JACOBS ENGINEERING GROUP INC /DE/
Form 10-Q
May 08, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
(Mark one)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended March 30, 2018
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to
Commission File Number 1-7463
JACOBS ENGINEERING GROUP INC.
(Exact name of registrant as specified in its charter)

Delaware	95-4081636
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
1999 Bryan Street, Suite 1200, Dallas, Texas	75201
(Address of principal executive offices)	(Zip Code)

(214) 583 – 8500
(Registrant's telephone number, including area code)
Indicate by check-mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days: x Yes o 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). x Yes o No
Indicate by check-mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	o
Emerging growth company	o		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check-mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No
Number of shares of common stock outstanding at April 27, 2018: 141,791,890

JACOBS ENGINEERING GROUP INC.
INDEX TO FORM 10-Q

Part I - FINANCIAL INFORMATION
Item 1. Financial Statements.
JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share information)

	March 30, 2018 (unaudited)	September 29, 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$835,415	$774,151
Receivables	3,421,230	2,102,543
Prepaid expenses and other	200,626	119,486
Total current assets	4,457,271	2,996,180
Property, Equipment and Improvements, net	504,412	349,911
Other Noncurrent Assets:		
Goodwill	5,916,827	3,009,826
Intangibles, net	745,947	332,920
Miscellaneous	977,409	692,022
Total other noncurrent assets	7,640,183	4,034,768
	$12,601,866	$7,380,859
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable	$5,559	$3,071
Accounts payable	964,280	683,605
Accrued liabilities	1,431,032	939,687
Billings in excess of costs	582,362	299,864
Total current liabilities	2,983,233	1,926,227
Long-term Debt	2,511,800	235,000
Other Deferred Liabilities	1,081,357	732,281
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—141,714,841 shares and 120,385,544 shares as of March 30, 2018 and September 29, 2017, respectively	141,715	120,386
Additional paid-in capital	2,656,265	1,239,782
Retained earnings	3,755,651	3,721,698
Accumulated other comprehensive loss	(617,064)	(653,514)
Total Jacobs stockholders' equity	5,936,567	4,428,352
Noncontrolling interests	88,909	58,999
Total Group stockholders' equity	6,025,476	4,487,351
	$12,601,866	$7,380,859

See the accompanying Notes to Consolidated Financial Statements – Unaudited.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
For the Three Months and Six Months Ended March 30, 2018 and March 31, 2017
(In thousands, except per share information)
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Revenues	$3,935,028	$2,302,567	$6,685,338	$4,854,171
Direct cost of contracts	(3,161,663)	(1,883,283)	(5,424,794)	(4,015,575)
Gross profit	773,365	419,284	1,260,544	838,596
Selling, general and administrative expenses	(627,079)	(351,111)	(1,066,615)	(681,795)
Operating Profit	146,286	68,173	193,929	156,801
Other Income (Expense):				
Interest income	1,785	2,088	5,619	3,574
Interest expense	(19,228)	(3,755)	(26,319)	(7,273)
Miscellaneous income (expense), net	(6,676)	(6,015)	(9,146)	(6,731)
Total other (expense) income, net	(24,119)	(7,682)	(29,846)	(10,430)
Earnings Before Taxes	122,167	60,491	164,083	146,371
Income Tax Expense	(70,235)	(16,326)	(109,590)	(41,053)
Net Earnings of the Group	51,932	44,165	54,493	105,318
Net (Earnings) Loss Attributable to Noncontrolling Interests	(3,345)	5,853	(3,743)	5,236
Net Earnings Attributable to Jacobs	$48,587	$50,018	$50,750	$110,554
Net Earnings Per Share:				
Basic	$0.34	$0.41	$0.38	$0.91
Diluted	$0.34	$0.41	$0.38	$0.91

See the accompanying Notes to Consolidated Financial Statements - Unaudited.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the Three Months and Six Months Ended March 30, 2018 and March 31, 2017
(In thousands)
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Net Earnings of the Group	$51,932	$44,165	$54,493	$105,318
Other Comprehensive Income (Loss):				
Foreign currency translation adjustment	9,714	41,441	27,694	(246,083)
Gain (loss) on cash flow hedges	179	5,690	1,061	4,748
Change in pension liabilities	2,594	(2,458)	8,866	22,295
Other comprehensive income (loss) before taxes	12,487	44,673	37,621	(219,040)
Income Tax Expense:				
Cash flow hedges	(149)	(1,024)	(149)	(1,106)
Change in pension liabilities	(418)	253	(1,022)	(4,269)
Income Tax Expense:	(567)	(771)	(1,171)	(5,375)
Net other comprehensive income (loss)	11,920	43,902	36,450	(224,415)
Net Comprehensive Income (Loss) of the Group	63,852	88,067	90,943	(119,097)
Net (Earnings) Loss Attributable to Noncontrolling Interests	(3,345)	5,853	(3,743)	5,236
Net Comprehensive Income (Loss) Attributable to Jacobs	$60,507	$93,920	$87,200	$(113,861)

See the accompanying Notes to Consolidated Financial Statements - Unaudited.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended March 30, 2018 and March 31, 2017
(In thousands)
(Unaudited)

	For the Six Months Ended	
	March 30, 2018	March 31, 2017
Cash Flows from Operating Activities:		
Net earnings attributable to the Group	$54,493	$105,318
Adjustments to reconcile net earnings to net cash flows provided by operations:		
Depreciation and amortization:		
Property, equipment and improvements	59,139	34,479
Intangible assets	36,048	23,213
(Gain) Loss on sales of business	(444)	822
Stock based compensation	47,326	21,158
Tax deficiency from stock based compensation	—	(1,433)
Equity in earnings of operating ventures, net	787	(4,056)
(Gain) Losses on disposals of assets, net	3,917	1,751
Loss (gain) on pension plan changes	3,819	(9,955)
Deferred income taxes	6,799	(11,720)
Changes in assets and liabilities, excluding the effects of businesses acquired:		
Receivables	(171,912)	59,653
Prepaid expenses and other current assets	(2,361)	3,522
Accounts payable	17,972	(47,422)
Accrued liabilities	(79,697)	(33,570)
Billings in excess of costs	33,599	82,534
Income taxes payable	59,072	(11,882)
Other deferred liabilities	(17,420)	(12,209)
Other, net	3,067	846
Net cash (used for) provided by operating activities	54,204	201,049
Cash Flows Used for Investing Activities:		
Additions to property and equipment	(44,845)	(45,761)
Disposals of property and equipment	428	50
Contributions to equity investees	(7,696)	—
Acquisitions of businesses, net of cash acquired	(1,484,817)	(24,782)
Proceeds (payments) related to sales of businesses	3,403	(2,036)
Net cash used for investing activities	(1,533,527)	(72,529)
Cash Flows Provided by Financing Activities:		
Proceeds from long-term borrowings	3,058,088	644,255
Repayments of long-term borrowings	(1,495,887)	(687,068)
Proceeds from short-term borrowings	699	669
Repayments of short-term borrowings	(699)	—
Proceeds from issuances of common stock	26,636	46,915
Common stock repurchases	(2,982)	(81,178)
Excess tax benefits from stock based compensation	—	1,433
Taxes paid on vested restricted stock	(17,109)	—
Cash dividends, including to noncontrolling interests	(44,233)	(18,104)
Net cash provided by (used for) financing activities	1,524,513	(93,078)

Effect of Exchange Rate Changes	16,074	(16,562)
Net Increase in Cash and Cash Equivalents	61,264	18,880
Cash and Cash Equivalents at the Beginning of the Period	774,151	655,716
Cash and Cash Equivalents at the End of the Period	$835,415	$674,596

See the accompanying Notes to Consolidated Financial Statements – Unaudited.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED
March 30, 2018

1. 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 29, 2017 ("2017 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 March 30, 2018, and for the three and six month periods ended March 30, 2018.

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 2017 Form 10-K for the definitions of certain terms used herein.

2. 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 2017 Form 10-K for a discussion of the significant estimates and assumptions affecting our consolidated financial statements.

3. 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.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

Please refer to Note 2 Significant Accounting Policies of Notes to Consolidated Financial Statements included in our 2017 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.

The net carrying amounts of cash and cash equivalents, trade receivables and payables, and notes payable approximate fair value due to the short-term nature of these instruments. Similarly, we believe the carrying value of long-term debt also approximates fair value based on the interest rates and scheduled maturities applicable to the outstanding borrowings.

4. New Accounting Pronouncements

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 their effective dates and in the manner prescribed by the FASB.

Revenue Recognition

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. The effective date for ASU 2014-09 is for annual reporting periods beginning after December 15, 2017 and interim periods therein.

The Company’s adoption activities are being performed over three phases: (i) assessment, (ii) design, and (iii) implementation. Our assessment and design phases are substantially complete. We have established a cross-functional team to implement ASU 2014-09. Additionally, we have identified selected changes to our systems, processes and internal controls and are in the process of designing updates for each to meet the standard’s revised reporting and disclosure requirements. The Company continues to evaluate the impact of ASU 2014-09 to the CH2M business and we are largely complete with the assessment phase. We expect to update CH2M’s accounting policies, processes and controls to align with the policies, processes and controls being implemented across the Company. We are in the process of implementing the changes discovered during the assessment and design phases. The following are the potential significant differences identified to date:

Performance Obligations

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

Contract Modifications

In many instances, the Company enters into contracts for construction services subsequent to entering into engineering services contracts (“Phased Projects”). Under ASU 2014-09, the construction services contract may be deemed to modify the engineering contract, or may be required to be combined with the engineering contract. This modification or combination of contracts may result in a cumulative catchup adjustment, which will have an immediate impact on the Company’s results of operations in the period the contract combination or modification occurs. In addition, it will change the timing and pattern of revenue recognition after the period the contracts have been combined or modified. The Company analyzed its current Phased Projects and concluded that a significant number of these arrangements would be combined under ASU 2014-09.

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

Lease Accounting

In February 2016, the FASB issued ASU 2016-02 Leases. ASU 2016-02 requires lessees to recognize assets and liabilities for most leases. ASU 2016-02 is effective for public entity financial statements for annual periods beginning after December

15, 2018, and interim periods within those annual periods. Early adoption is permitted, including adoption in an interim period. The new guidance currently requires a modified retrospective transition approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. In January 2018, the FASB released an exposure draft that, if issued in its current form, would provide us with the option to adopt the provisions of the new guidance prospectively, without adjusting the comparative periods presented. 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.

Other Pronouncements

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. ASU 2017-12 provides financial reporting improvements related to hedging relationships to better portray the economic results of an entity’s risk management activities in its financial statements. Additionally, ASU No. 2017-12 makes certain targeted improvements to simplify the application of the hedge accounting guidance. The revised guidance becomes effective for fiscal years beginning after December 15, 2018 with early adoption permitted. The Company is evaluating the impact of the new guidance on its consolidated financial statements. It is not expected that the updated guidance will have a significant impact on the Company’s consolidated financial statements.

ASU 2017-04, Simplifying the Test for Goodwill Impairment, is effective for fiscal years beginning after December 15, 2019 with early adoption permitted. ASU 2017-04 removes the second step of the goodwill impairment test, which requires a hypothetical purchase price allocation. An entity will now recognize a goodwill impairment charge for the amount by which a reporting unit's carrying value exceeds its fair value, not to exceed the amount of goodwill allocated to the reporting unit. Management does not expect the adoption of ASU 2017-04 to have any impact on the Company's financial position, results of operations or cash flows.

In February 2018, the FASB issued ASU 2018-02, Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income, which allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act. ASU 2018-02 is effective for interim and annual reporting periods beginning after December 15, 2018, with early adoption permitted. Management is currently evaluating the impact that the adoption of ASU 2018-02 will have on the Company's financial position, results of operations and cash flows.

5. Business Combinations

On December 15, 2017, the Company completed the acquisition of CH2M HILL Companies, Ltd. (CH2M), an international provider of engineering, construction, and technical services, by acquiring 100% of the outstanding shares of CH2M common stock and preferred stock. The purpose of the acquisition was to further diversify the Company’s presence in the water, nuclear and environmental remediation sectors and to further the Company’s profitable growth strategy. The Company paid total consideration of approximately $1.8 billion in cash (excluding $315.2 million of cash acquired) and issued approximately $1.4 billion of Jacobs’ common stock, or 20.7 million shares, to the former stockholders and certain equity award holders of CH2M. In connection with the acquisition, the Company also assumed CH2M’s revolving credit facility and second lien notes, including a $20.0 million prepayment penalty, which totaled approximately $700 million of long-term debt. Immediately following the effective time of the acquisition, the Company repaid CH2M’s revolving credit facility and second lien notes including the related prepayment penalty.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

The following summarizes the estimated fair values of CH2M assets acquired and liabilities assumed as of the acquisition date (in millions):

Assets	
Cash and cash equivalents	$315.2
Receivables	1,184.1
Prepaid expenses and other	72.7
Property, equipment and improvements, net	175.1
Goodwill	2,874.9
Identifiable intangible assets:	
Customer relationships, contracts and backlog	450.0
Lease intangible assets	4.4
Total identifiable intangible assets	454.4
Miscellaneous	354.2
Total Assets	$5,430.6
Liabilities	
Notes payable	$2.2
Accounts payable	309.6
Accrued liabilities	696.6
Billings in excess of costs	265.8
Identifiable intangible liabilities:	
Lease intangible liabilities	9.6
Long-term debt	702.3
Other deferred liabilities	381.6
Total Liabilities	2,367.7
Noncontrolling interests	(38.2)
Net assets acquired	$3,024.7

The purchase price allocation is based upon preliminary information and is subject to change when additional information is obtained. Goodwill recognized largely results from a substantial assembled workforce, which does not qualify for separate recognition, as well as expected future synergies from combining operations. None of the goodwill recognized is expected to be deductible for tax purposes. The Company has not completed its final assessment of the fair values of purchased receivables, intangible assets and liabilities, property, equipment and improvements, tax balances, contingent liabilities, long-term leases or acquired contracts. The final purchase price allocation will result in adjustments to certain assets and liabilities, including the residual amount allocated to goodwill. See Note 18, Commitments and Contingencies, relating to CH2M contingencies.

During the three months ended March 30, 2018, the Company updated certain provisional amounts reflected in the preliminary purchase price allocation, as summarized in the estimated fair values of CH2M assets acquired and liabilities assumed above. Specifically, the carrying amount of the intangible assets discussed above were decreased by $148.5 million and the carrying amount of property, equipment and improvements decreased by $50.5 million. These measurement period adjustments are recognized in the reporting period in which the adjustments are determined and calculated as if the accounting had been completed at the acquisition date. As a result, the Company recognized measurement period adjustments decreasing expense by $1.5 million during the three months ended March 30, 2018.

Customer relationships, contracts and backlog represent the fair value of existing contracts, the underlying customer relationships and backlog of consolidated subsidiaries and have lives ranging from 10 to 12 years (weighted average life of approximately 11 years). Other intangible assets and liabilities primarily consist of the fair value of office leases and have a weighted average life of approximately 10 years.

Estimated fair value measurements relating to the CH2M acquisition are made using Level 3 inputs including discounted cash flow techniques. Fair value is estimated using inputs primarily from the income approach, which include the use of both the multiple period excess earnings method and the relief from royalties method. The significant assumptions used in estimating fair value include (i) the estimated life the asset will contribute to cash flows, such as attrition rate of customers or remaining contractual terms, (ii) profitability and (iii) the estimated discount rate that reflect the level of risk associated with receiving future cash flows. The estimated fair value of land has been determined using the market approach, which arrives at an indication of value by comparing the site being valued to sites that have been recently acquired in arm's-length transactions. Personal property assets with an active and identifiable secondary market are valued using the market approach. Buildings and land improvements are valued using the cost approach using a direct cost model built on estimates of replacement cost. Other personal property assets such as furniture, fixtures and equipment are valued using the cost approach which is based on replacement or reproduction costs of the asset less depreciation.

Other deferred liabilities were comprised primarily of pensions and other long-term employee related liabilities totaling approximately $291.0 million.

From the acquisition date of December 15, 2017 through the end of the second fiscal quarter of 2018, CH2M contributed approximately $1.3 billion in revenue and $6.5 million in pretax loss included in the accompanying consolidated statement of earnings. Included in these results were approximately $78.0 million in pre-tax restructuring and transaction costs.

Transaction costs associated with the CH2M acquisition in the accompanying consolidated statements of earnings for the three and six months ended March 30, 2018 are comprised of the following (in millions):

	Three Months Ended March 30, 2018	Six Months Ended March 30, 2018
Personnel costs	$ 4.7	$ 45.9
Professional services and other expenses	0.2	26.9
Total	$ 4.9	$ 72.8

Personnel costs above include change of control payments and related severance costs. The following presents summarized unaudited pro forma operating results assuming that the Company had acquired CH2M at October 1, 2016. These pro forma operating results are presented for illustrative purposes only and are not indicative of the operating results that would have been achieved had the related events occurred (in millions):

	Six Months Ended	
	March 30, 2018	March 31, 2017
Revenues	$7,713.1	$7,043.4
Net earnings	77.7	10.6
Net earnings (loss) attributable to Jacobs	71.8	(2.8)
Net earnings (loss) attributable to Jacobs per share:		
Basic earnings (loss) per share	$0.50	$(0.02)
Diluted earnings (loss) per share	$0.50	$(0.02)

Included in the unaudited pro forma operating results are charges relating to transaction expenses, severance expense and other items that are removed from the six months ended March 30, 2018 and are reflected in the six months ended March 31, 2017 due to the assumed timing of the transaction. Also, income tax expense (benefit) for the six month pro forma periods ended March 30, 2018 and March 31, 2017 was $137.7 million and ($61.9) million, respectively.

6. Goodwill and Intangibles

As a result of the segment realignment this quarter (See Note 7, Segment Information), the historical carrying value of goodwill has been allocated to the three remaining reportable segments to present balances on a comparable basis. The carrying value of goodwill appearing in the accompanying Consolidated Balance Sheets at March 30, 2018 and September 29, 2017 was as follows (in millions):

	Aerospace, Technology, Environmental and Nuclear	Buildings, Infrastructure and Advanced Facilities	Energy, Chemicals and Resources	Total
Balance September 29, 2017	$ 1,038.2	$ 1,048.8	$ 922.8	$3,009.8
Acquired	945.2	1,417.9	335.7	2,698.8
Post-Acquisition Adjustments	106.7	40.2	32.1	179.0
Foreign Exchange Impact	10.0	10.2	9.0	29.2
Balance March 30, 2018	$ 2,100.1	$ 2,517.1	$ 1,299.6	$5,916.8

During the preparation of our Quarterly Report on Form 10-Q for the first fiscal quarter of 2017, the Company determined that its prior financial statements contained immaterial misstatements related to incorrect translation of the Company's non-U.S. goodwill balances from local currency to the U.S. Dollar reporting currency. It was determined that the Company had incorrectly used historical translation rates for the U.S. Dollar in place at the time of the Company's recording of its foreign goodwill balances rather than using current translation rates at each balance sheet date in accordance with U.S. GAAP. The error dated back to the time of our initial reporting of non-US goodwill balances in the late 1990s and affected our historical quarterly and annual reporting periods through the first fiscal quarter of 2017. Goodwill and accumulated other comprehensive income in the Company's September 30, 2016 consolidated balance sheet (which have not been adjusted) were each overstated by $209.9 million and was corrected in the first fiscal quarter of 2017 foreign currency translation adjustment. Consequently, the correction was a direct component of the overall translation adjustment amount of $287.5 million that was reported for the three months ended December 30, 2016. These adjustments had no impact on the Company's Consolidated Statements of Earnings or Cash Flows.

The following table provides certain information related to the Company's acquired intangibles in the accompanying Consolidated Balance Sheets at March 30, 2018 and September 29, 2017 (in thousands):

	Customer Relationships, Contracts, and Backlog	Developed Technology	Trade Names	Patents	Lease Intangible Assets	Other	Total
Balances September 29, 2017	$ 301,468	$ 14,462	$6,699	$10,180	$ —	$111	$332,920
Acquisitions	557,000	237	40,000	—	5,951	—	603,188
Post-Acquisition Adjustments	(106,800)	(1,921)	(41,700)	—	(1,536)	—	(151,957)
Amortization	(33,310)	(767)	(1,530)	(208)	(208)	(25)	(36,048)
Foreign currency translation	(1,805)	—	(7)	(344)	—	—	(2,156)
Balances March 30, 2018	$ 716,553	$ 12,011	$3,462	$9,628	$ 4,207	$86	$745,947

In addition, we acquired $9.6 million in lease intangible liabilities in connection with the CH2M acquisition, of which $9.3 million remain unamortized at March 30, 2018.

The following table presents estimated amortization expense of intangible assets for the remainder of fiscal 2018 and for the succeeding years. The amounts below include preliminary amortization estimates for the CH2M opening balance sheet fair values that are still preliminary and are subject to change.

Fiscal Year	(in millions)
2018 (six months remaining)	$ 44.6
2019	86.7
2020	84.6
2021	81.0
2022	79.8
Thereafter	359.9
Total	$ 736.6

7. Segment Information

During the second quarter of fiscal 2018, we reorganized our operating and reporting structure around three lines of business (“LOBs”), which also serve as the Company’s operating segments. This reorganization occurred in conjunction with the integration of CH2M into the Company's legacy businesses, and is intended to better serve our global clients, leverage our workforce, help streamline operations, and provide enhanced growth opportunities. The three global LOBs are as follows: Aerospace, Technology, Environmental and Nuclear ("ATEN"); Buildings, Infrastructure and Advanced Facilities ("BIAF"); and Energy, Chemicals and Resources ("ECR"). Previously, the Company operated its business around four operating segments: Petroleum & Chemicals, Buildings & Infrastructure, Aerospace & Technology, and Industrial. Beginning in the second quarter of fiscal 2018, management no longer views or manages our Industrial line of business as a separate, distinct operating segment. Therefore, the elements of our former Industrial business are now presented within each of the three current operating segments as appropriate. The Company’s LOB leadership and internal reporting structures report to the Chief Executive Officer, who is also the Chief Operating Decision Maker (“CODM”), and enable the CODM to evaluate the performance of each of these segments and make appropriate resource allocations among each of the segments. For purposes of the Company’s goodwill impairment testing, it has been determined that the Company’s operating segments are also its reporting units based on management’s conclusion that the components comprising each of its operating segments share similar economic characteristics and meet the aggregation criteria for reporting units in accordance with ASC 350, Intangibles-Goodwill and Other.

Under the new organization, each LOB has a president that reports directly to the CODM. The sales function is managed on an LOB basis, and accordingly, the associated cost is 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) is allocated to each LOB using methodologies which, we believe, effectively attribute the cost of these support functions to the revenue generating activities of the Company on a rational basis. The cost of the Company’s cash incentive plan, the Management Incentive Plan (“MIP”) and the expense associated with the Jacobs Engineering Group Inc. 1999 Stock Incentive Plan (“1999 SIP”) have likewise been charged to the LOBs except for those amounts determined to relate to the business as a whole (which amounts remain in other corporate expenses).

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

The CODM evaluates the operating performance of our LOBs using segment 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 costs (“SG&A”) that relate to its business as a whole which are not allocated to the LOBs.

On December 15, 2017, the Company completed the acquisition of CH2M. For purposes of the Company’s second quarter fiscal 2018 segment reporting, the operating financial information of CH2M has been categorized within the Company’s new LOB business structure, with its sales and operating profit results for the time period during which CH2M has been under the ownership of the Company being allocated to the Company’s ATEN, BIAF and ECR lines of business under a transitional business organization structure. The Company has not completed its final assessment of the CH2M purchase price allocation, including the fair value estimates of assets acquired and liabilities assumed.

The following tables present total revenues and segment operating profit for each reportable segment (in thousands) and includes a reconciliation of segment operating profit to total U.S. GAAP operating profit by including certain corporate-level expenses and expenses relating to the Restructuring and other charges and CH2M transaction and integration costs (in thousands). Prior period information has been recast to reflect the current period presentation.

	For the Three Months Ended		For the Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Revenues from External Customers:				
Aerospace, Technology, Environmental and Nuclear	$1,105,673	$602,043	$1,851,594	$1,205,228

Buildings, Infrastructure and Advanced Facilities	1,758,412	897,829	2,790,177	1,836,723
Energy, Chemicals and Resources	1,070,943	802,695	2,043,567	1,812,220
Total	$3,935,028	$2,302,567	$6,685,338	$4,854,171

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

	For the Three Months Ended		For the Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Segment Operating Profit:				
Aerospace, Technology, Environmental and Nuclear (1)	$61,338	$44,341	$127,669	$94,397
Buildings, Infrastructure and Advanced Facilities (2)	138,017	63,342	201,986	118,690
Energy, Chemicals and Resources	56,328	41,053	102,790	74,314
Total Segment Operating Profit	255,683	148,736	432,445	287,401
Other Corporate Expenses	(35,660)	(8,338)	(77,789)	(26,634)
Restructuring and Other Charges	(68,885)	(72,225)	(88,234)	(103,966)
CH2M Transaction Costs	(4,852)	—	(72,493)	—
Total U.S. GAAP Operating Profit	146,286	68,173	193,929	156,801
Total Other (Expense) Income, net (3)	(24,119)	(7,682)	(29,846)	(10,430)
Earnings Before Taxes	$122,167	$60,491	$164,083	$146,371

(1) Includes $17.3 million in charges during the three and six month periods ended March 30, 2018 associated with a legal matter.

(2) Excludes $22.6 million in restructuring and other charges for the three and six months ended March 31, 2017. See Note 10, Restructuring and Other Charges.

(3) Includes amortization of deferred financing fees related to the CH2M acquisition of $466.0 thousand and $722.0 thousand for the three and six months ended March 30, 2018, respectively.

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 Management Incentive Plan 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.

We provide a broad range of technical, professional, and construction services including engineering, design, and architectural services; construction and construction management services; operations and maintenance services; and process, scientific, and systems consulting services. We provide our services through offices and subsidiaries located primarily in North America, South America, Europe, the Middle East, India, Australia, Africa, and Asia. We provide our services under cost-reimbursable and fixed-price contracts.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

The following tables present total services revenues for each reportable segment for the three and six months ended March 30, 2018 and March 31, 2017 (in thousands).

	For the Three Months Ended March 30, 2018				For the Six Months Ended March 30, 2018			
	Aerospace, Technology, Environmental and Nuclear	Buildings, Infrastructure and Advanced Facilities	Energy, Chemicals and Resources	Total	Aerospace, Technology, Environmental and Nuclear	Buildings, Infrastructure and Advanced Facilities	Energy, Chemicals and Resources	Total
Technical Professional Services Revenues								
Project Services	$313,937	$1,356,998	$257,615	$1,928,550	$573,332	$2,151,562	$562,676	$3,287,570
Process, Scientific, and Systems Consulting	507,229	2,975	6,069	516,273	751,358	4,471	11,517	767,346
Total Technical Professional Services Revenues	821,166	1,359,973	263,684	2,444,823	1,324,690	2,156,033	574,193	4,054,916
Field Services Revenues								
Construction	79,473	397,487	507,937	984,897	223,113	632,609	1,002,744	1,858,466
Operations and Maintenance ("O&M")	205,034	952	299,322	505,308	303,791	1,535	466,630	771,956
Total Field Services Revenues	284,507	398,439	807,259	1,490,205	526,904	634,144	1,469,374	2,630,422
	$1,105,673	$1,758,412	$1,070,943	$3,935,028	$1,851,594	$2,790,177	$2,043,567	$6,685,338

	For the Three Months Ended March 31, 2017				For the Six Months Ended March 31, 2017			
	Aerospace, Technology, Environmental and Nuclear	Buildings, Infrastructure and Advanced Facilities	Energy, Chemicals and Resources	Total	Aerospace, Technology, Environmental and Nuclear	Buildings, Infrastructure and Advanced Facilities	Energy, Chemicals and Resources	Total
Technical Professional Services Revenues								
Project Services	$215,009	$ 636,698	$309,620	$1,161,327	$386,861	$1,287,949	$544,708	$2,219,518
Process, Scientific, and Systems Consulting	184,944	4,618	4,887	194,449	384,773	6,331	10,091	401,195
Total Technical Professional Services Revenues	399,953	641,316	314,507	1,355,776	771,634	1,294,280	554,799	2,620,713

Field Services Revenues								
Construction	65,648	254,216	402,605	722,469	172,210	535,397	961,809	1,669,416
Operations and Maintenance ("O&M")	136,442	2,297	85,583	224,322	261,384	7,046	295,612	564,042
Total Field Services Revenues	202,090	256,513	488,188	946,791	433,594	542,443	1,257,421	2,233,458
	$602,043	$ 897,829	$802,695	$2,302,567	$1,205,228	$ 1,836,723	$1,812,220	$4,854,171

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

8. Receivables

The following table presents the components of receivables appearing in the accompanying Consolidated Balance Sheets at March 30, 2018 and September 29, 2017, as well as certain other related information (in thousands):

	March 30, 2018	September 29, 2017
Components of receivables:		
Amounts billed, net	$1,587,362	$ 949,060
Unbilled receivables and other	1,808,890	1,118,144
Retentions receivable	24,978	35,339
Total receivables, net	$3,421,230	$ 2,102,543
Other information about receivables:		
Amounts due from the United States federal government, included above, net of advanced billings	$392,600	$ 226,236
Claims receivable	$4,600	$ 4,600

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

Unbilled receivables and other and Retentions receivable generally represent reimbursable costs, in some cases profit and amounts earned and reimbursable under contracts in progress, or in some cases completed, 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.

9. Property, Equipment and Improvements, Net

Property, Equipment and Improvements, Net in the accompanying Consolidated Balance Sheets at March 30, 2018 and September 29, 2017 consist of the following (in thousands):

	March 30, 2018	September 29, 2017
Land	$20,341	$ 17,197
Buildings	131,314	93,313
Equipment	749,109	627,609
Leasehold improvements	268,947	220,295
Construction in progress	19,428	21,300
	1,189,139	979,714
Accumulated depreciation and amortization	(684,727)	(629,803)
	$504,412	$ 349,911

10. Restructuring and Other Charges

During the fourth fiscal quarter of 2017, the Company implemented certain restructuring activities (primarily severance and lease abandonment costs associated with co-locating Jacobs and CH2M offices) and integration activities (primarily professional fees for outside services and personnel related costs) associated with the Company's acquisition of CH2M. Following the closing of the CH2M acquisition, these activities have continued into the first half of 2018 and include restructuring activities amounting to approximately $55.2 million and $60.7 million in pre-tax charges during the three and six month periods ended March 30, 2018, respectively. The integration activities for the same periods amounted to approximately $14.2 million and $28.0 million in pre-tax charges for the three and six months ended March 30, 2018, respectively. These activities are expected to continue through fiscal 2019. These activities are not expected to involve the exit of any service types or client end-markets.

During the second fiscal quarter of 2017, the Company entered into strategic business restructuring activities associated with realignment of its Europe, United Kingdom ("U.K.") and Middle East regional operations in our BIAF segment. Pre-tax net charges of $22.6 million were recorded associated mainly with net realizable value write-offs on contract accounts receivable of $16.5 million, with additional charges recorded for statutory redundancy and severance costs of $1.4 million and other liabilities of $4.7 million which are both expected to be paid or settled within the next 12 months. Additional charges of $1.2 million were recorded under this business realignment during third quarter fiscal 2017 associated mainly with contract accounts receivable charges.

During the second fiscal quarter of 2015, the Company began implementing a series of initiatives intended to improve operational efficiency, reduce costs, and better position itself to drive growth of the business in the future. We refer to these initiatives, in the aggregate, as the "2015 Restructuring". These activities evolved and developed over time as management identified and evaluated opportunities for changes in the Company's operations (and related areas of potential cost savings), as economic conditions changed and as the realignment of the Company's operations into its four global LOBs was implemented. Actions related to the 2015 Restructuring included involuntary terminations, the abandonment of certain leased offices, combining operational organizations, and the colocation of employees into other existing offices. These activities did not involve the exit of any service types or client end-markets. The 2015 Restructuring was completed in fiscal 2017, although related cash payments continue to be made under the related accruals recorded in connection with these activities.

Collectively, the above mentioned restructuring activities are referred to as "Restructuring and other charges."

The following table summarizes the impacts of the Restructuring and other charges (or recoveries, which primarily relate to the reversals of lease abandonment accruals related to previously vacated facilities which are now planned to be utilized) on the Company's reportable segment income by line of business in connection with the CH2M acquisition for the three and six months ended March 30, 2018 and the 2015 Restructuring and realignment of the Company's Europe, U.K. and Middle East regional operations for the three and six months ended March 31, 2017 (in thousands):

	Three Months Ended		Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Aerospace, Technology, Environmental and Nuclear	$1,409	$ 1,274	$1,722	$ 1,646
Buildings, Infrastructure and Advanced Facilities	18,287	9,996	21,178	18,002
Energy, Chemicals and Resources	(7,588)	20,634	(3,967)	36,442
Corporate	57,243	20,362	69,768	27,917
Total	$69,351	$ 52,266	$88,701	$ 84,007

The activity in the Company's accrual for the Restructuring and other charges for the six-month period ended March 30, 2018 is as follows (in thousands):

Balance at Balance at September 29, 2017	$142,767
CH2M Acquisition Assumed Liabilities	31,576
CH2M Charges	88,701
Payments	(77,093)
Balance at Balance at March 30, 2018	$185,951

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

The following table summarizes the Restructuring and other charges by major type of costs in connection with the CH2M acquisition for the three and six month periods ended March 30, 2018, and the 2015 Restructuring and realignment of the Company's Europe, U.K. and Middle East regional operations for the three and six months ended March 31, 2017 (in thousands):

	Three Months Ended		Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Lease Abandonments	$37,073	$27,992	$40,436	$44,601
Involuntary Terminations	16,936	18,554	19,120	29,886
Outside Services	8,170	2,261	16,759	3,552
Other	7,172	3,459	12,386	5,968
Total	$69,351	$52,266	$88,701	$84,007

Cumulative amounts incurred to date for Restructuring and other charges by each major type of cost as of March 30, 2018 are as follows (in thousands):

Lease Abandonments	$279,295
Involuntary Terminations	203,699
Outside Services	41,127
Other	21,317
Total	$545,438

11. Long-term Debt

At March 30, 2018 and September 29, 2017, long-term debt consisted of the following:

	March 30, 2018	September 29, 2017
Term Loan Facility	$1,500,000	$—
Less: Deferred Financing Fees	(3,455)	—
Revolving Credit Facility	1,009,365	235,000
Other	5,890	—
Total Long-term debt, net	$2,511,800	$235,000

On February 7, 2014, Jacobs and certain of its subsidiaries entered into a $1.6 billion long-term unsecured, revolving credit facility (the “Revolving Credit Facility”) with a syndicate of large U.S. and international banks and financial institutions. The Revolving Credit 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 Revolving Credit Facility in the form of direct borrowings at March 30, 2018 was $1.0 billion. The Company has issued $2.5 million in letters of credit under the Revolving Credit Facility, leaving $588.1 million of available borrowing capacity under the Revolving Credit Facility at March 30, 2018. In addition, the Company had issued $446.7 million under separate, committed and uncommitted letter-of-credit facilities for total issued letters of credit of $449.2 million at March 30, 2018.

The Revolving Credit 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 Revolving Credit Facility. Depending on the Company’s Consolidated Leverage Ratio (as defined in the credit agreement governing the Revolving Credit Facility), borrowings under the Revolving Credit 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 Revolving Credit Facility also provides for a financial letter of credit sub facility of $300.0 million, permits performance letters of credit, and provides for a $50.0 million sub facility for swing line loans. Letters of credit are subject to fees based on the Company’s Consolidated Leverage Ratio at the time any such letter of credit is issued. The Company pays a facility fee of between 0.100% and 0.250% per annum depending on the

Company's Consolidated Leverage Ratio. Amounts outstanding under the Revolving Credit Facility may be prepaid at the option of the Company without premium or penalty, subject to customary breakage fees in connection with the prepayment of euro currency loans. The Revolving Credit 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 Revolving Credit Facility contains customary events of default. We were in compliance with our debt covenants at March 30, 2018.

On September 28, 2017, the Company entered into a Second Amendment to the Revolving Credit Facility, which provides for, among other things, an amendment to certain financial definitions used in the Revolving Credit Facility, including "Consolidated EBITDA". These amendments were effective upon the consummation of the acquisition of CH2M in December 2017.

On September 28, 2017, the Company entered into a $1.5 billion unsecured delayed-draw term loan facility (the "Term Loan Facility") with a syndicate of financial institutions as lenders and letter of credit issuers and BNP Paribas as administrative agent, TD Bank, N.A. and U.S. Bank National Association as co-documentation agent, BNP Paribas Securities Corp., The Bank of Nova Scotia and Wells Fargo Securities, LLC as joint book runners, and as joint arrangers.

We incurred loans under the Term Loan Facility on December 15, 2017 in connection with the closing of the CH2M acquisition in order to pay cash consideration for the acquisition, and to pay fees and expenses related to the acquisition and the Term Loan Facility. The Term Loan Facility matures in December 2020 and permits the Company to borrow in U.S. dollars at a base rate or a eurocurrency rate. Depending on the Company's consolidated leverage ratio, borrowings under the Term Loan Facility bear interest at either a eurocurrency rate plus a margin of between 1.00% and 1.50% or a base rate plus a margin of between 0.00% and 0.50%. Amounts outstanding under the Term Loan 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 Term Loan Facility contains affirmative, negative and financial covenants customary for financings of this type, including, among other things, limitations on certain other indebtedness, investments, liens, mergers, asset sales and transactions with affiliates. In addition, the Term Loan Facility contains customary events of default. We were in compliance with these covenants at March 30, 2018.

On March 12, 2018, Jacobs entered into a note purchase agreement (the "Note Purchase Agreement") pursuant to which the Company has agreed to issue and sell in a private placement transaction $500.0 million in the aggregate principal amount of the Company's senior notes in three series: $190.0 million aggregate principal amount of 4.27% senior notes, Series A, due May 8, 2025, $180.0 million aggregate principal amount of 4.42% senior notes, Series B, due May 8, 2028 and $130.0 million aggregate principal amount of 4.52% senior notes, Series C, due May 8, 2030 (collectively, the "Senior Notes"). The Note Purchase Agreement provides that if the Company's consolidated leverage ratio exceeds a certain amount, the interest on the Senior Notes may increase by 75 basis points. The Senior Notes may be prepaid at any time subject to a make-whole premium. The sale of the Senior Notes is expected to close in May 2018. The Company intends to use the net proceeds from the offering of Senior Notes to repay certain existing indebtedness and for other general corporate purposes. The Note Purchase Agreement contains affirmative, negative and financial covenants customary for financings of this type, including, among other things, covenants to maintain a minimum consolidated net worth and maximum consolidated leverage ratio and limitations on certain other indebtedness, investments, liens, mergers, asset sales and transactions with affiliates. In addition, the Note Purchase Agreement contains customary events of default.

In conjunction with the acquisition of CH2M, the Company assumed certain long-term financing that was incurred by CH2M prior to the acquisition. The total balance included in Long-term debt assumed as of March 30, 2018 was $5.9 million, which includes equipment financing of $3.4 million, bearing interest rates ranging from 0.22% to 3.29% due in monthly installments through September 2021, and a note payable of $2.5 million bearing interest at 6-month LIBOR plus 2.5%, due July 2019.

12. Revenue Accounting for Contracts / Accounting for Joint Ventures

We recognize revenue earned on our technical professional and field services projects under the percentage-of-completion method described in ASC 605-35, Construction-Type and Production-Type Contracts. In general, we recognize revenues at the time we provide services. Precontract costs are generally expensed as incurred, unless they are directly associated with an anticipated contract and recoverability from that contract is probable. Contracts are generally segmented between types of services, such as project services and construction, and accordingly, gross margin related to each activity is recognized as those separate services are rendered. For multiple contracts with a single customer we account for each contract separately.

The percentage-of-completion method of accounting is applied by comparing 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.

Unapproved change orders are included in the contract price to the extent it is probable that such change orders will result in additional contract revenue and the amount of such additional revenue can be reliably estimated. Claims meeting these recognition criteria are included in revenues only to the extent of the related costs incurred. The percentage of revenues realized by the Company by type of contract during fiscal 2017 can be found in Note 1 Description of Business and Basis of Presentation of Notes to Consolidated Financial Statements included in our 2017 Form 10-K.

Certain cost-reimbursable contracts include incentive-fee arrangements. These incentive fees 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. In those situations where an audit indicates that we may have billed a client for costs not allowable under the terms of the contract, we estimate the amount of such non-billable costs and adjust our revenues accordingly.

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 (and we refer to such costs as "pass-through" costs). On those projects where the client elects to pay for such items directly and we have no associated responsibility for such items, these amounts are not reflected in either revenues or costs.

The following table sets forth pass-through costs included in revenues for each of the three and six month periods ended March 30, 2018 and March 31, 2017 (in thousands):

	Three Months Ended		Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Pass-through costs included in revenues	$712,881	$560,566	$1,309,050	$1,233,545

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. Under U.S. GAAP, our share of profits and losses associated with the contracts held by the joint ventures is reflected in our Consolidated Financial Statements.

Certain of our joint ventures meet the definition of a variable interest entity ("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 and are the primary beneficiary.

For the Company's unconsolidated joint ventures, we use either the equity method of accounting or proportionate consolidation. There were no changes in facts and circumstances during the period that caused the Company to reassess the method of accounting for its VIEs.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

13. Defined Pension Benefit Obligations

In connection with the acquisition of CH2M on December 15, 2017, the Company preliminarily recorded estimates of CH2M's pension plan assets and liabilities which are reflected in the amounts of $1.1 billion and ($1.2 billion), respectively. CH2M sponsors several defined benefit pension plans primarily in the U.S. and the U.K. In the U.S., CH2M has three noncontributory defined benefit pension plans. Plan benefits are generally based on years of service and compensation during the span of employment.

The following table presents the components of net periodic benefit cost recognized in earnings during the three and six months ended March 30, 2018 and March 31, 2017 (in thousands):

	Three Months Ended		Six Months Ended	
	March 30, 2018	March 31, 2017	March 30, 2018	March 31, 2017
Component:				
Service cost	$1,902	$2,184	$4,965	$4,400
Interest cost	11,500	8,699	27,571	17,427
Expected return on plan assets	(19,014)	(15,527)	(45,018)	(31,115)
Amortization of previously unrecognized items	2,594	3,530	5,047	7,086
Settlement loss (gain)	—	41	3,819	84
Net periodic benefit	$(3,018)	$(1,073)	$(3,616)	$(2,118)

In December 2017, the Company incurred a settlement loss of approximately $3.8 million related to its Sverdrup pension plan in the U.S.

The following table presents certain information regarding the Company's cash contributions to our pension plans for fiscal 2018 (in thousands):

Cash contributions made during the first six months of fiscal 2018	$11,319
Cash contributions we expect to make during the remainder of fiscal 2018	18,741
Total	$30,060

14. Share-based Payments

During the first quarter of fiscal year 2018, the Company adopted ASU No 2016-09, Improvements to Employee Share Based Payment Accounting. As a result, the cash paid by the Company to taxing authorities as a result of withholding shares for the exercise of employee stock awards is classified as financing activity and this change is adopted retrospectively. Additionally, all excess tax benefits related to share-based payments in our provision for income taxes are now classified as an operating activity along with other income taxes in the statement of cash flows and this change is applied prospectively. These items were historically recorded in additional paid-in capital and in financing activities. The amount recognized by the Company in excess tax benefits related to share-based payments in our provision for income taxes for the three and six months ended March 30, 2018 was not material.

Finally, we have elected to begin accounting for share-based compensation award forfeitures when they occur instead of estimating the number of forfeitures expected in accordance with the new guidance. This change in accounting policy for share-based compensation award forfeitures resulted in a $1.8 million cumulative effect of change in accounting principle to retained earnings in the Company's Consolidated Balance Sheets.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

15. Other Comprehensive Income

The following table presents amounts reclassified from the change in pension liabilities in other comprehensive income to direct cost of contracts and SG&A expenses in the Company’s Consolidated Statements of Earnings for the three and six months ended March 30, 2018 and March 31, 2017 (in thousands):