

JACOBS ENGINEERING GROUP INC /DE/
Form 10-Q
February 08, 2017
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Quarterly Report on

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 December 30, 2016

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 of incorporation) (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

Indicate by check-mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer”, “accelerated filer” and “smaller reporting

company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Number of shares of common stock outstanding at January 31, 2017: 121,071,296

JACOBS ENGINEERING GROUP INC.

INDEX TO FORM 10-Q

	Page No.
PART I <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements</u>	3
<u>Consolidated Balance Sheets</u>	3
<u>Consolidated Statements of Earnings - Unaudited</u>	4
<u>Consolidated Statements of Comprehensive Income - Unaudited</u>	5
<u>Consolidated Statements of Cash Flows - Unaudited</u>	6
<u>Notes to Consolidated Financial Statements - Unaudited</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	27
Item 4. <u>Controls and Procedures</u>	27
PART II <u>OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	28
Item 1A. <u>Risk Factors</u>	28
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
Item 3. <u>Defaults Upon Senior Securities</u>	29
Item 4. <u>Mine Safety Disclosures</u>	29
Item 5. <u>Other Information</u>	29
Item 6. <u>Exhibits</u>	30
<u>SIGNATURES</u>	31

Part I - FINANCIAL INFORMATION

Item 1. Financial Statements.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share information)

	December 30, 2016	September 30, 2016
	(Unaudited)	2016
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 736,546	\$ 655,716
Receivables	2,092,854	2,115,663
Prepaid expenses and other	93,998	93,091
Total current assets	2,923,398	2,864,470
Property, Equipment and Improvements, Net	314,406	319,673
Other Noncurrent Assets:		
Goodwill	2,821,995	3,079,628
Intangibles	318,266	336,922
Miscellaneous	731,968	759,329
Total other non-current assets	3,872,229	4,175,879
	\$ 7,110,033	\$ 7,360,022
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable	\$ 2,899	\$ 2,421
Accounts payable	502,832	522,427
Accrued liabilities	834,028	938,378
Billings in excess of costs	409,907	319,460
Total current liabilities	1,749,666	1,782,686
Long-term Debt	387,000	385,330
Other Deferred Liabilities	837,674	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—121,165,713 shares and 120,950,899 shares as of December 30, 2016 and September 30, 2016, respectively	121,166	120,951
Additional paid-in capital	1,206,443	1,168,272

Edgar Filing: JACOBS ENGINEERING GROUP INC /DE/ - Form 10-Q

Retained earnings	3,621,528	3,586,647
Accumulated other comprehensive loss	(878,911)	(610,594)
Total Jacobs stockholders' equity	4,070,226	4,265,276
Noncontrolling interests	65,467	64,906
Total Group stockholders' equity	4,135,693	4,330,182
	\$7,110,033	\$7,360,022

See the accompanying Notes to Consolidated Financial Statements.

Page 3

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

For the Three Months Ended December 30, 2016 and January 1, 2016

(In thousands, except per share information)

(Unaudited)

	For the Three Months Ended	
	December 30, 2016	January 1, 2016
Revenues	\$2,551,604	\$2,847,934
Costs and Expenses:		
Direct cost of contracts	(2,132,292)	(2,407,460)
Selling, general and administrative expenses	(330,684)	(381,024)
Operating Profit	88,628	59,450
Other Income (Expense):		
Interest income	1,486	2,220
Interest expense	(3,518)	(3,543)
Miscellaneous income (expense), net	(716)	(340)
Total other income(expense), net	(2,748)	(1,663)
Earnings Before Taxes	85,880	57,787
Income Tax Expense	(24,727)	(7,481)
Net Earnings of the Group	61,153	50,306
Net Earnings Attributable to Noncontrolling Interests	(617)	(3,792)
Net Earnings Attributable to Jacobs	\$60,536	\$46,514
Net Earnings Per Share:		
Basic	\$0.50	\$0.38
Diluted	\$0.50	\$0.38

See the accompanying Notes to Consolidated Financial Statements.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three Months Ended December 30, 2016 and January 1, 2016

(In thousands)

(Unaudited)

	For the Three Months Ended	
	December 30, 2016	January 1, 2016
Net Earnings of the Group	\$61,153	\$50,306
Other Comprehensive Income (Loss):		
Foreign currency translation adjustment	(287,524)	(16,502)
Gain (loss) on cash flow hedges	(942)	2,552
Change in pension liabilities	24,753	11,443
Other comprehensive income (loss) before taxes	(263,713)	(2,507)
Income Tax Benefit:		
Cash flow hedges	(82)	(723)
Change in pension liabilities	(4,522)	(2,482)
Income Tax Benefit (Expense):	(4,604)	(3,205)
Net other comprehensive income (loss)	(268,317)	(5,712)
Net Comprehensive Income of the Group	(207,164)	44,594
Net Comprehensive Income Attributable to Noncontrolling Interests	(617)	(3,792)
Net Comprehensive Income Attributable to Jacobs	\$(207,781)	\$40,802

See the accompanying Notes to Consolidated Financial Statements.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended December 30, 2016 and January 1, 2016

(In thousands)

(Unaudited)

	December 30, 2016	January 1, 2016
Cash Flows from Operating Activities:		
Net earnings attributable to the Group	\$61,153	\$50,306
Adjustments to reconcile net earnings to net cash flows from operations:		
Depreciation and amortization:		
Property, equipment and improvements	16,621	22,167
Intangible assets	11,914	11,726
Loss on sales of business	822	
Stock based compensation	10,205	8,134
Tax benefit (deficiency) from stock based compensation	(1,205)	(5)
Equity in earnings of operating ventures, net	(902)	(5,505)
Losses (gains) on disposals of assets, net	2,847	6,058
Change in pension plan obligations	(5,301)	3,062
Change in deferred compensation plans	463	(163)
Changes in assets and liabilities, excluding the effects of businesses acquired:		
Receivables	(37,472)	90,783
Prepaid expenses and other current assets	(2,612)	7,740
Accounts payable	(10,782)	(143,971)
Accrued liabilities	(74,691)	(47,026)
Billings in excess of costs	111,862	25,141
Income taxes	17,845	3,114
Deferred income taxes	(565)	(2,744)
Other deferred liabilities	(576)	(3,476)
Other, net	5,748	1,376
Net cash provided by operating activities	105,374	26,717
Cash Flows from Investing Activities:		
Additions to property and equipment	(21,054)	(15,987)
Disposals of property and equipment	4	133
Acquisitions of businesses, net of cash acquired	—	(10,500)
Sales of business	(2,036)	
Net cash used for investing activities	(23,086)	(26,354)
Cash Flows from Financing Activities:		
Proceeds from long-term borrowings	314,460	591,989
Repayments of long-term borrowings	(303,128)	(549,010)
Proceeds from short-term borrowings	669	465
Repayments of short-term borrowings	—	(10,911)
Proceeds from issuances of common stock	37,396	8,770
Common stock repurchases	(30,221)	(42,097)

Excess tax benefits from stock based compensation	1,205	5
Dividends paid to noncontrolling interests	—	(2,709)
Net cash provided by financing activities	20,381	(3,498)
Effect of Exchange Rate Changes	(21,839)	(13,999)
Net Increase (Decrease) in Cash and Cash Equivalents	80,830	(17,134)
Cash and Cash Equivalents at the Beginning of the Period	655,716	460,859
Cash and Cash Equivalents at the End of the Period	\$736,546	\$443,725

See the accompanying Notes to Consolidated Financial Statements.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

December 30, 2016

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 December 30, 2016, and for the three month period ended December 30, 2016.

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 first quarter of fiscal 2017, the Company determined that its prior year financial statements contained immaterial misstatements related to incorrect translation rates used in reporting U.S. Dollar values of goodwill held by foreign subsidiaries. Accordingly, the Company recorded adjustments in the current quarter to correct the carrying value of these accounts. 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. These adjustments had no impact on the Company’s Consolidated Statements of Earnings or Cash Flows. Also, our first quarter fiscal 2016 other comprehensive income was overstated by \$18.4 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 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.

Page 7

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

December 30, 2016

(continued)

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

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 has completed its initial assessment of the new standard and is in the process of developing a plan to assess its contracts with customers. 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. The Company will further assess the impact through its implementation program.

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.

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

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

December 30, 2016

(continued)

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.

Segment Information

During the second quarter of fiscal 2016, we reorganized our operating and reporting structure around four lines of business (“LOB”). This reorganization is intended to better serve our global clients, leverage our workforce, help streamline operations, and provide enhanced growth opportunities. The four global LOBs are: Petroleum & Chemicals, Buildings & Infrastructure, Aerospace & Technology, and Industrial. Previously, the Company operated its business as a single segment.

Under the new organization, each LOB has a president that reports directly to the Company's Chairman and CEO (who is also the Company's Chief Operating Decision Maker, or “CODM”). As part of the reorganization, the sales function, which had been managed centrally for many years, is now managed on a 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. In addition, 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).

Financial information for each LOB is reviewed by the CODM to assess performance and make decisions regarding the allocation of resources. The Company 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. Prior period information has been restated to reflect the current period presentation (in thousands).

	For the Three Months Ended	
	December 30, 2016	January 1, 2016
Revenues from External Customers:		
Aerospace & Technology	\$577,436	\$670,191
Buildings & Infrastructure	580,617	563,330
Industrial	751,738	672,100
Petroleum & Chemicals	641,813	942,313
Total	\$2,551,604	\$2,847,934

Page 9

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

December 30, 2016

(continued)

	For the Three Months Ended	
	January 1, December 30, 2016	2016
Operating Profit:		
Aerospace & Technology	\$51,087	\$47,999
Buildings & Infrastructure	38,797	40,452
Industrial	25,129	27,355
Petroleum & Chemicals	23,652	31,603
Total Segment Operating Profit	138,665	147,409
Other Corporate Expenses	(18,296)	(19,576)
Restructuring Charges in SG&A	(31,741)	(68,383)
Total Operating Profit	88,628	59,450
Total Other Expense	(2,748)	(1,663)
Earnings Before Taxes	\$85,880	\$57,787

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 the MIP and the 1999 SIP 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” includes 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.

Business Combinations

During the first quarter of fiscal year 2016, the Company acquired J.L. Patterson & Associates. This acquisition was not material to the Company’s consolidated results for the first three months of fiscal 2016.

Receivables

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

	December 30, 2016	September 30, 2016
Components of receivables:		
Amounts billed	\$961,519	\$1,110,042
Unbilled receivables and other	1,059,698	937,552
Retentions receivable	71,637	68,069
Total receivables, net	\$2,092,854	\$2,115,663
Other information about receivables:		
Amounts due from the United States federal		
government, included above, net of advanced		
billings	\$219,171	\$235,203
Claims receivable	\$7,437	\$26,061

“Billed receivables” 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.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

December 30, 2016

(continued)

“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 December 30, 2016 and September 30, 2016 consist of the following (in thousands):

	December 30, 2016	September 30, 2016
Land	\$16,434	\$16,680
Buildings	90,160	91,194
Equipment	537,400	531,539
Leasehold improvements	215,950	221,437
Construction in progress	35,125	36,764
	895,069	897,614
Accumulated depreciation and amortization	(580,663)	(577,941)
	\$314,406	\$319,673

Restructuring Charges

During the second quarter of fiscal 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 completed during fiscal

2016 and the first three months of fiscal 2017 include involuntary terminations, the abandonment of certain leased offices, combining operational organizations, and the co-location of employees into other existing offices. We are not exiting any service types or client end-markets in connection with the 2015 Restructuring.

The costs of the 2015 Restructuring are included in SG&A expense in the Consolidated Statements of Earnings. The following table summarizes the impact of the 2015 Restructuring on the Company's reportable segments for the three month periods ended December 30, 2016 and January 1, 2016 (in thousands):

	Three Months Ended December 30, 2016	Three Months Ended January 1, 2016
Aerospace & Technology	\$ 170	\$2,196
Buildings & Infrastructure	7,908	14,965
Industrial	2,524	17,577
Petroleum & Chemicals	13,584	23,976
Corporate	7,555	9,669
Total	\$ 31,741	\$68,383

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

December 30, 2016

(continued)

The activity in the Company's accrual for the 2015 Restructuring for the three month period ended December 30, 2016 is as follows (in thousands):

Balance at September 30, 2016	\$152,174
Charges	31,741
Payments	(44,166)
Balance at December 30, 2016	\$139,749

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 December 30, 2016 was \$387.0 million. The Company has issued \$2.5 million in letters of credit under the 2014 Facility, leaving \$1.2 billion of available borrowing capacity under the 2014 Facility at December 30, 2016. In addition, the Company had \$237.8 million issued under separate, committed and uncommitted letter-of-credit facilities for total issued letters of credit of \$240.3 million at December 30, 2016.

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 subfacility of \$300.0 million, permits performance letters of credit, and provides for a \$50.0 million subfacility for swingline 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 eurocurrency 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 December 30, 2016.

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.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

December 30, 2016

(continued)

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 nonbillable costs and adjust our revenues accordingly.

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 months ended December 30, 2016 and January 1, 2016 (in thousands):

	For the Three Months Ended	
	December 30,	January 1,
	2016	2016
Pass-through costs included in revenues	\$672,979	\$670,331

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. In accordance with U.S. GAAP, our share of losses associated with the contracts held by the joint ventures, if and when they occur, have always been reflected in our consolidated financial statements.

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.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

December 30, 2016

(continued)

Disclosures About Defined Pension Benefit Obligations

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

	For the Three Months Ended	
	December 30, 2016	January 1, 2016
Component:		
Service cost	\$2,216	\$8,676
Interest cost	8,728	15,702
Expected return on plan assets	(15,588)	(19,507)
Amortization of previously unrecognized items	3,556	5,733
Settlement (gain) loss	43	(163)
Net periodic benefit cost	\$(1,045)	\$10,441

The decrease in periodic benefit costs for the three months ended December 30, 2016 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 participating employees of which are assigned to, and worked exclusively on, a specific operating contract with the U.S. federal government. While these costs were fully reimbursed by the U.S. federal government pursuant to applicable cost accounting standards, net periodic pension costs of \$3.4 million are included in our net periodic benefit costs table for the period ended January 1, 2016.

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 three months of	
fiscal 2017	\$4,256
Cash contributions we expect to make during the remainder	
of fiscal 2017	13,954
Total	\$18,210

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 months ended December 30, 2016 and January 1, 2016, respectively related to the Company's defined benefit pension plans (in thousands):

	For the Three Months Ended	
	December 30,	January 1,
	2016	2016
Amortization of Defined Benefit Items:		
Actuarial losses	\$ (3,556)	\$ (4,461)
Prior service cost	77	61
Total Before Income Tax	(3,479)	(4,400)
Income Tax Benefit	803	1,046
Total reclassifications, after-tax	\$ (2,676)	\$ (3,354)

Income Taxes

The Company's consolidated effective income tax rate for the three months ended December 30, 2016 was 28.8% . Contributing to the current period tax rate was \$3.3 million of discrete benefit related to foreign tax refunds received in the quarter. The increase in the tax rate is primarily the result of a \$11.2 million tax benefit related to the release of a valuation allowance on deferred tax assets in the prior year period pertaining to foreign net operating losses.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

December 30, 2016

(continued)

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 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 ended December 30, 2016, the earnings available to participating securities were \$0.7 million.

The following table (i) reconciles the denominator used to compute basic earnings per share (“EPS”) to the denominator used to compute diluted EPS for the three months ended December 30, 2016 and January 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 December January 30, 2016 1, 2016	
Diluted:		
Basic weighted average shares outstanding	119,438	120,888
Dilutive potential common shares (1)	2,413	1,071
Diluted weighted average shares outstanding	121,851	121,959
Antidilutive stock options and restricted stock	540	4,011
Shares of common stock issued from the exercise of stock options and the release of restricted stock	1,086	287

(1) Diluted earnings per share includes 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	\$ 46.09	3,965	3,965

(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. On January 19, 2017, the Company's Board of Directors approved a declaration of a cash dividend to shareholders. A quarterly dividend of \$0.15 per share will be paid on March 17, 2017, to shareholders of record on the close of business on February 17, 2017. Future dividend payments are subject to review and approval by the Company's Board of Directors.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

December 30, 2016

(continued)

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.

On August 9, 2014, the Company received a Notice of Arbitration from Motiva Enterprises LLC ("Motiva") alleging fraud and breach of fiduciary duty with respect to an expansion project at the Motiva, Port Arthur, Texas refinery. The arbitration relates to the professional services provided by Bechtel-Jacobs CEP Port Arthur Joint Venture ("BJJV"), a joint venture between Bechtel Corporation ("Bechtel") and Jacobs, in connection with that project. On March 1, 2016,

Motiva submitted an amended Notice of Arbitration, asserting the same causes of actions in its original notice (fraud and breach of fiduciary duty) and alleged entitlement to monetary relief in excess of \$8 billion of alleged actual damages, punitive damages, attorneys' fees and interest. On December 30, 2016, the arbitral panel in this matter issued its unanimous decision, which rejected all of Motiva's claims and assigned no liability to BJJV, the Company or Bechtel. BJJV intends to seek confirmation by a court of the final decision of the panel, which may be vacated only on certain narrow grounds.

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

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

December 30, 2016

(continued)

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, that 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.

Additionally 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 August 30, 2016, the California State Legislature amended the applicable substantial compliance provision of the CSLL. On September 9, 2016, Jacobs filed a motion to apply the newly amended substantial compliance provision to the AOC contract. AOC filed a response and agreed that the new statute “will apply” to the case “as of January 1, 2017,” the new law’s effective date. 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.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

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 since the most recent fiscal year-end, 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

At the start of the second quarter of fiscal 2016, we reorganized our operating and reporting structure around four Lines of Business ("LOBs"). This reorganization is intended to better serve our global clients, leverage our workforce, help streamline operations, and provide enhanced growth opportunities. The four global LOBs are: Petroleum & Chemicals, Buildings & Infrastructure, Aerospace & Technology, and Industrial. Previously, the Company operated its business as a single segment. Under the new organization, each LOB has a president that reports directly to the Company's Chairman and CEO (who is also the Company's CODM). As part of the reorganization, the sales function, which had been managed centrally for many years, is now embedded in the new segments and reporting 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 Department of Defense (DoD), the U.S. Special Operations Command ("USSOCOM"), the US 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 US and UK. This includes designing, building and operating high hazard remediation systems including for radiologically contaminated media.

In addition, we design/build aerodynamic, climatic, altitude and acoustic facilities in support of the automotive industry, as well as a provider of 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.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

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, which 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

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

undertaking new and existing facility upgrades, process plant and underground and surface material handling and infrastructure developments.

We offer project management, front-end studies, full engineering, procurement and construction management (EPCM) and 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 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 results 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 offsites. 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

The 2015 Restructuring

During the second quarter of fiscal 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 completed during the first quarter of fiscal 2017 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 first quarter of fiscal 2017 and 2016 include \$31.7 million and \$68.4

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

million, respectively, of pre-tax costs associated with the 2015 Restructuring. The costs of the 2015 Restructuring are included in selling, general, and administrative expense (“SG&A”) in the accompanying Consolidated Statements of Earnings.

The following table summarizes the effects of the 2015 Restructuring on the Company’s consolidated SG&A expenses and results of operations for the three month period ended December 30, 2016 and January 1, 2016, respectively (in thousands, except for earnings per share):

	Three Months Ended December 30, 2016		
	Effects of 2015		Without 2015
	U.S. GAAP	Restructuring	Restructuring
Selling, general and administrative expenses	\$330,684	\$ (31,741)	\$ 298,943
Earnings Before Taxes	\$85,880	\$ (31,741)	\$ 117,621
Income Tax Benefit (Expense)	(24,727)	8,938	(33,665)
Net earnings of the Group	61,153	(22,803)	83,956
Net Earnings Attributable to Non-controlling interests	(617)	—	(617)
Net earnings Attributable to Jacobs	\$60,536	\$ (22,803)	\$ 83,339
Diluted earnings per share	\$0.50	\$ (0.18)	\$ 0.68
	Three Months Ended January 1, 2016		
	Effects of 2015		Without 2015
	U.S. GAAP	Restructuring	Restructuring
Selling, general and administrative expenses	\$381,024	\$ (68,383)	\$ 312,641
Earnings Before Taxes	\$57,787	\$ (68,383)	\$ 126,170
Income Tax Benefit (Expense)	(7,481)	20,247	(27,728)
Net earnings of the Group	50,306	(48,136)	98,442
Net Earnings Attributable to Non-controlling interests	(3,792)	—	(3,792)
Net earnings Attributable to Jacobs	\$46,514	\$ (48,136)	\$ 94,650
Diluted earnings per share	\$0.38	\$ (0.40)	\$ 0.78

Overview - Three Months Ended December 30, 2016

The Company’s U.S. GAAP net earnings for the three months ended December 30, 2016 increased by \$14.0 million, or 30%, compared to the corresponding period last year. Excluding the effects of the 2015 Restructuring, the Company’s adjusted net earnings for the three months ended December 30, 2016 totaled \$83.3 million, representing a decrease of \$11.3 million, or 12%, from the corresponding first quarter period last year.

Backlog at December 30, 2016 was \$18.1 billion, and represents a decrease of \$0.1 billion over backlog at January 1, 2016. Excluding the effects of changes in currency exchange rates, backlog was up \$0.3 billion, or 1.5%, as compared to the corresponding period last year.

During the three months ended December 30, 2016, the Company repurchased and retired 0.6 million of its common stock under its July 23, 2015 share repurchase program, which was first utilized in the first quarter of fiscal 2016. Total cash spent for the shares repurchased during the three months ended December 30, 2016 was \$30.2 million.

Results of Operations

Net earnings for the first quarter of fiscal 2017 ended December 30, 2016 increased \$14.0 million, or 30%, to \$60.5 million (or \$0.50 per diluted share) from \$46.5 million (or \$0.38 per diluted share) for the corresponding period last year. Included in net earnings for the three months ended December 30, 2016 are \$31.7 million in costs associated with the 2015 Restructuring. Excluding the effects of the 2015 Restructuring occurring in the first quarter of fiscal 2017 and 2016, adjusted net earnings for the first quarter of fiscal 2017 decreased \$11.3 million, or 12%, to \$83.3 million (or \$0.68 per diluted share) from \$94.7 million (or \$0.78 per diluted share) for the corresponding period last year.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

Total revenues for the first quarter of fiscal 2017 decreased by \$296.3 million, or 10.4%, to \$2.55 billion from \$2.85 billion for the first quarter of fiscal 2016. The decrease in revenues was due primarily to lower volumes in the Petroleum & Chemicals LOB and the Aerospace & Technology LOB, partially offset by an increase in volume in the Buildings & Infrastructure LOB and the Industrial LOB.

Reconciliation of Segment Operating Profit to Total Operating Profit

The following table reconciles segment operating profit to total operating profit by including certain corporate-level expenses and expenses relating to the 2015 Restructuring (in thousands).

	For the Three Months Ended	
	December 30, 2016	January 1, 2016
Segment Operating Profit	\$ 138,665	\$ 147,409
Unallocated corporate expenses	(18,296)	(19,576)
Restructuring Charges	(31,741)	(68,383)
Total Operating Profit	\$ 88,628	\$ 59,450

Included in “unallocated 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 the MIP and the 1999 SIP 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, “unallocated corporate expenses” includes 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.

Segment Operating Results

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 allocates portions of the MIP and the 1999 SIP 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 is consistent among the LOBs.

Aerospace & Technology

For the Three
Months Ended

	December 30, 2016	January 1, 2016
Revenue	\$577,436	\$670,191
Operating Profit	51,087	47,999

Aerospace & Technology revenues for the three months ended December 30, 2016 decreased \$92.8 million, or 13.8%, to \$577.4 million from \$670.2 million for the corresponding period last year. The decrease in revenues for the three months ended December 30, 2016 as compared to the prior year comparable period was due to rebid losses and U.S. government preference for small business awards in 2015 and 2016 in the U.S. that led to a phased decline in revenues over 2016.

Operating profit for the three months ended December 30, 2016 increased \$3.1 million, or 6.4% to \$51.1 million from \$48.0 million for the corresponding period last year, in spite of declining revenues described above. The increase in operating profit for the three months ended December 30, 2016 as compared to the corresponding period last year was primarily due to our focus on higher margin work, good performance on fixed-price contract work and other positive impacts of successful project closeouts. As a result, operating margin for the three months ended December 30, 2016, improved to 8.8% compared to 7.2% for the corresponding period last year.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

Buildings & Infrastructure

	For the Three Months Ended	
	December 30, 2016	January 1, 2016
Revenue	\$580,617	\$563,330
Operating Profit	38,797	40,452

Buildings & Infrastructure revenues for the three months ended December 30, 2016 increased \$17.3 million, or 3.1%, to \$580.6 million from \$563.3 million for the corresponding period last year. The increase in revenues for the three months ended December 30, 2016 as compared to the prior year comparable period was primarily due to U.S. client spending in the project-management/construction-management market.

Operating profit for the three months ended December 30, 2016 decreased \$1.7 million, or 4.1%, from \$40.5 million to \$38.8 million when compared to the corresponding period last year. The decrease in operating profit was primarily due to slow starts on certain projects, which drove our costs up for the three months ended December 30, 2016 as compared to the prior year comparable period. As a result, operating margin for the three months period ending December 30, 2016 declined to 6.7%, compared to 7.2%, for the corresponding period last year.

Industrial

	For the Three Months Ended	
	December 30, 2016	January 1, 2016
Revenue	\$751,738	\$672,100
Operating Profit	25,129	27,355

Industrial revenues for the three months ended December 30, 2016 increased \$79.6 million, or 11.8%, to \$751.7 million from \$672.1 million for the corresponding period last year. The increase in revenues for the three months ended December 30, 2016, as compared to the corresponding period last year was driven by increased major capex spending in the Life Sciences business, partially offset by a decline in the Mining & Minerals business due to weak market conditions.

Operating profit for the three months ended December 30, 2016 decreased \$2.2 million, or 8.1%, to \$25.1 million from \$27.4 million for the corresponding period last year. The decrease in operating profit for the three months ended December 30, 2016 was due to the decline in the Mining & Minerals business. Due to the high level of lower margin procurement activity in Life Sciences, and the decline in the Mining & Minerals business due to weak market conditions, operating margin for the three months period ending December 30, 2016 declined to 3.3% from 4.1% for the corresponding period last year.

Petroleum & Chemicals

	For the Three Months Ended	
	December 30, 2016	January 1, 2016
Revenue	\$641,813	\$942,313
Operating Profit	23,652	31,603

Petroleum & Chemicals revenues for the three months ended December 30, 2016 decreased \$300.5 million, or 31.9%, to \$641.8 million from \$942.3 million for the corresponding period last year. The decrease in revenues for the three months ended December 30, 2016 as compared to the prior year comparable period was primarily due to lower business volume in the Oil & Gas market sector and to a lesser extent the Refining market sector, particularly in the Middle East and North America. Despite the recent production cut commitments made by oil-producing countries, investment spending continues primarily on maintenance and sustaining capital program. The larger strategic projects continue at a slower pace as clients continue to evaluate their capital spending plans.

Operating profit for the three months ended December 30, 2016 decreased \$8.0 million, or 25.2%, to \$23.7 million from \$31.6 million for the corresponding period last year. The decrease in operating profit for the three months ended December 30, 2016 was due to lower business volume in the Oil and Gas and Refining market sectors offset in part by significant savings from restructuring efforts and LOB structure efficiencies. Continued strong focus on cost reductions has partially mitigated the volume reduction impact on operating profit. As a result, operating margin for the three month period ending December 30, 2016 improved to 3.7% from 3.4% for the corresponding period last year.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

Consolidated Results

Direct costs of contracts for the first quarter of fiscal 2017 decreased \$275.2 million, or 11.4%, to \$2.1 billion from \$2.4 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 first quarter of fiscal 2017 increased \$2.6 million, or 0.4%, to \$673.0 million from \$670.3 million for 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. The decrease in pass-through costs for the three months ended December 30, 2016 was due primarily to a decrease in our field services activity.

As a percentage of revenues, direct costs of contracts for the three months ended December 30, 2016 was 83.6%. This compares to 84.5% for the three months ended January 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 costs 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 corresponding increase or decrease in our gross margins and operating profit.

SG&A expenses for the first quarter of fiscal 2017 decreased \$50.3 million, or 13.2%, to \$330.7 million from \$381.0 million for the corresponding period last year. The decrease for the three months ended December 30, 2016 as compared to the corresponding period last year was due primarily to higher Restructuring costs recorded in the first quarter of fiscal 2016 and higher savings associated with the 2015 Restructuring recorded since the first quarter of fiscal 2016. Excluding the impact of the 2015 Restructuring, adjusted SG&A expenses for the first quarter of fiscal 2017 decreased \$13.7 million, or 4.4%, to \$298.9 million from \$312.6 million for the corresponding period last year.

Net interest expense for the three months ended December 30, 2016 was \$2.0 million as compared to net interest expense of \$1.3 million for the corresponding period last year. The increase for the three months ended December 30, 2016 as compared to the prior year was due primarily to lower interest income.

Miscellaneous expense for the three months ended December 30, 2016 was \$0.7 million. This compares to miscellaneous expense of \$0.3 million for the corresponding period last year. The increase for the three months ended December 30, 2016 as compared to the prior year was due primarily to a loss on sale of a business in South America.

The Company's consolidated effective income tax rate for the first quarter ended December 30, 2016 was 28.8%. Contributing to the current period tax rate was \$3.3 million of discrete benefit related to foreign tax refunds received in the quarter. The increase in the tax rate for the three months ended December 30, 2016 as compared to the corresponding period last year was primarily the result of a \$11.2 million, tax benefit related to the release of a valuation allowance on deferred tax assets in the prior year period pertaining to foreign net operating losses.

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 revenues we expect to receive for one succeeding year, regardless of the remaining life of the contract. For national government

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

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, our backlog at any given time 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 December 30, 2016 and January 1, 2016 (in millions):

	December 30, 2016	January 1, 2016
Backlog:		
Aerospace & Technology	\$5,135.4	\$4,871.4
Buildings & Infrastructure	5,151.6	4,742.8
Industrial	2,493.7	3,417.5
Petroleum & Chemicals	5,368.8	5,190.7
Total	\$18,149.4	\$18,222.4

Our backlog decreased \$0.1 billion, or 0.4%, to \$18.1 billion at December 30, 2016 from \$18.2 billion at January 1, 2016. The \$0.1 billion decrease was due primarily to new awards from clients operating in the Buildings & Infrastructure LOB, U.S. federal government and the Chemicals industry more than offset by the cancellation of certain projects in the Life Sciences areas and an approximately \$351.2 million reduction due to foreign exchange, and strong revenue associated with large pharma projects.

Backlog in the Aerospace & Technology LOB at December 30, 2016 was \$5.1 billion, up \$0.3 billion, 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 the Building & Infrastructure LOB at December 30, 2016 was \$5.2 billion, up \$0.4 billion, or \$0.6 billion after the effect of exchange rate changes, 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 the Industrial LOB at December 30, 2016 was \$2.5 billion, down \$0.9 billion when compared to the corresponding period last year. The year-over-year decrease in backlog was primarily the result of certain

cancellations in the Life Sciences area and strong revenue burn associated with large pharma projects, and a significant impact associated with the effect of exchange rates.

Backlog in the Petroleum & Chemicals LOB at December 30, 2016 was \$5.4 billion, up \$0.2 billion 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 December 30, 2016, our principal sources of liquidity consisted of \$736.5 million of cash and cash equivalents and \$1.2 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 three months ended December 30, 2016, our cash and cash equivalents increased by \$80.8 million from \$655.7 million at September 30, 2016 to \$736.5 million at December 30, 2016. This compares to a net decrease of \$17.1 million of cash and cash equivalents during the three months ended January 1, 2016.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

The three most significant factors contributing to the \$98.0 million net increase in cash and cash equivalents during the three months ended December 30, 2016 as compared to the three months ended January 1, 2016 are: (i) a \$68.4 million increase in cash flows relating to our working capital accounts; (ii) a \$23.9 million increase in cash flows in financing activities in fiscal 2017 as compared to fiscal 2016 and (iii) a \$10.8 million increase in Group net earnings.

Our operations provided net cash inflows of \$105.4 million during the three months ended December 30, 2016. This compares to net cash inflows of \$26.7 million for the corresponding period last year. The \$78.7 million increase in cash flows from operating activities during the three months ended December 30, 2016 as compared to the corresponding period last year was due primarily to a \$68.4 million increase in cash generated from changes within our working capital accounts (discussed below) and a \$10.8 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 is 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 — a substantial portion of which 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. The \$68.4 million increase in cash flows relating to our working capital accounts during the three months ended December 30, 2016 is indicative of our building momentum to become more effective in our working capital performance.

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 any of our governmental or commercial customers, we are currently reassessing how we extend credit to certain customers and markets that we service.

We used \$23.1 million of cash and cash equivalents for investing activities during the three months ended December 30, 2016 as compared to \$26.4 million used during the corresponding period last year. The \$3.3 million decrease in cash used is primarily due to lower acquisition activities in the first quarter of fiscal 2017, partially offset by higher property and equipment purchases.

Our financing activities resulted in net cash inflows of \$20.4 million during the three months ended December 30, 2016. This compares to net cash outflows of \$3.5 million during the corresponding period last year. The \$23.9 million increase in cash flows during the first quarter of fiscal 2017 as compared to the corresponding period last year was due primarily to (i) \$28.6 million in higher cash proceeds from issuances of common stock, (ii) \$11.9 million less cash used in fiscal 2017 as compared to fiscal 2016 to repurchase shares of the Company's common stock (discussed in further detail in Part II, Item 2 of this Quarterly Report on Form 10-Q), offset, in part, by (iii) \$20.5 million less cash

inflow from borrowing activities.

On January 19, 2017, the Board of Directors approved a declaration of a cash dividend to shareholders. A quarterly dividend of \$0.15 per share will be paid on March 17, 2017, to shareholders of record on the close of business on February 17, 2017.

The Company had \$736.5 million of cash and cash equivalents at December 30, 2016. Of this amount, approximately \$217.0 million was held in the U.S. and \$519.5 million was held outside of the U.S. (primarily in the U.K., the Eurozone, Chile, and India). 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 \$240.3 million of letters of credit outstanding at December 30, 2016. Of this amount, \$2.5 million was issued under the 2014 Facility and \$237.8 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 \$736.5 million in cash and cash equivalents at December 30, 2016, and

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

our consolidated working capital position was \$1.2 billion at that date. In addition, there was \$1.2 billion of borrowing capacity remaining under the 2014 Facility at December 30, 2016. 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.

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.

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 December 30, 2016, 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 during the quarter ended December 30, 2016 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

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 during the period covered by this Quarterly Report on Form 10-Q, 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 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 intend to pay 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.

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

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

Share Repurchases

A summary of repurchases of our common stock made during each fiscal month during the first quarter of 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	Be
			as	

			Part of	Purchased
			Publicly	Under the
			Announced	Plans or
			Plans or	Programs
			Programs	
October 1, 2016 through October 28, 2016	255	\$ 51.03	255	\$ 334,457
October 29, 2016 through November 25, 2016	108	51.80	108	328,877
November 26, 2016 through December 30, 2016	195	59.63	195	317,229
	558	\$ 54.19	558	\$ 317,229

(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.

Page 28

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 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.

Page 29

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

Item 6. Exhibits.

(a) Exhibits

- 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.

#Indicates management contract or compensatory plan or arrangement.

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: February 8, 2017