

LAYNE CHRISTENSEN CO  
Form 10-Q  
December 05, 2017  
06

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(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, 2017

OR

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

For the transition period from                      to

Commission File Number 001-34195

Layne Christensen Company

(Exact name of registrant as specified in its charter)

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

77380  
(Zip Code)

Not Applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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, smaller reporting company or an “emerging growth company”. See definition of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth 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

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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 19,882,366 shares of common stock, \$.01 par value per share, outstanding on November 28, 2017.

LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES

Form 10-Q

For the QUARTERLY PERIOD ENDED October 31, 2017

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## PART I

## ITEM 1. Financial Statements

## LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)	October 31, 2017 (unaudited)	January 31, 2017 (unaudited)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 26,085	\$ 69,000
Customer receivables, less allowance of \$1,794 and \$3,202, respectively	75,894	57,252
Costs and estimated earnings in excess of billings on uncompleted contracts	51,695	48,623
Inventories	19,492	18,697
Other	14,761	16,751
Current assets of discontinued operations	—	40,160
Total current assets	187,927	250,483
Property and equipment, net	117,623	96,985
Other assets:		
Investment in affiliates	55,136	55,290
Goodwill	8,915	8,915
Other intangible assets, net	3,942	1,779
Restricted deposits - long-term	6,354	5,055
Other	9,573	11,514
Other assets of discontinued operations	—	6,130
Total other assets	83,920	88,683
Total assets	\$ 389,470	\$ 436,151
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 42,980	\$ 41,146
Billings in excess of costs and estimated earnings on uncompleted contracts	14,730	19,160
Other current liabilities	69,921	64,052
Current liabilities of discontinued operations	—	20,580
Total current liabilities	127,631	144,938
Noncurrent liabilities:		
Long-term debt	165,064	162,346
Self-insurance reserve	13,943	15,647
Deferred income taxes	3,850	4,199
Other	24,945	26,753
Total noncurrent liabilities	207,802	208,945

Equity:

Common stock, par value \$.01 per share, 60,000 shares authorized, 19,883		
and 19,805 shares issued and outstanding, respectively	199	198
Capital in excess of par value	371,434	369,160
Accumulated deficit	(298,706 )	(268,820 )
Accumulated other comprehensive loss	(18,938 )	(18,318 )
Total Layne Christensen Company equity	53,989	82,220
Noncontrolling interests	48	48
Total equity	54,037	82,268
Total liabilities and equity	\$ 389,470	\$ 436,151

See Notes to Condensed Consolidated Financial Statements.

## LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	Three Months Ended October 31, (unaudited)		Nine Months Ended October 31, (unaudited)	
(in thousands, except per share data)	2017	2016	2017	2016
Revenues	\$ 127,423	\$ 120,574	\$ 365,090	\$ 364,855
Cost of revenues (exclusive of depreciation and amortization, shown below)	(100,140)	(97,124 )	(285,292 )	(294,660 )
Selling, general and administrative expenses (exclusive of depreciation and amortization shown below)	(19,303 )	(17,609 )	(55,983 )	(57,238 )
Depreciation and amortization	(6,821 )	(6,517 )	(19,678 )	(19,002 )
Gain on sale of fixed assets	881	2,739	1,913	2,828
Equity in earnings of affiliates	1,367	189	3,093	1,916
Restructuring costs	(953 )	(1,711 )	(2,208 )	(2,776 )
Interest expense	(4,308 )	(4,206 )	(12,745 )	(12,661 )
Other (expense) income, net	(70 )	554	(4 )	665
Loss from continuing operations before income taxes	(1,924 )	(3,111 )	(5,814 )	(16,073 )
Income tax expense	(80 )	(1,352 )	(1,743 )	(1,824 )
Net loss from continuing operations	(2,004 )	(4,463 )	(7,557 )	(17,897 )
Net loss from discontinued operations	(76 )	(580 )	(22,329 )	(1,259 )
Net loss	\$ (2,080 )	\$ (5,043 )	\$ (29,886 )	\$ (19,156 )
Loss per share information:				
Loss per share from continuing operations - basic and diluted	\$ (0.10 )	\$ (0.23 )	\$ (0.38 )	\$ (0.91 )
Loss per share from discontinued operations - basic and diluted	(0.01 )	(0.03 )	(1.13 )	(0.06 )
Loss per share - basic and diluted	\$ (0.11 )	\$ (0.26 )	\$ (1.51 )	\$ (0.97 )
Weighted average shares outstanding - basic and dilutive	19,882	19,791	19,846	19,782

See Notes to Condensed Consolidated Financial Statements.

LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

	Three Months Ended October 31, (unaudited)		Nine Months Ended October 31, (unaudited)	
(in thousands)	2017	2016	2017	2016
Net loss	\$(2,080)	\$(5,043)	\$(29,886)	\$(19,156)
Other comprehensive (loss) income:				
Foreign currency translation adjustments (net of taxes of \$0.0 and \$0.1 million for 2017 and 2016, respectively)	(627 )	361	(620 )	2,302
Other comprehensive (loss) income	(627 )	361	(620 )	2,302
Comprehensive loss	\$(2,707)	\$(4,682)	\$(30,506)	\$(16,854)

See Notes to Condensed Consolidated Financial Statements.

## LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)

	Common Stock		Capital In Excess of Par Value	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Total Layne Shareholders' Equity	Noncontrolling Interests	Total
(in thousands)	Shares	Amount						
Balance February 1, 2017	19,805	\$ 198	\$369,160	\$ (268,820 )	\$ (18,318 )	\$ 82,220	\$ 48	\$82,268
Net loss	—	—	—	(29,886 )	—	(29,886 )	—	(29,886)
Other comprehensive loss	—	—	—	—	(620 )	(620 )	—	(620 )
Issuance of stock for vested restricted stock units	76	1	(1 )	—	—	—	—	—
Shares purchased and subsequently cancelled	(23 )	—	(184 )	—	—	(184 )	—	(184 )
Issuance of stock upon exercise of options	25	—	205	—	—	205	—	205
Equity-based compensation	—	—	2,254	—	—	2,254	—	2,254
Balance October 31, 2017	19,883	\$ 199	\$371,434	\$ (298,706 )	\$ (18,938 )	\$ 53,989	\$ 48	\$54,037

See Notes to Condensed Consolidated Financial Statements.



## LAYNE CHRISTENSEN COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOW

		Nine Months Ended October 31, (unaudited)	
(in thousands)	2017		2016
Cash flow from operating activities:			
Net loss	\$ (29,886 )		\$ (19,156 )
Adjustments to reconcile net loss to cash flow from operating activities:			
Depreciation and amortization	19,965		20,247
Bad debt expense	1,338		1,418
Loss on sale of discontinued operations	19,025		—
Deferred income taxes	(145 )		656
Equity-based compensation	2,254		2,749
Amortization of discount and deferred financing costs	3,360		3,133
Equity in earnings of affiliates	(3,093 )		(1,916 )
Dividends received from affiliates	3,202		3,014
Gain on sale of fixed assets	(1,917 )		(3,051 )
Interest earned on restricted deposits	(89 )		—
Changes in assets and liabilities:			
Customer receivables	(17,715 )		4,499
Costs and estimated earnings in excess of billings on uncompleted contracts	(4,102 )		2,868
Inventories	(922 )		662
Other current assets	1,633		(611 )

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Accounts payable and accrued expenses	3,258	(5,640 )
Billings in excess of costs and estimated earnings on uncompleted contracts	(2,618 )	3,122
Other, net	(1,433 )	(225 )
Cash (used in) provided by operating activities	(7,885 )	11,769
Cash flow from investing activities:		
Capital expenditures	(40,670 )	(14,969 )
Proceeds from sale of fixed assets	2,073	8,520
Proceeds from sale of business	3,468	—
Investment in foreign affiliate	(25 )	—
Release of cash from restricted accounts	—	1,944
Cash used in investing activities	(35,154 )	(4,505 )
Cash flow from financing activities:		
Payment of debt issuance costs	—	(9 )
Principal payments under capital lease obligation	(16 )	(63 )
Issuance of stock upon exercise of stock options	205	—
Shares purchased and subsequently cancelled	(184 )	(2 )
Cash provided by (used in) financing activities	5	(74 )
Effects of exchange rate changes on cash	119	(48 )
Net (decrease) increase in cash and cash equivalents	(42,915 )	7,142
Cash and cash equivalents at beginning of period	69,000	65,569
Cash and cash equivalents at end of	\$ 26,085	\$ 72,711

period

See Notes to Condensed Consolidated Financial Statements.

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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 and its subsidiaries (together, “Layne,” the “Company,” “we,” “our,” or “us”) is a global water management, infrastructure services and drilling company, providing responsible solutions to the world of essential natural resources – water, minerals and energy. We offer innovative, sustainable products and services with an enduring commitment to safety, excellence and integrity. We primarily operate in North America and Brazil. Our customers include government agencies, investor-owned utilities, industrial companies, global mining companies, consulting engineering firms, oil and gas companies, power companies and agribusinesses. We have ownership interest in certain foreign affiliates operating in Latin America. See Note 7 to the Condensed Consolidated Financial Statements.

Fiscal Year—Our fiscal year end is January 31. References to fiscal years, or “FY2018” are to the twelve months ended January 31 of that year.

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.

Investment in Affiliated Companies—Investments in affiliates (20% to 50% owned) 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 at least annually or when events or changes in circumstances indicate there is a loss in value of the investment that is other than a temporary decline.

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 consolidated financial statements have been condensed or omitted. These 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, 2017 (“Annual Report”). We believe the 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.

As discussed further in Note 9 to the Condensed Consolidated Financial Statements, during the first quarter of FY2018, we completed the sale of substantially all of the assets of our Heavy Civil business. The results of operations related to the Heavy Civil business, including the final working capital adjustment, 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.

Additionally, as part of management's continued analysis in connection with the Water Resources Business Performance Initiative, we determined a better reflection of cost of revenues is to include indirect project manager costs that historically have been presented in selling, general and administrative expenses. Indirect project manager costs are included in cost of revenues beginning with the first quarter of FY2018, and prior periods have been revised. For the three and nine months ended October 31, 2016, approximately \$2.0 million and \$6.7 million, respectively, of these indirect project manager costs are now included in cost of revenue.

Net gain on sale of fixed assets were previously reported in other income (expense), net within the Condensed Consolidated Statement of Operations, rather than separately as part of income (loss) from operations or within cost of revenues as per SEC Regulation S-X guidance. We have corrected all periods presented in the accompanying Condensed Consolidated Statement of Operations. The change in presentation had no effect on net loss and does not affect the Condensed Consolidated Balance Sheets.

**Business Segments**—We currently report our financial results under three reporting segments consisting of Water Resources, Inliner, and Mineral Services. As noted above, during the first quarter of FY2018, we completed the sale of substantially all of the assets of our Heavy Civil business. The results of operations related to the Heavy Civil business have been classified as discontinued operations for all periods presented.

We report corporate expenses 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 expenses related to accounting, financial reporting, internal audit, treasury, legal, tax compliance, executive management and board of directors.

**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 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 transactions are measured at the current exchange rate, and nonmonetary items are measured at historical exchange rates with exchange rate differences reported in the Condensed Consolidated Statement of Operations.

Net foreign currency transaction losses were (\$0.0) million and (\$0.3) million for the three and nine months ended October 31, 2017, respectively, and (\$0.1) million and (\$0.2) million for the three and nine months ended October 31, 2016, 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 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 these 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 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 contracts using the completed contract method. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses become known and reported in

cost of revenues in the Condensed Consolidated Statements of Operations. We determine when short-term contracts are completed based on acceptance by the customer.

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

Revenues for direct sales of equipment and other ancillary products not provided in conjunction with the performance of other services are recognized at the date of delivery to, and acceptance by, the customer.

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**—In February 2017, we adopted Accounting Standards Update (“ASU”) 2015-11 “Inventory – Simplifying the Measurement of Inventory” issued by the Financial Accounting Standards Board (the “FASB”) on July 22, 2015, on a prospective basis. As such, our October 31, 2017 inventories are valued at the lower of cost or net realizable value and our inventories at January 31, 2017 are valued at the lower of cost or market. Implementation did not result in a material difference in our reported inventory values. Cost of U.S. inventories and the majority of foreign operations are determined using the average cost method. Inventories consist primarily of supplies and raw materials. Supplies of \$17.0 million and \$16.4 million and raw materials of \$2.5 million and \$2.3 million were included in inventories in the Condensed Consolidated Balance Sheets as of October 31, 2017 and January 31, 2017, 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 as of December 31 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 goodwill is appropriate. As of October 31, 2017 and January 31, 2017, we had \$8.9 million of goodwill which 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.

We found no indication for impairments as of October 31, 2017.

**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.

**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 credit worthiness 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, 2017 and January 31, 2017, because of the relatively short maturity of those instruments. See Note 5 to the Condensed Consolidated Financial Statements for fair value disclosures.

**Liquidity and Capital Resources**—In August 2014, the FASB issued ASU 2014-15, “Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern.” Under this standard, management must evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity’s ability to continue as a going concern within one year after the date that the financial statements are issued. This evaluation initially does not take into consideration the potential mitigating effect of management’s plans that have not been fully implemented as of the date the financial statements are issued. When substantial doubt exists under this methodology, management evaluates whether the mitigating effect of its plans sufficiently alleviates substantial doubt about an entity’s ability to continue as a going concern. The mitigating effect of management’s plans, however, is only considered if both (1) it is probable that the plans will be effectively implemented within one year after the date that the financial statements are issued, and (2) it is probable that the plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern within one year after the date that the financial statements are issued. Generally, to be considered probable of being effectively implemented, the plans must have been committed and/or approved before the date that the financial statements are issued. We adopted this standard in the fourth quarter of the fiscal year ended January 31, 2017. The accompanying financial statements have been prepared in conformity with GAAP, which contemplates Layne’s continuation as a going concern.

Our debt structure currently consists of the following:

#### Credit Facility

• \$100 million senior secured asset-based facility that is due on April 14, 2019. As of October 31, 2017, there are no outstanding borrowings on the facility although \$24.5 million of letters of credits have been issued under the facility. The maturity date for the asset-based credit facility will accelerate to May 15, 2018, if the following have not occurred on or before such date:

- With respect to the 4.25% Convertible Notes, either
  - o all of the 4.25% Convertible Notes are converted,
  - o the maturity date for the 4.25% Convertible Notes (or any permitted refinancing indebtedness) is extended to a date after October 15, 2019, or
  - o the 4.25% Convertible Notes are redeemed, repurchased, otherwise retired, or discharged in accordance with their terms, and
- With respect to the 8.0% Convertible Notes, either
  - o all of the 8.0% Convertible Notes are converted, or
  - o

the maturity date of the 8.0% Convertible Notes (or any permitted refinancing indebtedness) is extended to a date after October 15, 2019.

We believe we can extend, expand or replace our asset-based facility by May 15, 2018. If we are unable to do so, we believe we could support the outstanding letters of credit with existing cash, other collateral or with a new facility.

#### Convertible Notes

- \$69.5 million of 4.25% Convertible Notes that are due on November 15, 2018.

\$99.9 million of 8.0% Convertible Notes that are due on May 1, 2019. However, if the 4.25% Convertible Notes have not been redeemed, repurchased, otherwise retired, or discharged in accordance with their terms or converted into our common stock, 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) has not been extended to a date that is after October 15, 2019, then the 8.0% Convertible Notes will mature on August 15, 2018.

With respect to our 4.25% Convertible Notes, we have retained advisors to assist us in evaluating alternatives and raising capital to refinance or extend our debt to a date beyond October 15, 2019, and eliminate the accelerating maturity provisions of the 8.0% Convertible Notes. We believe the refinance or extension of our debt is likely based on current on-going discussions with existing and new potential lenders, our improving financial performance and credit quality, and the fact that our stock price is above the \$11.70 conversion price for the 8% Convertible Notes. Although we believe these refinancing options are viable and likely, because our plans to refinance or restructure our debt have not been finalized, and therefore are not in our control (in part, due to the fact that neither of our Convertible Notes can be prepaid or have redemption provisions prior to February 2018), these plans are not considered probable

under the new standard. Consequently, per the standard, these conditions, in the aggregate, raise substantial doubt about our ability to continue as a going concern within one year after the date these financial statements are filed.

**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. In some of the 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.

**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 0.7 million shares have been excluded from weighted average shares outstanding in the three and nine months ended October 31, 2017, respectively, as their effect was antidilutive. A total of 2.0 million nonvested shares have been excluded from weighted average shares outstanding in the three and nine months ended October 31, 2017, respectively, as their effect was antidilutive. Options to purchase 0.8 million shares have been excluded from weighted average shares outstanding in the three and nine months ended October 31, 2016, respectively, as their effect was antidilutive. A total of 1.9 million nonvested shares have been excluded from weighted average shares outstanding in the three and nine months ended October 31, 2016, respectively, 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:

	Nine Months Ended October 31,	
(in thousands)	2017	2016
Income taxes paid	\$983	\$783
Income tax refunds	(114 )	(185 )
Interest paid	6,462	6,843

Noncash investing and financing activities:

Accrued capital additions	1,162	2,184
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New Accounting Pronouncements—In May 2017, the FASB issued ASU 2017-09, “Compensation – Stock Compensation (Topic 718),” this ASU provides clarity and reduces both diversity in practice and cost and complexity when applying the guidance in Topic 718, Compensation – Stock Compensation, to a change to the terms or conditions of a share-based payment award. This ASU is effective after December 15, 2017 with early adoption permitted with prospective application. We have evaluated the impact of the adoption of this ASU and do not believe the effect will be material on our financial statements.

In January 2017, the FASB issued ASU 2017-04, “Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment”, under the amendments in this update, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. As a public business, adoption of the amendments in this update are required, prospectively, for the annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019 with early adoption permitted for testing dates after January 1, 2017. We believe the adoption of this ASU will not have a material impact on our financial statements.

In January 2017, the FASB issued ASU 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business”. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. This ASU was issued to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Public business entities should apply the amendments in this update, prospectively, to annual periods beginning after December 15, 2017, including interim periods within those periods. We believe the adoption of this ASU will not have a material impact 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 a ROU asset and a lease liability on the balance sheet for all leases with terms longer than twelve 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 preparing to implement changes to our accounting policies and controls, business processes and information systems to support the new accounting and disclosure requirements, which is effective for us beginning on February 1, 2019. We are currently evaluating the significance of adoption of this ASU and currently, based on our limited number of leases, we do not believe the effect will be material on our financial statements.

The FASB issued ASU 2014-09, “Revenue from Contracts with Customers” on May 28, 2014 and issued the related Update 2016-20 “Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers” in December, 2016 with the same effective dates as ASU 2014-09. 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.

The collective guidance in these ASUs 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. We have completed our initial assessment of the guidance, where we determined the primary impact is the elimination of the completed contract method. We have reviewed our contract structure and have begun training for changes in how to account for our customers’ contracts under the new guidance. We anticipate adopting the new guidance beginning on February 1, 2018 using the full retrospective method that will result in restatement of the comparative periods presented. We are continuing to implement changes to our accounting policies and controls, business processes and information systems to support the new revenue recognition and disclosure requirements. We are continuing to evaluate and quantify the potential impact that these ASUs will have on our financial position and results of operations.

## 2. Property and Equipment

Property and equipment consisted of the following:

October	January
31,	31,

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(in thousands)	2017	2017
Land	\$ 11,862	\$ 10,037
Buildings and improvements	32,891	30,835
Machinery, equipment and pipeline	349,823	323,280
Property and equipment, at cost	394,576	364,152
Less - Accumulated depreciation	(276,953)	(267,167)
Property and equipment, net	\$ 117,623	\$ 96,985

### 3. Indebtedness

Debt outstanding was as follows:

	October 31, 2017	January 31, 2017
(in thousands)		
4.25% Convertible Notes	\$66,506	\$64,387
8.0% Convertible Notes	98,558	97,952
Capitalized lease obligations	—	17
Less amounts representing interest	—	(1 )
Total debt	165,064	162,355
Less current maturities of long-term debt	—	(9 )
Total long-term debt	\$ 165,064	\$ 162,346

The following table presents the carrying value of the Convertible Notes:

	October 31, 2017	January 31, 2017
(in thousands)		
<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	(622 )	(1,033 )
Unamortized debt discount <sup>(1)</sup>	(2,372 )	(4,080 )
Net carrying amount	\$66,506	\$64,387
<b>8.0% Convertible Notes:</b>		
Principal amount of the 8.0% Convertible Notes	\$99,898	\$99,898
Unamortized deferred financing fees	(1,340 )	(1,946 )
Net carrying amount	\$98,558	\$97,952

(1) As of October 31, 2017, the remaining period over which the unamortized debt discount will be amortized is twelve months using an effective interest rate of 9.0%.

We utilize surety bonds to secure performance on a portion of our contracted projects. As of October 31, 2017 and January 31, 2017, the amount of surety bonds outstanding was \$153.6 million and \$223.8 million, respectively. Of the amount outstanding at October 31, 2017, \$58.9 million related to surety bonds on contracts which were assumed by the purchasers of our Heavy Civil business. Layne is currently working with our surety providers to negotiate the release of \$26.1 million of these surety bonds. The remaining \$32.8 million of the Heavy Civil-related surety bonds are associated with projects that are nearing completion.

#### 4. Income Taxes

Income tax (expense) benefit for continuing operations of (\$0.1) million and (\$1.7) million was recorded in the three and nine months ended October 31, 2017 compared to (\$1.4) million and (\$1.8) 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, 2017. Current period tax expense is primarily related to income in Mexico and withholding tax related to our dividends from our affiliates, offset by favorable resolution of tax audits and statute of limitation expirations. The effective tax rate for continuing operations for the three and nine months ended October 31, 2017 was (4.2%) and (30.0%) compared to (43.5%) and (11.3%) 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, partially offset by favorable resolution of tax audits and statute of limitation expirations.

After valuation allowances, we maintain no domestic net deferred tax assets and no net deferred tax assets from foreign jurisdictions. 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, 2017 and January 31, 2017, the total amount of unrecognized tax benefits recorded was \$9.0 million and \$10.3 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 \$7.4 million due to settlements of audit issues and expiration of statutes of limitation. 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, 2017 and January 31, 2017, the total amount of liability for income tax-related interest and penalties was \$8.8 million and \$8.7 million, respectively.

## 5. 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, 2017, and January 31, 2017:

		Fair Value Measurements		
(in thousands)	Carrying Value	Level 1	Level 2	Level 3
October 31, 2017				
Financial Assets:				
Long-term restricted deposits held at fair value	\$ 6,354	\$6,354	\$ —	\$—
Contingent consideration receivable <sup>(1)</sup>	4,244	—	—	4,244
January 31, 2017				
Financial Assets:				
Long-term restricted deposits held at fair value	\$ 5,055	\$5,055	\$ —	\$—
Contingent consideration receivable <sup>(1)</sup>	4,244	—	—	4,244

(1) 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 and is included in Other Assets in the Condensed Consolidated Balance Sheet. 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:

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, 2017		January 31, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
4.25% Convertible Notes	\$66,506	\$69,326	\$64,387	\$64,705
8.0% Convertible Notes	98,558	127,240	97,952	115,882

## 6. Equity-Based Compensation

We have an equity-based compensation plan that provides for the granting of options to purchase or the issuance of shares of common stock at a price fixed by the Compensation Committee. As of October 31, 2017, there were 773,836 shares available to be granted under the plan as stock options or restricted stock awards. We have the ability to issue shares under the plan 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 258,446 restricted stock units and 277,799 performance restricted stock units under the Layne Christensen Company 2006 Equity Incentive Plan during the nine months ended October 31, 2017. All of the awards granted during the nine month period ended October 31, 2017, may be settled in cash or shares at the Compensation Committee's discretion except for 36,725 restricted stock units granted to the Board of Directors that are required to be settled in shares. It is the intention to settle all awards in shares.

We recognized compensation cost for equity-based compensation arrangements of \$0.8 million and \$2.3 million for the three and nine months ended October 31, 2017, respectively, and \$0.7 million and \$2.7 million for the three and nine months ended October 31, 2016, respectively. Of these amounts, \$0.7 million and \$2.1 million, for the three and nine months ended October 31, 2017, respectively, and \$0.6 million and \$2.3 million for the three and nine months ended October 31, 2016, respectively, related to non-vested stock. There was no income tax benefit recognized on our equity-based compensation as a full valuation allowance has been provided on our deferred tax asset.

As of October 31, 2017, there was approximately \$4.6 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, 2017, total unrecognized compensation cost related to unvested stock options was approximately \$0.1 million, which is expected to be recognized over a weighted-average period of 0.3 years.

A summary of nonvested share activity for the nine months ended October 31, 2017, is as follows:

	Number of	Weighted Average	
	Shares	Grant Date	Intrinsic Value
		Fair Value	(in thousands)
Nonvested stock at February 1, 2017	1,871,640	\$ 5.00	\$ —
Granted - Restricted stock units	258,446	8.86	
Granted - Performance shares	277,799	6.92	
Vested	(90,238 )	15.49	
Forfeitures	(296,945 )	5.45	
Nonvested stock at October 31, 2017	2,020,702	\$ 5.22	\$ 26,693

A summary of stock option activity for the nine months ended October 31, 2017, is as follows:

	Number of	Weighted Average	Remaining	
	Shares	Exercise Price	Contractual Term	Intrinsic Value
			(Years)	(in thousands)
Outstanding at February 1, 2017	750,044	\$ 14.54	6.5	
Forfeited	(45,022 )	25.11		
Exercised	(25,000 )	8.22		
Expired	(19,125 )	42.42		
Outstanding at October 31, 2017	660,897	\$ 13.25	6.3	\$ 2,077
Exercisable at February 1, 2017	611,453	\$ 15.43	6.8	
Exercisable at October 31, 2017	536,386	\$ 14.04	6.1	\$ 1,661

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.

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 performance based nonvested stock awards during the nine months ended October 31, 2017, which were valued using a Monte Carlo simulation model.

Assumptions used in the Monte Carlo simulation model for the stock awards granted during the nine months ended October 31, 2017 were as follows:

Assumptions:	2017
Weighted-average expected volatility	59.6%
Expected dividend yield	0.0%
Weighted-average risk free rate	1.5%
Weighted-average fair value	\$6.92

## 7. 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 drilling-related 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, 2017:

	Percentage	Percentage
	Owned	Owned
	Directly	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
Geoestrella 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	
Mining Drilling Fluids S.A. (Chile)	25.00	

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

	Three Months		Nine Months	
	Ended October 31,		Ended October 31,	
(in thousands)	2017	2016	2017	2016
Income statement data:				
Revenues	\$37,362	\$29,716	\$106,659	\$89,623
Gross profit	7,838	5,141	20,924	16,674
Operating income	3,963	1,324	9,618	5,602

Net income	3,268	568	7,397	4,095
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## 8. Operating Segments

During the first quarter FY2018, we sold our Heavy Civil business. The operating results of the Heavy Civil business are presented as discontinued operations and, as such, have been excluded from continuing operations and segment results for all periods presented. See Note 9 to the Condensed Consolidated Financial Statements for further discussion. With the sale of the Heavy Civil business, we now manage and report our operations through three segments: Water Resources, Inliner, 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 definition of water sources through hydrologic studies, water supply development through water well drilling and intake construction. Through our new Water Midstream business we provide water delivery through pipeline and pumping infrastructure with the ability to deliver non-potable water at multiple points along the pipeline route. 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 and municipal clients for the disposal of wastewater associated with their processes. As part of their repair and installation services, Water Resources 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”) 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, 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, and also provides 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.

#### 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 that the mining companies analyze for mineral content before investing in development to extract the minerals. Mineral Services helps its clients determine if a 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. 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 Brazil. As discussed in Note 11 to the Condensed Consolidated Financial Statements, during FY2016, we implemented a plan to exit our operations in Africa and Australia. Mineral Services also has ownership interests in foreign affiliates operating 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 that benefit all segments. These costs include expenses related to accounting, financial reporting, internal audit, treasury, legal, tax compliance, executive management and board of directors.

Our measure of Total Adjusted EBITDA, which may not be comparable to other companies’ measure of Total Adjusted EBITDA, represents net loss before discontinued operations, taxes, interest, depreciation and amortization, gain or loss on sale of fixed assets, non-cash equity-based compensation, equity in earnings or losses from affiliates, certain non-recurring items such as restructuring costs, and certain other gains or losses, plus dividends received from affiliates. Our chief operating decision maker evaluates segment performance based on the segment’s revenues and Adjusted EBITDA, among other factors. In addition, we use Total Adjusted EBITDA as a factor in incentive



compensation decisions and our credit facility agreement uses measures similar to Total Adjusted EBITDA to measure compliance with certain covenants.

Revenues (in thousands)	Three Months Ended October 31,		Nine Months Ended October 31,	
	2017	2016	2017	2016
Water Resources	\$45,902	\$49,939	\$132,875	\$168,360
Inliner	54,623	50,517	155,993	151,027
Mineral Services	26,898	20,188	76,222	45,761
Other items/eliminations	—	(70 )	—	(293 )
Total revenues	\$127,423	\$120,574	\$365,090	\$364,855

	Three Months Ended October		Nine Months Ended October 31,	
Total Adjusted EBITDA (in thousands)	2017	2016	2017	2016
Water Resources	\$2,082	\$(798 )	\$3,942	\$5,064
Inliner	8,317	9,628	25,310	24,979
Mineral Services	5,202	2,701	15,412	6,815
Unallocated corporate expenses	(5,655 )	(4,495 )	(15,104 )	(18,250 )
Total Adjusted EBITDA	\$9,946	\$7,036	\$29,560	\$18,608

The following table reconciles net loss to Total Adjusted EBITDA.

	Three Months Ended October		Nine Months Ended October 31,	
Reconciliation of Net Loss to Total Adjusted EBITDA (in thousands)	2017	2016	2017	2016
Net loss	\$(2,080)	\$(5,043)	\$(29,886)	\$(19,156)
Items not included in Total Adjusted EBITDA				
Net loss from discontinued operations	76	580	22,329	1,259
Income tax expense	80	1,352	1,743	1,824
Interest expense	4,308	4,206	12,745	12,661
Depreciation and amortization	6,821	6,517	19,678	19,002
Gain on sale of fixed assets	(881 )	(2,739)	(1,913 )	(2,828 )
Non-cash equity-based compensation	774	619	2,543	2,637
Equity in earnings of affiliates	(1,367)	(189 )	(3,093 )	(1,916 )
Restructuring costs	953	1,711	2,208	2,776
Other expense (income), net	70	(554 )	4	(665 )
Dividends received from affiliates	1,192	576	3,202	3,014
Total Adjusted EBITDA	\$9,946	\$7,036	\$29,560	\$18,608

	Three Months Ended October		Nine Months Ended October 31,	
Depreciation and amortization (in thousands)	2017	2016	2017	2016
Water Resources	\$3,078	\$2,970	\$9,133	\$9,138
Inliner	1,645	1,500	4,743	4,016
Mineral Services	1,908	1,753	5,268	4,773
Corporate	190	294	534	1,075
Total depreciation and amortization	\$6,821	\$6,517	\$19,678	\$19,002

	Three Months Ended October 31,		Nine Months Ended October 31,	
Geographic Information (in thousands)	2017	2016	2017	2016

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United States/Canada	\$ 114,636	\$ 110,189	\$ 328,780	\$ 342,052
Africa/Australia	—	—	—	151
South America	3,260	2,756	7,652	5,057
Mexico	9,527	7,629	28,658	17,595
Total revenues	\$ 127,423	\$ 120,574	\$ 365,090	\$ 364,855

## 9. Discontinued Operations

On April 30, 2017, we completed the sale of substantially all of the assets of the Heavy Civil business to Reycon Partners LLC (the "Buyer"), which is owned by a group of private investors, including members of the former Heavy Civil senior management team. The purchase price was \$10.1 million, less an estimate of the business's working capital. After final working capital adjustments of (\$2.3) million, the purchase price was \$3.5 million.

The components of assets and liabilities of the Heavy Civil business classified as discontinued operations in the Condensed Consolidated Balance Sheets are as follows:

	As of January 31, 2017
(in thousands)	
Major classes of assets	
Customer receivables	\$ 13,731
Costs and estimated earnings in excess of billings	
on uncompleted contracts	22,970
Inventories	2,426
Other current assets	1,033
Total current assets of discontinued operations	40,160
Property and equipment, net	5,235
Other assets of discontinued operations	895
Total major classes of assets of discontinued operations	\$46,290
Major classes of liabilities	
Accounts payable	\$ 16,963
Billings in excess of costs and estimated earnings	
on uncompleted contracts	3,530
Other current liabilities	87
Total current liabilities of discontinued operations	20,580
Total major classes of liabilities of discontinued operations	\$20,580

The financial results of discontinued operations are as follows:

	Three Months Ended October 31,		Nine Months Ended October 31,	
(in thousands)	2017	2016	2017	2016
Revenue	\$—	\$32,993	\$30,359	\$107,500
Cost of revenues (exclusive of depreciation and amortization, shown below)	(10)	(30,778)	(28,859)	(98,677)

Selling, general and administrative expenses (exclusive				
of depreciation and amortization, shown below)	(66)	(2,480 )	(4,464 )	(8,613 )
Depreciation and amortization	—	(348 )	(287 )	(1,245 )
Gain on sale of fixed assets	—	59	4	223
Restructuring costs	—	(14 )	(27 )	(409 )
Other expense items	-	(12 )	(30 )	(38 )
Total operating loss on discontinued operations				
before income taxes	(76)	(580 )	(3,304 )	(1,259 )
Income tax expense	—	—	—	—
Total operating loss on discontinued operations	(76)	(580 )	(3,304 )	(1,259 )
Loss on sale of discontinued operations before income				
taxes	—	—	(19,025)	—
Income tax expense	—	—	—	—
Total loss on discontinued operations	\$(76)	\$(580 )	\$(22,329)	\$(1,259 )

We recorded a loss on sale of discontinued operations of \$19.0 million for the nine months ended October 31, 2017, calculated as the difference between the net book value of the Heavy Civil business sold as a continuing operations of \$21.2 million and cash consideration of \$3.5 million, less cost to sell of \$1.3 million.

At January 31, 2017, we performed an asset impairment test of the Heavy Civil reporting segment and no impairment was indicated.

Cash flow data relating to the Heavy Civil business is presented below:

	Nine Months Ended October 31, 2017	Nine Months Ended October 31, 2016
(in thousands)		
Cash flow data:		
Depreciation and amortization	\$ 287	\$ 1,245
Capital expenditures	226	837
Bad debt expense	1,551	472

## 10. 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, turn-key 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.

Through one of our discontinued segments, Geoconstruction was a subcontractor on the foundation for the Salesforce Tower office building in San Francisco, California in 2013 and 2014. Certain anomalies were discovered in March 2014 in the foundation's structural concrete, which were remediated by the general contractor during 2015. We have participated in discussions with the project owner and the general contractor regarding potential causes of the

anomalies. Layne has assigned its claims under the project's builder's risk insurance policy to the general contractor. During FY2016, the owner and the general contractor submitted a claim to the project's builder's risk insurers to cover the cost of remedial work and related damages. The claim was denied by the builder's risk insurers and the owner and the general contractor subsequently filed a legal proceeding against the insurers seeking coverage under the builder's risk insurance policy. Although the Company is not a party to this legal proceeding, the Company believes, based on court filings in the legal proceeding, that the owner and the general contractor are asserting a claim for damages against the project's builder's risk insurers of approximately \$100 million. Management does not believe that we are liable for any of the remediation costs or other claims 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.

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. GAAP, 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.

#### 11. Restructuring Costs

During the second quarter of FY2017, we initiated a plan to reduce our cost structure and streamline our operations to 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. Towards this continued pursuit, in FY2018, we have incurred \$1.0 million and \$1.1 million of restructuring expenses for the three and nine months ended October 31, 2017, respectively. We estimate remaining amounts to be incurred for the Water Resources Business Performance Initiative of approximately \$1.0 million.

We continued the implementation of our FY2016 Restructuring Plan during the three and nine months ended October 31, 2017. This plan involves the exit of our operations in Africa and Australia and other actions to support our strategic focus of simplifying the business and building on our capabilities in water ("FY2016 Restructuring Plan"). In FY2018, we have incurred (\$0.2) million and \$1.1 million of restructuring expenses for the three and nine months ended October 31, 2017, respectively. The FY2016 Restructuring Plan costs for the three and nine months ended October 31, 2017 related primarily to our Mineral Services segment. We estimate remaining amounts to be incurred for the FY2016 Restructuring Plan to be less than \$0.4 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, 2017	\$ 669	\$170	\$839
Restructuring Costs			
Water Resources Business Performance Initiative	666	450	1,116
FY2016 Restructuring Plan	93	999	1,092
Total restructuring costs	759	1,449	2,208
Cash expenditures	(856)	(1,334)	(2,190)
Balance at October 31, 2017	\$ 572	\$285	\$857



## 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" and similar words or phrases. These statements are intended to convey the uncertainty of future events or outcomes. Such statements are based on current expectations and are subject to certain risks, uncertainties and assumptions, including but not limited to: estimates and assumptions regarding our strategic direction and business strategy, the timely and effective execution of turnaround strategy for Water Resources, the continuing recovery in the mining industry, prevailing prices for various commodities, the timing and extent of future oil and gas drilling and production in the Delaware Basin, longer term weather patterns, unanticipated slowdowns in our major markets, the availability of credit, the availability of equity or debt capital needed for our business, including the refinancing of our existing indebtedness as it matures or accelerates, the risks and uncertainties normally incident to our infrastructure services industries, the impact of competition, worldwide economic and political conditions and foreign currency fluctuations that may affect our results of operations. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially and adversely from those anticipated, estimated or projected. Please see Part I, Item 1A, Risk Factors in our Annual Report 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. 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, infrastructure services and drilling company. We primarily operate in North America and Brazil. We manage and report our operations through three segments: Water Resources, Inliner and Mineral Services. We have ownership interest in certain foreign affiliates operating in Latin America. Our operations are cyclical and subject to seasonality. Drilling and infrastructure services activities and revenues tend to decrease during the months of November through January.

### Recent Developments

On November 1, we entered into a long-term agreement with the Texas General Land Office ("GLO") that provides Layne with the exclusive right to develop GLO non-potable water resources for use in oil and gas drilling and completion activities on approximately 88,000 acres interspersed across Reeves and Culberson counties in the Delaware Basin oil and gas producing region of Texas.

In the third quarter FY2018, Hurricane Irma made landfall in Texas and Florida and some neighboring states. Due primarily to the impact the storms had on some of our customers and employees, including our limited access to some job sites, we experienced work delays on certain Inliner projects.

During the second quarter FY2018, we completed our initial water pipeline infrastructure system for our new Water Midstream business serving energy producers in the Delaware Basin in West Texas. Our new Water Midstream business is anchored by nearly 1,000 acres of Company-owned, water-producing land near Pecos, TX, and consists of a high capacity 22-inch diameter pipeline of more than 20 miles in length, 750,000 barrels of storage through two lined, in-ground storage ponds near the water wells, and associated pump stations. We have the ability to deliver water at multiple points along the pipeline route. The system has initial production and delivery capacity of 100,000 barrels per day of non-potable water, with capacity to support further anticipated expansion from both additional water sources and delivery points. The capital investment for the system, including land and right of way costs, was approximately \$18 million.

During the first quarter FY2018, we sold our Heavy Civil business. The operating results of the Heavy Civil business are presented as discontinued operations and, as such, have been excluded from continuing operations and segment results for all periods presented.

See Note 9 to the Condensed Consolidated Financial Statements for further discussion. The sale of the Heavy Civil business closed on April 30, 2017.

Additionally, as part of management's continued analysis in connection with the Water Resources Business Performance Initiative, we determined a better reflection of cost of revenues would be to include indirect project manager costs that historically have been presented in selling, general and administrative expenses. Indirect project manager cost are included in cost of revenues beginning with the first quarter of FY2018, and prior periods have been revised. For the three and nine months ended October 31, 2016, approximately \$2.0 million and \$6.7 million, respectively, of these indirect project manager costs are now included in cost of revenue.

#### Consolidated Results of Operations – Three Months Ended October 31, 2017 and 2016

Revenues increased 5.7% to \$127.4 million, for the three months ended October 31, 2017, from \$120.6 million for the same period last year, due to increased drilling activity in Mineral Services, primarily in the western U.S. and Mexico, higher activity at Inliner and activity from our new Water Midstream business. These increases were partially offset by Water Resources' reduced drilling activity in the western and mid-western U.S. stemming from increased precipitation in the region.

Cost of revenues (exclusive of depreciation and amortization) was 78.6% of revenues (\$100.1 million) for the three months ended October 31, 2017 and 80.5% of revenues (\$97.1 million) for the same period last year. Cost of revenues as a percentage of revenues for the three months ended October 31, 2017 decreased from the prior year primarily in Water Resources due to better performance on projects.

Selling, general and administrative expenses increased \$1.7 million, or 9.6%, to \$19.3 million for the three months ended October 31, 2017, including an increase in unallocated corporate overhead costs of \$1.3 million primarily as a result of an increase in incentive compensation expense.

Depreciation and amortization increased \$0.3 million, or 4.7%, to \$6.8 million for the three months ended October 31, 2017, primarily due to higher capital expenditures during the current year.

Equity in earnings of affiliates increased to \$1.4 million for the three months ended October 31, 2017 compared to earnings of \$0.2 million during the same period last year resulting from increased performance by our international affiliates.

Restructuring costs of \$1.0 million were recorded for the three months ended October 31, 2017 compared to \$1.7 million for the same period last year, primarily related to our Water Resources Business Performance Initiative initiated in FY2017.

Income tax expense from continuing operations of (\$0.1) million was recorded for the three months ended October 31, 2017 compared to income tax expense of (\$1.4) million for the same period last year. Current period tax expense is primarily related to taxes accrued on income earned in Mexico and withholding tax related to our dividends from our affiliates, offset by favorable resolutions of tax audits and statute of limitation expirations. We currently record no tax benefit on domestic deferred tax assets and certain foreign deferred tax assets. The decrease in tax expense in the current quarter versus the prior year was due to resolution of tax audits and statute of limitation expirations in the current year. The effective tax rate for the three months ended October 31, 2017 was (4.2%) compared to (43.5%) 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 partially offset by favorable resolution of tax audits and statute of limitation expirations.

Segment Operating Results – Three Months Ended October 31, 2017 and 2016

Water Resources

(in thousands)	Three Months Ended October 31,		\$ Change	% Change
	2017	2016		
Revenues	\$45,902	\$49,939	\$(4,037 )	(8.1 )%
Adjusted EBITDA	2,082	(798 )	2,880	n/m
Adjusted EBITDA as a percentage of revenues	4.5 %	-1.6 %	n/m	n/m

n/m – not meaningful

Revenues for Water Resources decreased during the three months ended October 31, 2017 compared to the prior year period due to reduced activity primarily in agricultural drilling projects in the western and mid-western U.S. stemming from increased precipitation in the region. The decline was partially offset by activity from our new Water Midstream business.

Adjusted EBITDA for the three months ended October 31, 2017 improved compared to the prior year with reduced losses from injection well drilling and increased activity from our Water Midstream business. Partially offsetting these improvements was reduced drilling activity in the western U.S. from increased precipitation in the region.

## Inliner

(in thousands)	Three Months Ended October 31,			
	2017	2016	\$ Change	% Change
Revenues	\$54,623	\$50,517	\$4,106	8.1 %
Adjusted EBITDA	8,317	9,628	(1,311)	(13.6 %)
Adjusted EBITDA as a percentage of revenues	15.2 %	19.1 %	n/m	n/m

n/m – not meaningful

Revenues for Inliner were higher by 8.1% compared to the prior year period due to increased activity levels. Delays resulting from hurricanes in Texas and Florida reduced revenues in the current quarter by approximately \$1 million.

The decrease in Adjusted EBITDA was primarily attributable to margin pressure from certain jobs and the impact of revenue delays from hurricane activity in the current quarter. The prior year period included favorable margins on a number of jobs.

## Mineral Services

(in thousands)	Three Months Ended October 31,			
	2017	2016	\$ Change	% Change
Revenues	\$26,898	\$20,188	\$6,710	33.2 %
Adjusted EBITDA	5,202	2,701	2,501	92.6 %
Adjusted EBITDA as a percentage of revenues	19.3 %	13.4 %	n/m	n/m

n/m – not meaningful

Revenues for Mineral Services increased 33.2% from the prior year period due to increased drilling activity related to the minerals market recovery in the western U.S. and Mexico.

The increase in Adjusted EBITDA for the three months ended October 31, 2017 compared to the prior year period was primarily due to increased activity and profitability in the western U.S. with higher utilization within the core drilling business, and increased mine water management work.

## Unallocated Corporate Expenses

Unallocated corporate expenses reflected in our Adjusted EBITDA were \$5.7 million for the three months ended October 31, 2017 compared to \$4.5 million for the same period last year. The increase was primarily due to an increase in incentive compensation expense based on improved operating performance.

## Consolidated Results of Operations – Nine Months Ended October 31, 2017 and 2016

Revenues increased 0.1% to \$365.1 million, for the nine months ended October 31, 2017, from \$364.9 million for the same period last year, primarily due to increased drilling activity in Mineral Services in the western U.S. and Mexico and overall increased activity levels in Inliner. This increase was partially offset by Water Resources' reduced drilling activity primarily in the western U.S. stemming from increased precipitation in the region and a decline in injection well activity.

Cost of revenues (exclusive of depreciation and amortization) was 78.1% of revenues (\$285.3 million) for the nine months ended October 31, 2017 and 80.8% of revenues (\$294.7 million) for the same period last year. Cost of revenues as a percentage of revenues for the nine months ended October 31, 2017 decreased from the prior year primarily resulting from improved margins in Mineral Services with the increase in drilling activity and in Water Resources due to better performance on projects with less work site execution issues.

Selling, general and administrative expenses decreased \$1.3 million, or 2.2%, to \$56.0 million for the nine months ended October 31, 2017. The prior year included a \$2.2 million value added tax recovery in Mineral Services. Excluding the tax recovery in the prior year, selling, general and administrative expenses decreased \$3.5 million reflecting reduced unallocated corporate overhead costs of \$3.5 million, which included lower legal and professional fees and compensation related expenses partially offset by an increase in incentive compensation expense related to improved operating performance.

Depreciation and amortization increased \$0.7 million, or 3.6%, to \$19.7 million for the nine months ended October 31, 2017 primarily due to higher capital expenditures over the past year.

Equity in earnings of affiliates increased \$1.2 million to \$3.1 million for the nine months ended October 31, 2017 compared to the same period last year resulting from increased performance by our international affiliates.

Restructuring costs of \$2.2 million were recorded for the nine months ended October 31, 2017 compared to \$2.8 million for the same period last year, primarily related to finalizing tax issues and exit costs in Africa and Australia and costs associated with our Water Resources Business Performance Initiative initiated in FY2017.

Income tax expense from continuing operations of (\$1.7) million was recorded for the nine months ended October 31, 2017 compared to (\$1.8) million for the same period last year. Current period tax expense is primarily related to taxes accrued on income earned in Mexico and withholding tax related to our dividends from affiliates. 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, 2017 was (30.0%) compared to (11.3%) 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 loss from discontinued operations of \$22.3 million was recorded for the nine months ended October 31, 2017, primarily related to the loss on sale of our Heavy Civil business.

## Segment Operating Results – Nine Months Ended October 31, 2017 and 2016

## Water Resources

(in thousands)	Nine Months Ended October 31,		\$	%
	2017	2016	Change	Change
Revenues	\$132,875	\$168,360	\$(35,485)	(21.1 )%
Adjusted EBITDA	3,942	5,064	(1,122 )	(22.2 )
Adjusted EBITDA as a percentage of revenues	3.0	% 3.0	% n/m	n/m

n/m – not meaningful

Revenues for Water Resources decreased during the nine months ended October 31, 2017 primarily due to reduced activity in agricultural drilling projects in the western U.S. stemming from increased precipitation in the region and a decline in injection well activity.



The decrease in Adjusted EBITDA for the nine months ended October 31, 2017 primarily reflects reduced drilling activity in the western U.S. and better performance on projects with less project execution issues.

## Inliner

(in thousands)	Nine Months Ended October 31,		\$	%	
	2017	2016	Change	Change	
Revenues	\$155,993	\$151,027	\$4,966	3.3	%
Adjusted EBITDA	25,310	24,979	331	1.3	
Adjusted EBITDA as a percentage of revenues	16.2	% 16.5	% n/m	n/m	

n/m – not meaningful

Revenues for Inliner during the nine months ended October 31, 2017 were 3.3% higher compared to the prior year period due to overall increased activity levels.

Adjusted EBITDA remained flat for the Inliner segment compared to the prior year period.

## Mineral Services

(in thousands)	Nine Months Ended October 31,		\$	%	
	2017	2016	Change	Change	
Revenues	\$76,222	\$45,761	\$30,461	66.6	%
Adjusted EBITDA	15,412	6,815	8,597	n/m	
Adjusted EBITDA as a percentage of revenues	20.2	% 14.9	% n/m	n/m	

n/m – not meaningful

Revenues for Mineral Services increased 66.6% from the prior year period due to increased drilling activity from business in the western U.S. and Mexico.

The increase in Adjusted EBITDA for the nine months ended October 31, 2017 was primarily due to increased activity and profitability in the western U.S. and Mexico compared to the prior year period. Prior year Adjusted EBITDA included a \$2.2 million value added tax recovery.

#### Unallocated Corporate Expenses

Unallocated corporate expenses reflected in our Adjusted EBITDA were \$15.1 million for the nine months ended October 31, 2017 compared to \$18.3 million for the same period last year. The improvement was primarily due to a reduction in legal and professional fees and consulting fees partially offset by an increase in incentive compensation expense.

#### 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, depending on terms of the contract. 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. 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, 2017, was \$172.1 million compared to \$166.6 million at January 31, 2017 and are reasonably expected to be completed during the next twelve months.

	Backlog at January 31, 2017	New Business Awarded <sup>(1)</sup>	Revenues Recognized during the nine months ended October 31, 2017	Backlog at October 31, 2017	Backlog at October 31, 2016
(in millions)					
Water Resources	\$ 49.2	\$ 147.1	\$ 132.9	\$ 63.4	\$ 59.9
Inliner	117.4	147.3	156.0	108.7	112.4
Total	\$ 166.6	\$ 294.4	\$ 288.9	\$ 172.1	\$ 172.3

(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, with the ability to supplement cash flow with borrowings under our credit facilities or issuances of debt. Our cash flow is affected by prices of raw materials, demand for our services, weather and seasonal conditions, operational risks, volatility in commodity prices, industry and economic conditions, and conditions in the global markets.

As of October 31, 2017, our total liquidity was \$101.6 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, 2017 were \$26.1 million compared to \$69.0 million and \$72.7 million as of January 31, 2017 and October 31, 2016, respectively. The decrease in cash primarily reflects investment during the first three quarters of the year in our Water Midstream business. Of our cash and cash equivalents, amounts held by foreign subsidiaries as of October 31, 2017, January 31, 2017 and October 31, 2016 were \$6.0 million, \$8.2 million and \$7.4 million, respectively. No amounts held by foreign subsidiaries at October 31, 2017 could be subject to repatriation restrictions. 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, other than the periodic payment of dividends by these subsidiaries, it is our intention to permanently reinvest their earnings and our current plans do not demonstrate a need to repatriate any earnings to fund our U.S. operations.

Our working capital was \$60.3 million as of October 31, 2017 and \$105.5 million as of January 31, 2017. Adjusted Working Capital (working capital excluding cash and cash equivalents of \$26.1 million at October 31, 2017 and \$69.0 million at January 31, 2017), decreased slightly by \$2.3 million to \$34.2 million as of October 31, 2017 from \$36.5 million as of January 31, 2017. We use Adjusted Working Capital to assist in assessing performance of the organization.

#### Cash Flows

The cash used in operating activities primarily reflected our net loss, adjusted for non-cash items and changes in components of our working capital. Fluctuations in working capital are normal in our business and are impacted by the size of our projects, timing of project start dates and completion dates and the achievement of billing milestones on backlog as we complete certain phases of the project.

Cash used in operating activities was (\$7.9) million for the nine months ended October 31, 2017 compared to cash provided by operating activities of \$11.8 million for the nine months ended October 31, 2016. With the increase in business activity levels, working capital increased during the current year by \$25.4 million, primarily in accounts receivable heavily weighted in Mineral Services due to increase in activity, and costs and estimated earnings in excess of billings on uncompleted contracts. Partially offsetting our use of cash for working capital needs was a lower net loss, excluding non-cash items of \$6.7 million, due to lower unallocated corporate expenses combined with improved earnings in Inliner and Mineral Services.

Cash used in investing activities was (\$35.2) million for the nine months ended October 31, 2017 compared to (\$4.5) million for the nine months ended October 31, 2016. The increase in cash used of \$30.6 million compared to the prior year period was primarily related to higher capital expenditures of \$25.7 million to implement an accounting system upgrade and complete a project within our Water Midstream business (see Recent Developments in this Item 2 above), partially offset by proceeds from the sale of the Heavy Civil business during the nine months ended October 31, 2017 of \$3.5 million.

## 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 8 to the Consolidated Financial Statements included in our Annual Report.

**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, 2017. 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 a “fundamental change” (as defined in our 4.25% Convertible Notes Indenture).

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, 2017. The 8.0% Convertible Notes 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, 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 a “fundamental change” (as defined in our 8.0% Convertible Notes Indenture) or 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, 2017, availability under our asset-based credit facility was \$100.0 million, with outstanding letters of credit amounting to \$24.5 million, leaving Excess Availability of approximately \$75.5 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.

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 credit 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 January 31, 2015 through October 31, 2017.

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.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements-Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern". Under this standard, management must evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern within one year after the date that the financial statements are issued. This evaluation initially does not take into consideration the potential mitigating effect of management's plans that have not been fully implemented as of the date the financial statements are issued. When substantial doubt exists under this methodology, management evaluates whether the mitigating effect of its plans sufficiently alleviates substantial doubt about an entity's ability to continue as a going concern. The mitigating effect of management's plans, however, is only considered if both (1) it is probable that the plans will be effectively implemented within one year after the date that the financial statements are issued, and (2) it is probable that the plans, when implemented, will mitigate the relevant conditions or events that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date that the financial statements are issued. Generally, to be considered probable of being effectively implemented, the plans must have been committed and/or approved before the date that the financial statements are issued. We adopted this standard in the fourth quarter of the fiscal year ended January 31, 2017. The accompanying financial statements have been prepared in conformity with GAAP, which contemplates Layne's continuation as a going concern.

We believe we can extend, expand or replace our asset-based facility by May 15, 2018. If we are unable to do so, we believe we could support the outstanding letters of credit with existing cash, other collateral or with a new facility.

With respect to our 4.25% Convertible Notes, we have retained advisors to assist us in evaluating alternatives and raising capital to refinance or extend our debt to a date beyond October 15, 2019, and eliminate the accelerating maturity provisions of the 8.0% Convertible Notes. We believe the refinance or extension of our debt is likely based on current on-going discussions with existing and new potential lenders, our improving financial performance and credit quality, and the fact that our stock price is above the \$11.70 conversion price for the 8.0% Convertible Notes. Although we believe these refinancing options are viable and likely, because our plans to refinance or restructure our debt have not been finalized, and therefore not in our control (in part, due to the fact that neither of our Convertible Notes can be prepaid or have redemption provisions prior to February 2018), these plans are not considered probable under the new standard. Consequently, per the standard, these conditions, in the aggregate, raise substantial doubt about our ability to continue as a going concern within one year after the date these financial statements are filed.

#### 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”, except the following:

As part of the sale of our Heavy Civil business discussed in Note 9 to the Condensed Consolidated Financial Statements, we assigned lease obligations for certain equipment and property to the Buyer. As of April 30, 2017, the future minimum lease payments relating to these leases were approximately \$1.2 million, which would reduce the total amount of our contractual obligations as presented in the Annual Report.



### 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, 2017, an instantaneous change in interest rates of one percentage point would impact our annual interest expense by approximately \$1.7 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 Brazil. 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 7 and 8 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, 2017, 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, 2017. 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, 2017, 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, 2017, that have materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.



## PART II

### ITEM 1. Legal Proceedings

See Part I, Item 1, Note 10 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, 2017 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	<u>Section 302 Certification of Chief Executive Officer of the Company.</u>
31.2	<u>Section 302 Certification of Chief Financial Officer of the Company.</u>
32.1	<u>Section 906 Certification of Chief Executive Officer of the Company.</u>
32.2	<u>Section 906 Certification of Chief Financial Officer of the Company.</u>
95	<u>Mine Safety Disclosures.</u>
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

\* \* \* \* \*

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 5, 2017 /s/ Michael J. Caliel  
Michael J. Caliel,  
President and Chief Executive Officer

DATE: December 5, 2017 /s/ J. Michael Anderson  
J. Michael Anderson,  
Senior Vice President and Chief Financial Officer

DATE: December 5, 2017 /s/ Lisa Curtis  
Lisa Curtis,  
Vice President and Chief Accounting Officer