

JACOBS ENGINEERING GROUP INC /DE/
Form 10-Q
January 24, 2014

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 27, 2013

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)

155 North Lake Avenue, Pasadena, California 91101
(Address of principal executive offices) (Zip code)

1111 South Arroyo Parkway, Pasadena, California 91105
(former address) (Zip code)

(626) 578 – 3500
(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 21, 2014: 131,904,337

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Part I - FINANCIAL INFORMATION

Item 1. Financial Statements.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(In thousands, except share information)

	December 27, 2013 (Unaudited)	September 27, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	\$1,011,236	\$1,256,405
Receivables	2,690,289	2,548,990
Deferred income taxes	132,079	131,086
Prepaid expenses and other	110,640	103,077
Total current assets	3,944,244	4,039,558
Property, Equipment and Improvements, Net	468,335	379,296
Other Noncurrent Assets:		
Goodwill	2,778,981	2,022,831
Intangibles	569,160	217,904
Miscellaneous	680,432	614,555
Total other non-current assets	4,028,573	2,855,290
	\$8,441,152	\$7,274,144
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable	\$53,075	\$22,783
Accounts payable	406,630	457,893
Accrued liabilities	1,188,781	1,029,816
Billings in excess of costs	449,928	345,097
Income taxes payable	63,705	32,030
Total current liabilities	2,162,119	1,887,619
Long-term Debt	1,041,480	415,086
Other Deferred Liabilities	876,474	723,104
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—131,862,863 shares and 131,639,196 shares, respectively	131,863	131,639
Additional paid-in capital	1,111,280	1,084,624
Retained earnings	3,394,616	3,300,961
Accumulated other comprehensive loss	(314,766	) (304,127)
Total Jacobs stockholders' equity	4,322,993	4,213,097
Noncontrolling interests	38,086	35,238
Total Group stockholders' equity	4,361,079	4,248,335
	\$8,441,152	\$7,274,144

See the accompanying Notes to Consolidated Financial Statements.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

For the Three Months Ended December 27, 2013 and December 28, 2012

(In thousands, except per share information)

(Unaudited)

	For the Three Months Ended	
	December 27, 2013	December 28, 2012
Revenues	\$3,068,891	\$2,759,641
Costs and Expenses:		
Direct cost of contracts	(2,615,200)	(2,323,918)
Selling, general and administrative expenses	(308,644)	(275,454)
Operating Profit	145,047	160,269
Other Income (Expense):		
Interest income	1,796	1,090
Interest expense	191	(3,694)
Miscellaneous expense, net	(113)	(1,354)
Total other income (expense), net	1,874	(3,958)
Earnings Before Taxes	146,921	156,311
Income Tax Expense	(47,972)	(51,788)
Net Earnings of the Group	98,949	104,523
Net Income Attributable to Noncontrolling Interests	(5,217)	(5,513)
Net Earnings Attributable to Jacobs	\$93,732	\$99,010
Net Earnings Per Share:		
Basic	\$0.72	\$0.77
Diluted	\$0.71	\$0.76

See the accompanying Notes to Consolidated Financial Statements including the Company's note on Other Comprehensive Income for a presentation of amounts reclassified to net income during the period.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three Months Ended December 27, 2013 and December 28, 2012
(In thousands)
(Unaudited)

	For the Three Months Ended	
	December 27, 2013	December 28, 2012
Net Earnings of the Group	\$98,949	\$104,523
Other Comprehensive Income (Loss):		
Foreign currency translation adjustment	(9,255	) (10,974
Gain on cash flow hedges	551	168
Change in pension liabilities	(6,736	) 1,747
Other comprehensive loss before taxes	(15,440	) (9,059
Income Tax Benefit (Expense):		
Foreign currency translation adjustments	3,250	—
Cash flow hedges	(198	) (70
Change in pension liabilities	1,749	(589
Income Tax Benefit	4,801	(659
Net Other Comprehensive Loss	(10,639	) (9,718
Net Comprehensive Income of the Group	88,310	94,805
Net Comprehensive Income Attributable to Noncontrolling Interests	(5,217	) (5,513
Net Comprehensive Income Attributable to Jacobs	\$83,093	\$89,292

See the accompanying Notes to Consolidated Financial Statements including the Company's note on Other Comprehensive Income for a presentation of amounts reclassified to net income during the period.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended December 27, 2013 and December 28, 2012

(In thousands)

(Unaudited)

	December 27, 2013	December 28, 2012	
Cash Flows from Operating Activities:			
Net earnings attributable to the Group	\$98,949	\$ 104,523	
Adjustments to reconcile net earnings to net cash flows from operations:			
Depreciation and amortization:			
Property, equipment and improvements	19,649	15,493	
Intangible assets	8,637	8,982	
Stock based compensation	15,263	9,059	
Tax deficiency from stock based compensation	67	221	
Equity in earnings of investees	(14,813	) (17,086)
Dividends received from earnings of investees	12,517	14,228	
Change in pension plan obligations	1,219	(7,939)
Change in deferred compensation plans	(1,875	) (1,039)
(Gains) losses on sales of assets, net	212	(74)
Changes in certain assets and liabilities, excluding the effects of businesses acquired:			
Receivables	191,263	108,310	
Prepaid expenses and other current assets	5,121	1,161	
Accounts payable	(104,583	) (33,288)
Accrued liabilities	(5,087	) (11,984)
Billings in excess of costs	56,954	33,740	
Income taxes payable	35,503	21,252	
Deferred income taxes	(3,739	) (2,993)
Other deferred liabilities	4,698	(2,455)
Other, net	6,525	6,576	
Net cash provided by operating activities	326,480	246,687	
Cash Flows from Investing Activities:			
Additions to property and equipment	(37,948	) (25,174)
Disposals of property and equipment	71	218	
Purchases of investments	(25,476	) (408)
Sales of investments	—	11	
Acquisitions of businesses, net of cash acquired	(1,132,933) —	
Net cash used for investing activities	(1,196,286	) (25,353)

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three Months Ended December 27, 2013 and December 28, 2012

(In thousands)

(Unaudited)

(Continued)

	December 27, 2013	December 28, 2012
Cash Flows from Financing Activities:		
Proceeds from long-term borrowings	629,373	—
Repayments of long-term borrowings	(8,646	) (21,138
Proceeds from short-term borrowings	45,596	5,084
Repayments of short-term borrowings	(45,773) —
Proceeds from issuances of common stock	9,587	9,461
Tax deficiency from stock based compensation	(67	) (221
Distributions to noncontrolling interests	(1,986	) (3,698
Net cash provided by (used for) financing activities	628,084	(10,512
Effect of Exchange Rate Changes	(3,447	) (1,534
Net (Decrease) Increase in Cash and Cash Equivalents	(245,169	) 209,288
Cash and Cash Equivalents at the Beginning of the Period	1,256,405	1,032,457
Cash and Cash Equivalents at the End of the Period	\$ 1,011,236	\$ 1,241,745

See the accompanying Notes to Consolidated Financial Statements.

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JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED
December 27, 2013

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 report 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 27, 2013 ("2013 Form 10-K") as well as Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations, which is also included in our 2013 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 27, 2013 and for the three month periods ended December 27, 2013 and December 28, 2012.

Our interim results of operations are not necessarily indicative of the results to be expected for the full fiscal year. Please refer to Note 16 of Notes to Consolidated Financial Statements included in our 2013 Form 10-K for the definitions of certain terms used herein.

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 of Notes to Consolidated Financial Statements included in our 2013 Form 10-K for a discussion of the significant estimates and assumptions affecting our consolidated financial statements.

Fair Value and Fair Value Measurements

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

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

Level 2 - Observable inputs other than quoted prices in active markets included in Level 1, such as (i) quoted prices for similar assets or liabilities; (ii) quoted prices in markets that have insufficient volume or infrequent transactions (i.e., 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.

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 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED
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Level 3 - Unobservable inputs to the valuation methodology that are significant to the fair value measurement. Please refer to Note 2 of Notes to Consolidated Financial Statements included in our 2013 Form 10-K for a more complete discussion of the various amounts 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. A discussion of those recently issued ASUs most likely to affect the presentation of the Company's consolidated financial statements follows.

In February 2013, the FASB adopted ASU No. 2013-02—Comprehensive Income. ASU 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement of earnings or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about these amounts. ASU 2013-02 is effective for annual and interim periods beginning after December 15, 2012. The adoption of ASU 2013-02 has not had a material effect on the Company's consolidated financial statements.

Business Combinations

On December 13, 2013 the Company acquired all of the outstanding interests in Sinclair Knight Merz Management Pty Limited and Sinclair Knight Merz Holdings Limited (collectively, "SKM"), a provider that provides engineering, design, procurement, construction and project management, from the SKM shareholders ("Sellers"). The Company purchased SKM for approximately \$1.2 billion in cash. The purchase price reflects an enterprise value of approximately \$1.1 billion plus adjustments for cash, debt and other items. The agreement includes customary representations, warranties, and indemnities supported by an escrow account.

The following supplemental information presents the financial results of SKM's operations included in the consolidated statements of earnings for the period from December 13, 2013 through December 27, 2013 (in thousands):

Revenues	\$ 25,655
Net loss attributable to Jacobs	\$(12,755)

The Company has incurred approximately \$16.5 million of expenses related to the SKM acquisition. Included in selling, general and administrative expense for the three month periods ended December 27, 2013 and December 28, 2012 is \$9.1 million (including a \$7.8 million stamp duty recorded as an expense) and \$0.1 million, respectively, of acquisition-related costs.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

December 27, 2013

(continued)

The following table presents the preliminary allocation of the purchase price (in thousands):

Assets:

Cash and cash equivalents	\$ 152,051
Receivables and other current assets	323,276
Property and equipment, and other	89,524
Intangible assets	331,072
Total assets	895,923

Liabilities:

Current liabilities	269,377
Deferred tax liability	115,875
Long-term liabilities	18,416
Total liabilities	403,668
Net identifiable assets acquired	\$ 492,255
Goodwill	727,419
Net assets acquired	\$ 1,219,674

The Company expects to collect substantially all of the acquired receivables of \$304.6 million.

Due to the size of the acquisition and the proximity of the closing date to the Company's quarter end, the Company continues to evaluate the fair value of the net assets acquired (both tangible and intangible). As a result, these amounts are subject to substantial change over the next year as the Company finalizes its evaluation. The preliminary useful lives of the intangible assets acquired from SKM range from 2 to 14 years.

Some of the factors contributing to the recognition of goodwill include: (i) access to a large, highly-trained and stable workforce; (ii) the opportunity to expand our client base in Australia, Asia, South America and the U.K.; (iii) the opportunity to expand our presence in multiple industries, including: mining, infrastructure, buildings, water and energy; and (iv) the opportunity to achieve operating synergies.

We expect that the goodwill recognized in this transaction will ultimately be deductible in the U.S. for income tax purposes.

The following table presents the unaudited, pro forma consolidated results of operations (in millions) for the three month periods ended December 27, 2013 and December 28, 2012 as if the acquisition of SKM operations had occurred as of September 29, 2012. The period end dates of SKM are different from those of the Company and, accordingly, certain adjustments were made to conform SKM's period end dates to those of the Company.

Management believes these adjustments make the comparative data more representative of what the combined results of operations would have been over the pro forma period. The pro forma results are not necessarily indicative of (i) the results of operations that would have occurred had the SKM operations actually been acquired at September 29, 2012; or (ii) future results of operations (in millions, except per share amounts):

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JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED
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	For the Three Months Ended	
	December 27, 2013	December 28, 2012
Revenues	\$3,319	\$3,118
Net earnings attributable to Jacobs	98	103
Basic earnings per share	\$0.76	\$0.80
Diluted earnings per share	0.74	0.79

The pro forma earnings for the three months ended December 27, 2013 were adjusted to exclude \$17.2 million of acquisition-related costs incurred by both parties and include \$18.2 million of acquisition-related costs (the difference being due to exchange rate impact) in the pro forma earnings for the three months ended December 28, 2012. For the three months ended December 27, 2013 and December 28, 2012, in addition to the amounts already recorded in the Consolidated Statements of Operations, the pro forma earnings were adjusted to include incremental interest expense of \$0.8 million (for a total of \$1.1 million) and \$1.0 million, respectively. For the three months ended December 27, 2013 and December 28, 2012, the pro forma earnings were adjusted to include net incremental intangible amortization of \$3.6 million (for a total of \$4.5 million for the three month period) and \$3.7 million (for a total of \$4.5 million for the three month period) as if the acquisition occurred at the beginning of the quarter ended December 28, 2012, respectively.

The pro forma earnings for the three months ended December 27, 2013 includes a loss from SKM of \$24.0 million related to a settlement with certain SKM shareholders regarding provisions of their shareholding plan settled and paid prior to the close of the business combination.

During the three months ended December 27, 2013, the Company also acquired FMHC Corporation, Stobbarts (Nuclear) Limited, Trompeter and affiliates, and MARMAC Field Services, Inc. The operations of these acquisitions were not material to the Company's results for the three months ended December 27, 2013.

Receivables

The following table presents the components of "Receivables" appearing in the accompanying Consolidated Balance Sheets at December 27, 2013 and September 27, 2013 as well as certain other related information (in thousands):

	December 27, 2013	September 27, 2013
Components of receivables:		
Amounts billed	\$1,517,309	\$1,389,278
Unbilled receivables and other	1,113,378	1,109,931
Retentions receivable	59,602	49,781
Total receivables, net	\$2,690,289	\$2,548,990
Other information about receivables:		
Amounts due from the United States federal government, included above, net of advanced billings	\$292,620	\$292,698
Claims receivable	\$26,507	\$25,237

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.

Unbilled receivables 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 consider 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

December 27, 2013

(continued)

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 27, 2013 and September 27, 2013 consisted of the following (in thousands):

	December 27, 2013	September 27, 2013
Land	\$21,869	\$22,027
Buildings	131,982	131,690
Equipment	666,632	537,835
Leasehold improvements	249,092	204,940
Construction in progress	40,448	22,678
	1,110,023	919,170
Accumulated depreciation and amortization	(641,688	) (539,874
	\$468,335	\$379,296

Long-term Debt

The Company has a long-term, unsecured, revolving credit facility (the "2012 Facility") providing \$1.21 billion of borrowing capacity with a syndicate of large, U.S. and international banks and financial institutions. The total amount outstanding under the 2012 Facility in the form of direct borrowings at December 27, 2013 was \$1.0 billion. The Company has issued \$10.8 million in letters of credit leaving \$152.7 million of available borrowing capacity under the 2012 Facility at December 27, 2013. In addition, the Company had \$260.7 million issued under separate, committed and uncommitted letter-of-credit facilities for total issued letters of credit of \$271.5 million at December 27, 2013. The 2012 Facility expires in March 2017 and permits the Company to borrow under three 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 2012 Facility. Depending on the Company's Consolidated Leverage Ratio, borrowings under the 2012 Facility will bear interest at either a eurocurrency rate plus a margin of between 0.875% and 1.225% or a base rate plus a margin of between 0% and 0.225%. The 2012 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 0.125% and 0.275% per annum depending on the Company's Consolidated Leverage Ratio. Amounts outstanding under the 2012 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 2012 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 2012 Facility contains customary events of default. We were in compliance with our debt covenants at December 27, 2013.

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 2013 can be found in Note 1 of Notes to Consolidated Financial Statements included in our 2013 Form 10-K.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED

December 27, 2013

(continued)

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

Certain cost-reimbursable contracts with government customers as well as certain commercial clients provide that contract costs are subject to audit and adjustment. In this situation, revenues are recorded at the time services are performed based upon the amounts we expect to realize upon completion of the contracts. Revenues are not recognized for non-recoverable costs. In those situations where an audit indicates that we may have billed a client for costs not allowable under the terms of the contract, we estimate the amount of such 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 27, 2013 and December 28, 2012 (in thousands):

	For the Three Months Ended	
	December 27, 2013	December 28, 2012
Pass-through costs included in revenues	\$752,023	\$546,416

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. Under U.S. GAAP, our share of losses associated with the contracts held by the joint ventures, if and when they occur, has 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 (i.e., a "reporting entity") shall 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 a 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.

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(continued)

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. For the Company's unconsolidated joint ventures, we use the equity method of accounting. The Company does not currently participate in any significant VIEs in which it has a controlling financial interest.

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 periods ended December 27, 2013 and December 28, 2012 (in thousands):

Component:	For the Three Months Ended	
	December 27, 2013	December 28, 2012
Service cost	\$ 10,413	\$ 11,056
Interest cost	19,892	17,713
Expected return on plan assets	(22,340	) (20,397
Amortization of previously unrecognized items	4,803	5,573
Settlement Loss	140	—
Net periodic benefit cost	\$ 12,908	\$ 13,945

Included in the above table are amounts relating to a U.S. pension plan, the participating employees of which are assigned to, and work exclusively on, a specific operating contract with the U.S. federal government. It is the expectation of the parties to this contract that the cost of this pension plan will be fully reimbursed by the U.S. federal government pursuant to applicable cost accounting standards. The underfunded amount for this pension plan is included in "Other Noncurrent Assets" in the accompanying Consolidated Balance Sheets at December 27, 2013. Net periodic pension costs for this pension plan for the three months ended December 27, 2013 and December 28, 2012 were \$1.9 million and \$3.5 million, respectively. Amounts related to the amortization of previously unrecognized items for this pension plan for the three months ended December 27, 2013 and December 28, 2012 were zero and \$0.9 million, respectively.

The following table presents certain information regarding Company cash contributions to our pension plans for the first three months of fiscal 2014 (in thousands):

Cash contributions made during the first three months of fiscal 2014	\$ 11,690
Cash contributions we expect to make during the remainder of fiscal 2014	46,680
Total	\$ 58,370

Other Comprehensive Income

The following table presents amounts reclassified from change in pension liabilities in other comprehensive income to direct cost of contracts and selling, general and administrative expenses in the Company's Consolidated Statements of Earnings for the three months ended December 27, 2013 and December 28, 2012 related to the Company's defined benefit pension plans (in thousands):

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(continued)

	For the Three Months Ended	
	December 27, 2013	December 28, 2012
Amortization of Defined Benefit Items:		
Actuarial losses	\$ (4,804	) \$ (4,474
Prior service cost	(25	) 13
Total Before Income Tax	(4,829	) (4,461
Income Tax Benefit	1,365	1,279
Total reclassifications after-tax	\$ (3,464	) \$ (3,182

Earnings Per Share and Certain Related Information

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 27, 2013 and December 28, 2012; (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 27, 2013	December 28, 2012
Shares used to calculate EPS:		
Weighted average shares outstanding (denominator used to compute basic EPS)	130,121	128,644
Effect of stock options and restricted stock	2,059	1,025
Denominator used to compute diluted EPS	132,180	129,669
Antidilutive stock options and restricted stock	1,632	4,737
Shares of common stock issued from the exercise of stock options and the release of restricted stock	195	409

Commitments and Contingencies

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

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 and increasingly do 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.

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(continued)

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 claims that may be insured that are known and have been asserted against us, and for claims that may be insured 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.

Management 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 January 20, 2010, Clark County Nevada ("Clark County") filed suit against Jacobs and two of its subsidiaries asserting claims arising out of certain construction projects to which Clark County Nevada was the owner and for which Jacobs' subsidiaries served as the project management consultant. Clark County's lawsuit against Jacobs followed years of litigation and arbitration between Clark County and its construction contractor on the applicable projects which had ended unsuccessfully for Clark County and resulted in Clark County paying more than \$60 million in settlement and awards. Jacobs denied liability and vigorously defended against the County's claims. In September 2012, the parties agreed to dismiss the litigation in U.S. District Court and proceed, in lieu thereof, into arbitration. Prior to the arbitration, the case settled, but some of our insurers have contested coverage. The Company does not expect this matter to have any material adverse effect on its consolidated financial statements.

The Company is a defendant in numerous matters pending in North Carolina's Superior Courts arising out of a June 9, 2009, natural gas explosion at a ConAgra Foods Inc. plant in Garner, Wake County, North Carolina. The claims that have been brought against the Company include wrongful death claims, personal injury claims and a claim for property losses to the plant property itself. The Company has settled many of the personal injury claims and is vigorously defending the remaining claims and believes it has meritorious defenses. In addition, the Company believes it has adequate insurance coverage as well as a right to indemnification from ConAgra. Accordingly, the Company does not expect these matters to have any material adverse effect on its consolidated financial statements.

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

General

The purpose of this Management's Discussion and Analysis ("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 Management's Discussion and Analysis of Financial Condition and Results of Operations of our 2013 Annual Report on Form 10-K ("2013 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 2013 Form 10-K, as well as the discussion of any new accounting standards issued, which is included in the Notes to Consolidated Financial Statements of this Form 10-Q;

The Company's fiscal 2013 audited consolidated financial statements and notes thereto included in our 2013 Form 10-K; and

Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2013 Form 10-K.

In addition to historical information, this MD&A may contain forward-looking statements that are not based on historical fact. When used herein, words such as "expects", "anticipates", "believes", "seeks", "estimates", "plans", "intends", and similar words 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 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 are listed and discussed in Item 1A—Risk Factors, included in our 2013 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 other documents we file from time to time with the United States Securities and Exchange Commission.

Overview

The Company's net earnings for the three months ended December 27, 2013 decreased by \$5.3 million or 5.3% compared to the corresponding period last year. This decrease was due primarily to the transaction expenses and two-week operating loss from our acquisition of SKM partially offset by the resolution of an international tax matter, both of which are discussed below. The Company had a good sales quarter, particularly in the Oil & Gas - Upstream, Chemicals and Polymers, and Refining-Downstream industry groups and markets. Backlog at December 27, 2013 was \$18.1 billion, an increase of 11.5% over backlog at December 28, 2012. The Company continues to have a positive outlook in many of the industry groups and markets in which our clients operate.

Sinclair Knight Merz Acquisition

On December 13, 2013 the Company acquired SKM from the SKM shareholders ("Sellers"). The Company purchased SKM for approximately \$1.2 billion in cash. The purchase price reflects an enterprise value of \$1.1 billion plus adjustments for cash, debt and other items. Additional information related to the acquisition can be found in the Business Combinations note in the Notes to Consolidated Financial Statements. The Company expects this acquisition to significantly increase its capabilities in mining, infrastructure, buildings, water and energy, particularly in Australia, Asia, South America, and the U.K.

Included in the Company's financial results for the first quarter of fiscal 2014 were two weeks of SKM's operations and transaction-related expenses. SKM contributed a loss from operations of \$3.3 million, primarily due to significant holiday and vacation impacts. These losses are not expected to continue. In addition, we incurred \$9.1 million of acquisition related costs during the first quarter of fiscal 2014 which included a \$7.8 million stamp duty associated with the transaction, which was recorded as an expense, \$1.1 million of intangibles amortization for two weeks of operations, and \$0.4 million of interest expense related to the \$600 million debt incurred to acquire SKM. These items had an after-tax impact of \$12.8 million or \$0.10 per share.

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Results of Operations

Net earnings for the first quarter of fiscal 2014 ended December 27, 2013 decreased \$5.3 million, or 5.3%, to \$93.7 million (or \$0.71 per diluted share) from \$99.0 million (or \$0.76 per diluted share) for the corresponding period last year.

Total revenues for the first quarter of fiscal 2014 increased by \$309.3 million, or 11.2%, to \$3.07 billion, from \$2.76 billion for the first quarter of fiscal 2013.

The following table sets forth our revenues by the various types of services we provide for the three months ended December 27, 2013 and December 28, 2012 (in thousands):

	For the Three Months Ended	
	December 27, 2013	December 28, 2012
Technical Professional Services Revenues:		
Project Services	\$ 1,520,778	\$ 1,432,309
Process, Scientific, and Systems Consulting	152,634	179,610
Total Technical Professional Services Revenues	1,673,412	1,611,919
Field Services Revenues:		
Construction	1,081,214	832,259
Operations and Maintenance ("O&M")	314,265	315,463
Total Field Services Revenues	1,395,479	1,147,722
Total Revenues	\$ 3,068,891	\$ 2,759,641

Project Services revenues for the three months ended December 27, 2013, increased \$88.5 million, or 6.2%, from the corresponding period last year. This increase in Project Services revenues occurred primarily in the Chemicals and Polymers market, principally in our U.S., U.K., and South America operations and in our Refining - Downstream market, principally in the U.K., Europe, Middle East and Canada. Included in Project Services revenues for the three months ended December 27, 2013 are \$25.7 million from the SKM acquisition.

Process, Scientific, and Systems Consulting revenues for the three months ended December 27, 2013, decreased \$27.0 million, or 15.0%, from the corresponding period last year. The revenues in this service type primarily relate to science, engineering and technical support services provided to our U.S. government clients. These decreases can be attributed primarily to a reduction in spending by the U.S. federal government and impacts from the temporary shutdown of the U.S. federal government.

Construction revenues for the three months ended December 27, 2013, increased \$249.0 million, or 29.9%, from the corresponding period last year. The Company continues to experience increased activity in the Chemicals and Polymers market in the U.S. and the U.K., as well as in the Mining and Minerals market in the U.S.

Our O&M revenues for the three months ended December 27, 2013 were relatively unchanged when compared to the prior year period. A decrease in our O&M revenues in our Canadian operations was partially offset by an increase in our U.S. operations. Nevertheless, we expect to see increases in our maintenance activity in our Canadian operations in fiscal 2014.

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The following table sets forth our revenues by the industry groups and markets in which our clients operate for the three months ended December 27, 2013 and December 28, 2012 (in thousands):

	For the Three Months Ended	
	December 27, 2013	December 28, 2012
National Government Programs	\$510,041	\$553,942
Refining - Downstream	610,536	522,239
Chemicals and Polymers	762,062	520,611
Infrastructure	291,490	272,545
Oil & Gas - Upstream	207,863	221,634
Buildings	185,665	195,586
Pharmaceuticals and Biotechnology	110,506	139,335
Mining and Minerals	223,783	139,000
Industrial and Other	166,945	194,749
	\$3,068,891	\$2,759,641

For the three months ended December 27, 2013, revenues from clients operating in the National Government Programs market decreased \$43.9 million, or 7.9%, to \$510.0 million from \$553.9 million for the corresponding period last year. Uncertainties over U.S. government budget issues are a key factor in this market, although the recent budget agreement should provide some funding certainty. In the first quarter of fiscal 2014, we also experienced impacts from the shutdown of the U.S. federal government. Nevertheless, we view this as an improving market and still see significant opportunities in the U.S. and, increasingly, the U.K.

For the three months ended December 27, 2013, revenues from clients operating in the Refining - Downstream industry increased \$88.3 million, or 16.9%, to \$610.5 million from \$522.2 million for the corresponding period last year. This increase is primarily in Europe and Canada. We believe this will continue to be a strong market during the rest of fiscal 2014. Looking forward, several major European and other clients are investing to improve efficiency in their facilities, and, in the U.S., the industry is beginning to focus on compliance with the EPA TIER 3 Ultra Low Sulfur Gasoline regulations.

For the three months ended December 27, 2013, revenues from clients operating in the Chemicals and Polymers industries increased \$241.5 million, or 46.4%, to \$762.1 million from \$520.6 million for the corresponding period last year. The effect of shale gas projects and the low price of natural gas continue to influence activity in this market. Because there is now a large source of feedstock available outside refineries which can grow independently of the refining infrastructure, we believe more projects are now economically viable and capital is being deployed to develop these opportunities. Furthermore, our clients are looking at various options to monetize natural gas. This increased activity during the first quarter of fiscal 2014 is primarily in the U.S. and the U.K. along with other increases in South America, the Middle East, and Asia. We see this as a very strong market in fiscal 2014 and beyond.

For the three months ended December 27, 2013, revenues from clients operating in the Infrastructure market increased \$18.9 million, or 7.0%, to \$291.5 million from \$272.5 million for the corresponding period last year. We continue to view the Infrastructure market as strong globally, particularly in the U.S., the U.K. the Middle East, and Asia. We are also focusing on growing our telecommunication and regulated pipeline businesses as demonstrated by our acquisitions during the first quarter of fiscal 2014 of FHMC Corporation, Inc. and MARMAC Field Services, Inc. The SKM acquisition should significantly increase our revenue in the infrastructure market in fiscal year 2014, primarily in Australia, Asia and the U.K.

For the three months ended December 27, 2013, revenues for clients operating in the Oil & Gas - Upstream industry decreased \$13.8 million, or 6.2%, to \$207.9 million from \$221.6 million from the corresponding period last year. The decrease was primarily due to what we believe to be a temporary decline in Canadian turnaround activities compared to the prior period. The Company believes this a very strong market and expects field services activity in the Canadian market to grow as projections continue to show a strong oil price forecast. We continue to see more opportunities in the Middle East, including unconventional gas development programs and large pipeline front end engineering and design ("FEED") projects. The market in Europe looks positive with a number of opportunities for engineering, procurement and construction Management ("EPCM") projects, FEED's for onshore terminal modifications, and long-term site-based alliances. Onshore development and production in the U.S. continues to be strong. The Australian market is being driven by the development of liquefied natural gas export projects.

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For the three months ended December 27, 2013, revenues from clients operating in the Buildings market decreased \$9.9 million, or 5.1%, to \$185.7 million from \$195.6 million for the corresponding period last year. We view the Buildings market as improving as the buildings business continues to shift towards projects for clients in the private sector. Growth in the private sector business is coming from mission critical, education, healthcare, aviation, and corporate and commercial programs and projects. The acquisition of SKM brings new capability in this market in Asia and Australia.

For the three months ended December 27, 2013, revenues from clients operating in the Pharmaceuticals and Biotechnology industries and markets decreased \$28.8 million, or 20.7%, to \$110.5 million from \$139.3 million for the corresponding period last year. We view this as an improving market, with potential growth prospects in the areas of biotechnology-based drug development in Europe and North America and secondary manufacturing expansion in Asia, the U.K., and South America. We continue to view China as a strong market with the government emphasizing improvement in the nation's healthcare system.

For the three months ended December 27, 2013, revenues from clients operating in the Mining and Minerals market increased \$84.8 million, or 61.0%, to \$223.8 million from \$139.0 million for the corresponding period last year. The increased revenues in 2014 were primarily from field services projects based in the U.S. Globally, our clients in this market have been affected negatively by a general slowdown in the rate of growth in the Chinese economy; falling spot prices for iron ore, coking, and thermal coal; and weaker commodity prices - albeit these declines have occurred from prices that were generally high from a historical perspective. Despite these factors, we view this as a growing market for Jacobs, as we believe we will be able to capture additional market share. The Company will continue to focus on asset optimization and sustaining capital projects (small-cap projects and maintenance-driven work) for our clients in this market. The potential for legislative changes during fiscal 2014 in Australia could have a positive influence in this market in the later part of the year. The acquisition of SKM should result in significant revenue generated in fiscal year 2014 with their new capability primarily in Australia and South America. We made a \$45 million investment in Guimar Engenharia, a Brazilian-based engineering services and project management/construction management firm, which should help in this market as well as clients in other markets seeking to do projects in Brazil. In addition, the SKM acquisition is expected to expand our capabilities beyond non-ferrous metals to iron ore and coal. We also believe the acquisition of SKM will bring together our existing hydro-metallurgy and concentrator skills with SKM's strength in materials handling and infrastructure.

For the three months ended December 27, 2013, revenues from clients operating in the Industrial and Other markets decreased \$27.8 million, or 14.3%, to \$166.9 million from \$194.7 million for the corresponding period last year. The Industrial and Other market includes the Pulp & Paper, High-Tech, Power, and Food & Consumer Products industry groups and markets. The decreases in Industrial and Other revenues were due primarily to decreased field services activity in the Pulp & Paper market in the U.S. and the High-Tech market in Ireland.

Direct costs of contracts for the first quarter of fiscal 2014 increased \$0.3 billion, or 12.5%, to \$2.6 billion from \$2.3 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 for the first quarter of fiscal 2014 increased \$205.6 million, or 37.6%, to \$752.0 million from \$546.4 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 lifecycle 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.

As a percentage of revenues, direct costs of contracts for the three months ended December 27, 2013 was 85.2%. This compares to 84.2% for the three months ended December 28, 2012. 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 (i.e., 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,

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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. For the three months ended December 27, 2013, the increase in the ratio of direct costs of contracts to revenues increased over the prior year primarily due to an increase in our field services activities and an increase in our pass through costs as well.

Selling, general and administrative ("SG&A") expenses for the first quarter of fiscal 2014 increased \$33.2 million, or 12.0%, to \$308.6 million from \$275.5 million for the corresponding period last year. The increase in SG&A is primarily due to the SKM acquisition, both in terms of one-time transaction-related expenses and SG&A for the last two weeks of the quarter. Without SKM-related SG&A costs of \$26.1 million, total SG&A would have increased \$7.1 million or 2.6%. As a percentage of revenues, SG&A costs was relatively unchanged at approximately 10% for the three months ended December 27, 2013 when compared to the corresponding periods last year. Without the SKM-related SG&A costs above, SG&A would have declined to 9.3% of revenues for the three months ended December 27, 2013.

We have reported net, negative interest expense for the first quarter of fiscal 2014. We successfully resolved a tax matter involving one of our international subsidiaries which resulted in the reversal of \$4.1 million of accrued interest.

The Company's effective income tax rate for the quarter ended December 28, 2012 declined from 33.1% to 32.7% for the quarter ended December 27, 2013. This decrease was the result of the resolution of the international tax liability discussed above, offset by the stamp duty related to the SKM acquisition previously described which is not deductible for income tax purposes.

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 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. In a situation where a client terminates a contract, we typically are entitled to receive payment for work performed up to the date of termination and, in certain instances, we may be entitled to allowable termination and cancellation costs. 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.

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Because certain contracts (for example, contracts relating to large engineering, procurement, and construction 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 27, 2013 and December 28, 2012 (in millions):

	December 27, 2013	December 28, 2012
Technical professional services	\$12,279.7	\$10,407.3
Field services	5,774.5	5,782.3
Total	\$18,054.2	\$16,189.6

Our backlog increased \$1.9 billion, or 11.5%, to \$18.1 billion at December 27, 2013 from \$16.2 billion at December 28, 2012. Backlog at December 27, 2013 includes \$0.8 billion from the SKM acquisition, new awards from clients operating in many of the industry groups and markets we serve, in particularly the Oil & Gas - Upstream, and Power industry groups and markets and expanded business in the Chemicals and Polymers industry.

Liquidity and Capital Resources

At December 27, 2013, our principal sources of liquidity consisted of \$1.0 billion of cash and cash equivalents and \$0.2 billion of available borrowing capacity under our \$1.21 billion 2012 Facility. We finance much of our operations and growth through cash generated by our operations.

During the three months ended December 27, 2013, our cash and cash equivalents decreased by \$245.2 million from \$1.26 billion at September 27, 2013 to \$1.0 billion at December 27, 2013. This compares to a net increase in cash and cash equivalents of \$209.3 million to \$1.24 billion during the corresponding period last year. During the three months ended December 27, 2013, we experienced net cash inflows of \$326.5 million from operating activities and \$628.1 million from financing activities. These cash inflows were offset by cash outflows of \$1,196.3 million from investing activities and \$3.4 million from the effects of exchange rate changes.

Our operations provided net cash inflows of \$326.5 million during the three months ended December 27, 2013. This compares to net cash inflows of \$246.7 million for the corresponding period last year. The \$79.8 million increase in cash flows from operating activities during the three months ended December 27, 2013 as compared to the corresponding period last year was due primarily to a \$60.0 million increase in cash generated from our working capital accounts (discussed below).

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 is 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 \$60.0 million increase in cash flows relating to our working capital accounts was due to the timing of cash receipts and payments within our working capital accounts. Contributing to the increase in cash flows related to the Company's working capital accounts during the first

three months of fiscal 2014 was an improvement in our collection of accounts receivable. Though the Company provides services in a number of countries outside the U.S., we believe our credit risk is not significant. Our private sector customers are comprised principally of large, well-known, and well-established multi-national companies. Our government customers are comprised of national, state, and local agencies located principally in the U.S. and the U.K. We have not historically experienced significant collection issues with either of our governmental or non-governmental customers. SKM has a similar customer and contract profile as the Company in this respect.

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JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

We used \$1.2 billion of cash and cash equivalents for investing activities during the three months ended December 27, 2013 as compared to \$25.4 million used during the corresponding period last year. This increase was primarily the result of the Company's acquisition of SKM for \$1.2 billion (\$1.1 billion net of cash acquired) during the three months ended December 27, 2013 and compares to no acquisition activity in the corresponding period last year.

Our financing activities resulted in net cash inflows of \$628.1 million during the three months ended December 27, 2013. This compares to net cash outflows of \$10.5 million during the corresponding period last year. In connection with our acquisition of SKM, we borrowed an additional \$600.0 million under the 2012 Facility.

The Company had \$1.0 billion of cash and cash equivalents at December 27, 2013. Of this amount, approximately \$360.4 million was held in the U.S. and \$650.9 million was held outside of the U.S., primarily in Canada, Australia, the U.K., and the Eurozone. Other than the tax cost of repatriating funds to the U.S. (see Note 9—Income Taxes of Notes to Consolidated Financial Statements included in our 2013 Form 10-K), there are no material impediments to repatriating these funds to the U.S.

We believe we have adequate liquidity and capital resources to fund our operations, support our acquisition strategy, and service our debt for the next twelve months. We had \$1.0 billion in cash and cash equivalents at December 27, 2013, compared to \$1.3 billion at September 27, 2013. Our consolidated working capital position at December 27, 2013 was \$1.8 billion, a decrease of \$369.8 million from September 27, 2013 due to the SKM acquisition.

There was \$0.2 billion of borrowing capacity remaining under the 2012 Facility at December 27, 2013. We believe that the capacity, terms and conditions of the 2012 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.

The Company had \$271.5 million of letters of credit outstanding at December 27, 2013. Of this amount, \$10.8 million was issued under our revolving credit facility and \$260.7 million was issued under separate, committed and uncommitted letter-of-credit facilities.

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" 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, for a discussion of the 2012 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 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 Chief Executive Officer and Chief 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 27, 2013, the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date"). Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of the Evaluation Date.

There were no changes in the Company's internal control over financial reporting during the quarter ended December 27, 2013 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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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 2013 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.

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

On October 14, 2013, we acquired the assets of Trompeter Enterprises, L.L.C., Motion Mekanix, Inc., Teamm Workforce, Inc., and Sims Software II, Inc. (collectively "Trompeter"); and on December 20, 2013, we acquired the assets of Stobbarts (Nuclear) Limited, for cash and shares of our common stock. In connection with these acquisitions, we issued 33,947 shares of our common stock with an aggregate value of approximately \$2.0 million. No underwriters or placement agents were involved with these acquisitions.

The issuance of our common stock in these acquisitions was exempt from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"), pursuant to Rule 506 thereof. The offer and sale of the shares of our common stock: (i) was made as part of a transaction that did not involve more than 35 purchasers, (as defined in Rule 501(e) under the Securities Act) who were either accredited investors or had such knowledge and experience in financial and business matters that such purchaser was capable of evaluating the merits and risks of acquiring shares of our common stock, and (ii) did not involve any general solicitation or general advertising.

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.

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Item 6. Exhibits

(a) Exhibits

- †2.3 Sales Agreement between Sinclair Knight Merz Management Pty Limited and Sinclair Knight Merz Holdings Limited and Jacobs Engineering Group, Inc. and Jacobs Australia Holdings Company Pty, Ltd, dated as of December 13, 2013.
- 31.1 – Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 – Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 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.

† Certain schedules to this agreement have been omitted in accordance with Item 601(b)(2) of Regulation S-K. A copy of any omitted schedules will be furnished supplementally to the SEC upon request.

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JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

SIGNATURES

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

JACOBS ENGINEERING GROUP INC.

By: /s/ John W. Prosser, Jr.
 John W. Prosser, Jr.
 Executive Vice President
 Finance and Administration
 and Treasurer
 (Principal Financial Officer)

Date: January 23, 2014