

JACOBS ENGINEERING GROUP INC /DE/
Form 10-Q
August 08, 2017

UNITED STATES

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 June 30, 2017

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 1-7463

JACOBS ENGINEERING GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware 95-4081636
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

1999 Bryan Street, Suite 1200, Dallas, Texas 75201
(Address of principal executive offices) (Zip Code)

(214) 583 – 8500

(Registrant's telephone number, including area code)

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

Indicate by check-mark whether the registrant 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

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Indicate by check-mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer 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

Number of shares of common stock outstanding at July 26, 2017: 120,315,116

JACOBS ENGINEERING GROUP INC.

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share information)

	June 30, 2017 (Unaudited)	September 30, 2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 758,296	\$ 655,716
Receivables	2,086,331	2,115,663
Prepaid expenses and other	95,608	93,091
Total current assets	2,940,235	2,864,470
Property, Equipment and Improvements, net	329,128	319,673
Other Noncurrent Assets:		
Goodwill	2,900,819	3,079,628
Intangibles, net	310,416	336,922
Miscellaneous	764,161	759,329
Total other noncurrent assets	3,975,396	4,175,879
	\$ 7,244,759	\$ 7,360,022
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable	\$ 3,020	\$ 2,421
Accounts payable	553,744	522,427
Accrued liabilities	886,215	938,378
Billings in excess of costs	396,823	319,460
Total current liabilities	1,839,802	1,782,686
Long-term Debt	282,000	385,330
Other Deferred Liabilities	838,028	861,824
Commitments and Contingencies	—	—
Stockholders' Equity:		
Capital stock:		
Preferred stock, \$1 par value, authorized - 1,000,000 shares; issued and		
outstanding - none	—	—
Common stock, \$1 par value, authorized - 240,000,000 shares;		
issued and outstanding—120,267,039 shares and 120,950,899		
shares as of June 30, 2017 and September 30, 2016, respectively	120,267	120,951
Additional paid-in capital	1,223,805	1,168,272
Retained earnings	3,664,970	3,586,647
Accumulated other comprehensive loss	(783,387)	(610,594)
Total Jacobs stockholders' equity	4,225,655	4,265,276

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Noncontrolling interests	59,274	64,906
Total Group stockholders' equity	4,284,929	4,330,182
	\$ 7,244,759	\$ 7,360,022

See the accompanying Notes to Consolidated Financial Statements.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

For the Three Months and Nine Months Ended June 30, 2017 and July 1, 2016

(In thousands, except per share information)

(Unaudited)

	For the Three Months Ended June 30,		For the Nine Months Ended June 30,	
	2017	July 1, 2016	2017	July 1, 2016
Revenues	\$2,514,751	\$2,693,873	\$7,368,922	\$8,323,570
Costs and Expenses:				
Direct cost of contracts	(2,055,386)	(2,242,424)	(6,070,961)	(6,987,431)
Selling, general and administrative expenses	(330,890)	(341,893)	(1,012,685)	(1,080,352)
Operating Profit	128,475	109,556	285,276	255,787
Other Income (Expense):				
Interest income	2,123	624	5,697	5,108
Interest expense	(4,054)	(4,572)	(11,327)	(10,315)
Miscellaneous income (expense), net	852	(2,801)	(5,879)	470
Total other (expense) income, net	(1,079)	(6,749)	(11,509)	(4,737)
Earnings Before Taxes	127,396	102,807	273,767	251,050
Income Tax Expense	(38,767)	(31,870)	(79,820)	(66,418)
Net Earnings of the Group	88,629	70,937	193,947	184,632
Net Earnings (Losses) Attributable to Noncontrolling Interests	403	(1,882)	5,639	(3,813)
Net Earnings Attributable to Jacobs	\$89,032	\$69,055	\$199,586	\$180,819
Net Earnings Per Share:				
Basic	\$0.74	\$0.58	\$1.65	\$1.50
Diluted	\$0.74	\$0.57	\$1.64	\$1.49

See the accompanying Notes to Consolidated Financial Statements.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months and Nine Months Ended June 30, 2017 and July 1, 2016

(In thousands)

(Unaudited)

	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Net Earnings of the Group	\$88,629	\$70,937	\$193,947	\$184,632
Other Comprehensive Income (Loss):				
Foreign currency translation adjustment	66,763	(35,840)	(179,320)	(35,094)
(Loss) gain on cash flow hedges	(4,386)	(459)	362	(872)
Change in pension liabilities	(13,991)	42,008	8,304	60,426
Other comprehensive income (loss) before taxes	48,386	5,709	(170,654)	24,460
Income Tax (Expense) Benefit:				
Cash flow hedges	1,016	(69)	(90)	(65)
Change in pension liabilities	2,220	(8,706)	(2,049)	(12,893)
Income Tax Benefit (Expense):	3,236	(8,775)	(2,139)	(12,958)
Net other comprehensive income (loss)	51,622	(3,066)	(172,793)	11,502
Net Comprehensive Income of the Group	140,251	67,871	21,154	196,134
Net Earnings (Losses) Attributable to Noncontrolling Interests	403	(1,882)	5,639	(3,813)
Net Comprehensive Income Attributable to Jacobs	\$140,654	\$65,989	\$26,793	\$192,321

See the accompanying Notes to Consolidated Financial Statements.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended June 30, 2017 and July 1, 2016

(In thousands)

(Unaudited)

	For the Nine Months Ended	
	June 30, 2017	July 1, 2016
Cash Flows from Operating Activities:		
Net earnings attributable to the Group	\$ 193,947	\$ 184,632
Adjustments to reconcile net earnings to net cash flows from operations:		
Depreciation and amortization:		
Property, equipment and improvements	52,718	63,447
Intangible assets	34,891	35,499
Loss on sales of business	822	—
Stock based compensation	32,128	25,786
Tax deficiency from stock based compensation	(2,742)	(177)
Equity in earnings of operating ventures, net	(2,378)	(12,776)
Losses on disposals of assets, net	1,150	13,152
Change in pension plan obligations	(17,220)	(8,546)
Gain on benefits plan change	(9,955)	—
Change in deferred compensation plans	181	741
Deferred income taxes	(20,152)	(25,771)
Changes in assets and liabilities, excluding the effects of businesses acquired:		
Receivables	44,163	291,784
Prepaid expenses and other current assets	(2,095)	34,265
Accounts payable	31,682	(92,089)
Accrued liabilities	(53,719)	(63,006)
Billings in excess of costs	70,974	6,486
Income taxes payable	23,161	9,462
Other deferred liabilities	(1,743)	(18,216)
Other, net	4,774	1,075
Net cash provided by operating activities	380,587	445,748
Cash Flows from Investing Activities:		
Additions to property and equipment	(73,552)	(46,403)
Disposals of property and equipment	1,274	6,735
Purchases of investments	—	(3,406)
Acquisitions of businesses, net of cash acquired	(24,782)	(49,714)
Sales of business	(2,036)	—
Net cash used for investing activities	(99,096)	(92,788)
Cash Flows from Financing Activities:		
Proceeds from long-term borrowings	1,065,289	1,329,050
Repayments of long-term borrowings	(1,169,763)	(1,427,140)

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Proceeds from short-term borrowings	1,348	7,057
Repayments of short-term borrowings	(702)	(11,621)
Proceeds from issuances of common stock	53,290	26,498
Common stock repurchases	(97,180)	(102,439)
Excess tax benefits from stock based compensation	2,742	177
Cash dividends	(36,152)	—
Dividends paid to noncontrolling interests	(4,559)	(2,709)
Net cash used by financing activities	(185,687)	(181,127)
Effect of Exchange Rate Changes	6,776	(16,301)
Net Increase in Cash and Cash Equivalents	102,580	155,532
Cash and Cash Equivalents at the Beginning of the Period	655,716	460,859
Cash and Cash Equivalents at the End of the Period	\$758,296	\$616,391

See the accompanying Notes to Consolidated Financial Statements.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

June 30, 2017

Basis of Presentation

Unless the context otherwise requires:

References herein to “Jacobs” are to Jacobs Engineering Group Inc. and its predecessors;

References herein to the “Company”, “we”, “us” or “our” are to Jacobs Engineering Group Inc. and its consolidated subsidiaries; and

References herein to the “Group” are to the combined economic interests and activities of the Company and the persons and entities holding noncontrolling interests in our consolidated subsidiaries.

The accompanying consolidated financial statements and financial information included herein have been prepared pursuant to the interim period reporting requirements of Form 10-Q. Consequently, certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States (“U.S. GAAP”) have been condensed or omitted. Readers of this Quarterly Report on Form 10-Q should also read our consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2016 (“2016 Form 10-K”), as well as Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations, included in our 2016 Form 10-K.

In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of our consolidated financial statements at June 30, 2017, and for the three and nine month periods ended June 30, 2017.

Our interim results of operations are not necessarily indicative of the results to be expected for the full fiscal year.

Please refer to Note 17—Definitions of Notes to Consolidated Financial Statements included in our 2016 Form 10-K for the definitions of certain terms used herein.

During the second fiscal quarter of 2017, the Company restructured certain employee welfare trust plans benefitting employees within its India operations by moving these plans under the legal ownership and operation of the Company’s legal entity structure in the region. Historically, the Company structured these plans as separate, stand-alone entities outside of the Company’s consolidated legal entity framework. As a result of these changes, the Company recorded a one-time, non-cash benefit of \$9.9 million reported in Selling, general and administrative expense in its consolidated statement of income for the three months ended March 31, 2017, with corresponding assets in the plans associated with restricted investments of \$7.7 million and employee loans receivable of \$2.2 million, each of which are recorded in Miscellaneous Other non-current assets.

During the preparation of the Form 10-Q for the first fiscal quarter of 2017, the Company determined that its prior financial statements contained immaterial misstatements related to incorrect translation of the Company’s non-U.S. goodwill balances from local currency to the U.S. Dollar reporting currency. It was determined that the Company had incorrectly used historical translation rates for the U.S. Dollar in place at the time of the Company’s recording of its

foreign goodwill balances rather than using current translation rates at each balance sheet date in accordance with U.S. GAAP. The error dated back to the time of our initial reporting of non-US goodwill balances in the late 1990s and affected our historical quarterly and annual reporting periods through the first fiscal quarter of 2017.

Goodwill and accumulated other comprehensive income in the Company's September 30, 2016 consolidated balance sheet (which have not been adjusted) were each overstated by \$209.9 million and were corrected in the first fiscal quarter of 2017 foreign currency translation adjustment. Consequently, the correction was a direct component of the overall translation adjustment amount of \$287.5 million that was reported for the first quarter of fiscal 2017. These adjustments had no impact on the Company's Consolidated Statements of Earnings or Cash Flows. Also, for the three and nine months ended 2016, other comprehensive income was understated by \$39.6 million and \$41.9 million as a result of these misstatements.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with U.S. GAAP requires us to employ estimates and make assumptions that affect the reported amounts of certain assets and liabilities, the revenues and expenses reported for the periods covered by the

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

accompanying consolidated financial statements, and certain amounts disclosed in these Notes to the Consolidated Financial Statements. Although such estimates and assumptions are based on management's most recent assessment of the underlying facts and circumstances utilizing the most current information available and past experience, actual results could differ significantly from those estimates and assumptions. Our estimates, judgments, and assumptions are evaluated periodically and adjusted accordingly. Please refer to Note 2—Significant Accounting Policies of Notes to Consolidated Financial Statements included in our 2016 Form 10-K for a discussion of the significant estimates and assumptions affecting our consolidated financial statements.

Fair Value and Fair Value Measurements

Certain amounts included in the accompanying consolidated financial statements are presented at "fair value." Fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants as of the date fair value is determined (the "measurement date"). When determining fair value, we consider the principal or most advantageous market in which we would transact, and we consider only those assumptions we believe a typical market participant would consider when pricing an asset or liability. In measuring fair value, we use the following inputs in the order of priority indicated:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than quoted prices in active markets included in Level 1, such as (i) quoted prices for similar assets or liabilities; (ii) quoted prices in markets that have insufficient volume or infrequent transactions (e.g., less active markets); and (iii) model-driven valuations in which all significant inputs are observable or can be derived principally from, or corroborated with, observable market data for substantially the full term of the asset or liability.

Level 3 - Unobservable inputs to the valuation methodology that are significant to the fair value measurement.

Please refer to Note 2—Significant Accounting Policies of Notes to Consolidated Financial Statements included in our 2016 Form 10-K for a more complete discussion of the various items within the consolidated financial statements measured at fair value and the methods used to determine fair value.

New Accounting Standards

Revenue Recognition

From time to time, the Financial Accounting Standards Board ("FASB") issues accounting standards updates (each being an "ASU") to its Accounting Standards Codification ("ASC"), which constitutes the primary source of U.S. GAAP. The Company regularly monitors ASUs as they are issued and considers their applicability to its business. All ASUs applicable to the Company are adopted by the due date and in the manner prescribed by the FASB.

In May 2014, the FASB issued ASU No. 2014-09—Revenue from Contracts with Customers. The new guidance provided by ASU 2014-09 is intended to remove inconsistencies and perceived weaknesses in the existing revenue requirements, provide a more robust framework for addressing revenue issues, improve comparability, provide more

useful information and simplify the preparation of financial statements. ASU 2014-09 was initially effective for annual and interim reporting periods beginning after December 15, 2016. On July 9, 2015, the FASB approved a one-year deferral of the effective date of this standard. The revised effective date for the standard is for annual reporting periods beginning after December 15, 2017 and interim periods therein. The FASB also approved changes allowing for early adoption of the standard as of the original effective date.

The Company's adoption activities will be performed over three phases: (i) assessment, (ii) design, and (iii) implementation. Our assessment phase is predominantly complete. The following are the potential significant differences identified during the assessment phase:

Performance Obligations

Under current U.S. GAAP the Company typically considers engineering and construction services as separate performance obligations. Under ASU 2014-09, the Company has determined, in most instances, it is likely that engineering and construction services will be required to be combined into a single performance obligation. In these instances, this will likely change the timing and pattern of revenue recognition.

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Contract Modifications

In many instances, the Company enters into contracts for construction services subsequent to entering in to engineering services contracts. Under ASU 2014-09, the construction services contract may be deemed to modify the engineering contract, or may be required to be combined with the engineering contract. This modification or combination of contracts may result in a cumulative catchup adjustment, which will have an immediate impact on the Company's results of operations in the period the contract combination or modification occurs. In addition, it will change the timing and pattern of revenue recognition after the period the contracts have been combined or modified.

The Company currently intends to adopt the new standard using the Modified Retrospective application. This standard could have a significant impact on the Company's Consolidated Financial Statements and an administrative impact on its operations and will depend on the magnitude of the items discussed above. The Company will continue to evaluate the impact through the design and implementation phases.

Lease Accounting

In February 2016, the FASB issued ASU 2016-02—Leases. ASU 2016-02 requires lessees to recognize assets and liabilities for most leases. ASU 2016-02 is effective for public entity financial statements for annual periods beginning after December 15, 2018, and interim periods within those annual periods. Early adoption is permitted, including adoption in an interim period. The guidance must be adopted using a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. The Company is evaluating the impact of the new guidance on its consolidated financial statements. This standard could have a significant administrative impact on its operations, and the Company will further assess the impact through its implementation program.

Employee Share-Based Payment Accounting

In March 2016, the FASB issued ASU 2016-09—Improvements to Employee Share-Based Payment Accounting. ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period for which financial statements have not been issued or made available for issuance. If an entity early adopts the amendments in an interim period, any adjustments must be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. The Company is evaluating the impact of the new guidance on its consolidated financial statements and does not plan to early adopt this pronouncement.

Segment Information

During the second fiscal quarter of 2016, we reorganized our operations around four global lines of business ("LOB"), which also serve as our operating segments: Petroleum & Chemicals, Buildings & Infrastructure, Aerospace & Technology, and Industrial. We determined that this new organization would better support the needs of managing each unique set of customers that fall within each segment. As a result of the new organization, we subsequently realigned our internal reporting structures to enable our Chief Executive Officer, who is also our Chief Operating

Decision Maker (“CODM”), to evaluate the performance of each of these segments and make appropriate resource allocations among each of the segments. For purposes of our goodwill impairment testing, we have determined that our operating segments are also our reporting units based on management’s conclusion that the components comprising each of our operating segments share similar economic characteristics and meet the aggregation criteria in accordance with ASC 350.

Under the current organization, each LOB has a president that reports directly to the Company's Chairman and CEO or CODM. In addition, the sales function, which had been managed centrally for many years, is now managed on an LOB basis, and accordingly, the associated cost is now embedded in the new segments and reported to the respective LOB presidents. In addition, a portion of the costs of other support functions (e.g., finance, legal, human resources, and information technology) are allocated to each LOB using methodologies which, we believe, effectively attribute the cost of these support functions to the revenue-generating activities of the Company on a rational basis. The cost of the Company’s cash incentive plan, the Management Incentive Plan (“MIP”) and the expense associated with the Jacobs Engineering Group Inc. 1999 Stock Incentive Plan (“1999 SIP”) have likewise been charged to the LOBs except for those amounts determined to relate to the business as a whole (which amounts remain in corporate’s results of operations).

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

Financial information for each LOB is reviewed by the CODM to assess performance and make decisions regarding the allocation of resources. The Company generally does not track assets by LOB, nor does it provide such information to the CODM.

The CODM evaluates the operating performance of our LOBs using operating profit, which is defined as margin less “corporate charges” (e.g., the allocated amounts described above). The Company incurs certain selling, general and administrative (“SG&A”) costs which relate to its business as a whole which are not allocated to the LOBs.

The following tables present total revenues and operating profit for each reportable segment (in thousands) and include a reconciliation of segment operating profit to total USGAAP operating profit by including certain corporate-level expenses and expenses relating to Restructuring and Other Charges (in thousands).

	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Revenues from External Customers:				
Aerospace & Technology	\$585,432	\$667,785	\$1,739,908	\$2,007,440
Buildings & Infrastructure	647,252	553,546	1,813,111	1,696,004
Industrial	681,588	705,996	2,015,784	2,044,652
Petroleum & Chemicals	600,479	766,546	1,800,119	2,575,474
Total	\$2,514,751	\$2,693,873	\$7,368,922	\$8,323,570

	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Operating Profit:				
Aerospace & Technology	\$50,591	\$53,741	\$146,735	\$156,861
Buildings & Infrastructure (1)	56,173	50,168	138,957	133,083
Industrial	32,347	28,444	81,549	68,216
Petroleum & Chemicals	29,055	29,646	88,326	92,194
Total Segment Operating Profit	168,166	161,999	455,567	450,354
Other Corporate Expenses	(28,991)	(19,523)	(54,392)	(57,896)
Restructuring and Other Charges	(10,700)	(32,920)	(115,899)	(136,671)
Total USGAAP Operating Profit	128,475	109,556	285,276	255,787
Total Other (Expense) income	(1,079)	(6,657)	(10,276)	(4,460)
Total Other (Expense) income - Restructuring	—	(92)	(1,233)	(277)
Earnings Before Taxes	\$127,396	\$102,807	\$273,767	\$251,050

(1) Excludes \$1,246 and \$23,844 in restructuring and other charges for the three and nine month periods ended June 30, 2017. See page 12.

Included in "Other Corporate Expenses" in the above table are costs and expenses which relate to general corporate activities as well as corporate-managed benefit and insurance programs. Such costs and expenses include: (i) those elements of SG&A expenses relating to the business as a whole; (ii) those elements of our incentive compensation plans relating to corporate personnel whose other compensation costs are not allocated to the LOBs; (iii) the amortization of intangible assets acquired as part of purchased business combinations; (iv) the quarterly variances between the Company's actual costs of certain of its self-insured integrated risk and employee benefit programs and amounts charged to the LOBs; and (v) certain adjustments relating to costs associated with the Company's international defined benefit pension plans. In addition, "Other Corporate Expenses" may also include from time to time certain adjustments to contract margins (both positive and negative) associated with projects where it has been determined, in the opinion of management, that such adjustments are not indicative of the performance of the related LOB and therefore should not be attributed to the LOB.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

The following tables present total services revenues for each reportable segment for the three months and nine months ended June 30, 2017 and July 1, 2016 (in thousands).

	For the Three Months Ended June 30, 2017					For the Nine Months Ended June 30, 2017				
	Aerospace & Technology	Buildings & Infrastructure	Industrial	Petroleum & Chemicals	Total	Aerospace & Technology	Buildings & Infrastructure	Industrial	Petroleum & Chemicals	Total
Technical Services Revenues										
Project Services, Process, Scientific, Systems Integrating	\$317,343	\$587,543	\$234,670	\$307,806	\$1,447,362	\$799,842	\$1,633,543	\$617,970	\$1,020,407	\$4,071,762
Construction Operations	121,450	—	—	11,016	132,466	506,250	—	—	27,416	533,666
Maintenance & Field Services	438,793	587,543	234,670	318,822	1,579,828	1,306,092	1,633,543	617,970	1,047,823	4,605,468
Construction Operations	23,228	56,067	352,002	281,390	712,687	78,005	168,526	1,118,697	751,932	2,117,250
Maintenance & Field Services	123,411	3,642	94,916	267	222,236	355,811	11,042	279,117	364	646,330
Construction Operations	146,639	59,709	446,918	281,657	934,923	433,816	179,568	1,397,814	752,296	2,763,494
Total Services Revenues	\$585,432	\$647,252	\$681,588	\$600,479	\$2,514,751	\$1,739,908	\$1,813,111	\$2,015,784	\$1,800,119	\$7,368,900
	For the Three Months Ended July 1, 2016					For the Nine Months Ended July 1, 2016				
	Aerospace & Technology	Buildings & Infrastructure	Industrial	Petroleum & Chemicals	Total	Aerospace & Technology	Buildings & Infrastructure	Industrial	Petroleum & Chemicals	Total
Technical Services Revenues										

ices										
venues										
ect										
ices	\$35,311	\$503,336	\$222,263	\$465,324	\$1,226,234	\$502,105	\$1,570,143	\$646,543	\$1,402,110	\$4,120,
ess,										
ntific,										
Systems										
ulting	371,954	—	—	15,335	387,289	790,533	—	—	47,825	838,35
l										
inical										
essional										
ices										
venues	407,265	503,336	222,263	480,659	1,613,523	1,292,638	1,570,143	646,543	1,449,935	4,959,
l										
ices										
venues										
struction	7,278	37,518	378,289	285,795	708,880	77,464	88,383	1,114,312	1,124,293	2,404,
ations										
aintenance										
zM")	253,242	12,692	105,444	92	371,470	637,338	37,478	283,797	1,246	959,85
l Field										
ices										
venues	260,520	50,210	483,733	285,887	1,080,350	714,802	125,861	1,398,109	1,125,539	3,364,
l										
venues	\$667,785	\$553,546	\$705,996	\$766,546	\$2,693,873	\$2,007,440	\$1,696,004	\$2,044,652	\$2,575,474	\$8,323,

Business Combinations

During the second fiscal quarter of 2017, the Company acquired Aquenta Consulting (NZ) Limited. During the first fiscal quarter of 2016, the Company acquired J.L. Patterson & Associates. These acquisitions were not material to the Company's consolidated results for the first nine months of fiscal 2017 or 2016.

On May 19, 2017, the Company entered into an agreement with Saudi Aramco to form a 50/50 Saudi Arabia-based joint venture company to provide professional program and construction management (PMCM) services for social infrastructure projects throughout Saudi Arabia and across the Middle East and North Africa. The venture is scheduled to commence start-up operations in fourth quarter fiscal 2017. Initial funding commitments from each of the partners include \$6.5 million in capital contributions and \$7.0 million in partner loans which are expected to be executed during fourth quarter fiscal 2017 or early fiscal 2018. The partners have also committed up to an additional \$7.0 million each for future loans to the joint venture.

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Receivables

The following table presents the components of receivables appearing in the accompanying Consolidated Balance Sheets at June 30, 2017 and September 30, 2016, as well as certain other related information (in thousands):

	June 30, 2017	September 30, 2016
Components of receivables:		
Amounts billed	\$934,769	\$1,110,042
Unbilled receivables and other	1,118,776	937,552
Retentions receivable	32,786	68,069
Total receivables, net	\$2,086,331	\$2,115,663
Other information about receivables:		
Amounts due from the United States federal		
government, included above, net of advanced		
billings	\$224,284	\$235,203
Claims receivable	\$17,830	\$26,061

“Amounts billed” consist of amounts invoiced to clients in accordance with the terms of our client contracts and are shown net of an allowance for doubtful accounts. We anticipate that substantially all of such billed amounts will be collected over the next twelve months.

“Unbilled receivables and other” and “Retentions receivable” represent reimbursable costs and amounts earned and reimbursable under contracts in progress as of the respective balance sheet dates. Such amounts become billable according to the contract terms, which usually provide that such amounts become billable upon the passage of time, achievement of certain milestones, or completion of the project. We anticipate that substantially all of such unbilled amounts will be billed and collected over the next twelve months.

“Claims receivable” are included in receivables in the accompanying Consolidated Balance Sheets and represent certain costs incurred on contracts to the extent it is probable that such claims will result in additional contract revenue and the amount of such additional revenue can be reliably estimated.

Property, Equipment and Improvements, Net

Property, Equipment and Improvements, Net in the accompanying Consolidated Balance Sheets at June 30, 2017 and September 30, 2016 consist of the following (in thousands):

	June 30, 2017	September 30, 2016
Land	\$16,850	\$16,680
Buildings	91,745	91,194
Equipment	587,225	531,539
Leasehold improvements	217,840	221,437
Construction in progress	25,817	36,764
	939,477	897,614
Accumulated depreciation and amortization	(610,349)	(577,941)
	\$329,128	\$319,673

Restructuring and Other Charges

During the second fiscal quarter of 2015, the Company began implementing a series of initiatives intended to improve operational efficiency, reduce costs, and better position itself to drive growth of the business in the future. We refer to these initiatives, in the aggregate, as the "2015 Restructuring". These activities evolved and developed over time as management identified and evaluated opportunities for changes in the Company's operations (and related areas of potential cost savings), as economic conditions changed and as the realignment of the Company's operations into its four global lines of business was implemented. Actions related to the 2015 Restructuring included involuntary terminations, the abandonment of certain leased offices, combining operational organizations, and the co-location of employees into other existing offices. We did not exit any service types or client end-

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markets in connection with the 2015 Restructuring. While the 2015 Restructuring was substantially completed in fiscal second quarter 2017, approximately \$9.5 million in additional costs associated with previously identified restructuring activities were recognized during the third quarter for accounting purposes.

The majority of the costs associated with the 2015 Restructuring are included in SG&A expense in the Consolidated Statements of Earnings. The following table summarizes the impacts of the 2015 Restructuring on the Company's reportable segment income by line of business for the three and nine month periods ended June 30, 2017 and July 1, 2016 (in thousands):

	Three Months Ended June 30, 2017		For the Nine Months Ended June 30, July 1, 2017 2016	
Aerospace & Technology	\$—	\$1,924	\$1,004	\$4,359
Buildings & Infrastructure	7,266	2,245	22,089	17,812
Industrial	(220)	1,658	9,268	21,551
Petroleum & Chemicals	(458)	21,774	28,917	74,789
Corporate	2,866	5,319	30,783	18,160
Total	\$9,454	\$32,920	\$92,061	\$136,671

The activity in the Company's accrual for the 2015 Restructuring for the three and nine month periods ended June 30, 2017 is as follows (in thousands):

Balance at September 30, 2016	\$152,174
Charges	92,061
Payments	(101,432)
Balance at June 30, 2017	\$142,803

The following table summarizes the 2015 Restructuring by major type of restructuring costs for the three and nine month periods ended June 30, 2017 and July 1, 2016 (in thousands):

	Three Months Ended June 30, 2017		For the Nine Months Ended June 30, July 1, 2017 2016	
--	--	--	---	--

Lease Abandonments	\$2,712	\$10,300	\$47,313	\$74,571
Involuntary Terminations	4,120	20,359	32,606	58,648
Outside Services	684	2,076	4,236	3,267
Other restructuring related	1,938	185	7,906	185
Total	\$9,454	\$32,920	\$92,061	\$136,671

Cumulative amounts incurred to date for the 2015 Restructuring by each major type of restructuring costs as of June 30, 2017 is as follows (in thousands):

Lease Abandonments	\$230,525
Involuntary Terminations	173,518
Outside Services	24,368
Other restructuring related	8,749
Total	\$437,160

Also, during the second fiscal quarter of 2017, the Company entered into strategic business restructuring activities associated with realignment of its Europe, U.K. and Middle East regional operations in our B&I segment. Pre-tax net charges of \$22.6 million were recorded associated mainly with net realizable value write-offs on contract accounts receivable of \$16.5 million, with additional charges recorded for statutory redundancy and severance costs of \$1.4 million and other liabilities of \$4.7 million which are both expected to be paid or settled within the next 12 months. Additional charges of \$1.2 million were recorded under this business exit during third quarter fiscal 2017 associated mainly with contract accounts receivable charges. Further, management has determined that these business restructuring activities do not qualify for discontinued operations treatment in accordance with U.S. GAAP as the associated businesses were not material.

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Collectively, the 2015 Restructuring and the above mentioned business restructuring activities in the Europe, U.K. and Middle East region are referred to as “Restructuring and Other Charges”.

Long-term Debt

Jacobs and certain of its subsidiaries have a \$1.6 billion long-term unsecured, revolving credit facility (the “2014 Facility”) with a syndicate of large U.S. and international banks and financial institutions. The 2014 Facility provides an accordion feature that allows the Company and the lenders to increase the facility amount to \$2.1 billion.

The total amount outstanding under the 2014 Facility in the form of direct borrowings at June 30, 2017 was \$282.0 million. The Company has issued \$2.5 million in letters of credit under the 2014 Facility, leaving \$1.3 billion of available borrowing capacity under the 2014 Facility at June 30, 2017. In addition, the Company had issued \$35.8 million under separate, committed and uncommitted letter-of-credit facilities for total issued letters of credit of \$38.3 million at June 30, 2017.

The 2014 Facility expires in February 2020 and permits the Company to borrow under two separate tranches in U.S. dollars, certain specified foreign currencies, and any other currency that may be approved in accordance with the terms of the 2014 Facility. Depending on the Company’s Consolidated Leverage Ratio (as defined in the credit agreement governing the 2014 Facility), borrowings under the 2014 Facility bear interest at either a eurocurrency rate plus a margin of between 1.0% and 1.5% or a base rate plus a margin of between 0% and 0.5%. The 2014 Facility also provides for a financial letter of credit sub facility of \$300.0 million, permits performance letters of credit, and provides for a \$50.0 million sub facility for swing line loans. Letters of credit are subject to fees based on the Company’s Consolidated Leverage Ratio at the time any such letter of credit is issued. The Company pays a facility fee of between 0.100% and 0.250% per annum depending on the Company’s Consolidated Leverage Ratio. Amounts outstanding under the 2014 Facility may be prepaid at the option of the Company without premium or penalty, subject to customary breakage fees in connection with the prepayment of euro currency loans. The 2014 Facility contains affirmative, negative, and financial covenants customary for financings of this type including, among other things, limitations on certain other indebtedness, loans and investments, liens, mergers, asset sales and transactions with affiliates. In addition, the 2014 Facility contains customary events of default. We were in compliance with our debt covenants at June 30, 2017.

Revenue Accounting for Contracts / Accounting for Joint Ventures

In general, we recognize revenue at the time we provide services. Depending on the commercial terms of the contract, we recognize revenues either when costs are incurred, or using the percentage-of-completion method of accounting by relating contract costs incurred to date to the total estimated costs at completion. Contract losses are provided for in their entirety in the period they become known, without regard to the percentage-of-completion. For multiple contracts

with a single customer, we account for each contract separately. We also recognize as revenues, costs associated with claims and unapproved change orders to the extent it is probable that such claims and change orders will result in additional contract revenue, and the amount of such additional revenue can be reliably estimated. A significant portion of the Company's revenue is earned on cost reimbursable contracts. The percentage of revenues realized by the Company by type of contract during fiscal 2016 can be found in Note 1—Description of Business and Basis of Presentation of Notes to Consolidated Financial Statements included in our 2016 Form 10-K.

Certain cost-reimbursable contracts include incentive-fee arrangements. The incentive fees in such contracts can be based on a variety of factors but the most common factors are the achievement of target completion dates, target costs, and/or other performance criteria. Failure to meet these targets can result in unrealized incentive fees. We recognize incentive fees based on expected results using the percentage-of-completion method of accounting. As the contract progresses and more information becomes available, the estimate of the anticipated incentive fee that will be earned is revised as necessary. We bill incentive fees based on the terms and conditions of the individual contracts. In certain situations, we are allowed to bill a portion of the incentive fees over the performance period of the contract. In other situations, we are allowed to bill incentive fees only after the target criterion has been achieved. Incentive fees which have been recognized but not billed are included in receivables in the accompanying Consolidated Balance Sheets.

Certain cost-reimbursable contracts with government customers as well as certain commercial clients provide that contract costs are subject to audit and adjustment. In this situation, revenues are recorded at the time services are performed based upon the amounts we expect to realize upon completion of the contracts. Revenues are not recognized for non-recoverable costs. In those situations where an audit indicates that we may have billed a client for costs not allowable under the terms of the contract, we estimate the amount of such non-billable costs and adjust our revenues accordingly.

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When we are directly responsible for subcontractor labor or third-party materials and equipment, we reflect the costs of such items in both revenues and costs. On those projects where the client elects to pay for such items directly and we have no associated responsibility for such items, these amounts are not reflected in either revenues or costs.

The following table sets forth pass-through costs included in revenues for each of the three and nine months ended June 30, 2017 and July 1, 2016 (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Pass-through costs included in revenues	\$628,070	\$616,160	\$1,861,615	\$1,887,620

As is common to the industry, we execute certain contracts jointly with third parties through various forms of joint ventures and consortiums. Although the joint ventures own and hold the contracts with the clients, the services required by the contracts are typically performed by us and our joint venture partners, or by other subcontractors under subcontracting agreements with the joint ventures. The assets of our joint ventures, therefore, consist almost entirely of cash and receivables (representing amounts due from clients), and the liabilities of our joint ventures consist almost entirely of amounts due to the joint venture partners (for services provided by the partners to the joint ventures under their individual subcontracts) and other subcontractors. In general, at any given time, the equity of our joint ventures represents the undistributed profits earned on contracts the joint ventures hold with clients. Very few of our joint ventures have employees. None of our joint ventures have third-party debt or credit facilities. Our joint ventures, therefore, are simply mechanisms used to deliver engineering and construction services to clients. Rarely do they, in and of themselves, present any risk of loss to us or to our partners separate from those that we would carry if we were performing the contract on our own. Our share of the losses associated with contracts held by the joint ventures is reflected in our consolidated financial statements as occurred.

Certain of our joint ventures meet the definition of a “variable interest entity” (“VIE”). As defined in U.S. GAAP, a VIE is a legal entity in which equity investors do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support or, as a group, the holders of the equity investment at risk lack any one of the following three characteristics: (i) the power, through voting rights or similar rights, to direct the activities of a legal entity that most significantly impact the entity’s economic performance; (ii) the obligation to absorb the expected losses of the legal entity; or (iii) the right to receive the expected residual returns of the legal entity. Accordingly, entities issuing consolidated financial statements (e.g., a “reporting entity”) must consolidate a VIE if the reporting entity has a “controlling financial interest” in the VIE, as demonstrated by the reporting entity having both (i) the power to direct the activities of the VIE that most significantly impact the VIE’s economic performance; and (ii) the right to receive benefits from the VIE that could potentially be significant to the VIE or the obligation to absorb losses of the VIE that could potentially be significant to the VIE.

In evaluating our VIEs for possible consolidation, we perform a qualitative analysis to determine whether or not we have a “controlling financial interest” in the VIE as defined by U.S. GAAP. We consolidate only those VIEs over which we have a controlling financial interest. The Company does not currently participate in any significant VIEs.

Defined Pension Benefit Obligations

The following table presents the components of net periodic benefit cost recognized in earnings during each of the three and nine months ended June 30, 2017 and July 1, 2016 (in thousands):

Component:	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Service cost	\$2,349	\$5,081	\$6,749	\$22,261
Interest cost	9,357	14,568	26,786	45,477
Expected return on plan assets	(16,722)	(19,723)	(47,837)	(58,156)
Amortization of previously unrecognized items	3,770	3,249	10,858	14,323
Settlement loss (gain)	51	(150)	135	(244)
Net periodic benefit (income) cost	\$(1,195)	\$3,025	\$(3,309)	\$23,661

The decrease in periodic benefit costs for the three and nine months ended June 30, 2017 as compared to the corresponding period last year was primarily due to the curtailment of our U.K. plans and the de-recognition of the U.S. pension plan for

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participating employees who were assigned to, and worked exclusively on, a specific operating contract with the U.S. federal government.

The following table presents certain information regarding the Company's cash contributions to our pension plans for fiscal 2017 (in thousands):

Cash contributions made during the first nine months of	
fiscal 2017	\$ 13,911
Cash contributions we expect to make during the remainder	
of fiscal 2017	5,445
Total	\$ 19,356

Other Comprehensive Income

The following table presents amounts reclassified from change in pension liabilities in other comprehensive income to direct cost of contracts and SG&A expenses in the Company's Consolidated Statements of Earnings for the three and nine months ended June 30, 2017 and July 1, 2016 related to the Company's defined benefit pension plans (in thousands):

	For the Three Months Ended		For the Nine	
	June 30,	July 1, 2016	Months Ended	Months Ended
	2017	2016	June 30,	July 1,
			2017	2016
Amortization of Defined Benefit Items:				
Actuarial losses	\$ (3,770)	\$ (2,097)	\$ (10,858)	\$ (10,866)
Prior service cost	80	61	235	182
Total Before Income Tax	(3,690)	(2,036)	(10,623)	(10,684)
Income Tax Benefit	837	572	2,440	2,634
Total reclassifications, after-tax	\$ (2,853)	\$ (1,464)	\$ (8,183)	\$ (8,050)

Income Taxes

The Company's consolidated effective income tax rate for the three months ended June 30, 2017 was 30.4%, a decrease from 31.0% for the corresponding period last year. This decline was mainly attributable to increased year over year benefits from favorable changes in geographic income mix. On a comparative basis, the favorable impact of these changes in geographic mix was partially offset by the absence of net favorable rate impacts in third quarter fiscal 2016 relating to discrete tax items consisting of 1) a favorable income tax reserve release of \$4.5 million due to the expiration of statute of limitations, 2) a \$5.7 million benefit related to an amended tax return to claim additional benefits for foreign tax credits and a US IRC section 179D deduction, and 3) an offsetting unfavorable \$8.8 million in return to accrual adjustments.

The Company's consolidated effective income tax rate for the nine months ended June 30, 2017 increased to 29.2% up from 26.5% for the corresponding period last year. The primary driver contributing to the year over year increase was the absence of an \$11.2 million valuation allowance release in the first nine months of fiscal 2016 pertaining to certain foreign net operating losses, as well as the absence of the third quarter fiscal 2016 discrete items mentioned above. The unfavorable comparative impact of these items were offset in part by favorable changes in geographic income mix during the nine months fiscal 2017 and a \$3.3 million favorable benefit of nontaxable income received by a foreign affiliate in second quarter fiscal 2017.

The amount of income taxes the Company pays is subject to ongoing audits by tax jurisdictions around the world. In the normal course of business, the Company is subject to examination by tax authorities throughout the world, including such major jurisdictions as Australia, Canada, India, the Netherlands, the United Kingdom and the United States. Our estimate of the potential outcome of any uncertain tax issue is subject to our assessment of the relevant risks, facts, and circumstances existing at the time. The Company believes that it has adequately provided for reasonably foreseeable outcomes related to these matters. However, future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, which may impact our effective tax rate.

It is reasonably possible that, during the next 12 months, we may realize a decrease in our uncertain tax positions of approximately \$11.0 million as a result of concluding various tax audits and closing tax years.

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Earnings Per Share and Certain Related Information

Basic and diluted earnings per share are computed using the two-class method, which is an earnings allocation method that determines earnings per share ("EPS") for common shares and participating securities. The undistributed earnings are allocated between common shares and participating securities as if all earnings had been distributed during the period. Participating securities and common shares have equal rights to undistributed earnings. Net earnings used for the purpose of determining basic and diluted earnings per share is determined by taking net earnings, less earnings available to participating securities. For the three months and nine months ended June 30, 2017, the earnings available to participating securities were \$1.0 million and \$2.3 million, respectively.

The following table (i) reconciles the denominator used to compute basic EPS to the denominator used to compute diluted EPS for the three and nine months ended June 30, 2017 and July 1, 2016; (ii) provides information regarding the number of non-qualified stock options and shares of restricted stock that were antidilutive and therefore disregarded in calculating the weighted average number of shares outstanding used in computing diluted EPS; and (iii) provides the number of shares of common stock issued from the exercise of stock options and the release of restricted stock (in thousands):

	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Diluted:				
Basic weighted average shares outstanding	119,206	119,850	119,360	120,330
Dilutive potential common shares (1)	1,873	1,596	2,207	1,198
Diluted weighted average shares				
outstanding	121,079	121,446	121,567	121,528
Antidilutive stock options and restricted				
stock	460	2,152	107	2,871
Shares of common stock issued from the				
exercise of stock options and the				
release of restricted stock	606	534	1,973	1,049

(1) Diluted earnings per share include any dilutive impact of stock options, restricted stock units, performance-based restricted stock units and performance awards.

Share Repurchases

On July 23, 2015, the Company's Board of Directors authorized a share repurchase program of up to \$500 million of the Company's common stock. The following table summarizes the activity under this program from the authorization date (in thousands, except per-share amounts):

	Average Price Per	Total Shares	Shares
Amount Authorized	Share (1)	Retired	Repurchased
\$ 500,000	\$ 48.44	5,156	5,156

(1) Includes commissions paid and calculated at the average price per share since the repurchase program authorization date.

Share repurchases may be executed through various means including, without limitation, open market transactions, privately negotiated transactions or otherwise. The share repurchase program does not obligate the Company to purchase any shares and expires on July 22, 2018. The authorization for the share repurchase program may be terminated, increased or decreased by the Company's Board of Directors in its discretion at any time. The timing of share repurchases may depend upon market conditions, other uses of capital, and other factors.

Dividend Program

On December 1, 2016, the Company announced that the Board of Directors has approved the initiation of a cash dividend program. A quarterly dividend of \$0.15 per share was paid on June 16, 2017, to shareholders of record as of the close of business on May 19, 2017. On July 18, 2017, the Company's Board of Directors declared a quarterly cash dividend of \$0.15 per share to be paid on September 1, 2017 to shareholders of record as of the close of business on August 4, 2017. Future dividend payments are subject to review and approval by the Company's Board of Directors.

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Subsequent Events

Merger Agreement

On August 1, 2017, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with CH2M HILL Companies, Ltd. (“CH2M”), and Basketball Merger Sub Inc., a direct wholly-owned subsidiary of the Company (“Merger Sub”). Pursuant to and subject to the terms and conditions of the Merger Agreement, (i) Merger Sub will merge with and into CH2M, with CH2M continuing as the surviving corporation and becoming a wholly-owned subsidiary of the Company (the “Merger”) and (ii) each outstanding share of common stock of CH2M will be converted into the right to receive, at the election of the holder thereof in accordance with, and subject to, the terms, conditions and procedures set forth in the Merger Agreement, in each case without interest the following consideration: (a) the combination of (x) \$52.85 in cash and (y) 0.6677 shares of common stock, par value \$1.00 per share, of the Company; (b) \$88.08 in cash; or (c) 1.6693 shares of the Company’s common stock.

The Company expects to finance the \$2.4 billion in cash required for the transaction through a combination of cash on hand, borrowings under the Company’s existing revolving credit facility and \$1.2 billion of new committed 3-year term debt. The Merger is subject to the satisfaction of customary closing conditions, including regulatory approvals and approval by CH2M stockholders.

Commitment Letters

On August 1, 2017, the Company entered into a commitment letter pursuant to which BNP Paribas, BNP Paribas Securities Corp. and The Bank of Nova Scotia committed to provide a three-year senior unsecured delayed-draw term loan facility in an aggregate principal amount of \$1.2 billion to finance the Merger, subject to customary conditions.

On August 1, 2017, the Company entered into a commitment letter with BNP Paribas, BNP Paribas Securities Corp. and The Bank of Nova Scotia in order to backstop its existing revolving credit facility in the event that the Company is not able to obtain the certain consents to its existing revolving credit agreement, subject to customary conditions.

Commitments and Contingencies

In the normal course of business, we are subject to certain contractual guarantees and litigation. The guarantees to which we are a party generally relate to project schedules and plant performance. Most of the litigation in which we are involved has us as a defendant in workers’ compensation, personal injury, environmental, employment/labor, professional liability, and other similar lawsuits.

We maintain insurance coverage for various aspects of our business and operations. Our insurance programs have varying coverage limits and maximums, and insurance companies may seek to not pay any claims we might make. We have also elected to retain a portion of losses that occur through the use of various deductibles, limits, and retentions

under our insurance programs. As a result, we may be subject to future liability for which we are only partially insured or completely uninsured. We intend to mitigate any such future liability by continuing to exercise prudent business judgment in negotiating the terms and conditions of our contracts. Our insurers are also subject to business risk and, as a result, one or more of them may be unable to fulfill their insurance obligations due to insolvency or otherwise.

Additionally, as a contractor providing services to the U.S. federal government and several of its agencies, we are subject to many levels of audits, investigations, and claims by, or on behalf of, the U.S. federal government with respect to our contract performance, pricing, costs, cost allocations, and procurement practices. Furthermore, our income, franchise, and similar tax returns and filings are also subject to audit and investigation by the Internal Revenue Service, most states within the U.S., as well as by various government agencies representing jurisdictions outside the U.S.

We record in our Consolidated Balance Sheets amounts representing our estimated liability relating to such claims, guarantees, litigation, and audits and investigations. We perform an analysis to determine the level of reserves to establish for insurance-related claims that are known and have been asserted against us, and for insurance-related claims that are believed to have been incurred based on actuarial analysis, but have not yet been reported to our claims administrators as of the respective balance sheet dates. We include any adjustments to such insurance reserves in our consolidated results of operations.

The Company believes, after consultation with counsel, that such guarantees, litigation, U.S. government contract-related audits, investigations and claims, and income tax audits and investigations should not have any material adverse effect on our consolidated financial statements.

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On September 30, 2015, Nui Phao Mining Company Limited (“NPMC”) commenced arbitration proceedings against Jacobs E&C Australia Pty Limited (“Jacobs E&C”). The arbitration is pending in Singapore before the Singapore International Arbitration Centre. In March 2011, Jacobs E&C was engaged by NPMC for the provision of management, design, engineering, and procurement services for the Nui Phao mine/mineral processing project in Vietnam. In the Notice of Arbitration and in a subsequently filed Statement of Claim and Supplementary Statement of Claim dated February 1, 2016 and February 26, 2016, respectively, NPMC asserts various causes of action and alleges that the quantum of its claim exceeds \$167 million. Jacobs has denied liability and is vigorously defending this claim. A hearing on the merits has been set for November 2017. The Company does not expect the resolution of this matter to have a material adverse effect on its financial condition, results of operations and/or cash flows.

On December 7, 2009, the Judicial Council of California, Administrative Office of the Courts (“AOC”) initiated an action in the San Francisco County Superior Court against Jacobs Facilities Inc. (“JFI”) and Jacobs Project Management (“JPM”) and subsequently added Jacobs as a defendant. The action arises out of a contract between AOC and JFI pursuant to which JFI provided regular maintenance and repairs at certain AOC court facilities. AOC has alleged, among other things, that the Jacobs entities are required under California’s Contractors’ State License Law (“CSLL”) to disgorge certain fees paid by AOC, and the Jacobs entities have, among other things, cross-claimed for unpaid sums for work performed. On May 2, 2012, the jury returned a special verdict in favor of the Jacobs entities finding, among other things, JPM was owed approximately \$4.7 million in unpaid fees and that JFI was not required to disgorge the approximate \$18.3 million that AOC had paid for work performed.

On August 20, 2015, the California Court of Appeal reversed the jury’s verdict, holding that JFI had violated the CSLL. The Court of Appeal remanded to the San Francisco County Superior Court for an evidentiary hearing to determine whether the JFI had “substantially complied” with the CSLL under California Business and Professions Code Section 7031(e). Establishing “substantial compliance” would prevent \$18.3 million in disgorgement against Jacobs and permit Jacobs to recover \$4.7 million. The evidentiary hearing on substantial compliance was conducted between July 18 and August 5, 2016. On December 29, 2016, the court issued a Statement of Decision in favor of the Company, finding that Jacobs Facilities had substantially complied with the CSLL, and entered a judgment in favor of JPM in the amount of \$4.7 million plus prejudgment interest. On January 30, 2017, AOC filed a notice of appeal. The Company does not expect the resolution of this matter to have a material adverse effect on its financial condition, results of operations and/or cash flows.

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

The purpose of this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is to provide a narrative analysis explaining the reasons for material changes in the Company's (i) financial condition from the most recent fiscal year-end to June 30, 2017, and (ii) results of operations during the current fiscal period(s) as compared to the corresponding period(s) of the preceding fiscal year. In order to better understand such changes, readers of this MD&A should also read:

- The discussion of the critical and significant accounting policies used by the Company in preparing its consolidated financial statements. The most current discussion of our critical accounting policies appears in Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2016 Form 10-K, and the most current discussion of our significant accounting policies appears in Note 2—Significant Accounting Policies in Notes to Consolidated Financial Statements of our 2016 Form 10-K;
- The Company's fiscal 2016 audited consolidated financial statements and notes thereto included in our 2016 Form 10-K; and
- Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2016 Form 10-K.

In addition to historical information, this MD&A and other parts of this Quarterly Report on Form 10-Q may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements are statements that do not directly relate to any historical or current fact. When used herein, words such as "expects," "anticipates," "believes," "seeks," "estimates," "plans," "intends," "future," "will," "would," "may," and similar words are intended to identify forward-looking statements. You should not place undue reliance on these forward-looking statements. Although such statements are based on management's current estimates and expectations, and/or currently available competitive, financial, and economic data, forward-looking statements are inherently uncertain and involve risks and uncertainties that could cause our actual results to differ materially from what may be inferred from the forward-looking statements. Some of the factors that could cause or contribute to such differences include, but are not limited to, those listed and discussed in Item 1A—Risk Factors, included in our 2016 Form 10-K. We undertake no obligation to release publicly any revisions or updates to any forward-looking statements. We encourage you to read carefully the risk factors described in our 2016 Form 10-K and in other documents we file from time to time with the United States Securities and Exchange Commission.

Reorganization Under Lines of Business

During the second fiscal quarter of 2016, we reorganized our operations around four global lines of business ("LOB"), which also serve as our operating segments: Petroleum & Chemicals, Buildings & Infrastructure, Aerospace & Technology, and Industrial. We determined that this new organization would better support the needs of managing each unique set of customers that fall within each segment. As a result of the reorganization, we subsequently realigned our internal reporting structures to enable our Chief Executive Officer, who is also our Chief Operating Decision Maker ("CODM"), to evaluate the performance of each of these segments and make appropriate resource allocations among each of the segments. As part of the reorganization, the sales function, which had been managed centrally for many years, is now embedded in the new segments and reports to the respective LOB presidents.

Aerospace and Technology – We provide an in-depth range of scientific, engineering, construction, nuclear and technical support services to the aerospace, defense, technical and automotive industries in several countries. Long-term clients include the Ministry of Defence in the U.K., the UK Nuclear Decommissioning Authority, NASA, the U.S. Department of Defense ("DoD"), the U.S. Special Operations Command ("USSOCOM"), the U.S. Intelligence

community, and the Australian Department of Defence. Specific to NASA, one of our major government customers in the U.S., is our ability to design, build, operate, and maintain highly complex facilities relating to space systems, including test and evaluation facilities, launch facilities, and support infrastructure. We provide environmental characterization and restoration services to commercial and government customers both in the U.S. and U.K. This includes designing, building and operating high hazard remediation systems including for radiologically contaminated media.

In addition, we design and build aerodynamic, climatic, altitude and acoustic facilities in support of the automotive industry, as well as provide a wide range of services in the telecommunications market.

Our experience in the defense sector includes military systems acquisition management and strategic planning; operations and maintenance of test facilities and ranges; test and evaluation services in computer, laboratory, facility, and range environments; test facility computer systems instrumentation and diagnostics; and test facility design and build. We also provide systems engineering and integration of complex weapons and space systems, as well as hardware and software design of complex flight and ground systems.

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We have provided advanced technology engineering services to the DoD for more than 50 years, and currently support major defense programs in the U.S. and internationally. We operate and maintain several DoD test centers and provide services and assist in the acquisition and development of systems and equipment for Special Operations Forces, as well as the development of biological, chemical, and nuclear detection and protection systems.

We maintain enterprise information systems for government and commercial clients worldwide, ranging from the operation of complex computational networks to the development and validation of specific software applications. We also support the DoD and the intelligence community in a number of information technology programs, including network design, integration, and support; command and control technology; development and maintenance of databases and customized applications; and cyber security solutions.

Buildings & Infrastructure – We provide services to transit, aviation, built environment, mission critical, rail, and civil construction projects throughout North America, Europe, India, the Middle East, Australia, and Asia. Our representative clients include national government departments/agencies in the U.S., U.K., Australia, and Asia, state and local departments of transportation within the U.S, and private industry freight transport firms.

Typical projects include providing development/rehabilitation plans for highways, bridges, transit, tunnels, airports, railroads, intermodal facilities, and maritime or port projects. Our interdisciplinary teams can work independently or as an extension of the client's staff. We have experience with alternative financing methods, which have been used in Europe through the privatization of public infrastructure systems.

Our water infrastructure group aids emerging economies, which are investing heavily in water and wastewater systems, and governments in North America and Europe, which are addressing the challenges of drought and an aging infrastructure system. We develop or rehabilitate critical water resource systems, water/wastewater conveyance systems, and flood defense projects.

We also plan, design, and construct buildings for a variety of clients and markets. We believe our global presence and understanding of contracting and delivery demands keep us well positioned to provide professional services worldwide. Our diversified client base encompasses both public and private sectors and relates primarily to institutional, commercial, government and corporate buildings, including projects at many of the world's leading medical and research centers, and universities. We focus our efforts and resources in two areas: where capital-spending initiatives drive demand, and where changes and advances in technology require innovative, value-adding solutions. We also provide integrated facility management services (sometimes through joint ventures with third parties) for which we assume responsibility for the ongoing operation and maintenance of entire commercial or industrial complexes on behalf of clients.

We have specific capabilities in energy and power, master planning, and commissioning of office headquarters, aviation facilities, mission-critical facilities, municipal and civic buildings, courts and correctional facilities, mixed-use and commercial centers, healthcare and education campuses, and recreational complexes. For advanced technology clients, who require highly specialized buildings in the fields of medical research, nano science, biotechnology, and laser sciences, we offer total integrated design and construction management solutions. We also have global capabilities in the pharma-bio, data center, government intelligence, corporate headquarters/interiors, and science and technology-based education markets. Our government building projects include large, multi-year programs in the U.S. and Europe supporting various U.S. and U.K. government agencies

Industrial – We provide engineering, procurement, project management, construction, and on-site maintenance to our global clients in the Life Sciences, Mining & Minerals, Specialty Chemicals & Manufacturing and Field Services

markets. We provide our Life Sciences clients single-point consulting, engineering, procurement, construction management, and validation project delivery, enabling us to execute capital programs on a single-responsibility basis. Typical projects in the life sciences sector include laboratories, research and development facilities, pilot plants, bulk active pharmaceutical ingredient production facilities, full-scale biotechnology production facilities, and tertiary manufacturing facilities.

We provide services relating to modular construction, as well as other consulting and strategic planning to help our clients complete capital projects faster and more efficiently.

In addition, we offer services in containment, barrier technology, locally controlled environments, building systems automation, and off-the-site design and fabrication of facility modules, as well as vaccine production and purification, and aseptic processing.

Our mining and minerals business targets the non-ferrous and ferrous metal markets, precious metals, energy minerals (uranium, coal, oil sands), and industrial and fertilizer minerals (borates, trona, phosphates and potash). We work with many resource companies undertaking new and existing facility upgrades, process plant and underground and surface material handling and infrastructure developments.

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We offer project management, front-end studies, full engineering, procurement and construction management (“EPCM”) and engineering, procurement and construction (“EPC”) capabilities, and completions, commissioning and start-up services specializing in new plant construction, brownfield expansions, and sustaining capital and maintenance projects. We are also able to deliver value to our mining clients by providing distinctive adjacent large infrastructure capabilities to support their mining operations.

We provide a wide range of services, technology and manufactured equipment through our specialty chemicals group, where we own and license our proprietary technology. Our specialty chemicals areas are focused on sulfuric acid, sulphur, bleaching chemicals for pulp & paper, and synthetic chemicals, and manufactured equipment. Our manufacturing business areas include the Food & Beverage, Consumer Products, Semi-Conductor, and Pulp & Paper markets.

Our global Field Services unit supports construction and operations and maintenance (“O&M”) across the company, and performs our direct hire services.

Our construction activities include providing both construction management services and traditional field construction services to our clients. Historically, our field construction activities focused primarily on those construction projects where we perform much of the related engineering and design work (EPC/EPCM). However, we deliver construction-only projects when we have negotiated pricing and other contract terms we deem acceptable and which result in a fair return for the degree of risk we assume.

In our O&M business, we provide all services required to operate and maintain large, complex facilities on behalf of clients including asset management, direct hire maintenance and operations, complex turn-around planning and execution, and small capital programs. We provide key management and support services over all aspects of the operations of a facility, including managing subcontractors and other on-site personnel.

Petroleum & Chemicals – We provide integrated delivery of complex projects for our Oil and Gas, Refining, and Petrochemicals clients. Bridging the upstream, midstream and downstream industries, our services encompass consulting, engineering, procurement, construction, maintenance, and project management.

We provide services relating to onshore and offshore oil and gas production facilities, including fixed and floating platforms and subsea tie-backs, as well as full field development solutions, including processing facilities, gathering systems, transmission pipelines and terminals. Our heavy oil experience makes us a leader in upgrading, steam-assisted gravity drainage and in-situ oil sands projects. We have developed modular well pad and central processing facility designs. We also provide fit-for-purpose and standardized designs in the onshore conventional and unconventional space, paying particular attention to water and environmental issues.

In addition, we provide our refining customers with feasibility/economic studies, technology evaluation and conceptual engineering, front end loading (FEED), detailed engineering, procurement, construction, maintenance and commissioning services. We deliver installed EPC solutions as to grass root plants, expansions and revamps of existing units. Our focus is on both the inside the battery limit (ISBL) processing units as well as utilities and off-sites. We have engineering alliances and maintenance programs that span decades with core clients. With the objective of driving our clients’ total installed costs down, we endeavor to leverage emerging market sourcing and high value engineering. Our Comprimo Sulfur Solutions® is a significant technology for gas treatment and sulfur recovery plants around the world.

We provide services as to technically complex petrochemical facilities; from new manufacturing complexes, to expansions and modifications and management of plant relocations. We have experience with many licensed technologies, integrated basic petrochemicals, commodity and specialty chemicals projects, and olefins, aromatics, synthesis gas and their respective derivatives.

Restructuring and Other Charges

During the second fiscal quarter of 2015, the Company began implementing a series of initiatives intended to improve operational efficiency, reduce costs, and better position itself to drive growth of the business in the future (the “2015 Restructuring”). The 2015 Restructuring was not completed in fiscal 2015, and actions related to the 2015 Restructuring continued into fiscal 2016 and 2017. Actions related to the 2015 Restructuring include involuntary terminations, the abandonment of certain leased offices, combining operational organizations, and the co-location of employees into other existing offices. The Company’s consolidated results of operations for the third fiscal quarters of 2017 and 2016 include \$9.5 million and \$32.9 million, respectively, and \$92.1 million and \$136.7 million for the nine month periods ended June 30, 2017 and 2016, respectively, of pre-tax costs associated with the 2015 Restructuring.

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The following table summarizes the major type of restructuring costs under the 2015 Restructuring for the three and nine month periods ended June 30, 2017 and July 1, 2016 (in thousands):

	Three Months Ended June 30, 2017		For the Nine Months Ended June 30, 2017	
	July 1, 2016		July 1, 2016	
Lease Abandonments	\$2,712	\$10,300	\$47,313	\$74,571
Involuntary Terminations	4,120	20,359	32,606	58,648
Outside Services	684	2,076	4,236	3,267
Other restructuring related	1,938	185	7,906	185
Total	\$9,454	\$32,920	\$92,061	\$136,671

While the 2015 Restructuring was substantially completed in fiscal second quarter 2017, approximately \$9.5 million in additional costs associated with previously identified restructuring activities were recognized this quarter for accounting purposes. The Company expects annual savings from the 2015 Restructuring upon its completion to approximate \$285 million per year.

Also, during the second fiscal quarter of 2017, the Company entered into strategic business restructuring activities associated with realignment of its Europe, U.K. and Middle East regional operations in our B&I segment. Pre-tax net charges of \$22.6 million were recorded associated mainly with net realizable value write-offs on contract accounts receivable of \$16.5 million, with additional charges recorded for statutory redundancy and severance costs of \$1.4 million and other liabilities of \$4.7 million which are both expected to be paid or settled within the next 12 months. Additional charges of \$1.2 million were recorded under this business exit during third quarter fiscal 2017 associated mainly with contract accounts receivable charges. Further, management has determined that these business restructuring activities do not qualify for discontinued operations treatment in accordance with U.S. GAAP as the associated businesses were not material.

Collectively, the 2015 Restructuring and the above mentioned business restructuring activities in the Europe, U.K. and Middle East region are referred to as “Restructuring and Other Charges”. The following table summarizes the effects of Restructuring and Other Charges in the Company’s consolidated results of operations for the three and nine months period ended June 30, 2017 and July 1, 2016, respectively (in thousands, except for earnings per share):

	Three Months Ended June 30, 2017			Nine Months Ended June 30, 2017		
	U.S. GAAP	Effects of Restructuring and Other Charges	Without Restructuring and Other Charges	U.S. GAAP	Effects of Restructuring and Other Charges	Without Restructuring and Other Charges
Revenues	\$2,514,751	\$ 997	\$ 2,515,748	\$7,368,922	\$ 17,526	\$ 7,386,448
Direct cost of contracts	2,055,386	(249)	2,055,137	6,070,961	(4,913)	6,066,048
	330,890	(9,454)	321,436	1,012,685	(92,228)	920,457

Selling, general and administrative expenses						
Total other (expense) income, net	(1,079)	—	(1,079)	(11,509)	1,233	(10,276)
Earnings Before Taxes	127,396	10,700	138,096	273,767	115,900	389,667
Income Tax (Expense) Benefit	(38,767)	(4,158)	(42,925)	(79,820)	(36,683)	(116,503)
Net earnings of the Group	88,629	6,542	95,171	193,947	79,217	273,164
Net Earnings (Losses)						
Attributable to Noncontrolling Interests	403	(249)	154	5,639	(4,913)	726
Net earnings Attributable to Jacobs	\$89,032	\$ 6,293	\$95,325	\$199,586	\$ 74,304	\$273,890
Diluted earnings per share	\$0.74	\$ 0.05	\$0.79	\$1.64	\$ 0.61	\$2.25
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	Three Months Ended July 1, 2016			Nine Months Ended July 1, 2016		
	U.S. GAAP	Without Effects of 2015 Restructuring	2015 Restructuring	U.S. GAAP	Without Effects of 2015 Restructuring	2015 Restructuring
Revenues	\$2,693,873	\$ —	\$ 2,693,873	\$8,323,570	\$ —	\$ 8,323,570
Direct cost of contracts	2,242,424	—	2,242,424	6,987,431	—	6,987,431
Selling, general and administrative expenses	341,893	(32,828)	309,065	1,080,352	(136,394)	943,958
Total other income (expense), net	(6,749)	92	(6,657)	(4,737)	277	(4,460)
Earnings Before Taxes	102,807	32,920	135,727	251,050	136,671	387,721
Income Tax (Expense) Benefit	(31,870)	(7,148)	(39,018)	(66,418)	(37,063)	(103,481)
Net earnings of the Group	70,937	25,772	96,709	184,632	99,608	284,240
Net Earnings (Losses) Attributable to Noncontrolling Interests	(1,882)	—	(1,882)	(3,813)	—	(3,813)
Net earnings Attributable to Jacobs	\$69,055	\$ 25,772	\$ 94,827	\$180,819	\$ 99,608	\$ 280,427
Diluted earnings per share	\$0.57	\$ 0.21	\$ 0.78	\$1.49	\$ 0.82	\$ 2.31

Overview – Three and Nine Months Ended June 30, 2017

Net earnings for the third fiscal quarter of 2017 ended June 30, 2017 were \$89.0 million (or \$0.74 per diluted share), an increase of \$20.0 million, or 28.9%, from \$69.1 million (or \$0.57 per diluted share) for the corresponding period last year. For the nine months ended June 30, 2017 net earnings were \$199.6 million (or \$1.64 per diluted share), an increase of \$ 18.8 million, or 10.4%, from \$180.8 million (or \$1.49 per diluted share) for the corresponding period last year. Excluding the effects of Restructuring and Other Charges occurring in the third fiscal quarter of 2017 and 2016, adjusted net earnings were \$95.3 million (or \$0.79 per diluted share), an increase of \$0.5 million, or 0.5%, from \$94.8 million (or \$0.78 per diluted share) for the corresponding period last year. Excluding the effects of Restructuring and Other Charges occurring in the nine months ended June 30, 2017 and July 1, 2016, adjusted net earnings were \$273.9 million (or \$2.25 per diluted share), a decrease of \$ 6.5 million, or 2.3%, from \$280.4 million (or \$2.31 per diluted share) for the corresponding period last year.

Results of Operations

Total revenues for the third fiscal quarter of 2017 were \$2.51 billion, a decrease of \$179.1 million, or 6.6% from \$2.69 billion for the corresponding period last year. For the nine months ended June 30, 2017, total revenues were

\$7.37 billion, a decrease of \$954.6 million, or 11.5%, from \$8.32 billion for the corresponding period last year. The decrease in revenues was due primarily to lower volumes in the Petroleum & Chemicals, Aerospace & Technology and Industrial LOB's, partially offset by an increase in volume in the Buildings & Infrastructure LOB. These lower volumes were driven mainly by lower field services volume, primarily with P&C customers and the timing of project completions versus new project timing.

Direct costs of contracts for the third fiscal quarter of 2017 were \$2.1 billion, a decrease of 187.0 million, or 8.3%, from \$2.2 billion for the corresponding period last year. Direct costs of contracts for the nine months ended June 30, 2017 were \$6.1 billion, a decrease of \$916.5 million, or 13.1%, from \$7.0 billion for the corresponding period last year. Direct costs of contracts include all costs incurred in connection with and directly for the benefit of client contracts, including depreciation and amortization relating to assets used in providing the services required by the related projects. The level of direct costs of contracts may fluctuate between reporting periods due to a variety of factors, including the amount of pass-through costs we incur during a period. On those projects where we are responsible for subcontract labor or third-party materials and equipment, we reflect the amounts of such items in both revenues and costs (and we refer to such costs as "pass-through costs"). On other projects where the client elects to pay for such items directly and we have no associated responsibility for such items, these amounts are not considered pass-through costs and are, therefore, not reflected in either revenues or costs. To the extent that we incur a significant amount of pass-through costs in a period, our direct costs of contracts are likely to increase as well.

Pass-through costs included in revenues for the third fiscal quarter of 2017 were \$628.1 million, an increase of \$11.9 million, or 1.9%, from \$616.2 million for the corresponding period last year. Pass-through costs included in revenues for the nine months ended June 30, 2017 were \$1.9 billion and in line with amounts in the corresponding period last year. In general, pass-through costs are more significant on projects that have a higher content of field services activities. Pass-through costs are generally incurred at specific points during the life cycle of a project and are highly dependent on the needs of our individual clients and the nature of the clients' projects. However, because we have hundreds of projects which start at various times within a fiscal year, the effect of pass-through costs on the level of direct costs of contracts can vary between fiscal years without there being a fundamental or significant change to the underlying business.

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As a percentage of revenues, direct costs of contracts for the three and nine months ended June 30, 2017 was 81.7% and 82.4%, respectively. This compares to 83.2% and 83.9% for the three and nine months ended July 1, 2016. The relationship between direct costs of contracts and revenues will fluctuate between reporting periods depending on a variety of factors including the mix of business during the reporting periods being compared as well as the level of margins earned from the various types of services provided. Generally, the more procurement we do on behalf of our clients (e.g., where we purchase equipment and materials for use on projects and/or procure subcontracts in connection with projects) and the more field services revenues we have relative to technical, professional services revenues, the higher the ratio will be of direct costs of contracts to revenues. Because revenues from pass-through cost arrangements typically have lower margin rates associated with them, it is not unusual for us to experience an increase or decrease in such revenues without experiencing a proportionate increase or decrease in our gross margins and operating profit. The reduction in cost relative to revenue is driven by both 1) our strategic focus on realigning our portfolio to higher profit businesses and 2) a reduction in field services revenue, which tends to have a lower margin, as a percent of total revenue resulting in higher margin overall.

SG&A expenses for the three months ended June 30, 2017 were \$330.9 million, a decrease of \$11.0 million, or 3.2%, from \$341.9 million for the corresponding period last year. SG&A expenses for the nine months ended June 30, 2017 were \$1,012.7 million, a decrease of \$67.7 million, or 6.3%, from \$1,080.4 million for the corresponding period last year. The decrease in SG&A expenses for the three month comparative periods was due mainly to lower Restructuring and Other Charges of \$22.2 million and related savings from the 2015 Restructuring of \$15.9 million, partly offset by approximately \$27 million in higher costs due mainly to personnel related costs and professional service fees. The decrease in SG&A expenses for the nine month comparative periods was due mainly to lower Restructuring and Other Charges of \$20.8 million and related savings from the 2015 Restructuring of \$82.0 million, partly offset by approximately \$35.0 million in higher costs due mainly to personnel related costs and professional service fees.

Net interest expense for the three months ended June 30, 2017 was \$1.9 million, a decrease of \$2.0 million from \$3.9 million for the corresponding period last year. Net interest expense for the nine months ended June 30, 2017 was \$5.6 million, an increase of \$0.4 million from \$5.2 million for the corresponding period last year. The decrease in interest expense for the three months ended June 30, 2017 as compared to the corresponding period last year was due primarily to an increase in interest income of \$1.5 million. The increase in interest expense for the nine months ended June 30, 2017 as compared to the corresponding period last year was due primarily to a reversal of \$2.7 million of accrued interest expense related to the statute expiration of a foreign tax reserve, which did not recur in fiscal 2017, offset by a \$0.6 million increase in interest income and a reduction of \$1.0 million in interest expense related to an international tax liability and a \$0.5 million reduction in miscellaneous interest expense.

Miscellaneous income (expense), net for the three months ended June 30, 2017 was \$0.9 million, in comparison to \$(2.8) million for the corresponding period last year. This change was due primarily to gains on sale of office space in our India and U.S. operations of \$2.0 million, lower year over year foreign exchange losses and other during the 2017 period. For the nine months ended June 30, 2017, miscellaneous income (expense) was \$(5.9) million, as compared to \$0.5 million for the corresponding period last year. This change was due primarily to a reversal in fiscal 2016 of \$5.1 million of accrued penalties related to the statute expiration of a foreign tax reserve, which did not recur in fiscal 2017.

The Company's consolidated effective income tax rate for the three months ended June 30, 2017 was 30.4%, down from 31.0% for the corresponding period last year. This decline was mainly attributable to increased year over year benefits from favorable changes in geographic income mix for the three month. On a comparative basis, the favorable impact of the changes in geographic mix was partially offset by the absence of net favorable rate impacts in third

quarter fiscal 2016 discrete tax items consisting of 1) a favorable income tax reserve release of \$4.5 million due to the expiration of a statute of limitations, 2) a \$5.7 million benefit related to an amended tax return to claim additional benefits for foreign tax credits and a US IRC section 179D deduction and 3) an offsetting unfavorable \$8.8 million in return to accrual adjustments.

The Company's consolidated effective income tax rate for the nine months ended June 30, 2017 increased to 29.2% from 26.5% for the corresponding period last year. The primary driver contributing to this increase was the absence of an \$11.2 million valuation allowance release in the first nine months of fiscal 2016 pertaining to certain foreign net operating losses, as well as the absence of the third quarter fiscal 2016 discrete items mentioned above. The unfavorable comparative impact of these items were offset in part by favorable changes in geographic income mix during the nine months fiscal 2017 and a \$3.3 million favorable benefit of nontaxable income received by a foreign affiliate in second quarter fiscal 2017.

The amount of income taxes the Company pays is subject to ongoing audits by tax jurisdictions around the world. In the normal course of business, the Company is subject to examination by tax authorities throughout the world, including such major jurisdictions as Australia, Canada, India, the Netherlands, the United Kingdom and the United States. Our estimate of the potential outcome of any uncertain tax issue is subject to our assessment of the relevant risks, facts, and circumstances existing at the time. The Company

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believes that it has adequately provided for reasonably foreseeable outcomes related to these matters. However, future results may include favorable or unfavorable adjustments to our estimated tax liabilities in the period the assessments are made or resolved, which may impact our effective tax rate.

It is reasonably possible that, during the next 12 months, we may realize a decrease in our uncertain tax positions of approximately \$11.0 million (being realized as a reduction in income tax expense) as a result of concluding various tax audits and closing tax years.

Segment Financial Information

The following table provides selected financial information for our operating segments and includes a reconciliation of segment operating profit to total USGAAP operating profit by including certain corporate-level expenses and expenses relating to Restructuring and Other Charges (in thousands).

	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Revenues from External Customers:				
Aerospace & Technology	\$585,432	\$667,785	\$1,739,908	\$2,007,440
Buildings & Infrastructure	647,252	553,546	1,813,111	1,696,004
Industrial	681,588	705,996	2,015,784	2,044,652
Petroleum & Chemicals	600,479	766,546	1,800,119	2,575,474
Total	\$2,514,751	\$2,693,873	\$7,368,922	\$8,323,570
	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Operating Profit:				
Aerospace & Technology	\$50,591	\$53,741	\$146,735	\$156,861
Buildings & Infrastructure (1)	56,173	50,168	138,957	133,083
Industrial	32,347	28,444	81,549	68,216
Petroleum & Chemicals	29,055	29,646	88,326	92,194
Total Segment Operating Profit	168,166	161,999	455,567	450,354
Other Corporate Expenses	(28,991)	(19,523)	(54,392)	(57,896)
Restructuring and Other Charges	(10,700)	(32,920)	(115,899)	(136,671)
Total USGAAP Operating Profit	128,475	109,556	285,276	255,787
Total Other (Expense) income	(1,079)	(6,657)	(10,276)	(4,460)
Total Other (Expense) income - Restructuring	—	(92)	(1,233)	(277)
Earnings Before Taxes	\$127,396	\$102,807	\$273,767	\$251,050

(1)

Excludes \$1,246 and \$23,844 in restructuring and other charges for the three and nine month periods ended June 30, 2017.

In evaluating the Company's performance by operating segment, the CODM reviews various metrics and statistical data for each LOB but focuses primarily on revenues and operating profit. As discussed above, segment operating profit includes not only local SG&A expenses but the SG&A expenses of the Company's support groups that have been allocated to the segments. In addition, the Company attributes each LOB's specific incentive compensation plan costs to the LOBs. The revenues of certain LOBs are more affected by pass-through revenues than other LOBs. The methods for recognizing revenue, incentive fees, project losses, and change orders are consistent among the LOBs.

Aerospace & Technology

	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Revenue	\$585,432	\$667,785	\$1,739,908	\$2,007,440
Operating Profit	50,591	53,741	146,735	156,861

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Aerospace & Technology segment revenues for the three months ended June 30, 2017 was \$585.4 million, down \$82.4 million, or 12.3%, from \$667.8 million for the corresponding period last year. For the nine months ended June 30, 2017, revenues for this segment were \$1.74 billion, down \$267.5 million, or 13.3%, from \$2.01 billion for the corresponding period last year. The decrease in revenues for both periods was mainly in our U.S. government business sector, where rebid losses and small business award preferences drove the declines. Unfavorable foreign currency impacts of \$5 million and \$22 million also contributed to these year over year declines for the respective three and nine month periods. These unfavorable items were partially offset by positive gains from organic growth and improvement in our tele-communications sector, our NASA projects and our projects for the Ministry of Defence in Australia.

Operating profit for the segment was \$50.6 million for the three months ended June 30, 2017, down \$3.1 million, or 5.9% from \$53.7 million for the corresponding period last year. Operating profit for the nine months ended June 30, 2017 was \$146.7 million, down \$10.1 million, or 6.5% from \$156.9 million for the same period last year. The decrease in profitability for both periods was due primarily to the revenue declines in the U.S. government business sector mentioned above, as well as lower equity income from our U.K. joint venture of \$2.3 million and \$7.0 million for the three and nine month comparative periods for fiscal 2017 versus 2016 and mostly associated with year over year declines in project funding.

Buildings & Infrastructure

	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Revenue	\$647,252	\$553,546	\$1,813,111	\$1,696,004
Operating Profit	56,173	50,168	138,957	133,083

Buildings & Infrastructure revenues for the three months ended June 30, 2017 were \$647.3 million, up \$93.7 million, or 16.9%, compared to \$553.5 million for the comparative period in 2016. Revenues for the nine month period ended June 30, 2017 were \$1.81 billion, an increase of \$117.1 million, or 6.9%, versus \$1.70 billion for the comparable period in 2016. The year over year increases in revenues for both the three and nine month periods were due mainly to U.S. client spending level increases in the project-management/construction-management ("PMCM") market. Year over year impacts on revenues from unfavorable foreign currency were approximately \$10 million and \$40 million for the three and nine months periods, respectively.

Operating profit for Buildings & Infrastructure for the three months ended June 30, 2017 was \$56.2 million, an increase of \$6.0 million, or 12.0%, from \$50.2 million for third quarter fiscal 2016. For the nine months ended June 30, 2017, operating profit for the segment was \$139.0 million, up \$5.9 million, or 4.4%, compared to \$133.1 million for the nine month period in 2016. Excluded from the reported operating profit amounts for the three and nine month periods ending June 30, 2017 were \$1.2 million and \$23.8 million, respectively, in Restructuring and Other Charges related to strategic business restructuring activities in our U.K, Middle East and Europe businesses. Increases in profitability for both periods in 2017 over 2016 were due mainly to higher revenue from the U.S. PMCM projects which more than offset a contract settlement charge of \$6.0 million during the second fiscal quarter of 2017.

Industrial

	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Revenue	\$681,588	\$705,996	\$2,015,784	\$2,044,652
Operating Profit	32,347	28,444	81,549	68,216

Industrial revenues for the three months ended June 30, 2017 were \$681.6 million, a decrease of \$24.4 million, or 3.5%, versus \$706.0 million from the corresponding period last year. For the nine months ended June 30, 2017 revenues were \$2.02 billion versus \$2.04 billion for the same period in 2016, down slightly by \$28.9 million, or 1.4%. The slight decrease in revenues for the three month comparative periods was due mainly to declines in the Field Services business of \$87 million resulting from the completion of a number of construction projects, as well as unfavorable impacts from foreign currency. These declines were offset in part by higher revenues in Life Sciences of approximately \$67.0 million based on increased large program spending. For the comparative nine month periods, the decrease in revenues was due mainly to \$181.0 million in revenue declines from Field Services project completions, weaker market conditions in the Mining and Minerals businesses and unfavorable foreign currency impacts, partially offset by \$195.0 million in higher revenues associated with increased client major capex spending in the Life Sciences business.

Operating profit for the three months ended June 30, 2017 was \$32.3 million, an increase of \$3.9 million, or 13.7%, compared to \$28.4 million for the corresponding period last year. For the nine months ended June 30, 2017, operating profit was \$81.5 million, up

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\$13.3 million, or 19.5%, from \$68.2 million for the corresponding period last year. The increase in profitability for the comparative three and nine month periods was due mainly to improved project performance in the Mining and Minerals business and higher levels of professional service and project procurement business in Life Sciences. On a nine month basis, the year over year profit comparison was impacted by unfavorable charges in second quarter fiscal 2016 associated with litigation settlements and a customer bankruptcy amounting to \$12.2 million. Excluding these items, Industrial operating profit for the nine months ending 2017 was up \$1.2 million over the corresponding period in 2016, due mainly to the improved profitability from the higher revenue levels in Life Sciences, largely offset by the unfavorable impacts from lower results in Field Services based on the noted revenue declines and weaker market conditions in Mining and Minerals.

Petroleum & Chemicals

	For the Three Months Ended		For the Nine Months Ended	
	June 30, 2017	July 1, 2016	June 30, 2017	July 1, 2016
Revenue	\$600,479	\$766,546	\$1,800,119	\$2,575,474
Operating Profit	29,055	29,646	88,326	92,194

Petroleum & Chemicals revenues for the three months ended June 30, 2017 were \$600.5 million, a decrease of \$166.1 million, or 21.7%, from \$766.5 million for the corresponding period last year. For the nine months ended June 30, 2017, revenues for the segment were \$1.80 billion, a decrease of \$775.4 million, or 30.1%, from \$2.58 billion for the same period in 2016. The decrease in revenues for the three and nine months ended June 30, 2017 as compared to the prior year was due primarily to the completion or wind-down of several projects with significant pass through revenue as well as award delays of large post front-end engineering and design projects, as clients continue to evaluate their capital spending plans while oil prices remain low. Both of these factors resulted in lower field service revenues compared with the prior year periods, while client investment spending continues primarily on compliance, maintenance and sustaining capital programs. Additionally, foreign currency impacts were unfavorable on year over year revenue comparisons for the three and nine month periods for 2017 versus 2016.

Operating profit for the three months ended June 30, 2017 was \$29.1 million and essentially flat with the corresponding period last year, with decreases in profitability due to the revenue declines described above being offset mainly by improving business mix and restructuring savings of \$3.5 million. For the nine months ended June 30, 2017, operating profit was \$88.3 million, a decrease of \$3.9 million, or 4.2%, from \$92.2 million for the corresponding period last year. The decrease in profitability for the nine months ended June 30, 2017 as compared to the prior year period was due to revenue declines from lower business volumes mentioned above, offset in part by SG&A savings of approximately \$20.0 million from restructuring efforts and a one-time \$9.9 million benefit associated with benefit plan changes in our India operations.

Other Corporate Expenses

Other corporate expenses for the three months ended June 30, 2017 was \$29.0 million, an increase of \$9.5 million, or 48.5% from \$19.5 million for the corresponding period last year. For the nine months ended June 30, 2017, other corporate expenses were \$54.4 million, a decrease of \$3.5 million, or 6.1% from \$57.9 million for the corresponding period last year. The increase in other corporate expenses for the three month comparative periods was due mainly to higher personnel related costs of \$5.3 million and professional service fees of \$10.0 million, partially offset by savings

associated with the 2015 Restructuring program. The decrease in other corporate expenses for the comparative nine month periods was due mainly to savings from the 2015 Restructuring program.

Included in other corporate expenses in the above table are costs and expenses which relate to general corporate activities as well as corporate-managed benefit and insurance programs. Such costs and expenses include: (i) those elements of SG&A expenses relating to the business as a whole; (ii) those elements of our incentive compensation plans relating to corporate personnel whose other compensation costs are not allocated to the LOBs; (iii) the amortization of intangible assets acquired as part of purchased business combinations; (iv) the quarterly variances between the Company's actual costs of certain of its self-insured integrated risk and employee benefit programs and amounts charged to the LOBs; and (v) certain adjustments relating to costs associated with the Company's international defined benefit pension plans. In addition, other corporate expenses may also include from time to time certain adjustments to contract margins (both positive and negative) associated with projects where it has been determined, in the opinion of management, that such adjustments are not indicative of the performance of the related LOB.

Backlog Information

We include in backlog the total dollar amount of revenues we expect to record in the future as a result of performing work under contracts that have been awarded to us. Our policy with respect to O&M contracts, however, is to include in backlog the amount of

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revenues we expect to receive for one succeeding year, regardless of the remaining life of the contract. For national government programs (other than national government O&M contracts), our policy is to include in backlog the full contract award, whether funded or unfunded, excluding option periods. Because of the nature, size, expected duration, funding commitments, and the scope of services required by our contracts, the timing of when backlog will be recognized as revenues can vary greatly between individual contracts.

Consistent with industry practice, substantially all of our contracts are subject to cancellation or termination at the option of the client. While management uses all information available to it to determine backlog, at any given time our backlog is subject to changes in the scope of services to be provided as well as increases or decreases in costs relating to the contracts included therein. Backlog is not necessarily an indicator of future revenues.

Because certain contracts (e.g., contracts relating to large EPC projects as well as national government programs) can cause large increases to backlog in the fiscal period in which we recognize the award, and because many of our contracts require us to provide services that span over a number of fiscal quarters (and sometimes over fiscal years), we evaluate our backlog on a year-over-year basis, rather than on a sequential, quarter-over-quarter basis.

The following table summarizes our backlog at June 30, 2017 and July 1, 2016 (in millions):

	June 30, 2017	July 1, 2016
Aerospace & Technology	\$5,552.9	\$5,126.7
Buildings & Infrastructure	5,346.0	4,843.0
Industrial	2,235.7	3,203.9
Petroleum & Chemicals	5,421.6	5,149.1
Total	\$18,556.2	\$18,322.6

Backlog in Aerospace & Technology at June 30, 2017 was \$5,552.9 million, up \$426.2 million when compared to the corresponding period last year. The year-over-year increase in backlog was primarily the result of new awards from the U.S. federal government.

Backlog in Building & Infrastructure at June 30, 2017 was \$5,346.0 million, up \$503.0 million when compared to the corresponding period last year. The year-over-year increase in backlog was primarily the result of new awards in the U.S. Buildings and Infrastructure market.

Backlog in Industrial at June 30, 2017 was \$2,235.7 million, down \$968.2 million when compared to the corresponding period last year. The year-over-year decrease in backlog was primarily the result of cancellations in the Life Sciences area and strong revenue realization associated with large pharma projects.

Backlog in Petroleum & Chemicals at June 30, 2017 was \$5,421.6 million, up \$272.5 million when compared to the corresponding period last year. Strong performance in chemicals backlog was somewhat mitigated by continuing weakness in the upstream market.

Liquidity and Capital Resources

At June 30, 2017, our principal sources of liquidity consisted of \$758.3 million of cash and cash equivalents and \$1.3 billion of available borrowing capacity under our \$1.6 billion 2014 Facility; refer to the Note Long-term Debt in Notes to Consolidated Financial Statements appearing under Part 1, Item 1 of this Quarterly Report on Form 10-Q. We finance much of our operations and growth through cash generated by our operations.

During the nine months ended June 30, 2017, our cash and cash equivalents increased by \$102.6 million from \$655.7 million at September 30, 2016 to \$758.3 million at June 30, 2017. This compares to a net increase of \$155.5 million of cash and cash equivalents during the nine months ended July 1, 2016.

The most significant factors contributing to the \$53.0 million net decrease in cash and cash equivalents during the nine months ended June 30, 2017 as compared to the nine months ended July 1, 2016 are a \$72.7 million decrease in cash flows relating to increases in working capital, offset in part by a \$9.3 million increase in Group net earnings in fiscal 2017 as compared to fiscal 2016.

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Our operations provided net cash inflows of \$380.6 million during the nine months ended June 30, 2017. This compares to net cash inflows of \$445.7 million for the corresponding period last year. The \$65.1 million decrease was due primarily to a \$72.7 million decrease in cash generated from changes within our working capital accounts (discussed below) offset by a \$9.3 million increase in Group net earnings.

With respect to the Company's working capital accounts, the Company's cash flows from operations are greatly affected by the cost-plus nature of our customer contracts. Because such a high percentage of our revenues are earned on cost-plus type contracts, and due to the significance of revenues relating to pass-through costs, most of the costs we incur are included in invoices we send to clients. Although we continually monitor our accounts receivable, we manage the operating cash flows of the Company by managing the working capital accounts in total, rather than by the individual elements. The primary elements of the Company's working capital accounts are accounts receivable, accounts payable, and billings in excess of cost. Accounts payable consist of obligations to third parties relating primarily to costs incurred for projects which are generally billable to clients. Accounts receivable consist of amounts due from our clients of which a substantial portion are for project-related costs. Billings in excess of cost consist of billings to and payments from our clients for costs yet to be incurred.

This relationship between revenues and costs, and between receivables and payables, is unique to our industry, and facilitates review of our liquidity at the total working capital level.

With respect to the Company's trade accounts receivable, while our credit risk could be significant based on the fact that we provide services to clients operating in a wide range of industries as well as in a number of countries outside the U.S., we manage these issues closely to reduce exposures as much as possible and historically have not experienced material losses. Our private sector customers include large, well-known, and well-established multi-national companies, and our government customers consist of national, state, and local agencies located principally in the U.S., the U.K., and Australia. Although we have not historically experienced significant collection issues with our governmental or commercial customers, we continue to monitor our credit policies with our customers in the markets we serve.

We used \$99.1 million of cash and cash equivalents for investing activities during the nine months ended June 30, 2017 as compared to \$92.8 million used during the corresponding period last year. The \$6.3 million increase in cash used was primarily due to higher property and equipment purchases offset by lower levels of acquisition activity during the nine months ended June 30, 2017.

Our financing activities resulted in net cash outflows of \$185.7 million during the nine months ended June 30, 2017. This compares to net cash outflows of \$181.1 million during the corresponding period last year. The \$4.6 million increase in cash used during the nine months ended June 30, 2017, as compared to the corresponding period last year was due primarily to \$36.1 million in cash dividends paid, partially offset by \$26.8 million in higher cash proceeds from issuances of common stock.

The Company repurchased and retired 1.7 million and 2.4 million shares of its common stock at a cash cost of \$97.2 million and \$102.4 million, respectively, under its July 23, 2015 share repurchase program during the nine month periods ended June 30, 2017 and July 1, 2016.

The Company had \$758.3 million of cash and cash equivalents at June 30, 2017. Of this amount, approximately \$124.7 million was held in the U.S. and \$633.6 million was held outside of the U.S. (primarily in the U.K., the Eurozone, Chile, and India) and is used primarily for funding operations in those regions. Other than the tax cost of repatriating funds to the U.S. (see Note 10—Income Taxes of Notes to Consolidated Financial Statements included in

our 2016 Form 10-K), there are no material impediments to repatriating these funds to the U.S.

The Company had \$38.3 million of letters of credit outstanding at June 30, 2017. Of this amount, \$2.5 million was issued under the 2014 Facility and \$35.8 million was issued under separate, committed and uncommitted letter-of-credit facilities.

We believe we have adequate liquidity and capital resources to fund our operations, support our acquisition strategy, service our debt, and pay dividends for the next twelve months. We had \$758.3 million in cash and cash equivalents at June 30, 2017, and our consolidated working capital position was \$1.1 billion at that date. In addition, there was \$1.3 billion of borrowing capacity remaining under the 2014 Facility at June 30, 2017. We believe that the capacity, terms and conditions of the 2014 Facility, combined with cash on-hand and the other committed and uncommitted facilities we have in place, are adequate for our working capital and general business requirements for the next twelve months.

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Subsequent Events

Merger Agreement

On August 1, 2017, the Company entered into an Agreement and Plan of Merger (the “Merger Agreement”) with CH2M HILL Companies, Ltd. (“CH2M”), and Basketball Merger Sub Inc., a direct wholly-owned subsidiary of the Company (“Merger Sub”). Pursuant to and subject to the terms and conditions of the Merger Agreement, (i) Merger Sub will merge with and into CH2M, with CH2M continuing as the surviving corporation and becoming a wholly-owned subsidiary of the Company (the “Merger”) and (ii) each outstanding share of common stock of CH2M will be converted into the right to receive, at the election of the holder thereof in accordance with, and subject to, the terms, conditions and procedures set forth in the Merger Agreement, in each case without interest the following consideration: (a) the combination of (x) \$52.85 in cash and (y) 0.6677 shares of common stock, par value \$1.00 per share, of the Company; (b) \$88.08 in cash; or (c) 1.6693 shares of the Company’s common stock.

The Company expects to finance the \$2.4 billion in cash required for the transaction through a combination of cash on hand, borrowings under the Company’s existing revolving credit facility and \$1.2 billion of new committed 3-year term debt. The Merger is subject to the satisfaction of customary closing conditions, including regulatory approvals and approval by CH2M stockholders.

Commitment Letters

On August 1, 2017, the Company entered into a commitment letter pursuant to which BNP Paribas, BNP Paribas Securities Corp. and The Bank of Nova Scotia committed to provide a three-year senior unsecured delayed-draw term loan facility in an aggregate principal amount of \$1.2 billion to finance the Merger, subject to customary conditions.

On August 1, 2017, the Company entered into a commitment letter with BNP Paribas, BNP Paribas Securities Corp. and The Bank of Nova Scotia in order to backstop its existing revolving credit facility in the event that the Company is not able to obtain the certain consents to its existing revolving credit agreement, subject to customary conditions.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

We do not enter into derivative financial instruments for trading, speculation or other purposes that would expose the Company to market risk. In the normal course of business, our results of operations are exposed to risks associated with fluctuations in interest rates and currency exchange rates.

Interest Rate Risk

Please see the Note Long-term Debt in Notes to Consolidated Financial Statements appearing under Part I,— Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for a discussion of the 2014 Facility.

Foreign Currency Risk

In situations where our operations incur contract costs in currencies other than their functional currency, we attempt to have a portion of the related contract revenues denominated in the same currencies as the costs. In those situations

where revenues and costs are transacted in different currencies, we sometimes enter into foreign exchange contracts in order to limit our exposure to fluctuating foreign currencies. We follow the provisions of ASC No. 815—Derivatives and Hedging in accounting for our derivative contracts. The Company does not currently have exchange rate sensitive instruments that would have a material effect on our consolidated financial statements or results of operations.

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Item 4. Controls and Procedures.

The Company's management, with the participation of its Chairman and Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), evaluated the effectiveness of the Company's disclosure controls and procedures as defined by Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of June 30, 2017, the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date"). Based on that evaluation, the Company's management, with the participation of the its Chairman and Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer) concluded that the Company's disclosure controls and procedures, as of the Evaluation Date, were effective to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the U.S. Securities and Exchange Commission's rules and forms and that such information is accumulated and communicated to the Company's management, including the Company's Chairman and Chief Executive Officer (principal executive officer) and Chief Financial Officer (principal financial officer), as appropriate to allow timely decisions regarding required disclosure.

There were no changes in the Company's system of internal control over financial reporting, which were identified in connection with the evaluation required by paragraph (d) of Rules 13a-15 and 15d-15 under the Exchange Act, during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

The information required by this Item 1 is included in the Note Commitments and Contingencies included in the Notes to Consolidated Financial Statements appearing under Part I,—Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.

Item 1A. Risk Factors.

Please refer to Item 1A—Risk Factors in our 2016 Form 10-K, which is incorporated herein by reference, for a discussion of some of the factors that have affected our business, financial condition, and results of operations in the past and which could affect us in the future. There have been no material changes to those risk factors since the date of the 2016 Form 10-K, except for the risk factors described below and the information disclosed elsewhere in this quarterly report on Form 10-Q that provides factual updates to risk factors contained in our 2016 Form 10-K.

There can be no assurance that we will pay dividends on our common stock.

In December 2016, we announced that our Board of Directors approved initiation of a quarterly cash dividend program under which we have paid, and intend to continue paying, a regular quarterly dividend yielding approximately 1% per year starting in 2017. The declaration, amount and timing of such dividends are subject to capital availability and determinations by our Board of Directors that cash dividends are in the best interest of our stockholders and are in compliance with all respective laws and our agreements applicable to the declaration and payment of cash dividends. Our ability to pay dividends will depend upon, among other factors, our cash balances and potential future capital requirements for strategic transactions, including acquisitions, debt service requirements, results of operations, financial condition and other factors that our Board of Directors may deem relevant. A reduction in or elimination of our dividend payments and/or our dividend program could have a material negative effect on our stock price.

Systems and information technology interruption or failure and data security breaches could adversely impact our ability to operate or expose us to significant financial losses and reputational harm.

We rely heavily on computer, information, and communications technology and related systems in order to properly operate our business. From time to time, we experience occasional system interruptions and delays. In addition, we face the threat to our computer systems of unauthorized access, computer hackers, computer viruses, malicious code, organized cyber-attacks and other security problems and system disruptions, including possible unauthorized access to and disclosure of our and our clients' proprietary or classified information. As part of our ongoing effort to utilize industry accepted security measures and technology to securely maintain all confidential and proprietary information on our computer systems, we have observed increased threat activity to our computer systems, and have identified instances of unauthorized access to certain of our computer systems occurring in the 2014-2016 timeframe. In response, we are conducting an ongoing internal review with the assistance of outside counsel and technical experts to identify and remediate the source and impact of these incursions, as well as comply with related notification and disclosure obligations. Expenses incurred to date related to this matter have not been material. We will incur additional expenses and may incur losses in connection with this matter, however, at this time we are unable to reasonably estimate any such additional expenses or losses. While we have security measures and technology in place to protect our and our clients' proprietary or classified information, if these measures fail as a result of a cyber-attack, other third-party action, employee error, malfeasance or otherwise, and someone obtains unauthorized access to our or our clients' information, our reputation could be damaged, our business may suffer and we could incur significant liability and may be required to expend significant resources to alleviate problems caused by these disruptions and

breaches. Any of these events could have a material adverse effect on our business, financial condition, results of operations and cash flows.

Failure of the Merger to be consummated, the termination of the Merger Agreement or a significant delay in the consummation of the Merger could negatively affect us.

Our obligations and CH2M's obligations to consummate the Merger are subject to the satisfaction or waiver of certain customary conditions, including, but not limited to: (i) the approval of the Merger Agreement by the CH2M stockholders, (ii) the expiration or termination of applicable waiting periods under, or receipt of the applicable consents required under, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended and certain foreign antitrust and competition laws, (iii) the absence of any order, applicable law or other legal restraints of certain specified governmental authorities enjoining or otherwise prohibiting the consummation of the Merger, (iv) the accuracy of certain representations and warranties of each of the parties contained in the Merger Agreement, subject to specified materiality qualifications, (v) compliance, in all material respects, by each of the parties with their respective covenants contained in the Merger Agreement, (vi) the effectiveness of the registration statement on Form S-4 to be filed

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by the Company for the issuance of the Company common stock in the Merger and the approval of the listing of such shares on the New York Stock Exchange, (vii) the absence of a material adverse effect on either CH2M or the Company since the date of the Merger Agreement and (viii) the other conditions set forth in the Merger Agreement. One or more of these conditions to the consummation of the Merger may not be fulfilled and, accordingly, the Merger may not be consummated.

If the Merger is not consummated or is delayed, our ongoing business, financial condition and results of operations may be materially adversely affected and the market price of our common stock may decline significantly, particularly to the extent that the market price reflects a market assumption that the Merger will be consummated or will be consummated on a particular timeframe. In addition, we and our subsidiaries may experience negative reactions from our respective clients, regulators, vendors and employees.

Furthermore, we have incurred and expect to continue to incur substantial expenses in connection with the completion of the transactions contemplated by the Merger Agreement. If the Merger is not consummated, we will have paid these expenses without realizing the expected benefits of the transaction. Any of the foregoing, or other risks arising in connection with a failure or delay in consummating the Merger, including the diversion of management attention or loss of other opportunities during the pendency of the Merger, could have a material adverse effect on our business, financial condition and results of operations.

The combined company may fail to realize the anticipated benefits of the Merger.

The success of the Merger will depend on, among other things, the combined company's ability to combine our business with the business of CH2M and to achieve cost savings and operating synergies. If the combined company is not able to achieve this objective successfully, then the anticipated benefits of the Merger may not be realized fully, or at all, or may take longer to materialize than expected.

The difficulties of combining the operations of the companies include, among others:

- difficulties in achieving anticipated cost savings, synergies, business opportunities and growth prospects from the combination;
- delays, unexpected costs or difficulties in completing the integration of acquired companies or assets;
- unanticipated issues in integrating manufacturing, logistics, information, communications and other systems;
- unanticipated changes in applicable laws and regulations;
- difficulties assimilating the operations and personnel of acquired companies into our operations;
- unanticipated changes in the combined business due to potential divestitures or other requirements imposed by antitrust regulators;
- diversion of the attention and resources of management or other disruptions to current operations;
- challenges in attracting and retaining key personnel;
- retaining key customers, suppliers and employees;

- retaining and obtaining required regulatory approvals, licenses and permits;
- difficulties in managing the expanded operations of a significantly larger and more complex company; and
- potential unknown liabilities and unforeseen increased expenses or delays associated with the Merger.

For example, both the Company and CH2M expect to incur substantial expenses in connection with consummation of the Merger and combining the businesses, operations, systems, policies and procedures of the two companies. Many of the expenses that will be incurred, by their nature, are difficult to estimate accurately in advance and as result may exceed the savings, if any, that the combined company achieves from the elimination of duplicative expenses and the realization of economies of scale and cost savings related to the combination of the businesses following the consummation of the Merger.

The Company and CH2M have operated and, until the consummation of the Merger, will continue to operate, independently. It is possible that the integration process or other factors could result in the disruption of the ongoing business of the Company or CH2M or inconsistencies in standards, controls, procedures and policies. These transition matters could have an adverse effect on us during the pre-Merger period and for an undetermined amount of time after the consummation of the Merger. In addition, events outside of our control, including changes in regulations and laws, as well as economic trends, could adversely affect our ability to realize the expected benefits from the Merger.

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We will be subject to business uncertainties while the Merger is pending and following the combination.

Our continued success depends, in part, upon our ability to retain the talents and dedication of our key employees and the ability of the combined company to retain the talents and dedication of CH2M's key employees. Such employees may decide not to remain with the Company or CH2M, as applicable, while the Merger is pending. If key employees terminate their employment, or if an insufficient number of employees are retained to maintain effective operations, our business activities may be adversely affected and management's attention may be diverted from successfully managing our business to hiring suitable replacements, any of which factors may cause our business to deteriorate. In addition, we or CH2M may not be able to motivate certain key employees during the pendency of the Merger due to a perceived lack of appropriate opportunities for advancement or other reasons.

In addition, customers' uncertainty about the effect of the Merger may have an adverse effect on the ability of the Company or CH2M to win customer contracts. Additionally, these uncertainties could cause clients to seek to change existing business relationships with us or CH2M. In addition, competitors may target the Company's or CH2M's clients by highlighting potential uncertainties and integration difficulties that may result from the Merger. The pursuit of the Merger and the preparation for the integration will require management attention and use of internal resources. Any significant diversion of management attention away from ongoing business concerns and any business difficulties resulting from the transition and integration process could have a material adverse effect on our business, financial condition and results of operations.

Our operating results and share price may be volatile, which could cause the value of our stockholder's investments to decline.

During the pendency of the Merger and following the Merger, our quarterly and annual operating results, as well as our stock price, may fluctuate, and such fluctuations may be significant. Such fluctuations may occur due to the accretion, or anticipated accretion, of the value of the Merger, the progress and success of the integration process or the perception of such progress or success, additions or departures of key personnel, or sales of large blocks of stock or the perception that such sales may occur.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

There were no sales of unregistered equity securities during the third fiscal quarter of 2017.

Share Repurchases

A summary of repurchases of our common stock made during each fiscal month during the third quarter fiscal 2017 is as follows (in thousands, except per-share amounts):

Period	Total	Average	Total	Approximate
	Number of	Price Paid	Numbers	Dollar Value
	Shares	per Share	of	of Shares
	Purchased	(1)	Shares	that May Yet

			Purchased as Part of Publicly Announced Plans or Programs	Be Purchased Under the Plans or Programs
April 1, 2017 through April 28, 2017	78	\$ 53.13	78	\$ 262,133
April 29, 2017 through May 26, 2017	107	53.28	107	256,425
May 27, 2017 through June 30, 2017	117	52.76	117	250,271
Total	302	\$ 53.04	302	\$ 250,271

(1) Includes commissions paid.

(2) On July 23, 2015, the Board of Directors approved a program to repurchase up to \$500 million of the Company's common stock over the next three years. Share repurchases may be executed through various means including, without limitation, open market transactions, privately negotiated transactions or otherwise. The share repurchase program, which expires on July 22, 2018, does not oblige the Company to purchase any shares. The authorization for the share repurchase program may be terminated, increased, or decreased by the Company's Board of Directors in its discretion at any time. The timing of our share repurchases may depend upon market conditions, other uses of capital, and other factors.

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JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosure.

Section 1503 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) requires domestic mine operators to disclose violations and orders issued under the Federal Mine Safety and Health Act of 1977 (the “Mine Act”) by the federal Mine Safety and Health Administration. Under the Mine Act, an independent contractor, such as Jacobs, that performs services or construction of a mine is included within the definition of a mining operator. We do not act as the owner of any mines.

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 on Form 10-Q.

Item 5. Other Information.

None.

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JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

Item 6. Exhibits.

- 2.1 Agreement and Plan of Merger, dated August 1, 2017 by and among Jacobs Engineering Group Inc., CH2M Hill Companies, Ltd. and Basketball Merger Sub Inc. Filed as Exhibit 2.1 to the Registrant's Current Report on Form 8-K on August 2, 2017 and incorporated herein by reference.
- 2.2 Voting and Support Agreement, dated August 1, 2017 by and among Jacobs Engineering Group Inc., Basketball Merger Sub Inc. and AP VIII CH2 Holdings, L.P. Filed as Exhibit 2.2 to the Registrant's Current Report on Form 8-K on August 2, 2017 and incorporated herein by reference.
- 3.1 Amended and Restated Bylaws of Jacobs Engineering Group Inc., dated January 19, 2017. Filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K/A on May 15, 2017 and incorporated herein by reference.
- 10.1 Term Loan Commitment Letter, dated August 1, 2017, by and among Jacobs Engineering Group Inc., BNP Paribas, BNP Paribas Securities Corp. and The Bank of Nova Scotia. Filed as Exhibit 10.1 to the Registrant's Current Report on Form 8-K on August 2, 2017 and incorporated herein by reference.
- 10.2 Revolver Backstop Commitment Letter, dated August 1, 2017, by and among Jacobs Engineering Group Inc., BNP Paribas, BNP Paribas Securities Corp. and The Bank of Nova Scotia. Filed as Exhibit 10.2 to the Registrant's Current Report on Form 8-K on August 2, 2017 and incorporated herein by reference.
- 10.3* Amended and Restated Separation Agreement between Jacobs Engineering Group Inc. and Lori Sundberg, dated as of July 26, 2017.
- 31.1* Certification of Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 31.2* Certification of Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934.
- 32.1* Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2* Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 95* Mine Safety Disclosure.
- 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.

*Filed herewith

#Indicates management contract or compensatory plan or arrangement.

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JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JACOBS ENGINEERING GROUP INC.

By: /s/ Kevin C. Berryman
Kevin C. Berryman
Executive Vice President
and Chief Financial Officer
(Principal Financial Officer)

Date: August 8, 2017