016), decreased \$5.8 million to \$59.9 million as of October 31, 2016 from \$65.7 million as of January 31, 2016.

## Cash Flows

Cash provided by (used in) operating activities was \$11.8 million for the nine months ended October 31, 2016, compared to \$(1.8) million for the nine months ended October 31, 2015. The increase in cash flow was primarily due to improved operating results and better working capital management.

Cash used in investing activities was \$4.5 million for the nine months ended October 31, 2016, compared to cash provided by investing activities of \$27.7 million for the nine months ended October 31, 2015. The change was primarily due to proceeds of \$42.3



million from the sale of Geoconstruction business in August 2015. Additionally, capital expenditures during the current period were lower by \$3.8 million and proceeds from asset sales were higher by \$2.4 million compared to the prior year period. We are selectively investing capital expenditures in growth businesses, while continuing to dispose of underutilized assets. We also received \$1.9 million in the current year from the release of restricted deposits relating to cash-collateralized letters of credit issued under our previous credit agreement, as compared to net deposits in restricted accounts of \$(2.0) million in the prior year.

Cash flows used in financing activities was \$0.1 million for the nine months ended October 31, 2016, compared to cash provided by financing activities of \$21.9 million for the nine months ended October 31, 2015. The prior period benefit primarily relates to proceeds from the issuance of 8.0% Convertible Notes, partially offset by net payments on our asset-based credit facility.

### **Financing Agreements**

Below is a summary of certain provisions of our credit facility and debt instruments. For more information about our indebtedness, see Note 3 to the Condensed Consolidated Financial Statements and Note 6 to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended January 31, 2016.

*4.25% Convertible Senior Notes due 2018*. We have outstanding \$69.5 million in aggregate principal amount of our 4.25% Convertible Notes as of October 31, 2016. The 4.25% Convertible Notes bear interest payable semi-annually in arrears in cash on May 15 and November 15 of each year. The 4.25% Convertible Notes mature on November 15, 2018, unless earlier repurchased, redeemed or converted. The 4.25% Convertible Notes are contingently convertible, at the option of the holders, into consideration consisting of, at our election, cash, shares of our common stock or a combination of cash and shares of our common stock (and cash in lieu of fractional shares) until the close of business on the scheduled trading day immediately preceding May 15, 2018.

The initial conversion rate was 43.6072 shares of our common stock per \$1,000 principal amount of 4.25% Convertible Notes (which is equivalent to an initial conversion price of approximately \$22.93 per share of our common stock). The conversion rate will be subject to adjustment upon the occurrence of certain events. In addition, we may be obligated to increase the conversion rate for any conversion that occurs in connection with certain corporate events, including our call of the 4.25% Convertible Notes for redemption.

On and after November 15, 2016, and prior to the maturity date, we may redeem all, but not less than all, of the 4.25% Convertible Notes for cash if the sale price of our common stock equals or exceeds 130% of the applicable calculated conversion price for a specified time period ending on the trading day immediately prior to the date we deliver notice of the redemption. The redemption price will equal 100% of the principal amount of the 4.25% Convertible Notes to be redeemed, plus any accrued and unpaid interest to, but excluding, the redemption date. In addition, upon the occurrence of a fundamental change (as defined in the Indenture), holders of the 4.25% Convertible Notes will have the right, at their option, to require us to repurchase their 4.25% Convertible Notes in cash at a price equal to 100% of the principal amount of the 4.25% Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

*8.0% Senior Secured Second Lien Convertible Notes*. We have outstanding \$99.9 million in aggregate principal amount of our 8.0% Convertible Notes as of October 31, 2016. The 8.0% Convertible Notes, issued pursuant to the 8.0% Convertible Notes Indenture, bear interest at a rate of 8.0% per annum, payable semi-annually in arrears on May 1 and November 1 of each year. The 8.0% Convertible Notes will mature on May 1, 2019; provided, however, that, unless all of the 4.25% Convertible Notes (or any permitted refinancing indebtedness in respect thereof) have been redeemed, repurchased, otherwise retired, discharged in accordance with their terms or converted into our common stock, or have been effectively discharged, in each case on or prior to August 15, 2018 or the scheduled maturity date of the 4.25% Convertible Notes (or any permitted refinancing indebtedness incurred in respect thereof) is extended to a date that is after October 15, 2019, the 8.0% Convertible Notes will mature on August 15, 2018.

The 8.0% Convertible Notes are convertible, at the option of the holders, into consideration consisting of shares of our common stock (and cash in lieu of fractional shares) until the close of business on the scheduled trading day immediately preceding the maturity date. No holder will have the right to convert any 8.0% Convertible Notes into shares of common stock to the extent that the conversion would cause that holder to beneficially own more than 9.9% of the shares of our common stock then outstanding after giving effect to the proposed conversion.

The initial conversion rate was 85.4701 shares of our common stock per \$1,000 principal amount of 8.0% Convertible Notes (equivalent to an initial conversion price of approximately \$11.70 per share of our common stock). The conversion rate is subject to adjustment upon the occurrence of certain events. In addition, we may be obligated to increase the conversion rate for any conversion that occurs in connection with certain corporate events, including our call of the 8.0% Convertible Notes for redemption.

At any time prior to the maturity date, we may redeem for cash all, but not less than all, of the 8.0% Convertible Notes; provided, however, that we may not redeem the 8.0% Convertible Notes on a redemption date that is outside an Open Redemption Period (as defined in the 8.0% Convertible Notes Indenture) unless the last reported sale price of our common stock equals or exceeds 140% of the conversion price of the 8.0% Convertible Notes in effect on each of at least 20 trading days during the 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which we deliver the redemption notice.

In addition, upon the occurrence of a “fundamental change” (as defined in the 8.0% Convertible Notes Indenture), holders of the 8.0% Convertible Notes will have the right, at their option, to require us to repurchase their 8.0% Convertible Notes in cash at a price equal to 100% of the principal amount of the 8.0% Convertible Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

*Asset-based revolving credit facility*. As of October 31, 2016, availability under our asset-based credit facility was \$100.0 million, with outstanding letters of credit amounting to \$27.7 million, leaving Excess Availability of approximately \$72.3 million.

The asset-based credit facility is guaranteed by our direct and indirectly wholly-owned domestic subsidiaries, subject to certain exceptions described in the asset-based credit facility. The obligations under the asset-based credit facility are secured by a lien on substantially all of our assets and the assets of the guarantor subsidiaries, subject to certain exceptions described in the asset-based credit facility, including a pledge of up to 65.0% of the equity interest of our first tier foreign subsidiaries.

We must maintain a cumulative minimum cash flow as defined in the agreement of not less than negative \$45.0 million and during any twelve consecutive month period, a minimum cash flow of not less than negative \$25.0 million, until:

- for a period of 30 consecutive days, Excess Availability is greater than the greater of 17.5% of the Total Availability or \$17.5 million, and
- for two consecutive fiscal quarters after the closing date, the fixed charge coverage ratio (tested on a trailing four fiscal quarter basis) has been in excess of 1.0 to 1.0.

Minimum cash flow is defined as consolidated EBITDA minus the sum of:

- capital expenditures,
- cash interest expense,
- any regularly scheduled amortized principal payments on indebtedness, and
- cash taxes.

A comparison of the required covenants under the asset-based credit facility to the current compliance is as follows:

(in millions)	Trailing twelve month period	Cumulative from May 1, 2014
Minimum Cash Flow cannot be less than	\$ (25.0)	\$ (45.0)
Actual as of October 31, 2016	(14.0)	(19.3)

If Excess Availability is less than the greater of 17.5% of Total Availability or \$17.5 million for more than one business day, then a Covenant Compliance Period (as defined in the asset-based facility agreement) will exist until Excess Availability has been equal to or greater than the greater of 17.5% of the Total Availability or \$17.5 million for a period of 30 consecutive days. We must maintain a minimum fixed charge coverage ratio of not less than 1.0 to 1.0 and a maximum first lien leverage ratio of not greater than 5.0 to 1.0 for the four fiscal quarters ended immediately preceding any Covenant Compliance Period and for any four fiscal quarter period ending during a Covenant Compliance Period. We would not have been in compliance with the fixed charge coverage ratio had we been in a Covenant Compliance period during any fiscal quarter ending from July 31, 2014 through April 30, 2015, and for the fiscal quarters ending from January 31, 2016 through October 31, 2016.

The asset-based credit facility permits us to make certain voluntary prepayments, payments, repurchases or redemptions, retirements, defeasances or acquisitions for value of the 8.0% Convertible Notes if the following payment conditions are satisfied:

- there is no default before or after such action;
- thirty-Day Excess Availability and Excess Availability (each as defined in the asset-based facility agreement) on a pro forma basis is equal to or exceeds the greater of (A) 17.5% of the Total Availability and (B) \$17.5 million; and
- we have on a pro forma basis a Consolidated Fixed Charge Coverage Ratio of not less than 1.1:1.0.

The asset-based credit facility also contains a subjective acceleration clause that can be triggered if the lenders determine that we have experienced a material adverse change. If triggered by the lenders, this clause would create an Event of Default which in turn would permit the lenders to accelerate repayment of outstanding obligations.

In general, during a Covenant Compliance Period or if an Event of Default has occurred and is continuing, all of our funds received on a daily basis will be applied to reduce amounts owing under the asset-based credit facility. Based on current projections, we do not anticipate being in a Covenant Compliance Period during the next twelve months.

Management believes that it has the ability to implement and execute measures so that we will continue to have sufficient and adequate funds to meet our anticipated liquidity needs for the next twelve months. Further, we are in compliance with our covenants related to all of our outstanding indebtedness as of October 31, 2016, and expect to remain in compliance with those covenants during the next twelve months.

#### **Contractual Obligations and Commercial Commitments**

There have been no material changes in our contractual obligations and commercial commitments from those described in the Annual Report under “Contractual Obligations and Commercial Commitments.”

### **ITEM 3. Quantitative and Qualitative Disclosures About Market Risk**

The principal market risks to which we are exposed are interest rates on variable rate debt and foreign exchange rates giving rise to translation and transaction gains and losses.

#### **Interest Rate Risk**

We centrally manage our debt portfolio considering overall financing strategies and tax consequences. A description of our debt is included in Note 3 to the Condensed Consolidated Financial Statements in this Form 10-Q. As of October 31, 2016, an instantaneous change in interest rates of one percentage point would impact our annual interest expense by approximately \$1.6 million.

#### **Foreign Currency Risk**

Operating in international markets involves exposure to possible volatile movements in foreign currency exchange rates. Currently, our primary international operations are in Mexico, Canada and South America. Our affiliates also operate in Latin America. The operations are described in Notes 1 and 2 of the Notes to Consolidated Financial Statements appearing in our Annual Report and Notes 8 and 9 of the Condensed Consolidated Financial Statements included in this Form 10-Q. The majority of our contracts in Mexico are U.S. dollar based, providing a natural reduction in exposure to currency fluctuations. As a result, we have historically not hedged our foreign currency exchange risk. As of October 31, 2016, we do not have any outstanding foreign currency option contracts.

As foreign currency exchange rates change, translation of the income statements of our 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 have impacted income before income taxes by approximately less than \$0.1 million for the three months ended October 31, 2016. This quantitative measure has inherent limitations, as it does not take into account any governmental actions, changes in customer purchasing patterns or changes in our financing and operating strategies.

### **ITEM 4. Controls and Procedures**

#### **Disclosure Controls and Procedures**

Based on an evaluation of disclosure controls and procedures as of October 31, 2016, conducted under the supervision and with the participation of our management, including the Principal Executive Officer and the Principal Financial Officer, we concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our 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.

#### **Changes in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended October 31, 2016, that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

**PAR T II**

**ITEM 1. Legal Proceedings**

See Part I, Item 1, Note 11 to our Condensed Consolidated Financial Statements entitled "Contingencies," which is incorporated in this item by reference.

**ITEM 1A. Risk Factors**

Reference is made to Part I, Item 1A. *Risk Factors* of our Annual Report on Form 10-K for the fiscal year ended January 31, 2016 for information concerning risk factors.

**ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**

NOT APPLICABLE

**ITEM 3. Defaults Upon Senior Securities**

NOT APPLICABLE

**ITEM 4. Mine Safety Disclosures**

Information concerning mine safety violations or other regulatory matters required by Section 1503(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act and Item 104 of Regulation S-K is included in Exhibit 95 to this Quarterly Report.

**ITEM 5. Other Information**

NONE

**ITEM 6. Exhibits**

a) Exhibits

Exhibit Number	Description
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.
95	Mine Safety Disclosures.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

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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: December 8, 2016

/s/ Michael J. Caliel

Michael J. Caliel,  
President and Chief Executive Officer

DATE: December 8, 2016

/s/ J. Michael Anderson

J. Michael Anderson,  
Senior Vice President and Chief Financial Officer

DATE: December 8, 2016

/s/ Lisa Curtis

Lisa Curtis,  
Vice President and Chief Accounting Officer

## CERTIFICATIONS

I, Michael J. Caliel, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period ended October 31, 2016, of Layne Christensen Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 8, 2016

*/s/ Michael J. Caliel*

Michael J. Caliel

President and Chief Executive Officer

## CERTIFICATIONS

I, J. Michael Anderson, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the quarterly period end October 31, 2016, of Layne Christensen Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 8, 2016

*/s/ J. Michael Anderson*

J. Michael Anderson

Senior Vice President and Chief Financial Officer



**Certification of Chief Executive Officer**

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

- (a) the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2016, which this certification accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (b) the information contained in the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2016, which this certification accompanies, fairly presents, in all material aspects, the financial condition and results of operations of the Company.

Dated: December 8, 2016

*/s/ Michael J. Caliel*

\_\_\_\_\_  
Michael J. Caliel

President and Chief Executive Officer

**Certification of Chief Financial Officer**

I, J. Michael Anderson, Senior Vice President and Chief Financial Officer, of Layne Christensen Company, do hereby certify in accordance with 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (a) the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2016, which this certification accompanies, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (b) the information contained in the Company's Quarterly Report on Form 10-Q for the quarterly period ended October 31, 2016, which this certification accompanies, fairly presents, in all material aspects, the financial condition and results of operations of the Company.

Dated: December 8, 2016

*/s/ J. Michael Anderson*

\_\_\_\_\_  
J. Michael Anderson

Senior Vice President and Chief Financial Officer

Mine Safety Disclosures

Section 1503 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Act”) requires companies to disclose in their periodic reports information about the coal and other mines at which they are an operator. The operations of the Company at coal and other mines in the U.S. are inspected by the Mine Safety and Health Administration (“MSHA”) on an ongoing basis .

In evaluating the information regarding mine safety and health, investors should take into account the fact that the Federal Mine Safety and Health Act (the “Mine Act”) has been construed as authorizing MSHA to issue citations and orders pursuant to the legal doctrine of strict liability, or liability without fault. If, in the opinion of an MSHA inspector, a condition that violates the Mine Act or regulations promulgated pursuant to it exists, then a citation or order will be issued regardless of whether the operator had any knowledge of, or fault in, the existence of that condition. Many of the Mine Act standards include one or more subjective elements, so that issuance of a citation or order often depends on the opinions or experience of the MSHA inspector.

Whenever MSHA believes that a violation of the Mine Act, any health or safety standard, or any regulation has occurred, it may issue a citation or order which describes the violation and fixes a time within which the operator must abate the violation. In some situations, such as when MSHA believes that conditions pose a hazard to miners, MSHA may issue an order requiring cessation of operations, or removal of miners from the area of the mine, affected by the condition until the hazards are corrected.

Citations and orders can be contested before the Federal Mine Safety and Health Review Commission (the "Commission"), and as part of that process, are often reduced in severity and amount, and are sometimes dismissed. The Commission is an independent adjudicative agency that provides administrative trial and appellate review of legal disputes arising under the Mine Act. These cases may involve, among other questions, challenges by operators to citations, orders and penalties they have received from MSHA .

The table that follows reflects citations, orders, violations and proposed assessments issued to the Company by MSHA during the quarter ended October 31, 2016 and all pending legal actions as of October 31, 2016. Due to timing and other factors, the data may not agree with the mine data retrieval system maintained by MSHA.

Mine or Operating Name/MSHA	Section 104 S&S (#)	Section 104(b) Orders (#)	Section 104(d) Citations and Orders (#)	Section 110(b)(2) Violations (#)	Section 107(a) Orders (#)	Total Dollar Value of MSHA (\$)	Total Number of Mining Related Fatalities (#)	Received Notice of Pattern of Violations Under Section 104(e) (yes/no)	Received Notice of Potential to Have Pattern under Section 104(e) (yes/no)	Legal Actions Pending as of Last Day of Period (#)	Legal Actions Initiated During Period (#)	Legal Actions Resolved During Period (#)
Hycroft								No	No			
Swift Creek Outside Lake City, Florida								No	No			
Mosaic – Hookers Prairie								No	No			
Boron Operations								No	No			
CR Briggs								No	No			
Barrick Gold, Turguoise Ridge								No	No			
ISP Minerals								No	No			
Gold Corp Marigold Mine								No	No			
Barrick Ruby Hill								No	No			
Barrick Golden Sunlight								No	No			
Barrick/ Kinross Round Mountain Gold								No	No			

Newmont, Buffalo Valley								No	No			
Nevada Copper								No	No			
Barrick Cortez								No	No			
FMI Sierrita Mine, AZ								No	No			
Jim Walters								No	No			
Nyrstar Young								No	No			
Nyrstar Gordonsville								No	No			
Drummond								No	No			
Carmeuse								No	No			
Morgan Worldwide								No	No			
Carmeuse								No	No			
Lafarge NA								No	No			
Lafarge								No	No			
Lhoist NA								No	No			
Mingo Logan								No	No			
US Gypsum								No	No			
Sweetwater								No	No			
Libson Vallet								No	No			
Twenty Mile Coal								No	No			
Barrick Goldstrike								No	No			
URS Morenci								No	No			
Freeport-McMoRan Sierrita								No	No			
Cyprus Tohono Corp.								No	No			
Sun Valley Plant								No	No			
CML Metals								No	No			
FMI Bagdad								No	No			
FMI Morenci								No	No			
FMI Miami								No	No			
Twin Buttes								No	No			
FMI – Tyrone								No	No			
Newmont-Carlin								No	No			
Silver Bell Mining								No	No			
Allied NV Hycroft								No	No			
Imerys Plant #1								No	No			
PCS Phosphates								No	No			
Noranda Alumina								No	No			
Agnico Eagle-West Pequop								No	No			
Allied NV Gold-Hycroft Mine								No	No			
Allied NV – Hasbrook								No	No			
AMEC-Sullivan Ranch								No	No			
American Lithium Minerals-								No	No			
Asarco-Chilito								No	No			
Asarco-Mission								No	No			
Asarco-Ray								No	No			
Asarco-Silver Bell								No	No			
Barrick Arturo (Dee)								No	No			

Barrick Bald Mt.								No	No			
Barrick Cortez								No	No			
Barrick EXP Surf & UG								No	No			
Barrick Turquoise Ridge Surf/UG								No	No			
Barrick-Goldstrike								No	No			
Barrick-Goldstrike UG								No	No			
Barrick-Ruby Hill								No	No			
BH Minerals-								No	No			
BHP-Pinto Valley								No	No			
Canamex Resources-Bruner								No	No			
Cayden Resources US Inc-Quartz MT.								No	No			
Centerra-Ren								No	No			
Coeur Rochester-Rochester								No	No			
Comstock-								No	No			
Cooper One-								No	No			
Dynasty Gold								No	No			
Evolving Gold Corp.								No	No			
Freeport McMoRan-Bagdad								No	No			
Freeport McMoRan-Christmas Mine								No	No			
Freeport McMoRan- Chino								No	No			
Freeport McMoRan-Dragoon								No	No			
Freeport McMoRan-Miami								No	No			
Freeport McMoRan-Morenci								No	No			
Freeport McMoRan-Safford								No	No			
Freeport McMoRan-Sierrita								No	No			
Freeport McMoRan-Twin Buttes								No	No			
Fronteer Development-Long Cany.								No	No			
Gold Acquisition Corp.								No	No			
Gold Reef-Rim Rock								No	No			
Gold Standard Ventures-Railroad								No	No			

Golden Predator-								No	No			
Golden Vertex – Moss Mine								No	No			
Grammercy Facility								No	No			
Great Basin Gold-Ivanhoe/Hollister								No	No			
Gryphon Gold-Borealis								No	No			
Harvest Gold-Rosebud								No	No			
Hayden Concentrator								No	No			
JR Simplot – Soda Springs								No	No			
Kennecott UT Copper-Bingham								No	No			
KGHM International, Ltd. (Formerly Quadra) Mining-Robinson								No	No			
Klondex-Fire Creek								No	No			
Marigold								No	No			
Martin Marietta – Weeping Water Mine								No	No			
Meridian Gold-								No	No			
Metallic Ventures-Converse								No	No			
Metallic Ventures-Gold Field								No	No			
Mettalic Ventures-Gemfield								No	No			
Midway-Pancake								No	No			
Mineral Ridge								No	No			
Minerals Technology								No	No			
Miranda Gold								No	No			
Montezuma-Red Canyon								No	No			
Musgrove Mineral								No	No			
Nevada Copper-Pumpkin								No	No			
Newmont-Carlin								No	No			
Newmont Exploration								No	No			
Newmont Genex								No	No			
Newmont Leeville								No	No			
Newmont-Lonetree								No	No			
Newmont McCoy Cove								No	No			
Newmont-Midas Surf / UG								No	No			
Newmont Phoenix								No	No			
Newmont Twin-Creeks								No	No			

Northgate Minerals								No	No			
Oracle Ridge Mining								No	No			
Paramount Gold and Silver								No	No			
Paris Hills Agricom								No	No			
Pilot Gold								No	No			
Premier Gold Mines-								No	No			
Quaterra Resources-								No	No			
Regal Resources – Camp Verde								No	No			
Renaissance Gold – Spruce MT								No	No			
Rio Tinto-Resolution								No	No			
Romarco Minerals-Haile Gold Mine								No	No			
Round Mt. Gold								No	No			
Rye Patch Gold								No	No			
Snowstorm LLC								No	No			
Solitario Exp-Mt. Hamilton								No	No			
Talon Gold-N. Bullfrog								No	No			
Tatmar Ventures								No	No			
TGC Holdings								No	No			
Thompson Creek Mining								No	No			
Trio Gold								No	No			
US Gold-								No	No			
Victoria Res.								No	No			
Vista NV								No	No			
Western Pacific Resources								No	No			
WPC Resources								No	No			
WK Mining								No	No			
Yukon NV Gold – Surface								No	No			
Heritage Coal								No	No			
Carmeuse Lime								No	No			
Hilltop Basic Resources								No	No			
Hilltop Basic Resources								No	No			
Noranda Alumin S. Fluorocarbon								No	No			
Noranda Alumina East Fluorocarbon								No	No			
Carmeuse								No	No			
Carmeuse								No	No			
Imery's								No	No			

A citations, orders and assessments reflected above are those initially issued or proposed by MSHA. They do not reflect subsequent changes in the level of severity of a citation or order or the value of an assessment that may occur as a result of proceedings conducted in accordance with MSHA rules and regulations.

The Federal Mine Safety and Health Review Commission (the “Commission”) is an independent adjudicative agency that provides administrative trial and appellate review of legal disputes arising under the Mine Act. During the quarter ended October 31, 2016 , 0 actions were instituted before the Commission, and 1 matter was resolved. As of October 31, 2016 , the Company has a total of 0 matters pending before the Commission.