JACOBS ENGINEERING GROUP INC /DE/
Form 10-Q
May 01, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Quarterly Report on

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 27, 2015

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 of incorporation)	(I.R.S. employer identification number)
155 North Lake Avenue, Pasadena, California	91101
(Address of principal executive offices)	(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: 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, 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	x	Accelerated filer	o
Non-accelerated filer	o	Smaller reporting company	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 29, 2015: 125,583,817

JACOBS ENGINEERING GROUP INC.
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Part I - FINANCIAL INFORMATION

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

	March 27, 2015 (Unaudited)	September 26, 2014
ASSETS		
Current Assets:		
Cash and cash equivalents	$464,950	$732,647
Receivables	2,700,104	2,867,555
Deferred income taxes	156,979	169,893
Prepaid expenses and other	93,917	121,976
Total current assets	3,415,950	3,892,071
Property, Equipment and Improvements, Net	433,836	456,797
Other Noncurrent Assets:		
Goodwill	3,046,547	3,026,349
Intangibles	396,402	440,192
Miscellaneous	638,575	638,250
Total other non-current assets	4,081,524	4,104,791
	$7,931,310	$8,453,659
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable	$42,714	$36,732
Accounts payable	470,817	622,875
Accrued liabilities	1,148,007	1,279,556
Billings in excess of costs	343,000	410,683
Total current liabilities	2,004,538	2,349,846
Long-term Debt	712,712	764,075
Other Deferred Liabilities	805,182	834,078
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—126,474,006 shares and 131,752,768 shares, respectively	126,474	131,753
Additional paid-in capital	1,156,509	1,173,858
Retained earnings	3,514,557	3,527,193
Accumulated other comprehensive loss	(428,902)	(363,549)
Total Jacobs stockholders' equity	4,368,638	4,469,255
Noncontrolling interests	40,240	36,405
Total Group stockholders' equity	4,408,878	4,505,660
	$7,931,310	$8,453,659

See the accompanying Notes to Consolidated Financial Statements.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
For the Three and Six Months Ended March 27, 2015 and March 28, 2014
(In thousands, except per share information)
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
Revenues	$2,903,332	$3,176,033	$6,090,337	$6,244,924
Costs and Expenses:				
Direct cost of contracts	(2,412,388)	(2,659,480)	(5,079,947)	(5,274,678)
Selling, general and administrative expenses	(357,899)	(394,119)	(719,122)	(702,764)
Operating Profit	133,045	122,434	291,268	267,482
Other Income (Expense):				
Interest income	1,580	3,004	3,856	4,801
Interest expense	(4,548)	(5,116)	(9,866)	(4,925)
Gain on sale of intellectual property, net	—	12,147	—	12,147
Miscellaneous expense	(1,115)	(75)	(1,601)	(190)
Total other income (expense), net	(4,083)	9,960	(7,611)	11,833
Earnings Before Taxes	128,962	132,394	283,657	279,315
Income Tax Expense	(40,852)	(41,594)	(89,352)	(89,565)
Net Earnings of the Group	88,110	90,800	194,305	189,750
Net Earnings Attributable to Noncontrolling Interests	(6,143)	(7,340)	(12,259)	(12,558)
Net Earnings Attributable to Jacobs	$81,967	$83,460	$182,046	$177,192
Net Earnings Per Share:				
Basic	$0.65	$0.64	$1.43	$1.36
Diluted	$0.64	$0.63	$1.42	$1.34

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 earnings during the period.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Three and six Months Ended March 27, 2015 and March 28, 2014
(In thousands)
(Unaudited)

	For the Three Months Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
Net Earnings of the Group	$88,110	$90,800	$194,305	$189,750
Other Comprehensive Income (Loss):				
Foreign currency translation adjustment	(38,318)	(2,625)	(86,691)	(11,880)
Gain (loss) on cash flow hedges	(2,925)	(454)	(4,844)	97
Change in pension liabilities	16,278	(2,412)	30,921	(9,148)
Other comprehensive loss before taxes	(24,965)	(5,491)	(60,614)	(20,931)
Income Tax Benefit (Expense):				
Foreign currency translation adjustments	—	—	—	3,250
Cash flow hedges	643	77	1,265	(121)
Change in pension liabilities	(3,076)	667	(6,004)	2,416
Income Tax Benefit (Expense)	(2,433)	744	(4,739)	5,545
Net Other Comprehensive Loss	(27,398)	(4,747)	(65,353)	(15,386)
Net Comprehensive Income of the Group	60,712	86,053	128,952	174,364
Net Comprehensive Income Attributable to Noncontrolling Interests	(6,143)	(7,340)	(12,259)	(12,558)
Net Comprehensive Income Attributable to Jacobs	$54,569	$78,713	$116,693	$161,806

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 earnings during the period.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended March 27, 2015 and March 28, 2014
(In thousands)
(Unaudited)

	March 27, 2015	March 28, 2014
Cash Flows from Operating Activities:		
Net earnings attributable to the Group	$194,305	$189,750
Adjustments to reconcile net earnings to net cash flows from operations:		
Depreciation and amortization:		
Property, equipment and improvements	51,155	45,017
Intangible assets	25,535	21,688
Gain on sale of certain intellectual property	—	(12,147)
Stock based compensation	23,805	22,682
Tax deficiency (benefit) from stock based compensation	(279)	552
Equity in earnings of operating ventures, net	8,420	(6,082)
Change in pension plan obligations	(5,767)	(7,404)
Change in deferred compensation plans	(2,187)	(5,294)
(Gains) losses on sales of assets, net	(267)	338
Changes in certain assets and liabilities, excluding the effects of businesses acquired:		
Receivables	40,503	172,451
Prepaid expenses and other current assets	27,420	11,117
Accounts payable	(131,767)	(188,096)
Accrued liabilities	(75,409)	658
Billings in excess of costs	(29,505)	(12,664)
Income taxes	(17,003)	(22,079)
Deferred income taxes	5,136	(8,183)
Other deferred liabilities	(10,799)	6,790
Change in long-term receivables	—	2,828
Long-term insurance prepayment	—	(20,163)
Other, net	885	3,976
Net cash provided by operating activities	104,181	195,735
Cash Flows from Investing Activities:		
Additions to property and equipment	(59,177)	(66,952)
Disposals of property and equipment	5,038	1,485
Purchases of investments	—	(25,440)
Sales of investments	13	—
Acquisitions of businesses, net of cash acquired	—	(1,197,537)
Net cash used for investing activities	(54,126)	(1,288,444)

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Six Months Ended March 27, 2015 and March 28, 2014
(In thousands)
(Unaudited)
(Continued)

	March 27, 2015	March 28, 2014
Cash Flows from Financing Activities:		
Proceeds from long-term borrowings	692,433	642,665
Repayments of long-term borrowings	(693,005)	(131,954)
Proceeds from short-term borrowings	301,191	107,093
Repayments of short-term borrowings	(291,462)	(98,158)
Proceeds from issuances of common stock	17,157	22,119
Common stock repurchases	(254,209)	—
Tax (deficiency) benefit from stock based compensation	279	(552)
Distributions to noncontrolling interests	(7,230)	(2,836)
Net cash provided by (used for) financing activities	(234,846)	538,377
Effect of Exchange Rate Changes	(82,906)	(10,817)
Net Decrease in Cash and Cash Equivalents	(267,697)	(565,149)
Cash and Cash Equivalents at the Beginning of the Period	732,647	1,256,405
Cash and Cash Equivalents at the End of the Period	$464,950	$691,256

See the accompanying Notes to Consolidated Financial Statements.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED
March 27, 2015

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 26, 2014 ("2014 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 2014 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 27, 2015, and for the three and six month periods ended March 27, 2015 and March 28, 2014.

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 2014 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 2014 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.

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 2014 Form 10-K for a more complete discussion of the various items within the consolidated financial statements measured at fair value and the methods used to determine fair value.

New Accounting Standards

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

In May 2014, the FASB issued ASU No. 2014-09—Revenue from Contracts with Customers. The new guidance provided by ASU 2014-09 is intended to remove inconsistencies and perceived weaknesses in the existing revenue requirements, provide a more robust framework for addressing revenue issues, improve comparability, provide more useful information and simplify the preparation of financial statements. ASU 2014-09 is effective for annual and interim reporting periods beginning after December 15, 2016. Early adoption is not permitted. On April 1, 2015 the FASB proposed a one year deferral of the effective date of this standard. Under the proposal, the standard would be effective for annual reporting periods beginning after December 15, 2017 and interim periods therein. The proposal also would permit adoption of the standard as early as the original effective date. The FASB plans to issue an exposure draft on the proposal and expects to seek public comment with a 30-day comment period. The Company continues to evaluate the impact that the new guidance may have on the consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03—Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 was issued to simplify the presentation of debt issuance costs by requiring such costs to be presented as a deduction from the corresponding debt liability. Through this ASU, the FASB intends to make the presentation of debt issuance costs consistent with the presentation of debt discounts or premiums. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company does not believe the adoption of this ASU will have a material effect on its consolidated financial statements.

Business Combinations

On December 13, 2013, the Company acquired all of the outstanding equity interests in Sinclair Knight Merz Management Pty Limited and Sinclair Knight Merz Holdings Limited (collectively, "SKM"), a provider of engineering, design, procurement, construction and project management services, from the SKM shareholders. The Company purchased SKM for approximately $1.2 billion in cash. SKM's results of operations have been included in the Company's consolidated results of operations since the date of acquisition. The acquisition agreement includes customary representations, warranties, and indemnities supported by an escrow account.

During the first quarter of fiscal 2015, we completed the final purchase price allocation of SKM. The Company recorded a number of adjustments affecting, among other things, the balance sheet position of several major projects; the estimated liabilities relating to acquired professional liability exposures; and other adjustments.

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JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED
March 27, 2015
(continued)

The following table presents the final purchase price allocation for SKM (in thousands):

Assets:	
Cash and cash equivalents	$ 152,051
Receivables and other current assets	371,331
Property and equipment, and other	71,630
Intangible assets	202,166
Total assets	797,178
Liabilities:	
Current liabilities	351,351
Deferred tax liability	72,656
Long-term liabilities	20,416
Total liabilities	444,423
Net identifiable assets acquired	352,755
Goodwill	866,919
Net assets acquired	$ 1,219,674

The following table presents the values assigned to the acquired SKM intangible assets (in thousands):

Customer relationships / backlog	$ 193,260
Trade name	8,906
	$ 202,166

The useful lives of the intangible assets acquired from SKM range from 3 to 12 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.

During fiscal year 2014, the Company also acquired Federal Network Services LLC ("FNS", formerly a subsidiary of Verizon), Eagleton Engineering, LLC, FMHC Corporation, Stobbarts (Nuclear) Limited, Trompeter Enterprises, and MARMAC Field Services, Inc. The results of operations of these other acquisitions, individually or in the aggregate, were not material to the Company's consolidated results for fiscal 2014. During fiscal 2014, we also acquired an additional 15% interest in Jacobs, Zamel and Turbag Consulting Engineers Company ("ZATE"), a refining, chemicals, infrastructure and civil engineering company headquartered in Al Khobar, Saudi Arabia. This transaction brought the Company's ownership in ZATE to 75%.

Receivables

The following table presents the components of "Receivables" appearing in the accompanying Consolidated Balance Sheets at March 27, 2015 and September 26, 2014 as well as certain other related information (in thousands):

	March 27, 2015	September 26, 2014
Components of receivables:		
Amounts billed	$1,323,920	$1,425,341
Unbilled receivables and other	1,292,644	1,368,482
Retentions receivable	83,540	73,732
Total receivables, net	$2,700,104	$2,867,555
Other information about receivables:		
Amounts due from the United States federal government, included above, net of advanced billings	$333,252	$324,928
Claims receivable	$67,324	$78,634

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.

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 March 27, 2015 and September 26, 2014 consisted of the following (in thousands):

	March 27, 2015	September 26, 2014
Land	$20,667	$21,497
Buildings	124,262	128,584
Equipment	614,690	634,415
Leasehold improvements	281,696	287,814
Construction in progress	22,839	20,059
	1,064,154	1,092,369
Accumulated depreciation and amortization	(630,318)	(635,572)
	$433,836	$456,797

Long-term Debt

Jacobs and certain of its subsidiaries have a $1.6 billion long-term unsecured, revolving credit facility (the "2014 Facility") with a syndicate of large, U.S. and international banks and financial institutions. The 2014 Facility also provides an accordion feature that allows the Company and the lenders to increase the facility amount to $2.1 billion. The 2014 Facility did not change interest rates for borrowings outstanding under the Company's prior credit facility, but did reduce the fees on the unused portion of the facility.

The total amount outstanding under the 2014 Facility in the form of direct borrowings at March 27, 2015 was $712.7 million. The Company has issued $2.5 million in letters of credit under the 2014 Facility leaving $884.8 million of available borrowing capacity under the 2014 Facility at March 27, 2015. In addition, the Company had $290.8 million issued under separate, committed and uncommitted letter-of-credit facilities for total issued letters of credit of $293.3 million at March 27, 2015.

The 2014 Facility expires in February 2020 and permits the Company to borrow under two separate tranches in U.S. dollars, certain specified foreign currencies, and any other currency that may be approved in accordance with the terms of the 2014 Facility. Depending on the Company's Consolidated Leverage Ratio, borrowings under the 2014 Facility will bear interest at either a eurocurrency rate plus a margin of between 1.0% and 1.5% or a base rate plus a margin of between 0% and 0.5%. The 2014 Facility also provides for a financial letter of credit subfacility of $300.0 million, permits performance letters of credit, and provides for a $50.0 million subfacility for swingline loans. Letters of credit are subject to fees based on the Company's Consolidated Leverage Ratio at the time any such letter of credit is issued. The Company pays a facility fee of between 0.100% and 0.250% per annum depending on the Company's Consolidated Leverage Ratio. Amounts outstanding under the 2014 Facility may be prepaid at the option of the Company without premium or penalty, subject to customary breakage fees in connection with the prepayment of eurocurrency loans. The 2014 Facility contains affirmative, negative, and financial covenants customary for financings of this type including, among other things, limitations on certain other indebtedness, loans and investments, liens, mergers, asset sales and transactions with affiliates. In addition, the 2014 Facility contains customary events of default. We were in compliance with our debt covenants at March 27, 2015.

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 2014 can be found in Note 1 of Notes to Consolidated Financial Statements included in our 2014 Form 10-K.

Certain cost-reimbursable contracts include incentive-fee arrangements. The incentive fees in such contracts can be based on a variety of factors but the most common 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.

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JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED
March 27, 2015
(continued)

The following table sets forth pass-through costs included in revenues for each of the three and six months ended March 27, 2015 and March 28, 2014 (in thousands):

	For the Three Months Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
Pass-through costs included in revenues	$615,336	$700,558	$1,322,166	$1,452,581

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.

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 and six months ended March 27, 2015 and March 28, 2014 (in thousands):

	For the Three Months Ended		For the Six Months Ended	
Component:	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
Service cost	$8,261	$10,459	$16,836	$20,872
Interest cost	16,103	20,059	32,761	39,952

Expected return on plan assets	(20,365)	(22,500)	(41,415)	(44,840)
Amortization of previously unrecognized items	5,108	4,872	10,436	9,675
Settlement Loss	15	141	159	280
Net periodic benefit cost	$9,122	$13,031	$18,777	$25,939

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 March 27, 2015. Net periodic pension costs for this pension plan for the three and six months ended March 27, 2015 were $1.5 million and $2.9 million, respectively, and three and six months ended March 28, 2014 were $1.9 million and $3.8 million, respectively.

The following table presents certain information regarding Company cash contributions to our pension plans for fiscal 2015 (in thousands):

Cash contributions made during the first six months of fiscal 2015	$24,544
Cash contributions we expect to make during the remainder of fiscal 2015	20,503
Total	$45,047

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 and six months ended March 27, 2015 and March 28, 2014 related to the Company's defined benefit pension plans (in thousands):

	For the Three Months Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
Amortization of Defined Benefit Items:				
Actuarial losses	$(5,191)	$(4,870)	$(10,602)	$(9,674)
Prior service cost	23	(28)	47	(53)
Total Before Income Tax	(5,168)	(4,898)	(10,555)	(9,727)
Income Tax Benefit	1,454	1,384	2,962	2,749
Total Reclassifications, After-tax	$(3,714)	$(3,514)	$(7,593)	$(6,978)

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 and six months ended March 27, 2015 and March 28, 2014; (ii) provides information regarding the number of non-qualified stock options and shares of restricted stock that were antidilutive and therefore disregarded in calculating the weighted average number of shares outstanding used in computing diluted EPS; and (iii) provides the number of shares of common stock issued from the exercise of stock options and the release of restricted stock (in thousands):

	For the Three Months Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
Shares used to calculate EPS:				
Weighted average shares outstanding (denominator used to compute basic EPS)	125,992	130,384	127,283	130,254
Effect of stock options and restricted stock	1,174	2,195	1,247	2,128
Denominator used to compute diluted EPS	127,166	132,579	128,530	132,382
Antidilutive stock options and restricted stock	4,379	1,439	4,376	1,589
	243	671	639	866

Shares of common stock issued from the exercise of stock options and the release of restricted stock

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JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – UNAUDITED
March 27, 2015
(continued)

Share Repurchases

On August 19, 2014, the Company's Board of Directors authorized a share repurchase program of up to $500 million of the Company's common stock. The following table summarizes the activity under this program from the authorization date (in thousands, except per-share amounts):

Amount Authorized	Average Price Per Share (1)	Total Shares Retired	Shares Repurchased
$500,000	$45.3551	7,333	7,333

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

Share repurchases may be executed through various means including, without limitation, open market transactions, privately negotiated transactions or otherwise. The share repurchase program does not obligate the Company to purchase any shares, and expires on August 19, 2017. The authorization for the share repurchase program may be terminated, increased or decreased by the Company’s Board of Directors in its discretion at any time.

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.

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 August 9, 2014, the Company received a Notice of Arbitration from Motiva Enterprises LLC. The arbitration is pending in Houston, Texas before the International Institute for Conflict Prevention and Resolution. In 2006, Motiva contracted
with Bechtel-Jacobs CEP Port Arthur Joint Venture ("BJJV"), a joint venture between Bechtel Corporation and Jacobs Engineering Group, Inc. to perform professional services in connection with the expansion project at the Motiva Port Arthur,
TX refinery. In the Notice of Arbitration, Motiva asserts various causes of action and alleges entitlement to equitable and

monetary relief in excess of $7 billion. BJJV has denied liability and is vigorously defending these claims. The Company does
not expect this matter to have a material adverse effect on its consolidated financial statements.

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 2014 Form 10-K, and the most current discussion of our significant accounting policies appears in Note 2—Significant Accounting Polices in Notes to Consolidated Financial Statements of our 2014 Form 10-K;

- The Company's fiscal 2014 audited consolidated financial statements and notes thereto included in our 2014 Form 10-K; and

- Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2014 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, which we believe to be reasonable, 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 2014 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 2015 Restructuring

During the second quarter of fiscal 2015 ended March 27, 2015, the Company commenced a series of initiatives intended to improve operational efficiency, reduce costs, and better position the Company to drive growth of the business in the future. We are not exiting any service types, or client end-markets. Actions completed during the second quarter of fiscal 2015 included involuntary terminations, the abandonment of certain leased offices, combining operational organizations, and the co-location of employees into other existing offices. Included in the Company's consolidated results of operations for the second quarter of fiscal 2015 are pre-tax costs of $14.0 million relating to the 2015 restructuring effort (the "2015 Restructuring"). The costs of the 2015 Restructuring are included in selling, general, and administrative expense in the accompanying Consolidated Statements of Earnings, net of a $3.5 million reduction in bonus plan expense. The Company expects to complete the 2015 Restructuring during the third and fourth quarters of fiscal 2015. The following table summarizes the effects of the 2015 Restructuring on the Company's consolidated results of operations for the three and six month periods ended March 27, 2015 (in thousands, except for earnings per share):

	Three Months Ended March 27, 2015	Six Months Ended March 27, 2015
		U.S. GAAP

	U.S. GAAP	Effects of 2015 Restructuring	Without 2015 Restructuring		Effects of 2015 Restructuring	Without 2015 Restructuring
Consolidated pre-tax earnings (loss)	$ 128,962	$ (14,038)	$ 143,000	$ 283,657	$ (14,038)	$ 297,695
Tax (expense) benefit	(40,852)	4,422	(45,274)	(89,352)	4,422	(93,774)
Net earnings of the Group	88,110	(9,616)	97,726	194,305	(9,616)	203,921
Non-controlling interests	(6,143)	—	(6,143)	(12,259)	—	(12,259)
Net earnings of Jacobs	$ 81,967	$ (9,616)	$ 91,583	$ 182,046	$ (9,616)	$ 191,662
Diluted earnings (loss) per share	$ 0.64	$ (0.08)	$ 0.72	$ 1.42	$ (0.07)	$ 1.49

Overview - Three and Six Months Ended March 27, 2015

The Company's net earnings for the three months ended March 27, 2015 decreased by $1.5 million, or 1.8%, compared to the corresponding period last year. The Company's net earnings for the six months ended March 27, 2015 increased $4.9 million, or 2.7%, compared to the corresponding period last year. The effects of lower prices of crude oil and certain commodities, including copper and iron ore, present headwinds for clients operating in the Refining-Downstream, Oil & Gas-Upstream, and Mining and Minerals industries and markets. Our Global Infrastructure and National Government business continue to perform well.

The Company's results for the six months ended March 27, 2015 when compared to the corresponding period last year were positively impacted by the SKM acquisition and, to a lesser degree, the other acquisitions completed during fiscal 2014. Also influencing the comparability of the Company's results of operations for the second quarter of fiscal 2015 to the second quarter of fiscal 2014 are 2015 Restructuring and certain events and transactions recognized last year. These include one-time, transaction-related expenses relating to the completion of the SKM transaction. Certain events included in the first quarter results of operations for fiscal 2014 also impact the comparability of the Company's results of operations for the six month ended March 27, 2015. These include an operating loss from SKM for the two weeks it was included in the quarter's results of operations; and the successful resolution of an international tax matter. These fiscal 2014 events are collectively referred to as the "2014 Events".

The following table summarizes the effects of the 2014 Events on the Company's consolidated results of operations for the three and six month periods ended March 28, 2014 (in thousands, except for earnings per share):

	Three Months Ended March 28, 2014			Six Months Ended March 28, 2014		
	U.S. GAAP	Effects of 2014 Events	Without 2014 Events	U.S. GAAP	Effects of 2014 Events	Without 2014 Events
Consolidated pre-tax earnings (loss)	$132,394	$(38,573)	$170,967	$279,315	$(48,211)	$327,526
Tax (expense) benefit	(41,594)	12,699	(54,293)	(89,566)	16,410	(105,976)
Net earnings of the Group	90,800	(25,874)	116,674	189,749	(31,801)	221,550
Non-controlling interests	(7,340)	—	(7,340)	(12,557)	—	(12,557)
Net earnings of Jacobs	$83,460	$(25,874)	$109,334	$177,192	$(31,801)	$208,993
Diluted earnings (loss) per share	$0.63	$(0.19)	$0.82	$1.34	$(0.24)	$1.58

Within this MD&A, the Company may disclose and discuss its results of operations before the effects of the 2015 Restructuring, 2014 Events or the other transactions and events described above. Although such information is non-GAAP in nature, it is presented because management believes it provides a better view of the Company’s operating results to investors to assess the Company’s performance and operating trends.

Backlog at March 27, 2015 was $18.9 billion, and represents an increase of 2.5% over backlog at March 28, 2014. On a year-to-date basis, we have removed $900 million of backlog, primarily from the Refining-Downstream and Oil & Gas-Upstream markets. New prospects and new sales remain strong and the Company continues to have a positive outlook for many of the industry groups and markets in which our clients operate.

During the three and six months ended March 27, 2015, the Company repurchased and retired 3.3 million and 5.8 million shares, respectively, of its common stock under its share repurchase program. Total cash spent for the shares repurchased during the three and six months ended March 27, 2015 was $140.5 million and $254.2 million, respectively.

Business Combinations Completed During Fiscal 2014

In December 2013, the Company acquired all of the outstanding equity interests in SKM. The acquisition of SKM is described in more detail under Notes to Consolidated Financial Statements, above, as well as on page 7 and beginning on page F-11 of our 2014 Form 10-K.

We also completed a number of other acquisitions during fiscal 2014 including Federal Network Services LLC ("FNS", formerly a subsidiary of Verizon); Eagleton Engineering, LLC; FMHC Corporation; Stobbarts (Nuclear) Limited; Trompeter

Enterprises; and MARMAC Field Services, Inc. The results of operations of these other acquisitions were not material, individually or in the aggregate, to the Company's consolidated results of operations for fiscal 2014. During fiscal 2014, we also acquired an additional 15% interest in Jacobs, Zamel and Turbag Consulting Engineers Company ("ZATE"). This transaction brought the Company's ownership in ZATE to 75%.
Consistent with other business combinations we have completed in the past, we began integrating SKM and the other businesses we acquired last year into our existing operations almost immediately after each business was acquired. Accordingly, it is not practicable to provide complete financial information for fiscal 2015 on a stand-alone basis for any of the businesses we acquired last year.

Results of Operations
Net earnings for the second quarter of fiscal 2015 ended March 27, 2015 decreased $1.5 million, or 1.8%, to $82.0 million (or $0.64 per diluted share) from $83.5 million (or $0.63 per diluted share) for the corresponding period last year. For the six months ended March 27, 2015, net earnings increased $4.9 million, or 2.7%, to $182.0 million (or $1.42 per diluted share) from $177.2 million (or $1.34 per diluted share) for the corresponding period last year. Included in net earnings for both the second quarter of fiscal 2015 and the six months ended March 27, 2015 are the costs and expenses associated with the 2015 Restructuring discussed above.
Total revenues for the second quarter of fiscal 2015 decreased by $272.7 million, or 8.6%, to $2.90 billion, from $3.18 billion for the second quarter of fiscal 2014. For the six months ended March 27, 2015, total revenues decreased by $0.2 billion, or 2.5%, to $6.1 billion, from $6.2 billion for the corresponding period last year. The decreases in revenue were due primarily to the impact of changes in foreign exchange rates, reduced pass through revenues, and lower volumes in the Mining and Minerals, Refining - Downstream, and Chemicals and Polymers markets.
The Company's results of operations for the three and six months ended March 27, 2015 were impacted by changes in exchange rates over the corresponding periods last year in Canada, Europe, and the U.K.

The following table sets forth our revenues by the various types of services we provide for the three and six months ended March 27, 2015 and March 28, 2014, respectively (in thousands):

	For the Three Months Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
Technical Professional Services Revenues:				
Project Services	$1,581,852	$1,710,365	$3,205,439	$3,231,142
Process, Scientific, and Systems Consulting	280,216	160,722	589,153	313,356
Total Technical Professional Services Revenues	1,862,068	1,871,087	3,794,592	3,544,498
Field Services Revenues:				
Construction	741,265	992,514	1,689,057	2,073,728
Operations and Maintenance ("O&M")	299,999	312,432	606,688	626,698
Total Field Services Revenues	1,041,264	1,304,946	2,295,745	2,700,426
Total Revenues	$2,903,332	$3,176,033	$6,090,337	$6,244,924

Project Services revenues for the three months ended March 27, 2015 decreased $128.5 million, or 7.5%, from the corresponding period last year. Project Services revenues for the six months ended March 27, 2015 decreased $25.7 million, or 0.8%, from the corresponding period last year. These decreases in Project Services revenues were due primarily to the lower business volumes in the North American and U.K. Downstream area, driven principally by the recent decline in oil and other commodity prices, combined with the effects of the strengthening U.S. dollar.

Process, Scientific, and Systems Consulting revenues for the three months ended March 27, 2015 increased $119.5 million, or 74.3%, from the corresponding period last year. Process, Scientific, and Systems Consulting revenues for the six months ended March 27, 2015 increased $275.8 million, or 88.0%, from the corresponding period last year. The increases were due primarily to the FNS acquisition completed during the fourth quarter of fiscal 2014. The revenues in this service type relate to science, engineering, and technical support services provided primarily to our U.S. federal government clients and its various agencies.

Construction revenues for the three months ended March 27, 2015 decreased $251.2 million, or 25.3%, from the corresponding period last year. Construction revenues for the six months ended March 27, 2015 decreased $384.7 million, or 18.5%, from the corresponding period last year. The decreases are primarily due to the winding down of a U.S. project in the Mining and Minerals market.

Operations and Maintenance revenues for the three months ended March 27, 2015 decreased $12.4 million, or 4.0%, from the corresponding period last year. Operations and Maintenance revenues for the six months ended March 27, 2015 decreased $20.0 million, or 3.2%, from the corresponding period last year. The decreases were primarily due to lower volume in the National Government market.

The following table sets forth our revenues by the industry groups and markets in which our clients operate for the three and six months ended March 27, 2015 and March 28, 2014 (in thousands):

	For the Three Months Ended		For the Six Months Ended	
	March 27, 2015	March 28, 2014	March 27, 2015	March 28, 2014
Chemicals and Polymers	$611,876	$666,880	$1,310,232	$1,428,944
National Government Programs	618,197	568,932	1,286,539	1,078,973
Refining - Downstream	430,376	535,067	939,264	1,145,603
Infrastructure	394,088	356,277	779,673	647,767
Buildings	237,930	215,499	467,961	401,164
Oil & Gas - Upstream	205,765	194,602	451,779	402,465
Industrial and Other	180,780	233,539	358,694	400,482
Mining and Minerals	119,938	264,316	262,028	488,099
Pharmaceuticals and Biotechnology	104,382	140,921	234,167	251,427
	$2,903,332	$3,176,033	$6,090,337	$6,244,924

For the three months ended March 27, 2015, revenues from projects for clients operating in the Chemicals and Polymers industries decreased $55.0 million, or 8.2%, to $611.9 million from $666.9 million for the corresponding period last year. For the six months ended March 27, 2015, revenues decreased $118.7 million, or 8.3%, to $1.3 billion from $1.4 billion for the corresponding period last year. The decreases in revenues were due primarily to the normal winding-down and completion of certain projects in the U.S, the U.K, and Europe. Although we continue to receive new awards for FEED (front-end engineering design) and pre-FEED services, we are aware that larger integrated oil companies continue to re-evaluate their investment priorities given current oil prices. We have long-term relationships with numerous chemical companies around the world, and we continue to believe this industry group will provide strong growth opportunities in the long-term. Leveraging our geographic presence as strengthened by the SKM transaction, we were awarded a significant professional services contract for what will be the largest chlorine dioxide plant in the world, located in Asia.

For the three months ended March 27, 2015, revenues from clients operating in the National Government Programs market increased $49.3 million, or 8.7%, to $618.2 million from $568.9 million for the corresponding period last year. For the six months ended March 27, 2015, revenues increased $207.6 million, or 19.2%, to $1.3 billion from $1.1 billion for the corresponding period last year. The increases were primarily due to the FNS acquisition completed during the fourth quarter of fiscal 2014. In general, we programs and projects on which we work in the U.S. are generally funded.

For the three months ended March 27, 2015, revenues from clients operating in the Refining - Downstream market decreased $104.7 million, or 19.6%, to $430.4 million from $535.1 million for the corresponding period last year. For the six months ended March 27, 2015, revenues decreased $206.3 million, or 18.0%, to $0.9 billion from $1.1 billion for the corresponding period last year. The decreases occurred within our operations in Canada, Europe, and the U.K., and were partially offset by increased activities in the U.S.

For the three months ended March 27, 2015, revenues from clients operating in the Infrastructure market increased $37.8 million, or 10.6%, to $394.1 million from $356.3 million for the corresponding period last year. For the six months ended March 27, 2015, revenues increased $131.9 million, or 20.4%, to $779.7 million from $647.8 million for the corresponding period last year. The increases were due primarily to increased activity in Australia (due primarily to the SKM acquisition), the U.K., and the U.S. We believe market conditions may continue to improve within this industry group, particularly for transportation, water, and certain other projects around the globe (although there is higher uncertainty in U.S. federal funding for certain highway projects). One example is the Asset Management Programme (AMP6) cycle in the U.K., where we provide a full range of professional services, including regulatory strategic consultancy, engineering, project support and asset maintenance.

For the three months ended March 27, 2015, revenues from clients operating in the Buildings market increased $22.4 million, or 10.4%, to $237.9 million from $215.5 million for the corresponding period last year. For the six months ended March 27, 2015, revenues increased $66.8 million, or 16.7%, to $468.0 million from $401.2 million for the corresponding period last year. Although SKM was responsible for most of this increase, we saw growth globally with health care, higher education, mission critical, and certain other technically complex buildings and facilities. We view the Buildings market as improving as our business in this industry group continues to shift towards projects for clients in the private sector.

For the three months ended March 27, 2015, revenues on projects for clients operating in the Oil & Gas-Upstream market increased $11.2 million, or 5.7%, to $205.8 million from $194.6 million for the corresponding period last year. For the six months ended March 27, 2015, revenues increased $49.3 million, or 12.3%, to $451.8 million from $402.5 million for the corresponding period last year. Notwithstanding these increases, the Company believes that the recent decline in crude oil prices will have a dampening impact on our client's near-term capital spending plans. As a result, we continue see some project delays and project cancellations by clients operating in this market. We see certain clients deploying more of their capital budgets to sustaining capital-type programs (small-cap projects and maintenance-driven work), an area where the Company is strong.

For the three months ended March 27, 2015, revenues from clients operating in the Mining and Minerals market decreased $144.4 million, or 54.6%, to $119.9 million from $264.3 million for the corresponding period last year. For the six months ended March 27, 2015, revenues decreased $226.1 million, or 46.3%, to $262.0 million from $488.1 million for the corresponding period last year. The decreases in revenues in fiscal 2015 were due to the winding down of several projects in North and South America and Australia without significant new work being added. Globally, continuing pressure on commodity prices have caused our clients in these industries to behave conservatively when it comes to new spend. It is possible that this situation may continue for the foreseeable future. Accordingly, the Company is refocusing and reallocating it's resources onto brownfield and sustaining capital-type projects. Longer-term, we believe we are well positioned to realize incremental business when the current environment improves.

Direct costs of contracts for the second quarter of fiscal 2015 decreased $247.1 million, or 9.3%, to $2.4 billion from $2.7 billion for the corresponding period last year. Direct costs of contracts for the six months ended March 27, 2015 decreased $0.2 billion, or 3.7%, to $5.1 billion from $5.3 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 second quarter of fiscal 2015 decreased $85.2 million, or 12.2%, to $615.3 million from $700.6 million for the corresponding period last year. Pass-through costs for the six months ended March 27, 2015 decreased $130.4 million, or 9.0%, to $1.3 billion from $1.5 billion for the corresponding period last year. In general, pass-through costs are more significant on projects that have a higher content of field services activities. Pass-through costs are generally incurred at specific points during the life cycle of a project and are highly dependent on the needs of our individual clients and the nature of the clients' projects. However, because we have hundreds of projects which start at various times within a fiscal year, the effect of pass-through costs on the level of direct costs of contracts can vary between fiscal years without there being a fundamental or significant change to the underlying business.

As a percentage of revenues, direct costs of contracts for the three and six months ended March 27, 2015 was 83.1% and 83.4%, respectively. This compares to 83.7% and 84.5% for the three and six months ended March 28, 2014, respectively. 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, 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.

Selling, general and administrative ("SG&A") expenses for the second quarter of fiscal 2015 decreased $36.2 million, or 9.2%, to $357.9 million from $394.1 million for the corresponding period last year. SG&A expenses for the six months ended March 27, 2015 increased $16.4 million, or 2.3%, to $719.1 million from $702.8 million for the corresponding period last year. The decrease for the three month period as compared to the prior year was primarily due to savings from restructuring activities carried out during the third and fourth quarters of fiscal 2014, which were partially offset by increased costs related to the 2015 Restructuring. The increase for the six months ended March 27, 2015 was due primarily to the SG&A expenses attributable to the businesses we acquired in fiscal 2014.

Net interest expense for the three and six months ended March 27, 2015 was $3.0 million and $6.0 million, respectively as compared to $2.1 million and $0.1 million for the corresponding period last year. Included in net interest expense for the six months ended March 28, 2014 was the reversal of $4.1 million of accrued interest expense recorded in connection with income tax liabilities relating to certain contested international tax matters which were favorably resolved during the first quarter of fiscal 2014. Adjusting for this reversal of expense, the increase in interest expense during the three and six months ended March 27, 2015 as compared to the corresponding period last year was due primarily to the effects of the increase in debt incurred in connection with the SKM acquisition.

The Company's effective income tax rate for the second quarter ended March 27, 2015 increased to 31.7% from 31.4% for the corresponding period last year. The increase in the quarterly tax rate is primarily a result of the change in geographic income mix. The Company's effective income tax rate for the six months ended March 27, 2015 declined to 31.5% from 32.1%. Contributing to the decrease was the release of a valuation allowance which was held on foreign net operating losses and the benefit of deductible acquisition interest held outside the U.S.

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.

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 March 27, 2015 and March 28, 2014 (in millions):

	March 27, 2015	March 28, 2014

Technical professional services	$12,601.2	$12,554.9
Field services	6,265.8	5,857.7
Total	$18,867.0	$18,412.6

Our backlog increased $0.5 billion, or 2.5%, to $18.9 billion at March 27, 2015 from $18.4 billion at March 28, 2014. Backlog at March 27, 2015 includes SKM and new awards from clients operating in many of the industry groups and markets we serve, and in particular the Chemicals, Infrastructure, and National Governments industry groups and markets. Although backlog decreased approximately $240.4 million from the first quarter of fiscal 2015 ended December 26, 2014, all of the decrease is attributable to changes in foreign exchange rates.

Liquidity and Capital Resources

At March 27, 2015, our principal sources of liquidity consisted of $465.0 million of cash and cash equivalents and $884.8 million of available borrowing capacity under our $1.6 billion revolving credit facility (the "2014 Facility"; refer to the note Long-term Debt in Notes to Consolidated Financial Statements). We finance much of our operations and growth through cash generated by our operations.

During the six months ended March 27, 2015, our cash and cash equivalents decreased by $267.7 million from $732.6 million at September 26, 2014 to $465.0 million at March 27, 2015. In summary, the Company spent $254.2 million in cash in support of its stock buy-back program during the six months ended March 27, 2015 and suffered an $82.9 million reduction in cash and cash equivalents due to the effects of foreign exchange, which were off-set in part by $104.2 million of cash flows generated through operating activities. By comparison, there was a net decrease in cash and cash equivalents of $565.1 million to $691.3 million during the corresponding period last year. Excluding cash used to repurchase common stock during the six months ended March 27, 2015 and the effects of foreign exchange, the Company's cash balances would have increased slightly during fiscal 2015.

Our operations provided net cash inflows of $104.2 million during the six months ended March 27, 2015. This compares to net cash inflows of $195.7 million for the corresponding period last year. The $91.6 million decrease in cash flows from operating activities during the six months ended March 27, 2015 as compared to the corresponding period last year was due primarily to a $147.1 million decrease in cash generated from changes within our working capital accounts (discussed below) offset in part by a small increase in net earnings.

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 $147.1 million decrease in cash flows relating to our working capital accounts was due to the timing of cash receipts and payments within our working capital accounts, including an improvement in cash collections from customers, off-set in part by an increase in vendor payments. Although the Company provides services to clients in a number of countries outside the U.S., we believe our credit risk with respect to these international clients 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., the U.K., and Australia. We have not historically experienced significant collection issues with either of our governmental or non-governmental customers.

We used $54.1 million of cash and cash equivalents for investing activities during the six months ended March 27, 2015 as compared to $1.3 billion used during the corresponding period last year. The decrease is due to the absence of business acquisitions for the for the six months ended March 27, 2015 as compared to the corresponding period last year when the Company used $1.2 billion ($1.1 billion net of cash acquired) for the acquisition of SKM.

Our financing activities resulted in net cash outflows of $234.8 million during the six months ended March 27, 2015. This compares to net cash inflows of $538.4 million during the corresponding period last year. As of March 27, 2015, the outstanding amount under our 2014 Facility was principally used to fund elements of the Company's business acquisitions. The $234.8 million of cash outflows from financing activities for the six months ended March 27, 2015 related primarily to $254.2 million used to repurchase common stock under the Company's board-approved share repurchase program (discussed in further detail in Part II, Item 2 of this report on Form 10-Q).

The Company had $465.0 million of cash and cash equivalents at March 27, 2015. Of this amount, approximately $122.0 million was held in the U.S. and $343.0 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 2014 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 $465.0 million in cash and cash equivalents at March 27, 2015, and our consolidated working capital position was $1.4 billion at that date. In addition, there was $884.8 million of borrowing capacity remaining under the 2014 Facility at March 27, 2015. We believe that the capacity, terms and conditions of the 2014 Facility, combined with cash on-hand and the other committed and uncommitted facilities we have in place, are adequate for our working capital and general business requirements for the next twelve months.
The Company had $293.3 million of letters of credit outstanding at March 27, 2015. Of this amount, $2.5 million was issued under the 2014 Facility and $290.8 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 in Notes to Consolidated Financial Statements appearing under Part I - Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference, for a discussion of the 2014 Facility.

Foreign Currency Risk

In situations where our operations incur contract costs in currencies other than their functional currency, we attempt to have a portion of the related contract revenues denominated in the same currencies as the costs. In those situations where revenues and costs are transacted in different currencies, we sometimes enter into foreign exchange contracts in order to limit our exposure to fluctuating foreign currencies. We follow the provisions of ASC 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 Executive Chairman (principal executive officer) and Chief Financial Officer (principal financial officer), evaluated the effectiveness of the Company’s disclosure controls and procedures as defined by Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of March 27, 2015, the end of the period covered by this Quarterly Report on Form 10-Q (the "Evaluation Date"). Based on that evaluation, the Executive Chairman (principal executive officer) and Chief Financial Officer (principal 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 March 27, 2015 that have materially affected, or are reasonably likely to materially affect, its internal control over financial reporting.

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PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

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

Item 1A. Risk Factors.

Please refer to Item 1A—Risk Factors in our 2014 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.

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

There were no sales of unregistered equity securities during the second quarter of fiscal 2015.

Share Repurchases

On August 19, 2014, the Board of Directors approved a program to repurchase up to $500 million of the Company's common stock over the next three years. Under the program’s terms, shares may be repurchased from time to time at the our discretion on the open market, through block trades or otherwise. The timing of our share repurchases will depend upon market conditions, other uses of capital and other factors.
A summary of repurchases of our common stock each fiscal month during the second quarter of fiscal 2015 is as follows (in thousands, except per-share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share (1)	Total Numbers of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
December 27, 2014 through January 23, 2015	1,337	$41.3184	1,337	$252,633
January 24, 2015 through February 20, 2015	884	$41.0853	884	216,308
February 21, 2015 through March 27, 2015	1,112	$43.9952	1,112	167,393
Total	3,333	$42.1494	3,333	$167,393

(1) Includes commissions paid.

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

†10.1#	The Jacobs Engineering Group Inc. Incentive Bonus Plan for Officers and Key Managers as amended and restated May22, 2014
†10.2#	Transition Agreement
†10.3#	Form of Stock Option Agreement (December 2014 grants).
31.1 –	Certification of Principal 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 Principal 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.
†	Being filed herewith.
#	Management contract or compensatory plan or arrangement.

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SIGNATURES

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

JACOBS ENGINEERING GROUP INC.

By:	/s/ Kevin C. Berryman Kevin C. Berryman Executive Vice President and Chief Financial Officer (Principal Financial Officer)
Date:	May 1, 2015