

JACOBS ENGINEERING GROUP INC /DE/

FORM 10-K (Annual Report)

Filed 12/28/98 for the Period Ending 09/30/98

Address	155 NORTH LAKE AVENUE PASADENA, CA 91101
Telephone	6265783500
CIK	0000052988
Symbol	JEC
SIC Code	1600 - Heavy Construction Other Than Bldg Const - Contractors
Industry	Construction Services
Sector	Capital Goods
Fiscal Year	10/02

JACOBS ENGINEERING GROUP INC /DE/

FORM 10-K (Annual Report)

Filed 12/28/1998 For Period Ending 9/30/1998

Address	1111 S ARROYO PARKWAY PASADENA, California 91105-3063
Telephone	626-578-3500
CIK	0000052988
Industry	Construction Services
Sector	Capital Goods
Fiscal Year	09/30

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

FORM 10-K

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934

For the fiscal year ended September 30, 1998

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES

EXCHANGE ACT OF 1934

Commission File Number 1-7463

JACOBS ENGINEERING GROUP INC.

(Exact name of Registrant as specified in its charter)

DELAWARE
(State of incorporation)

95-4081636
(I.R.S. employer identification number)

1111 SOUTH ARROYO PARKWAY, PASADENA, CALIFORNIA 91105

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code (626) 578-3500

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, \$1 par value	New York Stock Exchange

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 () NO

INDICATE BY CHECK-MARK IF DISCLOSURE OF DELINQUENT FILERS PURSUANT TO ITEM 405 OF REGULATION S-K IS NOT CONTAINED HEREIN, AND WILL NOT BE CONTAINED, TO THE BEST OF THE REGISTRANT'S KNOWLEDGE, IN DEFINITIVE PROXY OR INFORMATION STATEMENTS INCORPORATED BY REFERENCE IN PART III OF FORM 10-K OR ANY AMENDMENT TO THIS FORM 10-K. ()

The aggregate market value of the Registrant's voting stock held by non-affiliates was approximately \$857,055,000 as of December 24, 1998, based upon the last reported sales price on the New York Stock Exchange. For this purpose, the Registrant considers Dr. Joseph J. Jacobs to be its only affiliate.

As of December 24, 1998, the Registrant had outstanding 25,641,040 shares of its common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement issued in connection with its 1999 Annual Meeting of Shareholders (Part II and Part III).

PART I

Item 1. BUSINESS

General

Jacobs Engineering Group Inc. (the "Company") is one of the largest professional service firms in the United States providing engineering, design and consulting services; construction and construction management services; and process plant maintenance services to a broad range of industrial, commercial and governmental clients. The Company provides its services through offices and subsidiaries located in the United States, Europe, India, Mexico and Chile.

The Company focuses its services on selected industry groups and markets including chemicals; petroleum; semiconductor; pulp and paper; pharmaceuticals and biotechnology; federal programs; and buildings and infrastructure (this last group includes transportation and health care projects, commercial and governmental buildings, and other industrial projects).

Over the past several years, the Company has grown its business through both internal initiatives and strategic acquisitions. The acquisitions have allowed the Company to (i) expand or enhance the range of services it provides its clients; (ii) expand its client base; and (iii) provide access to new geographical areas.

In Fiscal 1994, the Company acquired CRS Serrine and CRSS Constructors (whose principal offices are located primarily within the United States). These acquisitions greatly expanded the Company's professional staff. They provided broad-based skills in the pulp and paper market (which was a new market for the Company at that time), and enhanced the Company's capabilities for its clients in both the semiconductor and buildings and infrastructure markets. These acquisitions also strengthened the Company's capabilities in the area of construction management services, expanded the Company's client base, and provided increased resources in the southeast region of the United States.

In Fiscal 1997, the Company acquired The Serete Group (headquartered in Paris, France). This acquisition provided the Company with an established presence in France, Spain and Italy. It added professional staff, and enhanced the Company's existing engineering capabilities. It also expanded the Company's client base in several key market groups. Also in Fiscal 1997, the Company increased its ownership interest (such that the Company became the majority owner) in Humphreys & Glasgow Consultants Limited (headquartered in Mumbai, India). This acquisition gave the Company access to the Southern Asia market, expanded the Company's client base and added professional staff. Also in Fiscal 1997, the Company acquired certain assets and contracts of an engineering business specializing in the mining and minerals markets with offices in Denver, Colorado and Santiago, Chile.

In addition to the particular advantages described above, these acquisitions have allowed the Company to grow its relationships with its major clients. By expanding into new geographical areas, and by adding to its existing technical and project management capabilities, the Company strives to position itself as a preferred, single-source provider of professional engineering and construction services to its major clients.

In December 1998, the Company signed an agreement and plan of merger with the Sverdrup Corporation ("Sverdrup"). If and when the transaction is completed, Sverdrup Corporation will become a wholly-owned subsidiary of the Company. Sverdrup is one of the largest professional service firms in the United States engaged in engineering, architecture, construction and construction management, and scientific services. Sverdrup employs more than 5,500 people located in more than 30 offices primarily within the United States. Sverdrup provides its services to clients in three broad business areas: civil engineering and construction (e.g., providing design and construction services for wastewater treatment plants, and roads, bridges, railroads and other transportation facilities); the facilities market (e.g., providing

design, construction management and program management services on projects for educational facilities, correctional facilities, and other government and commercial buildings and programs); and advanced technology (e.g., providing a wide-range of services, including operations and maintenance services, to government and private clients for testing facilities, research centers, and other high-technology facilities). The merger is expected to be completed early in the second quarter of fiscal 1999.

The Company is a Delaware corporation and was originally incorporated in 1957 as a successor to a business organized by Dr. Joseph J. Jacobs in 1947. The Company's common stock has been publicly held since 1970 and is currently listed on the New York Stock Exchange.

Services Provided

The Company offers three broad categories of professional services: engineering (which includes design, consulting and other related services); construction and construction management; and plant maintenance. The Company will often establish a relationship with a client where it is awarded a contract for the initial phases of an engineering and/or construction project. These services may include feasibility studies, consulting or design work. Because of the range of technical expertise the Company possesses, it is often retained for additional work as the project develops. The scope of services provided by the Company, therefore, ranges from consulting to complete single-responsibility contracts.

The following table sets forth the total revenues of the Company from each of its three basic service categories for each of the five years ended September 30, 1998 (in thousands of dollars):

	1994	1995	1996	1997	1998
Engineering Services	\$ 476,491	\$ 588,399	\$ 627,622	\$ 702,068	\$ 822,515
Field Services:					
Construction	456,750	881,574	925,681	813,926	1,011,832
Maintenance	232,513	253,084	245,667	264,622	266,798
	\$1,165,754	\$1,723,057	\$1,798,970	\$1,780,616	\$2,101,145
	=====	=====	=====	=====	=====

Engineering

The Company employs all of the engineering and related disciplines needed to engineer and design modern process plants (including projects for clients in the chemicals, pharmaceuticals and biotechnology, petroleum, food, and minerals and fertilizers industries), semiconductor facilities, pulp and paper plants, and other facilities (such as high technology manufacturing operations and other specialized plants).

With respect to the Federal Programs area of the Company's business (a substantial portion of which involve environmental projects), the Company employs all of the requisite engineering, scientific, public health and related skills to consult, investigate, study, manage and provide remedial engineering for major environmental programs. The Company's capabilities in process engineering and construction combined with its environmental expertise allow it to offer its clients a wide range of services as a single-source provider. Accordingly, the Company has been awarded contracts requiring a combination of traditional process engineering and environmental services.

The Company also employs all of the professional and technical expertise necessary to provide a broad range of consulting services including: performing pricing studies, market analyses and financial projections necessary in determining the feasibility of a project; performing gasoline reformulation modeling; analyzing and evaluating layout and mechanical designs for complex processing plants; analyzing automation and control systems; analyzing, designing and executing biocontainment strategies; developing and performing process protocols in respect of Federal Drug Administration mandated qualification/validation requirements; and performing geological and metallurgical studies.

Also included in the category of "Engineering" are all of the related support services necessary for the proper and effective delivery of the Company's engineering and related services. Among these are cost engineering, planning, scheduling, procurement, estimating, project accounting, quality and safety.

Construction

The Company provides traditional field construction as well as construction management services to private and public sector clients in virtually all of the industries to which it provides engineering services. The Company can also provide its clients with Advanced Construction Technology ("ACT")(R). ACT is an advanced form of off-site engineering, design, fabrication and assembly, and field erection. ACT provides clients with an alternative approach to traditional methods of engineering and construction which can compress and shorten the construction schedule, as well as help to reduce costs. In the environmental area, recent contract awards from clients in the public sector require the Company to provide environmental remedial construction services.

Historically, the Company's field construction activities have been focused primarily on those construction projects for which the Company performed the related engineering and design work. By focusing its construction efforts on such projects, the Company seeks to avoid the risk of constructing complex plants based on designs prepared by others. The financial risk to the Company of constructing complex plants based on designs prepared by third parties may be particularly significant on fixed-price contracts.

The Company actively markets all of its services to clients on projects where the scope of services required is within the Company's fields of expertise. The Company believes that by integrating and bundling its services (i.e., providing design, engineering and construction services on the same project) it can price its services more competitively and can enhance the overall contract profitability. The Company also believes that clients benefit from such an approach because they can look to the Company as a single-source provider of design/build services. However, the Company will continue to pursue construction-only projects where it can negotiate pricing and other contract terms acceptable to the Company.

In the area of construction management, the Company can provide a wide range of services to its clients. The Company may act as the program director, whereby it oversees, on behalf of the owner of the project, the complete planning, design and construction phases of the project. Or, its services may be limited to providing construction consulting, estimating, scheduling or value engineering services.

Maintenance

Maintenance generally refers to all of the tasks required to keep a plant in day-to-day operation, including the repair and replacement of pumps, piping, heat exchangers and other equipment. It also includes "turnaround" work which involves major refurbishment which can only be performed when the plant is shut down. Since shutdowns are expensive to the owners of the plant, turnaround work will often require maximizing the number of skilled craft personnel that can work efficiently on a project on a 24 hours per day, seven days per week basis. The Company employs sophisticated computer scheduling and programming to complete turnaround projects quickly and it maintains contact with a large pool of skilled craftsmen it can hire as needed on maintenance and turnaround projects.

Although the profit margins that can be realized from maintenance services are generally lower than those associated with the other services the Company provides, the costs to support maintenance activities are also generally lower than those associated with the Company's other services. Furthermore, since maintenance contracts are normally cost-reimbursable in nature, they present less risk to the Company. Additionally, although engineering and construction projects may be of a short-term nature, maintenance services often result in long-term relationships with clients. For example, the Company has been providing maintenance services at several major process plants for over 30 years. This aspect of maintenance services greatly reduces the selling costs in respect of such services.

Industry Groups and Markets

The Company focuses its efforts on the following industry groups and markets: chemicals; buildings and infrastructure; petroleum; pharmaceuticals and biotechnology; pulp and paper; U.S. federal programs; and semiconductor. The Company believes these industry groups and markets have sufficient common needs to permit cross-utilization of the Company's resources which help to mitigate the negative effects of a downturn in a single industry.

The following table sets forth the total revenues of the Company from each of these industry groups and markets for each of the five years ended September 30, 1998 (in thousands of dollars):

	1994	1995	1996	1997	1998
Chemicals	\$ 315,991	\$ 377,731	\$ 452,448	\$ 500,446	\$ 797,035
Buildings and Infrastructure	88,228	174,183	189,834	183,004	335,542
Petroleum	372,769	480,472	417,739	248,799	255,578
Pharmaceuticals and Biotechnology	97,301	123,683	147,840	140,545	211,650
Pulp and Paper	7,258	85,476	170,553	154,135	191,594
Federal Programs	175,846	175,200	145,275	201,644	169,472
Semiconductor	83,477	264,492	268,520	335,595	119,368
Other	24,884	41,820	6,761	16,448	20,906
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	\$1,165,754	\$1,723,057	\$1,798,970	\$1,780,616	\$2,101,145
	=====	=====	=====	=====	=====

Chemicals

The Company has always considered the chemicals industry a cornerstone of its business. Revenues from this industry group have consistently accounted for a significant share of each year's total revenues. Historically, whenever the Company has sought to expand its business, the impact of such expansion on the Company's chemicals business has always been an important consideration. The Company's first office outside the United States was opened in support of a bulk-chemical project for a large, U.S. company seeking to expand its operations internationally.

Currently, the Company furnishes its full line of services to its clients operating in the chemicals industries. The Company has provided technical, financial, marketing and management consulting services to many of the largest chemical manufacturers in the world. The Company can perform feasibility studies, as well as preliminary and detailed design and engineering services, construction, and construction management services to its clients in this industry. Typical projects range from various basic and intermediate chemical reactions/separations and high-pressure polymer processes for the production of bulk chemicals, to low-pressure, multi-product processes for the production of fine and specialty chemicals. The Company has also completed projects dealing with the modernization and upgrading of polyethylene and liquid polymer production facilities. The Company has extensive knowledge of, and experience with, advanced polymerization reactions and state-of-the-art, post-reactor processing techniques, as well as many other specialty chemicals.

A significant aspect of the Company's service to this industry is in the area of contract maintenance. The Company has contracts with several major chemical producers to provide on-site maintenance and turnaround activities. Many of these contracts are evergreen in nature and tend to be extended over many years.

Another important aspect of this industry group has been the development of performance-based partnering relationships (alliances) with clients. Through an alliance, a client will award a contract to the Company which can require the Company to provide a broad scope of services. These services can range from the Company providing on-site engineering services for projects or tasks as they arise or are defined by the client, to situations where the Company is assigned to manage and complete an entire program of capital improvements for the client. Although alliances typically begin with the Company

providing engineering services for small capital projects, alliances can sometimes provide the Company with opportunities to expand its services to include fully-integrated engineering, procurement, construction and construction management services.

Buildings and Infrastructure

Buildings and infrastructure refers to those contracts requiring the Company to provide and/or manage comprehensive architectural, engineering, design, construction and/or construction management services for projects such as high technology manufacturing operations, specialized plants for clients in the food industry, and research and development facilities that require technically complex structures. It also includes programming, design, program management and construction management services for public, institutional and corporate clients.

The Company provides its services on projects that emphasize both new construction as well as those involving renovation and refurbishment of existing facilities. The Company has also been successful in applying its skill base to clients requiring complete program management (referred to as "resourcing"). For such contracts, the Company, often through joint ventures with third parties, assume full responsibility for the ongoing operations and maintenance of entire commercial or industrial complexes on behalf of the client.

Typical projects in this area include educational facilities, civic centers, health care facilities, correctional centers and transportation systems, as well as multi-purpose buildings for industrial, commercial and government clients.

Petroleum

The Company provides its full line of services to its clients in the petroleum industry. Typical projects in the petroleum area include retrofits, revamps or expansions of existing plants, upgrading individual process units within refineries, new construction and maintenance services. The Company also provides a broad range of consulting services to its clients, including process assessments, feasibility studies, technology evaluations and multi-client studies. Although the Company's revenues historically have related primarily to projects associated with petroleum refining and the processes and technologies required for the conversion of crude oil and gas into petroleum fuels, chemical feedstocks and lubricants, more recent contract awards have also included services to pipeline companies and companies in businesses upstream of refiners.

The volume of business activity in this industry group is sometimes influenced by government regulations. For example, as the government issues regulations requiring the reduction of the sulfur content of motor fuels, capital spending by clients for desulfurization projects have increased. There are also significant levels of economically-driven work associated with reconfiguring refineries to handle increasing levels of imported, heavy sour crude feedstocks. The Company is actively involved in both such government and economically-driven projects.

The Company has also utilized its off-site construction capabilities on a number of projects in the petroleum industry. Due to the age of many U.S. refineries, and the close proximity within these refineries of their various production and distillation processing units, the Company believes the use of off-site construction can help decongest the construction site and allow for parallel construction to proceed simultaneously with the modular activity.

Like the chemicals industry, the Company provides a significant amount of maintenance services to its clients in the petroleum industry. Also like the chemicals industry, the Company has established a number of formal alliances with various clients in the petroleum industry. Some of these alliances have been national in scope.

Pharmaceuticals and Biotechnology

The Company furnishes its full line of services to its clients operating in the pharmaceuticals and biotechnology industries. The scope of services the Company can provide its clients in these markets include feasibility studies, preliminary and detailed design and engineering services, construction, and construction management services. The Company can also provide conceptual design services with emphasis on production strategy, current good manufacturing practices ("cGMP") compliance, regulatory compliance and qualification/validation services for pharmaceutical and biotechnology research, development and production facilities. Accordingly, the Company is fully capable of executing multi-million dollar, single-responsibility projects in the areas of pharmaceuticals and biotechnology.

Typical projects for clients in this industry include laboratories and research and development facilities, vivariums, pilot plants, chemical production facilities, full-scale biotechnology production facilities, and fill- and-finish facilities. These projects will often employ state-of-the-art know-how in regulatory, barrier technology, and micro-environmental systems, as well as automation, manufacturing and distribution management.

The Company has also established formal alliances with various clients in the pharmaceuticals industry.

Pulp and Paper

The Company provides a broad range of engineering and construction services to its clients in the pulp and paper industry. Additionally, the Company provides strategic planning and conceptual studies for many of its clients, as well as environmental services relating to compliance with USEPA emission standards. Typical projects in the pulp and paper area range from small mill projects to complex, multi-million dollar paper machine rebuilds, mill expansions and construction of new facilities. Such projects encompass all areas of a mill, including woodyards, pulping and bleaching, papermaking, chemical recovery, material handling and power and steam generation. In the area of papermaking, the Company's expertise includes tissue and towel, coated and uncoated fine papers, newsprint and linerboard. The Company's expertise also includes the converting and packaging of paper products for consumer use. The Company has been instrumental in the design and installation of state-of-the-art facilities for recycle fiber, deinking and pulp bleaching. Chemical recovery and power generation are an integral part of the papermaking process. The Company has broad experience in these areas and has applied its expertise in the engineering and construction of such facilities for the pulp and paper industry.

The Company has also established formal alliances with various clients in the pulp and paper industry.

Federal Programs

A significant portion of the Company's Federal Programs revenues are derived from environmental projects. The Company believes it is one of the leading providers of environmental restoration, engineering and consulting services, including hazardous waste management and site cleanup and closure in the United States. Many of the projects for the U.S. government span several years. For larger programs, the scope of services is such that the Company sometimes teams with other companies in order to execute the project. The Company is currently providing environmental restoration, engineering, construction and site operations and maintenance services for a number of U.S. federal government agencies including the U.S. Department of Energy ("DOE"), the Department of Defense ("DOD") and the U.S. Environmental Protection Agency ("USEPA").

Historically, typical projects for U.S. government agencies included the preparation of feasibility studies and performance of remedial investigations, engineering, design and remediation services on several national programs. Many of the Company's contracts related to the Comprehensive Environmental Response Compensation and Liability Act of 1980 ("CERCLA" or "Superfund") and the related Superfund Amendments and Reauthorization Act of 1986 ("SARA"), as reauthorized in 1990.

More recently, as government spending has shifted from studying environmental problems to cleaning-up contaminated sites, the Company has been awarded multi-year contracts to provide such services. For example, the Company was awarded a contract from the U.S. Air Force to provide full-service remedial action services for the U.S. Air Force Center for Environmental Excellence ("AFCEE") at several bases located in the U.S., as well as a "nationwide" award to provide services under the U.S. Base Realignment and Closure ("BRAC") program. And in 1995, the Company was awarded the Alaska TERC (Total Environmental Restoration Contract) to provide engineering and site cleanup services throughout that state.

Demand for the Company's services in this area is strongly affected by the level of enforcement of environmental laws and regulations, and the spending patterns of public and private clients. Currently, there are numerous proposals being offered for consideration to overhaul the U.S. federal regulatory process, the ultimate outcome of which cannot yet be determined. Nevertheless, the Company believes that the DOE and DOD will continue to devote increasingly more of their resources to site remediation and cleanup.

In addition to contracts involving the remediation of contaminated sites, the government has let contracts to private contractors to provide full operations and maintenance ("O&M") services to entire government facilities. The Company has been awarded several such O&M contracts, which require the Company to provide facilities management and maintenance services, utilities operations and maintenance services, property management and disposition and construction support services. The Company believes it is uniquely qualified to execute O&M contracts given its financial strength, and the history the Company has of managing large, long-term projects in both the private and government sectors of the economy.

Semiconductor

The Company provides engineering, procurement, construction, and construction management services to its clients in the semiconductor industry. Typical projects in this industry range from on-site plant engineering and tool hook-ups, to multi-million dollar state-of-the-art wafer fabrication and crystal growing facilities used to produce microprocessors for computers and other consumer electronic devices. Generally, projects in the semiconductor industry are more complex than other facilities projects and have greater emphasis on cleanroom, and similar high-end technologies.

Backlog

For information regarding the Company's backlog, reference should be made to Item 7. - Management's Discussion and Analysis of Financial Condition and Results of Operations, incorporated by reference in this report.

Customers

For the years ended September 30, 1994, 1995, 1996, 1997 and 1998, revenues directly or indirectly from agencies of the U.S. federal government accounted for 15.4%, 11.4%, 8.7%, 12.0% and 12.1%, respectively, of total revenues. Due to the amount of pass-through costs (see "Contracts" below) that may be incurred on construction and maintenance projects, it is not unusual for a client in the private sector to account for more than 10% of revenues in any given year. One client in the private sector accounted for 11.6% and 13.1% of total revenues in 1994 and 1995, respectively. A different client accounted for 15.3% of total revenues in 1997. No single client in the private sector accounted for 10% or more of total revenues in 1996 or 1998.

Foreign Operations

For the years ended September 30, 1994, 1995, 1996, 1997 and 1998, revenues from the Company's international operations were approximately 5.6%, 5.4%, 10.3%, 23.5% and 20.2%, respectively, of total revenues. For fiscal years 1994 through 1996, substantially all such revenues related to the Company's offices in the U.K. and Ireland. In 1997, as discussed above, the Company completed the acquisitions of the Serete Group and HGC India. The Serete Group has operations throughout Europe, and executes projects for commercial clients in the chemicals, pharmaceuticals and semiconductor industries, as well as buildings and infrastructure projects for both commercial and governmental clients. HGC India has operations in India and executes projects for commercial clients in the chemical, pharmaceuticals and petroleum markets. Revenues earned in fiscal 1997 and 1998 from the Company's offices in Mexico and Chile were not material.

Contracts

While there is considerable variation in the pricing provisions of the contracts undertaken by the Company, they can generally be grouped into three broad categories: Cost-reimbursable; fixed-price and guaranteed maximum price. The following table sets forth the percentages of total revenues represented by these types of contracts during each of the five years ended September 30, 1998:

	1994	1995	1996	1997	1998
	-----	-----	-----	-----	-----
Cost-reimbursable	83%	88%	82%	82%	81%
Fixed-price	9	11	16	16	18
Guaranteed maximum price	8	1	2	2	1

In accordance with industry practice, most of the Company's contracts are subject to termination at the discretion of the client. Contracts typically provide for reimbursement of costs incurred and payment of fees earned through the date of such termination.

When the Company is directly responsible for engineering, design, procurement and construction of a project or the maintenance of a process plant, the Company reflects the cost of materials, equipment and subcontracts in both revenues and costs. On other projects, where the client elects to pay for such items directly, these amounts are not reflected in either revenues or costs. The following table presents the approximate amount of such pass-through costs included in revenues for the years ended September 30, 1994, 1995, 1996, 1997 and 1998 (in millions):

1994	1995	1996	1997	1998
----	----	----	----	----
\$ 629.0	\$ 1,001.3	\$ 1,019.5	\$ 919.6	\$ 1,066.4

Cost-reimbursable contracts

Cost-reimbursable contracts provide for reimbursement of costs incurred by the Company plus a predetermined fee, or a fee based on a percentage of the costs incurred. The Company prefers this type of contract since it believes that the primary basis for its selection should be its technical expertise and professional qualifications rather than price considerations.

Fixed-price contracts

Fixed-price contracts include both "negotiated fixed-price" contracts and "lump sum bid" contracts. Under a negotiated fixed-price contract, the Company is first selected as the contractor, and then the contract price is negotiated. Negotiated fixed-price contracts frequently exist in single-responsibility arrangements where the Company has the opportunity to perform engineering and design work before negotiating the total price of the project. Under lump sum bid contracts, the Company must bid against other contractors based upon specifications furnished by the client. This type of pricing presents certain inherent risks, including the possibility of ambiguities in the specifications, problems with new technologies

and economic and other changes that may occur over the contract period, that are reduced by the negotiation process. Thus, although both types of contracts involve a firm price for the client, the lump sum bid contract provides the greater degree of risk to the Company. However, because of economies that may be realized during the contract term, both negotiated fixed-price and lump sum bid contracts may offer greater profit potential than the other types of contracts.

Guaranteed maximum price contracts

Guaranteed maximum price contracts are performed in the same manner as cost-reimbursable contracts; however, the total actual cost plus the fee cannot exceed the guaranteed price negotiated with the client. If the total actual cost of the contract exceeds the guaranteed maximum price, then the Company will bear all or a portion of the excess. In those cases where the total actual cost and fee are less than the guaranteed price, the Company will often share the savings on a predetermined basis with the client.

Competition

The Company is engaged in a highly competitive business. Some of its competitors are larger than the Company, or are subsidiaries of larger companies, and may possess greater resources than the Company. Furthermore, because the engineering aspect of the business does not usually require large amounts of capital, there is relative ease of market entry for a new potential entrant possessing acceptable professional qualifications. Accordingly, the Company competes with both national and international firms in sizes ranging from very large to a wide variety of small, regional and specialty firms.

The extent of the Company's competition varies according to the industries and markets it serves, as well as the geographical areas in which the Company operates. The Company's largest competitors for engineering, construction and maintenance services for process plants include such well-known companies as Bechtel Group, Inc., Fluor Corporation, Foster-Wheeler Corp., Raytheon Engineers, M.W. Kellogg, Parsons Co., Kellogg Brown & Root, and Kvaerner. In the semiconductor industry, the Company's principal competitors include Industrial Design Corporation. In the area of pulp and paper, the Company's principal competitors include BE&K, Kellogg Brown & Root, and Raytheon Engineers. And in the area of environmental engineering and hazardous waste cleanup, the Company's principal competitors include many of the companies listed above, as well as Morrison Knudsen Corporation, and other specialized companies such as IT Group, Inc., ICF Kaiser and Roy F. Weston.

Employees

At September 30, 1998, the Company had approximately 10,080 full-time employees. Additionally, as of September 30, 1998, there were approximately 7,160 persons employed by the Company in the field on a project basis. The number of such field employees varies in relation to the number and size of the maintenance and construction projects in progress at any particular time.

EXECUTIVE OFFICERS OF THE COMPANY

Pursuant to the requirements of Item 401(b) and 401(e) of Regulation S-K, the following information is being furnished with respect to the Company's executive officers:

Name	Age	Position with the Company	Year Joined the Registrant
Joseph J. Jacobs	82	Director and Chairman of the Board	1947
Noel G. Watson	62	President, Chief Executive Officer and Director	1965
Robert M. Barton	76	Secretary	1957
William R. Kerler	69	Executive Vice President, Operations and Director	1980
Thomas R. Hammond	47	Executive Vice President, Operations	1975
Richard J. Slater	52	Executive Vice President, Operations	1980
Donald J. Boutwell	61	Group Vice President, Field Services	1984
Robert M. Clement	50	Group Vice President, Central Region	1990
Warren M. Dean	54	Group Vice President, Buildings & Infrastructure	1994
Stephen K. Fritschle	55	Group Vice President, Southern Region	1989
George A. Kunberger, Jr.	46	Group Vice President, Northern Region	1975
Gregory J. Landry	50	Group Vice President, International Operations	1984
John McLachlan	52	Group Vice President, International Operations	1974
Roger L. Williams	60	Group Vice President, Federal Operations	1983
Andrew E. Carlson	65	Senior Vice President, Quality and Safety	1990
Michael J. Higgins	54	Senior Vice President, Federal Programs	1994
Craig L. Martin	49	Senior Vice President, General Sales and Marketing	1994
John W. Prosser, Jr.	53	Senior Vice President, Finance and Administration and Treasurer	1974
Nazim G. Thawerbhoy	51	Senior Vice President and Controller	1979
William C. Markley, III	53	Vice President, Law	1981

All of the officers listed in the preceding table serve in their respective capacities at the pleasure of the Board of Directors and, with the exception of Messrs. Dean, Martin and Higgins, have served in executive capacities with the Company or have been part of its management for more than five years. Prior to joining the Company in 1994, Messrs. Dean and Martin were part of the management of CRSS Inc., or one of its subsidiaries for at least five years. Before he joined the Company in 1994, Mr. Higgins was President and Chief Executive Officer of HazWaste Industries Inc. from 1989 to 1994.

Item 2. PROPERTIES

The Company owns and leases offices for its professional, technical and administrative staff. It also owns property (located in Charleston, South Carolina) which is the principal manufacturing facility for the Company's modular construction activities. The total amount of space used by the Company for all its operations is approximately 2.0 million square feet. The following is a list of the Company's principal locations:

Country	State	City
-----	----	----
U.S.A.	California	Pasadena Long Beach Sacramento
	Arizona	Phoenix
	Colorado	Denver
	Florida	Lakeland
	Louisiana	Baton Rouge
	New Mexico	Albuquerque
	North Carolina	Raleigh
	Ohio	Cincinnati
	Oregon	Portland
	Pennsylvania	Philadelphia
	South Carolina	Greenville Charleston
	Texas	Houston
	Tennessee	Oak Ridge
	Virginia	Arlington
	Wisconsin	Green Bay
United Kingdom	-	London
	-	Glasgow
	-	Manchester
Republic of Ireland	-	Cork
	-	Dublin
France	-	Paris
	-	Lyon
Italy	-	Milan
Spain	-	Madrid
India	-	Mumbai
	-	New Delhi
	-	Calcutta
Chile	-	Santiago

In addition to these properties, the Company leases smaller, project offices located throughout the United States and, to a certain extent, France. The Company maintains sales offices at many of its principal locations. The Company has equipment yards located in Houston, Texas and Baton Rouge, Louisiana. The majority of the Company's offices are leased. The Company also rents a portion of its construction equipment on a short-term basis.

Item 3. LEGAL PROCEEDINGS

In the normal course of business, the Company is subject to certain contractual guarantees and litigation. Generally, such guarantees relate to project schedules and plant performance. Most of the litigation involves the Company as a defendant in workers' compensation, personal injury and other similar lawsuits. In addition, as a contractor for many agencies of the United States Government, the Company is subject to many levels of audits, investigations and claims by, or on behalf of, the government with respect to its contract performance, pricing, costs, cost allocations and procurement practices.

Management believes, after consultation with counsel, that such guarantees, litigation, and United States Government contract-related audits, investigations and claims should not have any material adverse effect on the Company's consolidated financial statements.

In March 1998, the U.S. Attorney for the Central District of California announced that it was intervening in a lawsuit filed against the Company by a former employee under the False Claims Act. The lawsuit alleges that the Company overbilled the U.S. government for lease costs paid by the Company and relating to its former headquarters building located in Pasadena, California. The building had once been owned by the Company, but was sold by it in calendar 1982, at which time the Company entered into a 15-year lease of the property. The lawsuit seeks unspecified damages against the Company, which may be trebled under certain provisions of the Act. Additional remedies available to the government include possible administrative or civil liabilities, and the imposition of civil penalties for each violation.

The Company has denied any wrongdoing in the method it accounted for the lease costs in question. The Company contends it has billed the government for only those costs it actually incurred, and believes its accounting treatment of the lease costs complied with all applicable regulations. Furthermore, the sale and lease-back transaction that is the subject of the lawsuit occurred nearly 15 years prior to the initiation by the Department of Justice of its investigation. The transaction had been fully disclosed in numerous public filings made by the Company since the date of the transaction, and the Company's Final Indirect Cost Rate Proposals, which the Company had filed regularly and routinely with the Defense Contract Audit Agency ("DCAA") and which included the lease costs, had been audited by the DCAA for many years without the DCAA taking exception to the Company's accounting treatment of the lease costs.

Although the final outcome of this matter cannot be determined at the present time, the Company intends to vigorously defend itself against the lawsuit.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The information required by this Item is hereby incorporated by reference from page A-30 of Exhibit 13 to this report.

Item 6. SELECTED FINANCIAL DATA

The information required by this Item is hereby incorporated by reference from page A-2 of Exhibit 13 to this report.

Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information required by this Item is hereby incorporated by reference from pages A-3 through A-11 of Exhibit 13 to this report.

Item 7A. QUALITATIVE and QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable.

Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information required by this Item is hereby incorporated by reference from pages A-12 through A-31 of Exhibit 13 to this report.

Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON FINANCIAL AND DISCLOSURE MATTERS

Not applicable.

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Paragraph (a) and Paragraphs (c) through (g) of Item 401 and by Item 405 of Regulation S-K is hereby incorporated by reference from the Company's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A within 120 days after the close of the Company's fiscal year.

See the information under the caption "Executive Officers of the Company" in Part I of this report for information required by Paragraph (b) of Item 401 of Regulation S-K.

Item 11. EXECUTIVE COMPENSATION

The information required by this Item is hereby incorporated by reference from the Company's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A within 120 days after the close of the Company's fiscal year.

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is hereby incorporated by reference from the Company's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A within 120 days after the close of the Company's fiscal year.

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is hereby incorporated by reference from the Company's definitive proxy statement to be filed with the Commission pursuant to Regulation 14A within 120 days after the close of the Company's fiscal year.

PART IV

Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The Company's consolidated financial statements at September 30, 1998 and 1997 and for each of the three years in the period ended September 30, 1998, together with the report of the independent auditors on those consolidated financial statements are hereby incorporated by reference from Exhibit 13 to this report.

(b) Not applicable.

(c) Exhibits and Index to Exhibits:

- 2.1 Purchase Agreement dated July 29, 1994 between Jacobs Engineering Group Inc. and CRSS Inc. including a schedule of annexes and exhibits. Filed as Exhibit 1. to the Registrant's Current Report on Form 8-K dated August 5, 1994 and incorporated herein by reference.
- 3.1 Certificate of Incorporation of the Registrant, as amended. Filed as Exhibit 3.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1995 and incorporated herein by reference.
- (S) 3.2 Bylaws of the Registrant, as amended.
- 4.1 See Sections 5 through 18 of Exhibit 3.1.
- 4.2 See Article II, Section 3.03 of Article III, Article VI and Section 8.04 of Article VIII of Exhibit 3.2.
- 4.3 Rights Agreement dated as of December 20, 1990 by and between Registrant and First Interstate Bank, Ltd. as Rights Agent. Filed as Exhibit 4.4 to Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1995 and incorporated herein by reference.
- 10.1 The Jacobs Engineering Group Inc. 1981 Executive Incentive Plan (As Amended and Restated). Filed as Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1995 and incorporated herein by reference.
- 10.2 The Jacobs Engineering Group Inc. Incentive Bonus Plan for Officers and Key Managers. Filed as Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1995 and incorporated herein by reference.
- 10.3 Agreement dated as of November 30, 1993 between the Registrant and Dr. Joseph J. Jacobs. Filed as Exhibit 10.3 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1995 and incorporated herein by reference.
- (S) 10.4 Agreement dated as of December 3, 1998 between the Registrant and Dr. Joseph J. Jacobs.
- 10.5 The Executive Security Program of Jacobs Engineering Group Inc. Filed as Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1995 and incorporated herein by reference.

- 10.6 Jacobs Engineering Group Inc. and Subsidiaries 1991 Executive Deferral Plan, effective June 1, 1991. Filed as Exhibit 10.5 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 1995 and incorporated herein by reference.
- 10.7 Jacobs Engineering Group Inc. and Subsidiaries 1993 Executive Deferral Plan, effective December 1, 1993. Filed as Exhibit 10.6 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 1995 and incorporated herein by reference.
- 10.8 The Jacobs Engineering Group Inc. 1989 Employee Stock Purchase Plan. Filed as Exhibit 10.9 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1995 and incorporated herein by reference.
- 10.9 Form of Indemnification Agreement entered into between the Registrant and its officers and directors. Filed as Exhibit 10.10 to the Registrant's Quarterly Report on Form 10-Q for the period ended June 30, 1995 and incorporated herein by reference.
- 10.10 Jacobs Engineering Group Inc. 401(k) Plus Savings Plan and Trust. Filed as Exhibit 10.11 to the Registrant's Quarterly Report on Form 10-Q for the period ended March 31, 1995 and incorporated herein by reference.
11. Statement of computation of net income per outstanding share of common stock is hereby incorporated by reference from Appendix A to the Registrant's Notice of 1999 Annual Meeting of Shareholders and Proxy Statement, copies of which are being delivered to (but not filed with, except to the extent incorporated herein) the Commission as an exhibit to this report.
- (S) 13. Appendix A to the Registrant's Notice of 1999 Annual Meeting of Shareholders and Proxy Statement (which contains the annual financial statements and financial information of Jacobs Engineering Group Inc. for the fiscal year ended September 30, 1998).
- (S) 21. List of Subsidiaries of Jacobs Engineering Group Inc.
- (S) 23. Consent of Independent Auditors.
- (S) 27.1 Financial Data Schedules.
-

(S) Being filed herewith.

UNDERTAKINGS

For the purposes of complying with the amendments to the rules governing Form S-8 (effective July 13, 1990) under the Securities Act of 1933, the undersigned Registrant hereby undertakes as follows, which undertaking shall be incorporated by reference into the Registrant's Registration Statements on Form S-8 Nos. 33-45914 (filed February 21, 1992) and 333-01317 (filed February 29, 1996):

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

JACOBS ENGINEERING GROUP INC.

Dated: December 28, 1998

By: /s/ NOEL G. WATSON

Noel G. Watson
President, Chief Executive
Officer and Director
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Company and in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
/s/ NOEL G. WATSON ----- Noel G. Watson	Director and Principal Executive Officer	December 28, 1998
/s/ JOSEPH J. JACOBS ----- Joseph J. Jacobs	Director	December 28, 1998
----- Joseph F. Alibrandi	Director	December 28, 1998
/s/ PETER H. DAILEY ----- Peter H. Dailey	Director	December 28, 1998
----- Robert B. Gwyn	Director	December 28, 1998
/s/ LINDA K. JACOBS ----- Linda K. Jacobs	Director	December 28, 1998
/s/ WILLIAM R. KERLER ----- William R. Kerler	Director	December 28, 1998
/s/ J. CLAYBURN LaFORCE ----- J. Clayburn LaForce	Director	December 28, 1998
/s/ DALE R. LAURANCE ----- Dale R. Laurance	Director	December 28, 1998
/s/ LINDA FAYNE LEVINSON ----- Linda Fayne Levinson	Director	December 28, 1998
/s/ DAVID M. PETRONE ----- David M. Petrone	Director	December 28, 1998
/s/ JAMES L. RAINEY, JR. ----- James L. Rainey, Jr.	Director	December 28, 1998

/s/ JOHN W. PROSSER, JR.

John W. Prosser, Jr.

Senior Vice President
Finance and Administration,
and Treasurer (Principal
Financial Officer)

December 28, 1998

/s/ NAZIM G. THAWERBHOY

Nazim G. Thawerbhoy

Senior Vice President and
Controller (Principal Accounting
Officer)

December 28, 1998

EXHIBIT 3.2

**BYLAWS OF
JACOBS ENGINEERING GROUP INC.
(A DELAWARE CORPORATION)**

(COMPOSITE CONFORMED COPY)

ARTICLE I.

OFFICES

SECTION 1.01 REGISTERED OFFICE. The registered office of Jacobs Engineering Group Inc. (hereinafter called the "Corporation") in the State of Delaware shall be at 1209 Orange Street, Wilmington, and the name of the registered agent at that address shall be The Corporation Trust Company.

SECTION 1.02 PRINCIPAL OFFICE. The principal office for the transaction of the business of the Corporation shall be at 1111 South Arroyo Parkway, Pasadena, California. The Board of Directors (hereinafter called the "Board") is hereby granted full power and authority to change said principal office from one location to another.

SECTION 1.03 OTHER OFFICES. The Corporation may also have an office or offices at such other place or places, either within or without the State of Delaware, as the Board may from time to time determine or as the business of the Corporation may require.

ARTICLE II.

MEETINGS OF STOCKHOLDERS

SECTION 2.01 ANNUAL MEETINGS. Annual meetings of the stockholders of the Corporation for the purpose of electing directors and for the transaction of such other proper business as may come before such meetings shall be held on the second Tuesday in February of each year if not a legal holiday, and if a legal holiday, then on the next business day following, at 3:30 P.M., or at such other time or date as the Board shall determine by resolution.

SECTION 2.02 SPECIAL MEETINGS. Special meetings of the stockholders for any purpose or purposes may be called by the Board, by a committee of the Board that has been duly designated by the Board and whose powers and authority, as provided in a resolution of the Board or in these Bylaws, include the power to call such meetings or by the Chairman of the Board. Unless otherwise prescribed by statute or by the Certificate of Incorporation, special meetings may not be called by any other person or persons. No business may be transacted at any special meeting of stockholders other than such business as may be designated in the notice calling such meeting.

SECTION 2.03 PLACE OF MEETINGS. All meetings of the stockholders shall be held at such places, within or without the State of Delaware, as may from time to time be designated by the person or persons calling the respective meeting and specified in the respective notices or waivers of notice thereof.

SECTION 2.04 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING; GIVING CONSENTS. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to express consent to corporate action in writing without a meeting, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than sixty (60) nor less than ten (10) days before the date of such meeting, nor more than sixty (60) nor less than ten (10) days prior to any other action.

If the Board does not so fix a record date:

(i) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(ii) The record date for determining stockholders for any other purpose shall be at the day on which the first written consent is expressed.

(iii) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

SECTION 2.05 NOTICE OF MEETINGS. Except as otherwise required by law, notice of each meeting of the stockholders, whether annual or special, shall be given not less than twenty (20) nor more than sixty (60) days before the date of the meeting to each stockholder of record entitled to vote at such meeting by delivering a typewritten or printed notice thereof to him personally, or by depositing such notice in the United States mail, in a postage prepaid envelope, directed to him at his post office address furnished by him to the Secretary of the Corporation for such purpose or, if he shall not have furnished to the Secretary of the Corporation his address for such purpose, then at his post office address last known to the Secretary, or by transmitting a notice thereof to him at such address by telegraph, cable, or wireless. Except as otherwise expressly required by law, no publication of any notice of a meeting of the stockholders shall be required. Every notice of a meeting of the stockholders shall state the

place, date and hour of the meeting, and, in the case of a special meeting, shall also state the purpose or purposes for which the meeting is called. Notice of any meeting of stockholders shall not be required to be given to any stockholder who shall have waived such notice and such notice shall be deemed waived by any stockholders who shall attend such meeting in person or by proxy, except as for stockholders who shall attend such meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Except as otherwise expressly required by law, notice of any adjourned meeting of the stockholders need not be given if the time and place thereof are announced at the meeting at which the adjournment is taken.

SECTION 2.06 ADVANCE NOTICE OF STOCKHOLDER NOMINEES. Only persons who are nominated in accordance with the procedures set forth in this Section 2.06 shall be eligible for election as Directors. Nominations of persons for election to the Board of the Corporation may be made at a meeting of stockholders by or at the direction of the Board or by any stockholder of the Corporation entitled to vote in the election of Directors at the meeting who complies with the notice procedures set forth in this Section 2.06. Such nominations, other than those made by or at the direction of the Board, shall be made pursuant to timely notice in writing to the Secretary of the Corporation. To be timely, a stockholder's notice shall be delivered to or mailed and received at the principal executive offices of the Corporation not less than 60 days nor more than 90 days prior to the meeting; provided, however, that in the event that less than 70 days' notice or prior public disclosure of the date of the meeting is given or made to stockholders, notice by the stockholder to be timely must be so received not later than the close of business on the 10th day following the day on which such notice of the date of the meeting was mailed or such public disclosure was made. Such stockholder's notice shall set forth (a) as to each person whom the stockholder proposed to nominate for election or re-election a Director, (i) the name, age, business address and residence address of such person, (ii) the principal occupation or employment of such person, (iii) the class and number of shares of the Corporation which are beneficially owned by such person and (iv) any other information relating to such person that is required to be disclosed in solicitations of proxies for election of Directors, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (including without limitation such persons' written consent to being named in the proxy statement, if any, as a nominee and to serving as a Director if elected); and (b) as to the stockholder giving the notice (i) the name and address, as they appear on the Corporation's books, of such stockholder and (ii) the class and number of shares of the Corporation that are beneficially owned by such stockholder. At the request of the Board any person nominated by the Board for election as a Director shall furnish to the Secretary of the Corporation that information required to be set forth in a stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a Director of the Corporation unless nominated in accordance with the procedures set forth in this Section 2.06. The Chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the procedures prescribed by the bylaws, and if he should so determine, he shall so declare to the meeting and the defective nomination shall be disregarded.

SECTION 2.07 QUORUM. Except in the case of any meeting for the election of directors summarily ordered as provided by law, the holders of record of a majority in voting interest of the shares of stock of the Corporation entitled to be voted thereat, present in person or by proxy, shall constitute a quorum for the transaction of business at any meeting of the stockholders of the Corporation or any adjournment thereof. In the absence of a quorum at any meeting or any adjournment thereof, a majority in voting interest of the stockholders present in person or by proxy and entitled to vote thereat or, in the absence thereof of all the stockholders, any officer entitled to preside at, or to act as secretary of, such meeting may adjourn such meeting from time to time. At any such adjourned meeting at which a quorum is present any business may be transacted that might have been transacted at the meeting as originally called.

SECTION 2.08 VOTING.

(a) Each stockholder shall, at each meeting of the stockholders, be entitled to vote in person or by proxy each share or fractional share of the stock of the Corporation that has voting rights on the matter in question and that has been held by him and registered in his name on the books of the Corporation:

(i) on the date fixed pursuant to Section 6.05 of these Bylaws as the record date for the determination of stockholders entitled to notice of and to vote at such meeting, or

(ii) if no such record date shall have been so fixed, then (a) at the close of business on the day next preceding the day on which notice of the meeting shall be given or (b) if notice of the meeting shall be waived, at the close of business on the day next preceding the day on which the meeting shall be held.

(b) Shares of its own stock belonging to the Corporation or to another corporation, if a majority of the shares entitled to vote in the election of directors in such other corporation is held, directly or indirectly, by the Corporation, shall neither be entitled to vote nor be counted for quorum purposes. Persons holding stock of the Corporation in a fiduciary capacity shall be entitled to vote such stock. Persons whose stock is pledged shall be entitled to vote, unless in the transfer by the pledgor on the books of the Corporation he shall have expressly empowered the pledgee to vote thereon, in which case only the pledgee, or his proxy, may represent such stock and vote thereon. Stock having voting power standing of record in the names of two or more persons, whether fiduciaries, members of a partnership, joint tenants, tenants in common, tenants by the entirety or otherwise, or with respect to which two or more persons have the same fiduciary relationship, shall be voted in accordance with the provisions of the General Corporation Law of the State of Delaware.

(c) Any such voting rights may be exercised by the stockholder entitled thereto in person or by his proxy appointed by an instrument in writing, subscribed by such stockholder or by his attorney thereunto authorized and delivered to the secretary of the meeting; provided, however, that no proxy shall be voted or acted upon after three years from its date unless said proxy shall

provide for a longer period. The attendance at any meeting of a stockholder who may theretofore have given a proxy shall not have the effect of revoking the same unless he shall in writing so notify the secretary of the meeting prior to the voting of the proxy. At any meeting of the stockholders all matters, except as otherwise provided by the Certificate of Incorporation, in these Bylaws or by law, shall be decided by the vote of a majority of the shares present in person or by proxy and entitled to vote thereat and thereon, a quorum being present. The vote at any meetings of the stockholders on any question need not be by ballot, unless so directed by the chairman of the meeting. On a vote by ballot each ballot shall be signed by the stockholder voting, or by his proxy, if there be such proxy, and it shall state the number of shares voted.

SECTION 2.09 LIST OF STOCKHOLDERS. The Secretary of the Corporation shall prepare and make, at least ten (10) days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. Such list shall be open to the examination of any stockholder for any purpose germane to the meeting during ordinary business hours, for a period of at least ten (10) days prior to the meeting, either at a place within the city where the meeting is to be held, which place shall be specified in the notice of the meeting, or, if not so specified, at the place where the meeting is to be held. The list shall also be produced and kept at the time and place of the meeting during the duration thereof, and may be inspected by any stockholder who is present. Such list shall presumptively determine the identity of the stockholders entitled to notice of and to vote at the meeting and the number of shares held by each of them.

SECTION 2.10 JUDGES. If at any meeting of the stockholders a vote by written ballot shall be taken on any question, the chairman of such meeting may appoint a judge or judges to act with respect to such vote. Each judge so appointed shall first subscribe an oath faithfully to execute the duties of a judge at such meeting with strict impartiality and according to the best of his ability. Such judges shall decide upon the qualification of the voters and shall report the number of shares represented at the meeting and entitled to vote on such question, shall conduct and accept the votes, and, when the voting is completed, shall ascertain and report the number of shares voted respectively for and against the question. Reports of judges shall be in writing and subscribed and delivered by them to the Secretary of the Corporation. The judges need not be stockholders of the Corporation, and any officer of the Corporation may be a judge on any question other than a vote for or against a proposal in which he shall have a material interest.

SECTION 2.11 ACTION WITHOUT A MEETING NOT PERMITTED. No action shall be taken by the stockholders except at an annual or special meeting of stockholders. The power of the stockholders to consent in writing without a meeting to the taking of any action is specifically denied.

SECTION 2.12 CONDUCT OF MEETINGS OF STOCKHOLDERS. Subject to the following, meetings of stockholders generally shall follow accepted rules of parliamentary procedure.

(a) The chairman of the meeting shall have absolute authority over matters of procedure and there shall be no appeal from the ruling of the chairman. If the chairman, in his absolute discretion, deems it advisable to dispense with the rules of parliamentary procedure as to any one meeting of stockholders or part thereof, the chairman shall so state and shall clearly state the rules under which the meeting or appropriate part thereof shall be conducted.

(b) If disorder should arise that prevents continuation of the legitimate business of the meeting, the chairman may quit the chair and announce the adjournment of the meeting; and, upon his so doing, the meeting shall be immediately adjourned.

(c) The chairman may ask or require that anyone not a bona fide stockholder or proxy leave the meeting.

(d) A resolution or motion shall be considered for vote only if proposed by a stockholder or duly authorized proxy and seconded by an individual who is a stockholder or a duly authorized proxy, other than the individual who proposed the resolution or motion.

ARTICLE III.

BOARD OF DIRECTORS

SECTION 3.01 GENERAL POWERS. The property, business and affairs of the Corporation shall be managed by the Board.

SECTION 3.02 NUMBER AND TERM OF OFFICE. The authorized number of directors shall be twelve (12) until changed by a duly adopted amendment to this bylaw. Each of the directors of the Corporation shall hold office until his successor shall have been duly elected and shall qualify or until he shall resign or shall have been removed in the manner hereinafter provided.

SECTION 3.03 ELECTION OF DIRECTORS. The directors shall be elected by the stockholders of the Corporation, and at each election the persons receiving the greatest number of votes, up to the number of directors then to be elected, shall be the persons then elected. The election of directors is subject to any provisions contained in the Certificate of Incorporation relating thereto, including any provisions for cumulative voting.

SECTION 3.04 RESIGNATIONS. Any director of the Corporation may resign at any time by giving written notice to the Board or to the Secretary of the Corporation. Any such resignation shall take effect at the time specified therein, or, if the time be not specified, it shall take effect immediately upon its receipt; and unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

SECTION 3.05 VACANCIES. Except as otherwise provided in the Certificate of Incorporation, any vacancy in the Board, whether because of death, resignation, disqualification, an increase in the number of directors, or any other cause, may be filled by vote of the majority

of the remaining directors, although less than a quorum. Each director so chosen to fill a vacancy shall hold office until his successor shall have been elected and shall qualify or until he shall resign or shall have been removed in the manner hereinafter provided.

SECTION 3.06 PLACE OF MEETING. The Board may hold any of its meetings at such place or places within or without the State of Delaware as the Board may from time to time by resolution designate or as shall be designated by the person or persons calling the meeting or in the notice or a waiver of notice of any such meeting. Directors may participate in any regular or special meeting of the Board by means of conference telephone or similar communications equipment pursuant to which all persons participating in the meeting of the Board can hear each other, and such participation shall constitute presence in person at such meeting.

SECTION 3.07 FIRST MEETING. The Board shall meet as soon as practicable after each annual election of directors and notice of such first meeting shall not be required.

SECTION 3.08 REGULAR MEETINGS. Regular meetings of the Board may be held at such times as the Board may from time to time by resolution determine. If any day fixed for a regular meeting shall be a legal holiday at the place where the meeting is to be held, then the meeting shall be held at the same hour and place on the next succeeding business day not a legal holiday. Except as provided by law, notice of regular meetings need not be given.

SECTION 3.09 SPECIAL MEETINGS. Special meetings of the Board may be called by the Chairman of the Board of Directors or the President and shall be called by the President or Secretary on the written request of two directors. Notice of all special meetings of the Board shall be given to each director at such director's address as it appears on the records of the Corporation, as follows:

- (a) by first-class mail, postage prepaid, deposited in the United States mail in the city where the principal office of the Corporation is located at least five (5) days before the date of such meeting; or
- (b) by telegram, charges prepaid, such notice to be delivered to the telegraph company in the city of the principal office of the Corporation at least forty-eight (48) hours before the time of holding such meeting; or
- (c) by personal delivery at least twenty four (24) hours prior to the time of holding such meeting.

Such notice may be waived by any director and any meeting shall be a legal meeting without notice having been given if all the directors shall be present thereat or if those not present shall, either before or after the meeting, sign a written waiver of notice of, or a consent to, such meeting or shall after the meeting sign the approval of the minutes thereof. All such waivers, consents or approvals shall be filed with the corporate records or be made a part of the minutes of the meeting.

SECTION 3.10 QUORUM AND MANNER OF ACTING. Except as otherwise provided in the Certificate of Incorporation or these Bylaws or by law, the presence of a majority of the total number of directors then in office shall be required to constitute a quorum for the transaction of business at any meeting of the Board. Except as otherwise provided in the Certificate of Incorporation or these Bylaws or by law, all matters shall be decided at any such meeting, a quorum being present, by the affirmative votes of a majority of the directors present. In the absence of a quorum, a majority of directors present at any meeting may adjourn the same from time to time until a quorum shall be present. Notice of any adjourned meeting need not be given. The directors shall act only as a Board, and the individual directors shall have no power as such.

SECTION 3.11 ACTION BY CONSENT. Any action required or permitted to be taken at any meeting of the Board or of any committee thereof may be taken without a meeting if a written consent thereto is signed by all members of the Board or of such committee, as the case may be, and such written consent is filed with the minutes of proceedings of the Board or committee.

SECTION 3.12 MANIFESTATION OF DISSENT. A director of the Corporation who is present at a meeting of the Board at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his dissent shall be entered in the minutes of the meeting or unless he shall file his written dissent to such action with the person acting as the secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

SECTION 3.13 COMPENSATION. The directors shall receive only such compensation for their services as directors as may be allowed by resolution of the Board. The Board may also provide that the Corporation shall reimburse each such director for any expense incurred by him on account of his attendance at any meetings of the Board or Committees of the Board. Neither the payment of such compensation nor the reimbursement of such expenses shall be construed to preclude any director from serving the Corporation or its subsidiaries in any other capacity and receiving compensation therefor.

SECTION 3.14 EXECUTIVE COMMITTEE. There may be an Executive Committee of three or more directors appointed by the Board, who may meet at stated times, or on notice to all members of such Committee by any of their own number, during the intervals between the

meetings of the Board; they shall advise and aid the officers of the Corporation in all matters concerning its interests and the management of its business, and generally perform such duties and exercise such powers as may be directed or delegated by the Board from time to time. To the full extent permitted by law, the Board may delegate to such Committee authority to exercise all the powers of the Board while the Board is not in session. Vacancies in the members of the Committee shall be filled by the Board at a regular meeting or at a special meeting for that purpose. The Executive Committee shall keep written minutes of its meeting and report the same to the Board when required. The provisions of Sections 3.08, 3.09 and 3.11 of these Bylaws shall apply, mutatis mutandis, to any Executive Committee of the Board.

SECTION 3.15 EMERGENCY MANAGEMENT COMMITTEE. The Board of Directors, by resolution, may provide for an Emergency Management Committee and appoint members or designate the manner in which membership of the Committee shall be determined. The emergency powers granted hereunder shall be operative during any emergency resulting from an attack on the United States or during any nuclear or atomic disaster or during the existence of any catastrophe, or other similar emergency condition, as a result of which a quorum of the Board of Directors or a standing committee thereof cannot readily be convened for action (an "emergency condition"). Said Committee shall have and may exercise all of the powers of the Board of Directors in the management of the business and affairs of the Corporation. It shall act only during such emergency condition and so long as the number of Directors able to act shall have been reduced to fewer than five, and until a Board of Directors has been elected by the stockholders. Such Committee shall meet as promptly as possible after the commencement of such an emergency condition as would activate the Committee and at such subsequent time or times as it may designate until a Board of Directors has been duly elected. Such Committee shall as the first order of business elect an Emergency Executive Committee from among its members and a chairman thereof, who shall be the chief executive officer of the Corporation. Such Executive Committee shall function in the same manner and possess the same powers as the Executive Committee of the Board of Directors, as provided in Article III of these Bylaws, and shall have as many members as shall be provided by resolution of the Board. Such Committees shall make their own rules of procedure except to the extent otherwise provided by resolution of the Board. A majority of the members of the Committees able to act shall constitute a quorum. The physical presence of a member shall not be required if his vote on an action to be taken can be obtained by available means of communication. Any vacancy occurring in said Committees caused by resignation, death or other incapacity may be filled by a majority of the remaining members of the Emergency Management Committee and any member so chosen shall serve until a Board of Directors has been duly elected.

SECTION 3.16 OTHER COMMITTEES. The Board may, by resolution passed by a majority of the whole Board, designate one or more other committees, each such committee to consist of one or more of the directors of the Corporation. To the full extent permitted by law, any such committee shall have and may exercise such powers and authority as the Board may designate in such resolution. Vacancies in the membership of a committee shall be filled by the Board at a regular meeting or a special meeting for that purpose. Any such committee shall keep written minutes of its meetings and report the same to the Board when required. The

provisions of Sections 3.08, 3.09, 3.10, 3.11 and 3.12 of these Bylaws shall apply, mutatis mutandis, to any such committee of the Board.

ARTICLE IV.

OFFICERS

SECTION 4.01 NUMBER. The officers of the Corporation shall be a Chairman of the Board, a President, one or more Vice Presidents, a Secretary and a Treasurer. The Chief Executive Officer of the Corporation shall be such officer as the Board shall from time to time designate. The Board may also elect one or more Assistant Secretaries and Assistant Treasurers. A person may hold more than one office providing the duties thereof can be consistently performed by the same person.

SECTION 4.02 OTHER OFFICERS. The Board may appoint such other officers as it shall deem necessary who shall hold their offices for such terms and shall exercise such powers and perform such duties as shall be determined from time to time by the Board.

SECTION 4.03 ELECTION. Each of the officers of the Corporation, except such officers as may be appointed in accordance with the provisions of Section 4.02 or Section 4.05 of this Article, shall be chosen annually by the Board and shall hold his office until he shall resign or shall be removed or otherwise disqualified to serve, or his successor shall be elected and qualified.

SECTION 4.04 SALARIES. The salaries of all officers of the Corporation shall be fixed by the Board.

SECTION 4.05 REMOVAL; VACANCIES. Subject to the express provisions of a contract authorized by the Board, any officer may be removed, either with or without cause, at any time by the Board or by any officer upon whom such power of removal may be conferred by the Board. Any vacancy occurring in any office of the Corporation shall be filled by the Board.

SECTION 4.06 THE CHAIRMAN OF THE BOARD. The Chairman of the Board shall preside at all meetings of the stockholders and directors and shall have such other powers and duties as may be prescribed by the Board or by applicable law. He shall be an ex-officio member of standing committees, if so provided in the resolutions of the Board appointing the members of such committees.

SECTION 4.07 THE VICE CHAIRMAN OF THE BOARD. In the absence of the Chairman of the Board the Vice Chairman of the Board, if there be such an officer, shall have all the powers and shall exercise all the duties of the Chairman of the Board.

SECTION 4.08 THE PRESIDENT. The President shall be the managing officer of the Corporation. Subject to the control of the Board, the President shall have general supervision,

control and management of the affairs and business of the Corporation, and general charge and supervision of all officers, agents and employees of the Corporation; shall see that all orders and resolutions of the Board are carried into effect; shall, in the absence of the Chairman of the Board and Vice Chairman of the Board, preside at all meetings of the stockholders and the Board; and in general shall exercise all powers and perform all duties incident to the office of President and managing officer of the Corporation and such other powers and duties as may from time to time be assigned to him by the Board or as may be prescribed in these Bylaws.

The President may execute bonds, mortgages and other contracts requiring a seal, under the seal of the Corporation, except where required or permitted by law to be otherwise signed and executed and except where the signing and execution thereof shall be expressly delegated by the Board to some other officer or agent of the Corporation.

The President shall be an ex-officio member of standing committees, if so provided in the resolutions of the Board appointing the members of such committees.

SECTION 4.09 THE VICE PRESIDENTS. In the absence of the President or in the event of his inability or refusal to act, the Vice President (or in the event there be more than one Vice President, the Vice Presidents in the order designated, or in the absence of any designation, then in the order of their election) shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President. The Vice Presidents shall perform such other duties and have such other powers as the Board or the President may from time to time prescribe.

SECTION 4.10 THE SECRETARY AND ASSISTANT SECRETARY. The Secretary shall attend all meetings of the Board and all meetings of the stockholders and record all the proceedings of the meetings of the Corporation and of the Board in a book to be kept for that purpose and shall perform like duties for the standing and special committees of the Board when required. He shall give, or cause to be given, notice of all meetings of the stockholders and special meetings of the Board, and shall perform such other duties as may be prescribed by the Board or President, under whose supervision he shall act. He shall have custody of the corporate seal of the Corporation and he, or an assistant secretary, shall have authority to affix the same to an instrument requiring it and, when so affixed, it may be attested by his signature or by the signature of such assistant secretary. The Board may give general authority to any other officer to affix the seal of the Corporation and to attest the affixing of his signature.

The assistant secretary, or if there be more than one, the assistant secretaries in the order determined by the Board (or if there be no such determination, then in the order of their election), shall, in the absence of the Secretary or in the event of his inability or his refusal to act, perform the duties and exercise the powers of the Secretary and shall perform such other duties and have such other powers as the Board may from time to time prescribe.

SECTION 4.11 THE TREASURER. The Treasurer shall be the chief financial officer of the Corporation and may be referred to by that title shall have the custody of the corporate funds

and securities and shall keep full and accurate accounts of receipts and disbursements in books belonging to the Corporation and shall deposit all moneys and other valuable effects in the name and to the credit of the Corporation in such depositories as may be designated by the Board.

The Treasurer shall disburse the funds of the Corporation as may be ordered by the Board, making proper vouchers for such disbursements, and shall render to the President and the Board, at its regular meetings, or when the Board so requires, an account of all his transactions as Treasurer and of the financial condition of the Corporation.

If required by the Board, the Treasurer shall give the Corporation a bond in such sum and with such surety as shall be satisfactory to the Board for the faithful performance of the duties of his office and for the restoration to the Corporation, in case of his death, resignation, retirement or removal from office, of all books, papers, vouchers, money and other property of whatever kind in his possession or under his control belonging to the Corporation.

SECTION 4.12 THE ASSISTANT TREASURER. The assistant treasurer, or if there be more than one, the assistant treasurers in the order determined by the Board (or if there be no such determination, then in the order of their election), shall, in the absence of the Treasurer or in the event of his inability or refusal to act, perform the duties and exercise the powers of the Treasurer and shall perform such other duties and have such other powers as the Board may from time to time prescribe.

ARTICLE V.

CONTRACTS, CHECKS, DRAFTS, BANK ACCOUNTS, ETC.

SECTION 5.01 CHECKS, DRAFTS, ETC. All checks, drafts or other orders for payment of money, notes or other evidence of indebtedness payable by the Corporation shall be signed by such person or persons and in such manner as, from time to time, shall be determined by resolution of the Board. Each such person or persons shall give such bond, if any, as the Board may require.

SECTION 5.02 DEPOSITS. All funds of the Corporation not otherwise employed shall be deposited from time to time to the credit of the Corporation in such banks, trust companies or other depositories as the Board may select, or as may be selected by any officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation to whom such power shall have been delegated by the Board. For the purpose of deposit and for the purpose of collection for the account of the Corporation, the President, any Vice President or the Treasurer (or any other officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation who shall from time to time be determined by the Board) may endorse, assign and deliver checks, drafts and other orders for the payment of money which are payable to the order of the Corporation.

SECTION 5.03 GENERAL AND SPECIAL BANK ACCOUNTS. The Board may from time to time authorize the opening and keeping of general and special bank accounts with such banks, trust companies or other depositories as the Board may select or as may be selected by any officer or officers, assistant or assistants, agent or agents, or attorney or attorneys of the Corporation to whom such power shall have been delegated by the Board. The Board may make such special rules and regulations with respect to such bank accounts, not inconsistent with the provisions of these Bylaws, as it may deem expedient.

ARTICLE VI.

SHARES AND THEIR TRANSFER

SECTION 6.01 CERTIFICATES FOR STOCK. Every owner of stock of the Corporation shall be entitled to have a certificate or certificates, to be in such form as the Board shall prescribe, certifying the number and class of shares of the stock of the Corporation owned by him. The certificates representing shares of such stock shall be numbered in the order in which they shall be issued and shall be signed in the name of the Corporation by the Chairman, Vice Chairman or President or a Vice President, and by the Secretary or an Assistant Secretary or the Treasurer or an Assistant Treasurer. Any of or all of the signatures on the certificates may be a facsimile. In case any officer, transfer agent or registrar who has signed, or whose facsimile signature has been placed upon, any such certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may nevertheless be issued by the Corporation with the same effect as though the person who signed such certificate, or whose facsimile signature has been placed upon, any such certificate shall have ceased to be such officer, transfer agent or registrar before such certificate is issued, such certificate may nevertheless be issued by the Corporation with the same effect as though the person who signed such certificate, or whose facsimile signature shall have been placed thereupon, were such officer, transfer agent or registrar at the date of issue. A record shall be kept of the respective names of the persons, firms or corporations owning the stock represented by such certificates, the number and class of shares represented by such certificates, respectively, and the respective dates thereof, and in case of cancellation, the respective dates of cancellation. Every certificate surrendered to the Corporation for exchange or transfer shall be cancelled, and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been so cancelled, except in cases provided for in Section 6.04.

SECTION 6.02 TRANSFERS OF STOCK. Transfers of shares of stock of the Corporation shall be registered on the books of the Corporation or a transfer agent appointed as provided in Section 6.03, only upon surrender of the certificate or certificates for such shares properly endorsed by the registered holder thereof, or by his attorney thereunto authorized by power of attorney duly executed, and the payment of all taxes thereon. The person in whose name shares of stock stand on the books of the Corporation shall be deemed the owner thereof for all purpose as regards the Corporation. Whenever any transfer of shares shall be made for collateral security, and not absolutely, such fact shall be so expressed in the entry of transfer if, when the

certificate or certificates shall be presented to the Corporation for registration of transfer, both the transferor and the transferee request the Corporation to do so.

SECTION 6.03 REGULATIONS. The Board may make such rules and regulations as it may deem expedient, not inconsistent with these Bylaws, concerning the issue, transfer and registration of certificates for shares of the stock of the Corporation. It may appoint, or authorize any officer or officers to appoint, one or more transfer clerks or one or more transfer agents and one or more registrars, and may require all certificates for stock to bear the signature or signatures of any of them.

SECTION 6.04 LOST, STOLEN, DESTROYED, AND MUTILATED CERTIFICATES. In any case of loss, theft, destruction or mutilation of any certificate of stock, another may be issued in its place upon proof of such loss, theft, destruction or mutilation and upon the giving of a bond of indemnity to the Corporation in such form and in such sums as the Board may direct; provided, however, that a new certificate may be issued without requiring any bond when, in the judgment of the Board, it is proper so to do.

SECTION 6.05 FIXING DATE FOR DETERMINATION OF STOCKHOLDERS OF RECORD. In order that the Corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any other change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which shall not be more than sixty (60) nor less than twenty (20) days before the date of such meeting, nor more than sixty (60) days prior to any other action. If in any case involving the determination of stockholders for any purpose other than notice of or voting at a meeting of stockholders the Board shall not fix such a record date, the record date for determining stockholders for such purpose shall be the close of business on the day on which the Board shall adopt the resolution relating thereto. A determination of stockholders entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of such meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

ARTICLE VII.

INDEMNIFICATION

SECTION 7.01 ACTIONS OTHER THAN BY OR IN THE RIGHT OF THE CORPORATION. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action by or in the right of the Corporation) by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise or as a member of any committee or similar body, against expenses (including attorneys' fees), judgments, fines

and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not, of itself, create a presumption that the person did not act in good faith and in a manner which he reasonably believed to be in, or not opposed to, the best interests of the Corporation, and, with respect to any criminal action or proceeding, that he had reasonable cause to believe that his conduct was unlawful.

SECTION 7.02 ACTIONS BY OR IN THE RIGHT OF THE CORPORATION. The Corporation shall indemnify any person who was or is a party or is threatened to be made a party to any threatened, pending or completed action or suit by or in the right of the Corporation to procure a judgment in its favor by reason of the fact that he is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, or as a member of any committee or similar body, against expenses (including attorneys' fees) actually and reasonably incurred by him in connection with the defense or settlement of such action or suit if he acted in good faith and in a manner he reasonably believed to be in, or not opposed to, the best interests of the Corporation, except that no indemnification shall be made in respect of any claim, issue or matter as to which such person shall have been adjudged to be liable to the Corporation unless and only to the extent that the Court of Chancery or the court in which such action or suit was brought shall determine upon application that, despite the adjudication of liability but in view of all the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

SECTION 7.03 DETERMINATION OF RIGHT OF INDEMNIFICATION. Any indemnification under Section 7.01 or 7.02 (unless ordered by a court) shall be made by the Corporation only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he has met the applicable standard of conduct set forth in Sections 7.01 and 7.02. Such determination shall be made

(i) by the Board by a majority vote of a quorum consisting of directors who were not parties to such action, suit or proceeding, or (ii) if such a quorum is not obtainable, or, even if obtainable, a quorum of disinterested directors so directs, by independent legal counsel in a written opinion, or (iii) by the stockholders.

SECTION 7.04 INDEMNIFICATION AGAINST EXPENSES OF SUCCESSFUL PARTY. Notwithstanding the other provisions of this Article, to the extent that a director, officer, employee or agent of the Corporation has been successful on the merits or otherwise in defense of any action, suit or proceeding referred to in Section 7.01 or 7.02, or in defense of any claim, issue or matter therein, he shall be indemnified against expenses (including attorneys' fees) actually and reasonably incurred by him in connection therewith.

SECTION 7.05 ADVANCE OF EXPENSES. Expenses incurred in defending a civil or criminal action, suit or proceeding may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding as authorized by the Board upon receipt of an undertaking by or on behalf of the director or officer, to repay such amount if it shall ultimately be determined that he is not entitled to be indemnified by the Corporation as authorized in this Article. Such expenses incurred by other employees and agents may be so paid upon such terms and conditions, if any, as the Board deems appropriate.

SECTION 7.06 OTHER RIGHTS AND REMEDIES. The benefits provided by this Article shall not be deemed exclusive of any other rights to which those seeking indemnification may be entitled under any statute, Bylaw, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action in another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person.

SECTION 7.07 INSURANCE. Upon resolution passed by the Board, the Corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him and incurred by him in any such capacity, or arising out of his status as such, whether or not the Corporation would have the power to indemnify him or hold him harmless against such liability under the provisions of this Article.

SECTION 7.08 CONSTITUENT CORPORATIONS. For the purposes of this Article, references to "the Corporation" include all constituent corporations absorbed in a consolidation or merger as well as the resulting or surviving corporation, and shall also include without limitation Jacobs Engineering Group Inc., a California corporation, so that any person who is or was a director, officer, employee or agent of such a constituent corporation or is or was serving at the request of such constituent corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise shall stand in the same position under the provisions of this Article with respect to the resulting or surviving corporation as he would if he had served the resulting or surviving corporation in the same capacity.

SECTION 7.09 EMPLOYEE BENEFIT PLANS. For purposes of this Article, references to "other enterprises" shall include employee benefit plans, and references to "serving at the request of the Corporation" shall include any service as a director, officer, employee or agent of the Corporation that imposes a duty on, or involves services by, such director, officer, employee or agent with respect to an employee benefit plan, its participants or beneficiaries.

SECTION 7.10 BROADEST LAWFUL INDEMNIFICATION. In addition to the foregoing, the Corporation shall, to the broadest and maximum extent permitted by Delaware law, as the same exists from time to time (but, in case of any amendment to or change in Delaware law, only to

the extent that such amendment or change permits the Corporation to provide broader rights of indemnification than is permitted to the Corporation prior to such amendment or change), indemnify each person who was or is a party or is threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative by reason of the fact that he is or was a director or officer of the Corporation, or is or was serving at the request of the Corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding than is permitted to the Corporation prior to such amendment or change), pay to such person any and all expenses (including attorneys' fees) incurred in defending or settling any such action, suit or proceeding in advance of the final disposition of such action, suit or proceeding upon receipt of an undertaking by or on behalf of the director or officer, to repay such amount if it shall ultimately be determined by a final judgment or other final adjudication that he is not entitled to be indemnified by the Corporation as authorized in this Section 7.10. The first sentence of this Section 7.10 to the contrary notwithstanding, the Corporation shall not indemnify any such person with respect to any of the following matters: (i) remuneration paid to such person if it shall be determined by a final judgment or other final adjudication that such remuneration was in violation of law; or (ii) any accounting of profits made from the purchase or sale by such person of the Corporation's securities within the meaning of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or similar provisions of any federal, state or local statutory law; or (iii) actions brought about or contributed to by the dishonesty of such person, if a final judgment or other final adjudication adverse to such person establishes that acts of active and deliberate dishonesty were committed or attempted by such person with actual dishonest purpose and intent and were material to the adjudication; or (iv) actions based on or attributable to such person having gained any personal profit or advantage to which he was not entitled, in the event that a final judgment or other final adjudication adverse to such person establishes that such person in fact gained such personal profit or other advantage to which he was not entitled; or (v) any matter in respect of which a final decision by a court with competent jurisdiction shall determine that indemnification is unlawful; provided, however, that the Corporation shall perform its obligations under the second sentence of this Section 7.10 on behalf of such person until such time as it shall be ultimately determined by a final judgment or other final adjudication that he is not entitled to be indemnified by the Corporation as authorized by the first sentence of this Section 7.10 by virtue of any of the preceding clauses (i), (ii), (iii), (iv) or (v).

SECTION 7.11 INDEMNITY FUND. Upon resolution passed by the Board, the Corporation may establish a trust or other designated account, grant a security interest or use other means (including, without limitation, a letter of credit), to ensure the payment of any or all of its obligations arising under this Article VII and/or any agreements that may be entered into between the Corporation and its officers and directors from time to time.

SECTION 7.12 SEVERABILITY. If any part of this Article VII shall be found, in any action, suit or proceeding or appeal therefrom or in any other circumstances or as to any particular

officer, director, employee or agent to be unenforceable, ineffective or invalid for any reason, the enforceability, effect and validity of the remaining parts or of such parts in other circumstances shall not be affected, except as otherwise required by applicable law.

SECTION 7.13 AMENDMENTS. The foregoing provisions of this Article VII shall be deemed to constitute an agreement between the Corporation and each of the persons entitled to indemnification hereunder, for as long as such provisions remain in effect. Any amendment to the foregoing provisions of this Article VII which limits or otherwise adversely affects the scope of indemnification or rights of any such persons hereunder shall, as to such persons, apply only to claims arising, or causes of action based on actions or events occurring, after such amendment and delivery of notice of such amendment is given to the person or persons so affected. Until notice of such amendment is given to the person or persons whose rights hereunder are adversely affected, such amendment shall have no effect on such rights of such persons hereunder. Any person entitled to indemnification under the foregoing provisions of this Article VII shall as to any act or omission occurring prior to the date of receipt of such notice, be entitled to indemnification to the same extent as had such provisions continued as Bylaws of the Corporation without such amendment.

ARTICLE VIII.

MISCELLANEOUS

SECTION 8.01 SEAL. The Board shall provide a corporate seal, which shall be in the form of a circle and shall bear the name of the Corporation and words and figures showing that the Corporation was incorporated in the State of Delaware and the year of incorporation.

SECTION 8.02 WAIVER OF NOTICES. Whenever notice is required to be given by these Bylaws or the Certificate of Incorporation or by law, the person entitled to said notice may waive such notice in writing, either before or after the time stated therein, and such waiver shall be deemed equivalent to notice.

SECTION 8.03 FISCAL YEAR. The fiscal year of the Corporation shall begin the first day of October in each year.

SECTION 8.04 AMENDMENTS. Subject to the provisions of the Certificate of Incorporation, these Bylaws and applicable law, these Bylaws or any of them may be amended or repealed and new Bylaws may be adopted (a) by the Board, by vote of a majority of the number of directors then in office or (b) by the vote of the holders of not less than seventy-five (75%) percent of the total voting power of all outstanding shares of voting stock of the Corporation in an annual meeting of stockholders, without previous notice, or at any special meeting of stockholders, provided that notice of such proposed amendment, repeal or adoption is given in the notice of special meeting. Subject to the provisions of the Certificate of Incorporation, any Bylaws adopted or amended by the stockholders may be amended or repealed by the Board or the stockholders.

SECTION 8.05 VOTING STOCK. Unless otherwise ordered by the Board, the Chairman of the Board, the President and each Vice President shall have full power and authority on behalf of the Corporation to attend and to act and vote at any meeting of the stockholders of any corporation in which the Corporation may hold stock and at any such meeting shall possess and may exercise any and all rights and powers that are incident to the ownership of such stock and which as the owner thereof the Corporation may have possessed and exercised if present. The Board by resolution from time to time may confer like powers upon any other person or persons.

EXHIBIT 10.4

AGREEMENT

This agreement is made as of the 3rd day of December, 1998, between JACOBS ENGINEERING GROUP INC., a Delaware corporation ("Company") and JOSEPH J. JACOBS ("Jacobs").

In accordance with previous practice, the term for the ending of the outstanding November 30, 1993 employment agreement between the parties is extended from September 30, 2002 to September 30, 2003. All of the other provisions of the agreement shall remain in force.

IN WITNESS WHEREOF, the Company has caused this agreement to be executed by its duly authorized representatives and Jacobs has affixed his signature, as of the date first above written.

JOSEPH J. JACOBS
("Jacobs")

s/n Joseph J. Jacobs

335 West Bellevue Avenue
Pasadena, California 91105

JACOBS ENGINEERING GROUP INC.
("Company")

By: s/n Noel G. Watson

Noel G. Watson,
President

By: s/n John W. Prosser, Jr.

John W. Prosser, Jr.,
Senior Vice President

Finance and Administration

EXHIBIT 13

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

WITH REPORT OF INDEPENDENT AUDITORS

SEPTEMBER 30, 1998

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
SELECTED HIGHLIGHTS
FOR FISCAL YEARS ENDED SEPTEMBER 30
(DOLLARS IN THOUSANDS, EXCEPT PER-SHARE INFORMATION)

	1998	1997	1996
Revenues.....	\$2,101,145	\$1,780,616	\$1,798,970
Net income.....	54,385	46,895	40,360
Per-share information:			
Basic EPS.....	\$ 2.12	\$ 1.82	\$ 1.58
Diluted EPS.....	2.08	1.80	1.56
Net book value.....	14.23	12.48	10.93
Closing year-end stock price.....	31.00	30.625	22.50
Total assets.....	\$ 807,489	\$ 737,643	\$ 572,505
Stockholders' equity.....	371,405	324,308	283,387
Return on average equity.....	15.63%	15.43%	15.46%
Stockholders of record.....	1,352	1,592	1,965
Backlog:			
Engineering services.....	\$1,004,500	\$ 912,057	\$ 845,300
Total.....	3,329,500	3,050,000	2,750,200
Permanent staff.....	10,080	9,570	7,350

Effective October 1, 1997, the Company adopted SFAS No. 128 -- Earnings per Share. Earnings per share ("EPS") for prior years have been restated to conform to the provisions of SFAS No. 128.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
SELECTED FINANCIAL DATA
FOR FISCAL YEARS ENDED SEPTEMBER 30
(IN THOUSANDS, EXCEPT PER-SHARE INFORMATION)

	1998	1997	1996	1995	1994
Results of Operations:					
Revenues.....	\$2,101,145	\$1,780,616	\$1,798,970	\$1,723,057	\$1,165,754
Net income.....	54,385	46,895	40,360	32,242	18,767
Financial Position:					
Current ratio.....	1.54 to 1	1.56 to 1	1.68 to 1	1.44 to 1	1.41 to 1
Working capital.....	\$ 197,659	\$ 178,203	\$ 155,569	\$ 113,339	\$ 106,058
Current assets.....	566,007	497,361	383,644	368,614	367,485
Total assets.....	807,489	737,643	572,505	533,947	504,364
Long-term debt.....	26,221	54,095	36,300	17,799	25,000
Stockholders' equity...	371,405	324,308	283,387	238,761	200,433
Return on average equity.....	15.63%	15.43%	15.46%	14.68%	10.03%
Backlog:					
Engineering services..	\$1,004,500	\$ 912,057	\$ 845,300	\$ 828,400	\$ 793,060
Total.....	3,329,500	3,050,000	2,750,200	2,625,000	2,500,000
Per-share Information:					
Basic EPS.....	\$ 2.12	\$ 1.82	\$ 1.58	\$ 1.28	\$ 0.75
Diluted EPS.....	2.08	1.80	1.56	1.27	0.75
Stockholders' equity...	14.23	12.48	10.93	9.41	7.96
Average Number of Common and Common Stock Equivalents Outstanding (Diluted).....					
	26,096	25,989	25,921	25,384	25,173

Effective October 1, 1997, the Company adopted SFAS No. 128 -- Earnings per Share. Earnings per share ("EPS") for prior years have been restated to conform to the provisions of SFAS No. 128.

Net income for fiscal 1994 included special charges totaling \$10,200, or \$0.40 per share.

**JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS**

RESULTS OF OPERATIONS

The following table sets forth total revenues from each of the industry groups and markets serviced by the Company for each year in the three year period ended September 30, 1998 (in thousands):

	1998	1997	1996
Chemicals.....	\$ 797,035	\$ 500,446	\$ 452,448
Buildings and infrastructure.....	335,542	183,004	189,834
Petroleum.....	255,578	248,799	417,739
Pharmaceuticals and biotechnology.....	211,650	140,545	147,840
Pulp and paper.....	191,594	154,135	170,553
Federal programs.....	169,472	201,644	145,275
Semiconductor.....	119,368	335,595	268,520
Other.....	20,906	16,448	6,761
	-----	-----	-----
	\$2,101,145	\$1,780,616	\$1,798,970
	=====	=====	=====

The following table sets forth total revenues from each of the types of services the Company provides its clients for each year in the three year period ended September 30, 1998 (in thousands):

	1998	1997	1996
Engineering services.....	\$ 822,515	\$ 702,068	\$ 627,622
Field services:			
Construction.....	1,011,832	813,926	925,681
Maintenance.....	266,798	264,622	245,667
	-----	-----	-----
	\$2,101,145	\$1,780,616	\$1,798,970
	=====	=====	=====

1998 Compared to 1997

Consolidated revenues in fiscal 1998 totalled \$2.1 billion; this was \$320.5 million, or 18.0 percent, more than fiscal 1997's total revenues. More than half of this increase was attributable to the Company's comparable U.S. and European operations (that is, those offices operating during the comparable periods of both 1998 and 1997). The balance of the increase was attributable to the effect of companies acquired in 1997, and in particular, to the Serete Group.

Revenues in 1998 from engineering services were \$120.4 million higher than the comparable 1997 amount. The Company considers the level of engineering services it provides an important indicator of its overall financial performance. Engineering services absorb a significant portion of the Company's general and administrative expenses. In addition, the Company believes that engineering services activity is a leading indicator of possible future opportunities to provide construction and construction management services. Engineering services revenues in 1998 from the Company's comparable U.S. and European operations were approximately 8 percent higher than the 1997 amount, with the balance of the increase attributable to businesses the Company acquired in 1997.

Revenues from construction services increased \$197.9 million, or 24.3 percent, from 1997 to 1998. This increase occurred in spite of the fact that the Company completed construction on a large semiconductor project late last year. Revenues in 1998 from maintenance services were substantially the same as the 1997 amount. Also contributing to the overall increase in field services revenues from 1997 to 1998 was a \$96.2 million increase in subcontract and procurement activity (the costs of which are included in both revenues and costs).

As a percent of revenues, direct costs of contracts was 87.1 percent in 1998, versus 86.9 percent in 1997. The percentage relationship between direct costs of contracts and revenues will fluctuate from year to year depending on a variety of factors, including the mix of business and services in the years being compared. In general, the increase in the direct costs of the Company's services as a percentage of revenues from 1997 to 1998 was due to a proportionally higher percentage of the Company's total business volume coming from field services relative to engineering services, off-set in part by an increase in the profit margin on the Company's field services activities in total.

The Company's selling, general and administrative ("S,G & A") expenses totalled \$184.0 million in 1998; this was \$23.9 million, or 14.9 percent, more than the 1997 amount. The increase was attributable to the full-year effects of the businesses acquired during 1997. The 1998 operating S,G & A expenses of the Company's comparable U.S. and European operations were approximately \$1.2 million lower than the corresponding 1997 amount.

The Company's operating profit (defined as total revenues, less direct costs of contracts, and S,G & A expenses) totalled \$86.5 million in 1998; this was \$12.9 million higher than the comparable 1997 amount. In general, the improvement in operating profit was due to the overall increase in business volume in 1998 as compared to 1997, combined with better S,G & A expense control throughout much of the Company's comparable U.S. and European operations.

Interest income, net totalled \$2.7 million in 1998; this was \$0.2 million less than the 1997 amount. The decrease in net interest income was due primarily to a reduction of rates earned on slightly higher levels of average cash invested during 1998 as compared to 1997, combined with a small increase in consolidated interest expense.

Other expense, net totalled \$0.4 million in 1998, as compared to other income, net of \$0.9 million in 1997. Included in the 1998 amount was the approximate \$8.8 million gain realized by the Company on the sale of its office building located in Dublin, Ireland (known as "Merrion House"). Merrion House was purchased in 1995, and the Company will continue to occupy a minor portion of the property under a lease agreement. Off-setting the Merrion House gain were reserves recorded in the fourth quarter of 1998 for certain settled and pending litigation.

1997 Compared to 1996

Consolidated revenues in 1997 totalled \$1.8 billion, which was substantially the same as the 1996 amount. Revenues in 1997 from engineering services, however, increased by \$74.4 million, or 11.9 percent, from 1996. The increase in engineering services activity was due in part to certain acquisitions the Company completed in 1997, and in part to internal growth.

Revenues from construction services declined 12.1 percent from 1996 to 1997. This decline was attributable primarily to the completion of several large projects late in 1996 and early in 1997, which were not replaced by new construction projects. Revenues from maintenance services increased 7.7 percent from 1996 to 1997. This increase was due to a pick-up from 1996 in the level of turnaround activity, combined with new awards for maintenance services. Contributing to the decrease in overall field services revenues from 1996 to 1997 was an \$83.0 million decline in subcontract and procurement activity.

As a percent of revenues, direct costs of contracts was 86.9 percent in 1997, versus 88.4 percent in 1996. In general, the decrease in this percentage relationship from 1996 to 1997 was due to a proportionally higher percentage of the Company's total business volume coming from engineering services relative to field services.

The Company's S,G & A expenses totalled \$160.2 million in 1997; this was \$16.7 million, or 11.6 percent, more than the 1996 amount. Of the increase, approximately \$12.8 million was attributed

to businesses acquired during 1997. The increase in S,G & A expenses corresponds to the increase in the Company's engineering services, and reflects its continuing efforts to control such costs throughout its operations.

The Company's operating profit totalled \$73.6 million in 1997; this was \$9.0 million more than the 1996 amount. In general, the improvement was due to the increase in engineering services discussed above, combined with higher margin rates for all of the Company's services.

Interest income, net totalled \$3.0 million in 1997; this was \$1.5 million more than the 1996 amount. The increase in net interest income was due primarily to higher levels of cash invested during 1997 as compared to 1996, combined with slightly better rates of interest earned on such investments.

BACKLOG

The following table summarizes the Company's total backlog at September 30, 1998, 1997 and 1996 (in millions):

	1998	1997	1996
	-----	-----	-----
Engineering services.....	\$1,004.5	\$ 912.1	\$ 845.3
Total.....	3,329.5	3,050.0	2,750.2
	=====	=====	=====

At any given time, backlog represents the amount of revenues the Company expects to record in the future from performing work under contracts that have been awarded to it. With respect to maintenance projects, however, it is the Company's policy to include in backlog only the amount of revenues it expects to receive during the succeeding year, regardless of the remaining life of the contract, unless the Company does not expect the contract to be renewed. With respect to contracts relating to projects for agencies of the U.S. federal government, it is the Company's policy to include in backlog the full contract award.

Total backlog at September 30, 1998 included approximately \$800.0 million of contracts for work to be performed either directly or indirectly for agencies of the U.S. federal government. This compares to approximately \$923.0 million and \$1.0 billion of federal backlog at September 30, 1997 and 1996, respectively. Most of these contracts extend beyond one year. In general, these contracts must be funded annually (i.e., the amounts to be spent under the contract must be appropriated by Congress to the procuring agency, and then the agency must allot these sums to the specific contracts).

The Company's backlog increased \$299.8 million from 1996 to 1997, and it increased by \$279.5 million from 1997 to 1998. A significant portion of the 1997 increase was due to new awards in the petroleum and chemicals industries, combined with backlog acquired in conjunction with the acquisitions made by the Company in 1997. Most of the 1998 increase was due to new awards in the chemicals, refining and pharmaceuticals areas of the Company's business.

Of total backlog at September 30, 1998, the Company estimates that approximately 50 percent will be realized as revenues within the next year.

In accordance with industry practice, substantially all of the Company's contracts may be terminated by the client. However, the Company has not experienced cancellations which have had a material effect on the reported backlog amounts. In the situation where a client terminates a contract, the Company would ordinarily be entitled to receive payment for work performed up to the date of termination and, in certain instances, may be entitled to allowable termination and cancellation costs. Additionally, the Company's 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.

EFFECTS OF INFLATION

Because a significant portion of the Company's revenues over recent years has been earned under cost-reimbursable type contracts, the effects of inflation on the Company's financial condition and results of operations have been generally low. However, as the Company expands its business into markets and geographical areas where fixed-price and lump-sum work is more prevalent, inflation may begin to have a larger impact on the Company's results of operations. To the extent permitted by competition, the Company intends to continue to emphasize contracts which are either cost-reimbursable or negotiated fixed-price. For contracts the Company accepts with fixed-price or lump-sum payment terms, the Company monitors closely the actual costs on the project as they compare to the budget estimates. On these projects, the Company also attempts to secure fixed-price commitments from key subcontractors and vendors. However, due to the competitive nature of the Company's industry, combined with the fluctuating demands and prices associated with personnel, equipment and materials the Company traditionally needs to perform on its contracts, there can be no guarantee that inflation will not effect the Company's results of operations in the future.

LIQUIDITY AND CAPITAL RESOURCES

The Company's cash and cash equivalents increased \$45.3 million during 1998. This compares to a net decrease of \$6.9 million during 1997, and a net increase of \$23.7 million in 1996. The current year increase was due primarily to cash provided by operations (\$90.5 million), offset in part by cash used in investing activities (\$9.6 million) and financing activities (\$35.4 million).

Operations provided \$90.5 million of cash and cash equivalents in 1998. This compares to net contributions of cash of \$43.9 million in 1997, and \$54.3 million in 1996. The \$46.5 million increase in cash provided by operations in 1998 as compared to 1997 was due primarily to an increase in net income (\$7.5 million) combined with the positive effects on cash of the timing of cash receipts and payments within the Company's working capital accounts (which resulted in a net increase to cash of \$44.9 million, comparing 1998 activity to 1997). This favorable increase was off-set in part by higher gains on disposals of fixed assets in 1998 as compared to 1997 (\$7.8 million).

The Company's investing activities used \$9.6 million of cash and cash equivalents in 1998. This compares to net uses of cash of \$69.5 million in 1997 and \$40.0 million in 1996. The \$59.9 million decrease in cash used in investing activities in 1998 as compared to 1997 was due primarily to the increases in cash provided from sales of property and equipment (\$26.5 million; most of which related to the sale of Merrion House) and marketable securities (\$8.2 million). Also contributing to the decrease in cash used for investing activities in 1998 as compared to 1997 was the net decrease in other assets (consisting primarily of collections of certain notes receivable which resulted in an increase to cash of \$25.4 million, comparing 1998 activity to 1997). Lastly, the Company used \$20.0 million in 1997 for purchases of marketable securities; only \$5.4 million was used for such purposes in 1998, which also contributed to the net reduction of cash used for investing activities in 1998 as compared to 1997 (\$14.6 million).

These positive changes in cash flows from investing activities were off-set in part by an increase in cash used for property and equipment additions (\$18.3 million). Included in the 1998 additions to property and equipment were costs incurred and capitalized relating to the Company's new, leased headquarters facility in Pasadena, California. Also included were costs incurred in connection with the purchase of certain real property located in Charleston, South Carolina. This latter property is being developed into a new, modular design and manufacturing facility, which will enhance and expand the Company's existing modular construction capabilities. The total estimated cost of the project is approximately \$19.0 million, and will be financed through working capital and the sale of the Company's existing modular construction facilities located in Orangeburg, South Carolina.

The Company's financing activities used \$35.4 million of cash and cash equivalents in 1998. This compares to a net contribution of cash of \$20.3 million in 1997 and \$9.6 million in 1996. The \$55.7 million decrease from 1997 to 1998 in cash flows from financing activities was due primarily to cash used by the Company in 1998 to reduce its long-term debt, as compared to 1997 wherein the Company was a net borrower under this facility (creating a negative variance of \$50.7 million). Also contributing to the decrease in cash flows from financing activities from 1997 to 1998 was an overall increase in purchases of treasury stock (\$6.0 million). Off-setting these negative variances in part was a slight increase from 1997 to 1998 in cash flows from the exercise of stock options, and other miscellaneous financing items (\$0.9 million).

The Company believes it has adequate capital resources available to fund operations in 1999 and beyond. The Company's consolidated working capital position totalled \$197.7 million at September 30, 1998; this was \$19.5 million more than the comparable 1997 amount. At September 30, 1998, the Company had a total of \$42.7 million available under all of its short-term bank credit facilities, against which \$0.2 million was outstanding in the form of direct borrowings. The amounts outstanding at September 30, 1998 relate entirely to borrowings by the Company's Chilean subsidiary (in order to hedge against possible fluctuations in foreign currency exchange rates, the Company typically establishes lines of credit with banks providing for short-term borrowing capacity in local currencies). In addition to its short-term credit facilities, the Company also had \$18.8 million of borrowing capacity available to it at September 30, 1998 under its long-term, revolving credit agreement.

As discussed in Note 10 to the Consolidated Financial Statements, in December 1998, the Company signed an agreement and plan of merger with the Sverdrup Corporation ("Sverdrup"). The agreement is subject to the approval of the shareholders of Sverdrup, the expiration or termination of the Hart-Scott-Rodino Act waiting period, and other contingencies. As a result of the transactions contemplated in the merger agreement, Sverdrup will become, upon closing of the transaction (which is not expected to occur until early in the second quarter of fiscal 1999), a wholly-owned subsidiary of the Company. Total consideration to be paid by the Company at closing will be approximately \$198.0 million. The Company intends to finance the merger price through a combination of bank borrowings (under a new, long-term revolving credit facility) and internal funds. The Company does not believe that the financing of this transaction or the possible ownership of Sverdrup will have a materially adverse affect on its liquidity during 1999.

YEAR 2000 READINESS

The following discussion of the Year 2000 issue contains numerous "forward-looking statements". See "Forward-Looking Statements and Other Safe Harbor Applications", below, for a discussion of factors to be considered in reading forward-looking statements.

This discussion of "Year 2000" (or "Y2k") relates to the possible inability of computers, hardware or software to perform properly because they are unable to interpret date information correctly after December 31, 1999, and includes all of the associated consequences of such failures on the Company's operations. If not corrected, such situations could result in computer-system failures or miscalculations causing disruptions in the Company's operations, including a temporary inability to process transactions, pay employees, vendors and subcontractors, send invoices or engage in similar, normal business activities.

The Year 2000 Task Force

The Company began its assessment of its Year 2000 readiness during fiscal 1997. In that year the Company organized a Year 2000 task force comprised primarily of Company employees. The Company has identified four information technology ("IT") and non-IT areas for which Y2k compliance is critical to the normal and routine operations of the Company. These areas are: (1) internally-

developed computer software; (2) commercial off-the-shelf software; (3) computer hardware and embedded processors; and (4) facilities-related applications and processes, such as telecommunications and equipment with embedded chips.

Also included in the Company's Year 2000 compliance program are the hardware, software, and other applications issues relating to the Company's financial and accounting systems. In 1997 the Company embarked under a completely separate initiative (referred to as the "Global Financial Systems Project") to migrate most of its existing financial and accounting systems to a single accounting system, which eventually will be utilized by all of the Company's operations worldwide. The Global Financial Systems Project will make use of commercial off-the-shelf software with internally-developed program interfaces. Based on assurances from the third-party provider of the commercial off-the-shelf software, and discussions with the third-party consultants employed by the Company to assist in the system conversion, the Company believes its Global Financial Systems Project will be Y2k compliant by the year 2000.

The Year 2000 Program

The Company's plan to address the Year 2000 problem involves the following phases: inventory, assessment, remediation, testing and implementation.

The "inventory" phase describes the process of identifying all hardware and software components within each of the aforementioned areas of the Company's business which need to be made Y2k compliant, as well as defining the business impacts of failing to make such components Y2k compliant.

The "assessment" phase requires that an evaluation be made of each affected system to determine what actions need to occur to make such systems Y2k compliant.

The "remediation" phase involves the actual repair or replacement of those hardware and software components critical to each affected business process.

After remediation, the "testing" phase will verify if the affected systems have been properly repaired. If during this phase it is determined that additional repairs are required, such repairs will be made, or alternative corrective actions taken.

The purpose of the "implementation" phase will be to bring the repaired systems on-line and integrated with the rest of the Company's operations.

Third Party Compliance

The Company is also evaluating the possible effects of the Year 2000 issue on its clients, suppliers, subcontractors and vendors. Although the possible effects of the Year 2000 issue on these parties are beyond the control of the Company, the Company has initiated a process to communicate with these parties to inform them of the Company's Year 2000 strategy and to determine their own Year 2000 strategy and progress.

Cost of the Year 2000 Program

The Company estimates the total cost of its Year 2000 compliance program at approximately \$5.8 million, consisting of both internal and external costs, and including a maximum of \$2.0 million for new hardware and software (although a substantial portion of such new hardware and software would have been purchased by the Company through the regular and routine upgrading of systems). Such hardware and software will be capitalized and depreciated over the estimated useful lives of the related assets. All other expenditures will be charged to expense. As of September 30, 1998, the Company had spent approximately \$0.4 million against its estimated budget.

Progress of the Year 2000 Program

As of September 30, 1998, the Company was actively engaged in one or more compliance phases with respect to each of the four business areas described above. Although there can be no guarantee of complete readiness by the year 2000, the Company believes each of the business areas described above will be Y2k compliant by November 1999, or be substantially compliant by that time such that further remediation and testing, if any, will not be significant to its operations. However, as discussed above, the Company has not completed its Year 2000 compliance program. In the event the Company does not complete its program, or fails to properly identify and modify critical business applications, there may be an interruption to the Company's business that may have a materially adverse affect on its future financial condition and results of operations. In addition, year 2000-related disruptions in the economy in general may also have a materially adverse affect on its future financial condition and results of operations.

Risks

The failure to identify and correct a Year 2000 problem could result in an interruption in, or failure of, certain normal business activities or operations. The Company does not expect such failures to have a materially adverse effect on its results of operations or financial condition. However, because of the general uncertainty about Year 2000 readiness throughout the world economy, which results in uncertainties regarding the readiness of the Company's vendors, contractors and clients, the Company is currently unable to determine whether Year 2000 problems may have a materially adverse effect on its results of operations or financial condition. As the Company's Year 2000 compliance program progresses, the level of uncertainty about this matter is being reduced, especially as to uncertainties about the Company's own degree of Year 2000 compliance and the compliance of its suppliers, contractors and clients.

Worst Case Scenario

It is not presently possible to describe a reasonably likely "worst case Year 2000 scenario" without making numerous assumptions. The Company presently believes that a most likely worst case scenario would make it necessary for the Company to replace some suppliers or contractors, rearrange some work plans, or perhaps interrupt some office and field activities. Assuming this assessment is correct, the Company does not believe that such circumstances would have a materially adverse effect on its financial condition or results of operations, even if it is necessary to incur additional costs to correct unanticipated compliance failures.

Contingency Plans

The Company currently has no contingency plans in place in the event it does not complete all phases of its Year 2000 compliance program by December 31, 1999. However, it expects to have completed enough of its compliance work by March 1999 that it will be able to identify those business areas for which contingency plans will be necessary, and it will develop the required contingency plans at that time. The Company continues to monitor carefully the progress of its Year 2000 program and its state of readiness on a regular basis. Any future contingency plan will be based on its best estimates of numerous factors, which, in turn will be derived by relying on numerous assumptions about future events. However, there can be no assurance that these assumptions or estimates will have been correctly made, or that the Company will have anticipated all relevant factors, or that there will not be a delay in or increased costs associated with the Company's Year 2000 program. Any delay in implementation of the Year 2000 program could affect the Company's Year 2000 readiness. Specific factors that might cause the actual outcome to differ from the projected outcome include, without limitation, the continued availability of personnel and consultants trained in the computer programming skills necessary for remediation of Year 2000 problems, the ability to locate and correct all relevant

computer codes and embedded software, timely responses by third parties, including suppliers, contractors and clients, and the ability to implement interfaces between new systems and systems not being replaced.

The foregoing discussion does not cover the degree of Year 2000 compliance achieved by Sverdrup Corporation. Additionally, this discussion regarding the Year 2000 issue is a "Year 2000 Readiness Disclosure" as that term is discussed in the Year 2000 Information and Readiness Disclosure Act of 1998.

EFFECTS OF RECENTLY-ISSUED ACCOUNTING STANDARDS

In June 1997, the Financial Accounting Standards Board ("FASB") adopted Statement of Financial Accounting Standards ("SFAS") No. 130 -- Reporting Comprehensive Income, and it also adopted SFAS No. 131 -- Disclosures about Segments of an Enterprise and Related Information. In February 1998, the FASB adopted SFAS No. 132 -- Employers' Disclosures about Pensions and Other Postretirement Benefits. And in June 1998, the FASB adopted SFAS No. 133 -- Accounting for Derivative Instruments and Hedging Activities.

SFAS No. 130 will be effective for the Company beginning with the first quarter of fiscal 1999. This standard establishes guidelines for the reporting and display of "comprehensive income" and its components. Comprehensive income is defined to include all changes in the Company's equity from nonowner sources, and would include cumulative foreign currency translation adjustments and unrealized gains and losses on certain marketable securities, among other items.

SFAS No. 131 will also be effective for the Company beginning with the first quarter of fiscal 1999. This standard supersedes SFAS No. 14, and establishes standards for the way public companies report information about their operating segments in both annual and interim financial statements. It also requires public companies to report descriptive information about the way their operating segments were determined, the products and services provided by their operating segments, and information about their major customers.

SFAS No. 132 will be effective for the Company's 1999 year-end consolidated financial statements. This standard amends existing disclosure requirements regarding pension plans and other plans providing postretirement benefits, and specifically requires additional information on changes in benefit obligations and fair values of plan assets.

SFAS No's. 130, 131 and 132 are all disclosure-oriented pronouncements. That is, they do not effect the way in which the Company will account for any item or transaction included in its consolidated financial statements. Rather, they require that certain information be presented differently, or additional information provided, or that the information presented be discussed by the Company. The Company does not believe that SFAS No. 133 applies to it.

FORWARD-LOOKING STATEMENTS AND OTHER SAFE HARBOR APPLICATIONS

Statements included in this Management's Discussion and Analysis that are not based on historical facts are "forward-looking statements", as that term is discussed in the Private Securities Litigation Reform Act of 1995. Such statements are based on management's current estimates, expectations and projections about the issues discussed, the industries in which the Company operates and the services it provides. By their nature, such forward-looking statements involve risks and uncertainties. The Company cautions the reader that a variety of factors could cause business conditions and results to differ materially from what is contained in its forward-looking statements. These factors include, but are not necessarily limited to, the following:

increase in competition by foreign and domestic competitors; availability of qualified engineers and other professional staff needed to execute contracts; the timing of

new awards and the funding of such awards; the ability of the Company to meet performance or schedule guarantees; cost overruns on fixed, maximum or unit priced contracts; the outcome of pending and future litigation and governmental proceedings; the cyclical nature of the individual markets in which the Company's customers operate; the outcome or closing of any merger or acquisition transaction, including the nature and extent of any related financing, and the amount of any contingent consideration the Company may be required to make in the future in connection with any merger or acquisition transaction; and the Company's success in dealing with the Year 2000 issues discussed above under "Year 2000 Readiness". The preceding list is not all-inclusive, and the Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Readers of this Management's Discussion and Analysis should also read the Company's most recent Annual Report on Form 10-K for a further description of the Company's business, legal proceedings and other information that describes factors that could cause actual results to differ from such forward-looking statements.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
SEPTEMBER 30, 1998 AND 1997
(IN THOUSANDS, EXCEPT SHARE INFORMATION)

	1998	1997
	-----	-----
ASSETS		
Current Assets:		
Cash and cash equivalents.....	\$101,328	\$ 55,992
Marketable securities.....	16,482	21,130
Receivables.....	394,841	373,228
Deferred income taxes.....	45,419	40,352
Prepaid expenses and other.....	7,937	6,659
	-----	-----
Total current assets.....	566,007	497,361
	-----	-----
Property, Equipment and Improvements, Net.....	100,565	93,401
	-----	-----
Other Noncurrent Assets:		
Goodwill, net.....	77,246	75,445
Other.....	63,671	71,436
	-----	-----
Total other noncurrent assets.....	140,917	146,881
	-----	-----
	\$807,489	\$737,643
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable.....	\$ 217	\$ 1,443
Accounts payable.....	101,846	109,098
Accrued liabilities.....	161,552	123,207
Customers' advances in excess of related revenues.....	85,049	77,149
Income taxes payable.....	19,684	8,261
	-----	-----
Total current liabilities.....	368,348	319,158
	-----	-----
Long-term Debt.....	26,221	54,095
	-----	-----
Other Deferred Liabilities.....	35,170	34,620
	-----	-----
Minority Interests.....	6,345	5,462
	-----	-----
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 -- 60,000,000 shares, issued --25,866,795 and 25,810,860 shares, respectively.....	25,867	25,811
Additional paid-in capital.....	55,698	52,186
Retained earnings.....	300,296	249,791
Other.....	(2,856)	(2,744)
	-----	-----
	379,005	325,044
	-----	-----
Less, cost of common stock held in treasury (254,028 shares in 1998, 25,000 shares in 1997).....	7,600	736
	-----	-----
Total stockholders' equity.....	371,405	324,308
	-----	-----
	\$807,489	\$737,643
	=====	=====

See the accompanying notes.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED SEPTEMBER 30, 1998, 1997 AND 1996
(IN THOUSANDS, EXCEPT PER-SHARE INFORMATION)

	1998	1997	1996
	-----	-----	-----
Revenues.....	\$2,101,145	\$1,780,616	\$1,798,970
	-----	-----	-----
Costs and Expenses:			
Direct costs of contracts.....	1,830,618	1,546,898	1,590,906
Selling, general and administrative expenses.....	184,043	160,157	143,456
Interest income, net.....	(2,736)	(2,959)	(1,444)
Other (income) expense, net.....	436	(929)	(769)
	-----	-----	-----
	2,012,361	1,703,167	1,732,149
	-----	-----	-----
Income before taxes.....	88,784	77,449	66,821
	-----	-----	-----
Income Tax Expense.....	34,399	30,554	26,461
	-----	-----	-----
Net Income.....	\$ 54,385	\$ 46,895	\$ 40,360
	=====	=====	=====
Net Income per Share:			
Basic.....	\$ 2.12	\$ 1.82	\$ 1.58
Diluted.....	2.08	1.80	1.56
	=====	=====	=====

See the accompanying notes.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED SEPTEMBER 30, 1998, 1997 AND 1996
(IN THOUSANDS)

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	OTHER	STOCK TREASURY (AT COST)
	-----	-----	-----	-----	-----
Balances, September 30, 1995..	\$25,496	\$43,957	\$168,203	\$ 1,105	\$ --
Net foreign currency translation adjustment.....	--	--	--	8	--
Net unrealized losses on marketable securities.....	--	--	--	(123)	--
Repurchases of common stock..	(13)	(23)	(716)	--	(3,590)
Exercises of stock options, including the related income tax benefits.....	253	5,028	(208)	--	3,363
Issuance of restricted stock, net of amortization.....	9	229	--	49	--
Net income.....	--	--	40,360	--	--
	-----	-----	-----	-----	-----
Balances, September 30, 1996..	25,745	49,191	207,639	1,039	(227)
Net foreign currency translation adjustment.....	--	--	--	(3,444)	--
Net unrealized losses on marketable securities.....	--	--	--	(507)	--
Repurchases of common stock..	(73)	(446)	(1,896)	--	(12,075)
Exercises of stock options, including the related income tax benefits.....	133	3,285	(2,847)	--	11,566
Issuance of restricted stock, net of amortization.....	6	156	--	168	--
Net income.....	--	--	46,895	--	--
	-----	-----	-----	-----	-----
Balances, September 30, 1997..	25,811	52,186	249,791	(2,744)	(736)
Net foreign currency translation adjustment.....	--	--	--	(9)	--
Net unrealized losses on marketable securities.....	--	--	--	(113)	--
Repurchases of common stock..	(59)	(353)	(1,608)	--	(18,046)
Exercises of stock options, including the related income tax benefits.....	103	3,521	(2,272)	--	11,182
Issuance of restricted stock, net of amortization.....	12	344	--	10	--
Net income.....	--	--	54,385	--	--
	-----	-----	-----	-----	-----
Balances, September 30, 1998..	\$25,867	\$55,698	\$300,296	\$(2,856)	\$ (7,600)
	=====	=====	=====	=====	=====

See the accompanying notes.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED SEPTEMBER 30, 1998, 1997, AND 1996
(IN THOUSANDS)

	1998	1997	1996
	-----	-----	-----
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income.....	\$ 54,385	\$ 46,895	\$ 40,360
Adjustments to reconcile net income to net cash flows from operations:			
Depreciation and amortization.....	23,184	19,626	18,118
Amortization of deferred gains.....	(205)	(820)	(820)
Gains on disposals of property, equipment and other assets.....	(8,577)	(742)	(259)
Changes in assets and liabilities, excluding the effects of businesses acquired:			
Receivables.....	(25,135)	(34,849)	15,255
Prepaid expenses and other current assets.....	6,010	(416)	(1,182)
Accounts payable.....	10,076	783	(2,911)
Accrued liabilities.....	16,757	18,537	(1,588)
Customers' advances.....	7,384	(1,685)	(7,420)
Income taxes payable.....	11,280	(932)	(1,743)
Deferred income taxes.....	(5,067)	(2,784)	(3,818)
Other, net.....	366	330	287
	-----	-----	-----
Net cash provided.....	90,458	43,943	54,279
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment.....	(46,335)	(28,025)	(16,694)
Disposals of property and equipment.....	26,766	289	745
(Increase) decrease in other assets, net.....	8,620	(16,780)	(2,689)
Purchases of marketable securities.....	(5,386)	(20,000)	--
Proceeds from sales of marketable securities....	10,034	1,837	--
Additions to investments.....	(3,319)	(4,491)	(21,705)
Proceeds from sales of investments.....	--	936	301
Acquisitions of businesses, net of cash acquired.....	--	(3,307)	--
	-----	-----	-----
Net cash used.....	(9,620)	(69,541)	(40,042)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Exercises of stock options, including the related income tax benefits.....	11,496	10,970	8,258
Purchases of treasury stock.....	(18,046)	(12,075)	(3,590)
Increases to long-term debt.....	--	21,415	18,881
Payments on long-term debt.....	(29,264)	--	--
Decrease in short-term borrowings, net.....	(1,257)	--	(15,739)
Other, net.....	1,639	--	1,768
	-----	-----	-----
Net cash provided (used).....	(35,432)	20,310	9,578
	-----	-----	-----
Effect of Exchange Rate Changes.....	(70)	(1,585)	(68)
	-----	-----	-----
Increase (Decrease) in Cash and Cash Equivalents.....	45,336	(6,873)	23,747
Cash and Cash Equivalents at Beginning of Period.....	55,992	62,865	39,118
	-----	-----	-----
Cash and Cash Equivalents at End of Period.....	\$101,328	\$ 55,992	\$ 62,865
	=====	=====	=====

See the accompanying notes.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of Jacobs Engineering Group Inc. and its subsidiaries (the "Company"). All significant intercompany accounts and transactions have been eliminated. Certain balances in the accompanying 1997 consolidated balance sheet have been reclassified to conform to the 1998 presentation.

Description of the Business

The Company's principal business is that of providing professional engineering, construction and construction management, and maintenance services to its industrial, commercial and government clients. The Company provides its services from offices located primarily throughout the United States, Europe and India. The Company provides its services under cost-reimbursable, cost-reimbursable with a guaranteed maximum, and fixed-price contracts. The percentage of revenues realized from each of these types of contracts in each of the years ended September 30, 1998, 1997 and 1996 was as follows:

	1998	1997	1996
Cost-reimbursable.....	81%	82%	82%
Fixed-price.....	18	16	16
Guaranteed maximum.....	1	2	2

For the years ended September 30, 1998, 1997 and 1996, projects with or for the benefit of agencies of the U.S. federal government accounted for 12.1 percent, 12.0 percent and 8.7 percent, respectively, of total revenues. Within the private sector, no single client accounted for 10 percent or more of total revenues in either 1998 or 1996. One private-sector client accounted for 15.3 percent of total revenues in 1997.

Revenue Accounting for Contracts

In general, the Company recognizes revenues at the time services are performed. On cost-reimbursable contracts, revenue is recognized as costs are incurred, and includes applicable fees earned through the date services are provided. On fixed-price contracts, revenues are recorded using the percentage-of-completion method of accounting by relating contract costs incurred to date to total estimated contract costs at completion. Contract costs include both direct and indirect costs. Contract losses are provided for in their entirety in the period they become known, without regard to the percentage-of-completion.

Some of the Company's contracts with the U.S. federal government, as well as certain contracts with commercial clients, provide that contract costs (including indirect costs) are subject to audit and adjustment. For all such contracts, revenues have been recorded based upon those amounts expected to be realized upon final settlement.

As is common in the industry, the Company executes certain contracts jointly with third parties through partnerships and joint ventures. For certain of these contracts, the Company recognizes its proportionate share of venture revenues, costs and operating income in its consolidated statements of income.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Foreign Operations

The following table summarizes certain financial information of the Company for geographic areas outside the United States (in thousands):

	REVENUES	OPERATING PROFIT	IDENTIFIABLE ASSETS
1998:			
Europe.....	\$410,944	\$19,297	\$223,820
Southern Asia (India).....	13,204	2,449	19,951
	-----	-----	-----
1997:			
Europe.....	\$412,298	\$15,659	\$107,493
Southern Asia (India).....	5,302	483	39,139
	-----	-----	-----
1996:			
Europe.....	\$176,427	\$ 6,494	\$ 83,917
	-----	-----	-----

Revenues were earned from unaffiliated customers located primarily within the respective geographic areas. Operating profit is defined as total revenues, less direct costs of contracts, and selling, general and administrative expenses, and excludes corporate expenses. Identifiable assets exclude general corporate assets (such as cash in excess of local working capital requirements, and investments). The results of the Company's operations in Mexico and Chile were not material in either 1998 or 1997.

Cash Equivalents

The Company considers all highly liquid investments with original maturities of less than three months as cash equivalents. Cash equivalents at September 30, 1998 and 1997 consisted primarily of time certificates of deposit.

Marketable Securities and Investments

The Company's investments in equity and debt securities are classified as either trading securities (shown as "Marketable securities" in the accompanying consolidated balance sheets), held-to-maturity securities or available-for-sale securities (the latter two are included as long-term investments in "Other noncurrent assets" in the accompanying consolidated balance sheets). Management determines the appropriate classification of all its investments at the time of purchase and reviews such designations at each balance sheet date.

Trading securities are stated at fair value with unrealized gains or losses included in "Other income, net" in the accompanying consolidated statements of income. Held-to-maturity securities are carried at cost, or amortized cost if a premium was paid or a discount received at the time of purchase. Marketable equity securities not held for trading and debt securities not classified as held-to-maturity are classified as available-for-sale. Available-for-sale securities are stated at fair value, with the unrealized gains or losses, net of taxes, reported in the "Other" component of stockholders' equity. The amount of unrealized gains, net of taxes, recorded at September 30, 1998 and 1997 totalled \$900 and \$114,000, respectively.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following table summarizes certain information regarding the Company's available-for-sale equity securities at September 30, 1998 and 1997, and for each of the years then ended (in thousands):

	1998	1997
	----	----
Total cost (specific identification method).....	\$117	\$117
Gross unrealized gains.....	2	190
Estimated fair value.....	119	307
Gross realized gains.....	--	686
Gross proceeds from sales.....	--	937

Included in marketable securities at September 30, 1998 was a \$16,059,200 deposit with a U.S. bank made under a managed investment program (\$20,000,000 was on deposit with the same bank at September 30, 1997). The bank has full investment and dispositive powers over the assets held in the account. The program emphasizes the preservation of capital through investment-grade, marketable debt instruments which have maximum maturities of ten years.

Receivables and Customers' Advances

Included in receivables at September 30, 1998 and 1997 were unbilled amounts of \$106,072,200 and \$75,220,700, respectively. Unbilled receivables represent amounts earned under contracts in progress, but not yet billable under the terms of those contracts. These amounts become billable according to the contract terms which usually consider the passage of time, achievement of certain milestones or completion of the project. Included in unbilled receivables at September 30, 1998 and 1997 were contract retentions totaling \$11,808,000 and \$5,708,100, respectively. Substantially all unbilled receivables are billed and collected in the subsequent fiscal year.

Customers' advances in excess of related revenues represent cash collected from clients on contracts in advance of revenues earned thereon, as well as billings to clients in excess of costs and earnings on uncompleted contracts. Substantially all such amounts are earned in the subsequent fiscal year.

Property, Equipment and Improvements

Property, equipment and improvements are stated at cost and consisted of the following at September 30, 1998 and 1997 (in thousands):

	1998	1997
	-----	-----
Land.....	\$ 11,416	\$ 12,983
Buildings.....	33,440	38,876
Equipment.....	133,379	114,127
Leasehold improvements.....	10,642	12,115
Construction in progress.....	12,595	6,296
	-----	-----
	201,472	184,397
Less -- accumulated depreciation and amortization.....	100,907	90,996
	-----	-----
	\$100,565	\$ 93,401
	=====	=====

Depreciation and amortization are provided using primarily the straight-line method over the estimated useful lives of the assets, or, in the case of leasehold improvements, over the remaining term of the lease, if shorter. Estimated useful lives range from 20 to 40 years for buildings, from 3 to 10 years for equipment and from 4 to 10 years for leasehold improvements.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Other Noncurrent Assets

Goodwill represents the costs in excess of the fair values of the net assets of acquired companies and is amortized against earnings using the straight-line method over periods not exceeding 40 years. Goodwill is shown in the accompanying consolidated balance sheets net of accumulated amortization of \$9,317,300 and \$6,908,000 at September 30, 1998 and 1997, respectively.

Other noncurrent assets consisted of the following at September 30, 1998 and 1997 (in thousands):

	1998	1997
Prepaid pension costs.....	\$11,929	\$11,509
Cash surrender value of life insurance policies.....	26,920	23,775
Investments.....	20,277	17,014
Notes receivable.....	1,785	14,602
Miscellaneous.....	2,760	4,536
	\$63,671	\$71,436
	=====	=====

Net Income Per Share

Effective with the first quarter of fiscal 1998, the Company adopted, and retroactively applied, Statement of Financial Accounting Standards No. 128 -- Earnings per Share ("SFAS No. 128"). Accordingly, basic earnings per share ("EPS") has been computed by dividing net income by the weighted average number of shares of common stock outstanding during each period presented. Diluted EPS has been computed by dividing net income by the weighted average number of shares of common stock and dilutive securities outstanding (consisting solely of nonqualified stock options). The following table reconciles the denominator used to compute basic EPS to the denominator used to compute diluted EPS (in thousands):

	1998	1997	1996
Weighted average shares outstanding (denominator used to compute Basic EPS).....	25,689	25,727	25,613
Effect of employee and outside director stock options.....	407	262	308
Denominator used to compute Diluted EPS.....	26,096	25,989	25,921
	=====	=====	=====

Stock-based Compensation

The Company accounts for stock issued to employees and outside directors in accordance with APB Opinion No. 25 -- Accounting for Stock Issued to Employees ("APB No. 25"). APB No. 25 prescribes an intrinsic value based method for accounting for stock options. Since the stock issued to participants in Company's stock purchase and stock option plans (described in Note 4., below) have little or no intrinsic value as of the grant date, no compensation cost is recorded.

Concentrations of Credit Risk/Use of Estimates

The Company's cash balances and short-term investments are maintained in accounts held by major banks and financial institutions in the U.S. and Europe. Also, as is customary in the industry, the Company grants uncollateralized credit to its clients, which include the federal government and large, multi-national corporations operating in a broad range of industries. In order to mitigate its credit risk, the Company continually evaluates the credit worthiness of its major commercial clients.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions that necessarily affect certain amounts reported in its consolidated financial statements. The more significant estimates affecting amounts reported in the consolidated financial statements relate to revenues under long-term construction contracts and self-insurance accruals. Actual results could differ from those estimates.

2. ACQUISITIONS

In February 1997, the Company acquired for cash certain physical assets and contracts of an engineering business with operations in Denver, Colorado and Santiago, Chile. Also in February 1997, the Company increased, in a cash transaction, its ownership interest from 40 percent to 51 percent in an affiliated entity headquartered in Mumbai, India (this interest was increased to 70 percent in a cash transaction in September 1997). In April 1997, the Company acquired for cash and notes certain assets and liabilities of an engineering business headquartered in Green Bay, Wisconsin. Finally, in July 1997, the Company completed the acquisition of the remaining interests of several engineering and construction companies comprising the Serete Group, which is headquartered in France.

The sum of the individual purchase prices totalled \$29,781,500. Each of these acquisitions has been accounted for as a purchase, and the results of operations of each acquired business have been included in the Company's consolidated results of operations since the respective dates of acquisition. The purchase price allocations resulted in goodwill of approximately \$39,035,700. The pro forma effects on the Company's consolidated results of operations assuming these acquisitions had occurred at the beginning of fiscal 1996 and fiscal 1997 are not material.

3. NOTES PAYABLE TO BANKS AND LONG-TERM DEBT

Short-term Credit Arrangements

At September 30, 1998, the Company had approximately \$42,748,000 available through multiple bank lines of credit, under which the Company may borrow on an overdraft or short-term basis. Interest under these lines is determined at the time of borrowing based on the banks' prime or base rates, rates paid on certificates of deposit, the banks' actual costs of funds or other variable rates. Most of the agreements require the payment of a fee based on the amount of the facility. The Company is also required to maintain certain minimum levels of working capital and net worth. Two of the agreements limit borrowings by the amount of letters of credit outstanding under the facility. Borrowings under the lines are generally unsecured, and the lines extend through the second and third fiscal quarters of 1999.

Other information regarding the lines of credit for the years ended September 30, 1998, 1997 and 1996 follows (dollars in thousands):

	1998	1997	1996
	-----	-----	-----
Amount outstanding at year end.....	\$ 217	\$1,317	\$ 694
Weighted average interest rate at year end.....	24.6%	8.23%	7.00%
Weighted average borrowings outstanding during the year.....	\$ 537	\$ 183	\$12,270
Weighted average interest rate during the year.....	11.54%	9.48%	7.10%
Maximum amount outstanding during the year.....	\$3,313	\$1,368	\$17,406

The amount outstanding at September 30, 1998 and the weighted average interest rate at year-end relate entirely to Chilean peso borrowings by the Company's subsidiary in Chile.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Long-term Debt and Credit Arrangements

Long-term debt consisted of the following at September 30, 1998 and 1997 (in thousands):

	1998	1997
Borrowings under the Company's unsecured, \$45,000 revolving credit agreement.....	\$26,221	\$38,050
Mortgage loan payable.....	--	16,045
	\$26,221	\$54,095
	=====	=====

Borrowings under the revolving credit agreement bear interest at either fixed rates offered by the banks at the time of borrowing, or at variable rates based on the agent bank's base rate, LIBOR or the latest federal funds rate. The agreement requires the Company to maintain a minimum tangible net worth of at least \$160,000,000 plus 50 percent of consolidated net income after October 1, 1994 (\$247,020,000 at September 30, 1998), a minimum coverage ratio of certain defined fixed charges and a minimum ratio of debt to tangible net worth. The agreement also restricts the payment of cash dividends and requires the Company to pay a facility fee of 0.15 percent of the total amount of the commitment. The agreement extends through August 2000.

The mortgage loan was incurred in connection with the purchase of the Company's offices located in Dublin, Ireland. The loan was paid-off when the Company sold the property in the fourth quarter of 1998.

Interest expense for the years ended September 30, 1998, 1997 and 1996 was \$2,356,400, \$2,226,100 and \$2,777,400, respectively, and has been included with interest income in the accompanying consolidated statements of income. Interest payments made during each of these years totalled \$2,517,100, \$1,801,500 and \$2,552,300, respectively.

4. STOCK PURCHASE AND STOCK OPTION PLANS

Stock Purchase Plan

The Company's 1989 Employee Stock Purchase Plan (the "1989 ESPP") provides for the granting of options to participating employees to purchase shares of the Company's common stock. The participants' purchase price is the lower of 90 percent of the common stock's closing market price on either the first or last day of the option period (as defined). A summary of shares issued through the 1989 ESPP for the years ended September 30, 1998, 1997 and 1996 follows:

	1998	1997	1996
Aggregate purchase price.....	\$7,495,590	\$7,067,700	\$6,310,960
Shares purchased.....	302,514	325,110	290,430

At September 30, 1998, there were 692,966 shares reserved for issuance under the 1989 ESPP.

Stock Option Plan

The Company has an incentive stock plan (the "1981 Plan") which provides for the issuance of shares of common stock to employees and outside directors. The Company may grant four types of incentive awards under the 1981 Plan: incentive stock options, nonqualified stock options, stock appreciation rights and restricted stock. At September 30, 1998, there were 2,963,300 shares of common stock reserved for issuance under the 1981 Plan.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Information regarding the number of shares under options granted through the 1981 Plan for each of the years ended September 30, 1998, 1997 and 1996 follows:

	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Options outstanding at the beginning of fiscal:		
1996.....	1,576,059	\$19.80
1997.....	1,789,323	21.69
1998.....	1,928,834	22.85
Options granted during fiscal:		
1996.....	406,000	\$25.30
1997.....	472,000	22.66
1998.....	577,500	28.80
Options exercised during fiscal:		
1996.....	134,686	\$10.96
1997.....	270,969	15.35
1998.....	216,904	18.78
Options expired or canceled during fiscal:		
1996.....	58,050	\$20.72
1997.....	61,520	20.46
1998.....	74,980	23.50
Options outstanding at the the end of fiscal:		
1996.....	1,789,323	\$21.69
1997.....	1,928,834	22.85
1998.....	2,214,450	24.79

Certain other information regarding the Company's stock options follows:

	1998	1997	1996
Range of option prices for options outstanding at the end of the year.....	\$16.58 to \$31.94	\$5.31 to \$28.56	\$5.31 to \$28.56
Options exercisable at the end of the year.....	907,900	807,034	781,653
Range of exercise prices for options exercised during the year Option.....	\$5.31 to \$27.88	\$7.94 to \$27.88	\$4.25 to \$25.84
Options available for grant at the end of the year.....	748,850	1,266,370	484,350
Weighted-average fair value of options granted during the year.....	\$13.79	\$10.83	\$12.10

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The following tables present certain additional information regarding options outstanding at September 30, 1998 (contractual life is expressed in whole years):

OPTIONS OUTSTANDING AT SEPTEMBER 30, 1998

RANGE OF EXERCISE PRICES	NUMBER	WEIGHTED AVERAGE	
		REMAINING CONTRACTUAL LIFE	EXERCISE PRICE
\$16.56 - 18.50	98,800	3	\$17.47
\$18.75 - 20.41	208,650	4	\$19.56
\$20.45 - 22.39	397,100	6	\$20.91
\$22.40 - 24.25	348,700	8	\$23.71
\$24.27 - 25.98	221,000	5	\$25.06
\$26.00 - 28.00	521,200	6	\$27.32
\$28.10 - 30.00	190,000	9	\$28.55
\$31.00 - 32.00	229,000	9	\$31.94
	2,214,450	6	\$24.79
	=====	===	=====

OPTIONS EXERCISABLE AT SEPTEMBER 30, 1998

RANGE OF EXERCISE PRICES	NUMBER	WEIGHTED
		AVERAGE EXERCISE PRICE
\$16.56 - 18.50	72,800	\$17.45
\$18.75 - 20.41	111,100	\$19.52
\$20.45 - 22.39	172,300	\$20.95
\$22.40 - 24.25	95,700	\$23.72
\$24.27 - 25.98	115,000	\$24.96
\$26.00 - 28.00	304,000	\$27.28
\$28.10 - 30.00	37,000	\$28.34
\$31.00 - 32.00	--	\$ 0
	907,900	\$23.71
	=====	=====

Options outstanding at September 30, 1998 consisted entirely of nonqualified stock options. The 1981 Plan allows participants to satisfy the exercise price on exercises of stock options by tendering to the Company shares of the Company's common stock already owned by the participants. Shares so tendered are retired and canceled by the Company and are shown as repurchases of common stock in the accompanying consolidated statements of stockholders' equity.

During the years ended September 30, 1998, 1997 and 1996, the Company issued 12,000, 5,500 and 9,000 shares, respectively, of restricted stock under the 1981 Plan. Upon issuance of restricted stock, unearned compensation equivalent to the market value of the stock issued (determined on the date of grant) is charged to stockholders' equity and subsequently amortized against income over the periods during which the restrictions lapse (\$366,300, \$329,900 and \$285,800 of compensation expense was recognized in 1998, 1997 and 1996, respectively). The restrictions generally relate to the recipient's ability to sell or otherwise transfer the stock. There are also restrictions that subject the stock to forfeiture back to the Company until earned by the recipient through continued employment. The restrictions lapse over five years.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Pro Forma Disclosures

As discussed in Note 1., above, the Company accounts for stock issued to employees and outside directors in accordance with APB No. 25. In October 1995, the Financial Accounting Standards Board adopted SFAS No. 123 -- Accounting for Stock-Based Compensation. SFAS No. 123 prescribes an optional, fair-value based method of accounting for stock issued to employees and others. The Company's pro forma net income and net income per share in 1998, 1997 and 1996 using the Black-Scholes option valuation model for stock awards in those years follows, along with a summary of the significant assumptions used in the valuation (dollars in thousands, except earnings per share):

	1998	1997	1996
	-----	-----	-----
Pro forma net income.....	\$50,418	\$43,022	\$39,218
Pro forma net income per share:			
Basic.....	1.96	1.67	1.53
Diluted.....	1.93	1.66	1.51
Assumptions used:			
Dividend yield.....	0%	0%	0%
Expected volatility.....	24.22%	21.57%	28.50%
Risk-free interest rate.....	5.62%	6.50%	6.48%
Expected life (years).....	7.4	6.25	6.68
	=====	=====	=====

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. Additionally, option valuation models require the use of highly subjective assumptions including the expected volatility of the underlying stock price. Because the Company's stock options possess characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, the Company believes that existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

The pro forma effects of SFAS No. 123 on reported net income as presented above is not necessarily representative of the pro forma effects in future years.

5. SAVINGS, DEFERRED COMPENSATION AND PENSION PLANS

Savings Plans

The Company maintains employee savings plans (qualified 401(k) retirement plans) covering substantially all of the Company's domestic, nonunion employees. For the years ended September 30, 1998, 1997 and 1996, Company contributions to these plans totalled \$9,568,700, \$8,710,500 and \$8,000,100, respectively.

Deferred Compensation Plans

The Company's Executive Security Plan ("ESP") and Executive Deferral Plans ("EDP") are nonqualified deferred compensation programs that provide benefits payable to directors, officers and certain key employees or their designated beneficiaries at specified future dates, upon retirement or death. Benefit payments under both plans are funded by a combination of contributions from participants and the Company, and most of the participants are covered by life insurance policies with the Company designated as the beneficiary. Amounts charged to expense relating to these programs for the years ended September 30, 1998, 1997 and 1996 were \$1,588,800, \$1,672,600 and \$1,781,200, respectively. Included in other deferred liabilities in the accompanying consolidated

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

balance sheets at September 30, 1998 and 1997 was \$22,847,700 and \$23,446,800, respectively, relating to the ESP and EDP plans.

Pension Plans

In the United States, the Company contributes to various trustee pension plans covering hourly construction employees under industry-wide agreements. Contributions are based on the hours worked by employees covered under these agreements and are charged to direct costs of contracts on a current basis. Information from the plans' administrators is not available to permit the Company to determine its share of unfunded benefits, if any. Company contributions to these plans totalled \$4,025,300, \$2,694,700 and \$3,538,900 for the years ended September 30, 1998, 1997 and 1996, respectively.

The Company's U.K. subsidiary sponsors a contributory defined benefit pension plan covering substantially all permanent, full-time employees at least 21 years of age. Benefits are based on length of service and the employee's highest average salary for any three consecutive years in the plan, or, if higher, the employee's salary in the final year in the plan. The Company's funding policy is to fund the actuarially-determined accrued benefits, allowing for projected compensation increases using the projected unit method. The following table presents the funded status of the plan as of September 30, 1998 and 1997 (in thousands):

	1998	1997
Fair value of plan assets.....	\$122,449	\$97,984
Actuarial present value of benefit obligations (all vested).....	101,399	75,498
Accumulated benefit obligation.....	101,399	75,498
Effect of projected compensation increases.....	4,458	3,478
Projected benefit obligation.....	105,857	78,976
Plan assets in excess of projected benefit obligation....	16,592	19,008
Unrecognized gains.....	(4,663)	(7,499)
Prepaid pension asset.....	\$ 11,929	\$11,509

The components of net periodic pension cost for each of the years ended September 30, 1998, 1997 and 1996 were as follows (in thousands):

	1998	1997	1996
Service costs.....	\$ 2,451	\$ 1,484	\$ 1,258
Interest.....	6,468	6,621	5,624
Actual return on plan assets.....	(19,899)	(14,094)	(14,242)
Net amortization and deferral.....	11,640	6,074	7,418
Net pension cost.....	\$ 660	\$ 85	\$ 58

The significant actuarial assumptions used in determining the funded status of the plan were as follows: weighted average discount rate -- 6.5 percent; weighted average rate of increase in compensation -- 4.5 percent; and, weighted average rate of return on pension assets -- 7.0 percent. At September 30, 1998, the majority of the plan's assets were invested in equity securities (primarily those of companies trading in the U.K. and other European stock markets) and fixed income securities.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. PROVISION FOR INCOME TAXES

The Company's income tax expense includes income taxes currently payable, and income taxes deferred due to the temporary differences between the financial reporting and tax bases of its assets and liabilities.

Consolidated income tax expense for the years ended September 30, 1998, 1997 and 1996 consisted of the following (in thousands):

	1998	1997	1996
	-----	-----	-----
Taxes currently payable:			
Federal.....	\$25,873	\$23,255	\$22,927
State.....	4,729	4,515	5,316
Foreign.....	6,528	4,519	1,577
	-----	-----	-----
	37,130	32,289	29,820
	-----	-----	-----
Taxes deferred:			
Federal.....	(2,340)	(1,563)	(2,768)
State.....	(391)	(172)	(591)
	-----	-----	-----
	(2,731)	(1,735)	(3,359)
	-----	-----	-----
	\$34,399	\$30,554	\$26,461
	=====	=====	=====

Deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The significant components of the Company's deferred tax assets (liabilities) at September 30, 1998 and 1997 were as follows (in thousands):

	1998	1997
	-----	-----
Assets:		
Liabilities relating to employee benefit plans.....	\$27,177	\$24,306
Self-insurance reserves.....	8,838	10,395
Contract revenues and costs.....	10,481	8,018
Accruals for office consolidations and other special charges.....	161	344
Other, net.....	150	50
	-----	-----
Total deferred tax assets.....	46,807	43,113
	-----	-----
Liabilities:		
Depreciation and amortization.....	(4,805)	(3,809)
Unremitted foreign earnings.....	(2,458)	(2,065)
State income and franchise taxes.....	(1,732)	(1,564)
Other, net.....	--	(234)
	-----	-----
Total deferred tax liabilities.....	(8,995)	(7,672)
	-----	-----
Net deferred tax asset.....	\$37,812	\$35,441
	=====	=====

Included in "Other deferred liabilities" in the accompanying consolidated balance sheets at September 30, 1998 and 1997 are deferred tax liabilities of \$7,606,700 and \$4,910,900, respectively.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The reconciliations of the tax provisions recorded for the years ended September 30, 1998, 1997 and 1996 to those based on the federal statutory rate were as follows (in thousands):

	1998	1997	1996
Statutory amount.....	\$31,075	\$27,107	\$23,388
State taxes, net of the federal benefit.....	2,819	2,824	3,071
Other, net.....	505	623	2
	-----	-----	-----
	\$34,399	\$30,554	\$26,461
	=====	=====	=====
Rate used to compute statutory amount.....	35.00%	35.00%	35.00%
	=====	=====	=====

For the years ended September 30, 1998, 1997 and 1996, the Company paid approximately \$26,240,900, \$32,038,000 and \$30,940,000, respectively, in income taxes.

For the years ended September 30, 1998, 1997 and 1996, consolidated income before income taxes included \$26,591,300, \$16,029,300 and \$4,707,100, respectively, from foreign operations. U.S. income taxes, net of applicable credits, have been provided on the undistributed profits of foreign subsidiaries, except in those instances where such profits are expected to be permanently reinvested (the amount of such profits expected to be permanently reinvested totalled \$7,830,800 at September 30, 1998). Should these earnings be repatriated, approximately \$2,070,700 of income taxes would be payable.

7. COMMITMENTS AND CONTINGENCIES

The Company leases certain of its facilities and equipment under operating leases with net aggregate future lease payments of approximately \$105,152,400 at September 30, 1998 payable as follows (in thousands):

Year ending September 30,	
1999.....	\$ 27,856
2000.....	24,317
2001.....	17,961
2002.....	13,447
2003.....	11,649
Thereafter.....	34,760

	129,990
Less -- amounts representing sublease income.....	24,838

	\$105,152
	=====

Rent expense for the years ended September 30, 1998, 1997 and 1996 was approximately \$29,393,000, \$29,978,000 and \$27,190,200, respectively, and was offset by sublease income of approximately \$4,112,000, \$2,780,000 and \$2,313,500, respectively.

The Company maintains insurance coverage for various aspects of its business and operations. The Company has elected, however, to retain a portion of losses that occur through the use of various deductibles, limits and retentions under its insurance programs. This situation may subject the Company to some future liability for which it is only partially insured, or completely uninsured. The Company intends to mitigate any such future liability by continuing to exercise prudent business judgment in negotiating the terms and conditions of its contracts.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

The Company has entered into an employment agreement expiring September 30, 2003 with the Chairman of its Board of Directors. The agreement provides for base payments of \$432,000 per year to either the Chairman or, in the event of his death, his beneficiary. The agreement also provides that the Chairman may participate in any bonus plan sponsored by the Company, specifies certain promotional and other activities to be performed by the Chairman in the event he leaves employment with the Company and contains other provisions, including some intended to prevent the Chairman from entering into any form of competition with the Company.

In the normal course of business, the Company is subject to certain contractual guarantees and litigation. Generally, such guarantees relate to project schedules and plant performance. Most of the litigation involves the Company as a defendant in workers' compensation, personal injury and other similar lawsuits. In addition, as a contractor for many agencies of the United States Government, the Company is subject to many levels of audits, investigations and claims by, or on behalf of, the government with respect to its contract performance, pricing, costs, cost allocations and procurement practices. Management believes, after consultation with counsel, that such guarantees, litigation, and United States Government contract-related audits, investigations and claims should not have any material adverse effect on the Company's consolidated financial statements.

Letters of credit outstanding at September 30, 1998 totalled approximately \$53,839,600.

8. COMMON AND PREFERRED STOCK

The Company is authorized to issue two classes of capital stock: common stock and preferred stock (each have a par value of \$1.00 per share). The preferred stock may be issued in one or more series. The number of shares to be included in a series, as well as each series' designation, relative powers, dividend and other preferences, rights and qualifications, redemption provisions and restrictions are to be fixed by the Company's Board of Directors at the time such series are issued. Except as may be provided by the Board of Directors in a preferred stock designation, or otherwise provided for by statute, the holders of the Company's common stock have the exclusive right to vote for the election of Directors and all other matters requiring stockholder action. The holders of the Company's common stock are entitled to dividends if and when declared by the Board of Directors from whatever assets are legally available for that purpose.

Pursuant to the Company's 1990 Stockholder Rights Plan, each outstanding share of common stock has attached to it one stock purchase right (a "Right"). Each Right entitles the common stockholder to purchase, in certain circumstances generally relating to a change in control of the Company, one two-hundredth of a share of the Company's Series A Junior Participating Cumulative Preferred Stock, par value \$1.00 per share (the "Series A Preferred Stock") at the exercise price of \$90 per share, subject to adjustment. Alternatively, the Right holder may purchase common stock of the Company having a market value equal to two times the exercise price, or may purchase shares of common stock of the acquiring corporation having a market value equal to two times the exercise price.

The Series A Preferred Stock confers to its holders rights as to dividends, voting and liquidation which are in preference to common stockholders. The Rights are nonvoting, are not presently exercisable and currently trade in tandem with the common shares. The Rights may be redeemed at \$0.01 per Right by the Company in accordance with the Rights Plan. The Rights will expire on December 20, 2000, unless earlier exchanged or redeemed.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. OTHER FINANCIAL INFORMATION

Accrued liabilities at September 30, 1998 and 1997 consisted of the following (in thousands):

	1998	1997
	-----	-----
Accrued payroll and related liabilities.....	\$103,626	\$ 86,330
Insurance liabilities.....	23,154	26,903
Other.....	34,772	9,974
	-----	-----
	\$161,552	\$123,207
	=====	=====

10. SUBSEQUENT EVENT

In December 1998, the Company signed an agreement and plan of merger with the Sverdrup Corporation ("Sverdrup"). The agreement is subject to the approval of the shareholders of Sverdrup, as well as the expiration or termination of the Hart-Scott-Rodino Act waiting period. As a result of the transactions contemplated in the merger agreement, Sverdrup Corporation will become, upon closing of the transaction, a wholly-owned subsidiary of the Company. Total consideration to be paid by the Company at closing will be approximately \$198,000,000. The Company intends to finance the merger price through a combination of bank borrowings (under a new, long-term revolving credit facility) and internal funds. The merger agreement also requires the Company to pay additional cash consideration to the former shareholders of Sverdrup at each of the first three anniversaries of closing if the stock price of the Company exceeds certain minimum prices as specified in the merger agreement. These future payments in total cannot exceed \$31,000,000. The merger will be accounted for as a purchase, and is expected to be completed early in the second quarter of fiscal 1999.

JACOBS ENGINEERING GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. QUARTERLY DATA -- UNAUDITED

Summarized quarterly financial information for the years ended September 30, 1998, 1997 and 1996 is presented below (in thousands, except per-share amounts):

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER	FISCAL YEAR
1998					
Revenues.....	\$506,359	\$524,776	\$525,034	\$544,976	\$2,101,145
Income before taxes.....	21,001	21,838	22,753	23,192	88,784
Net income.....	12,810	13,320	13,880	14,375	54,385
Earnings per share:					
Basic.....	.50	.52	.54	.56	2.12
Diluted.....	.49	.51	.53	.55	2.08
Stock price:					
High.....	31.000	32.375	34.250	33.250	34.250
Low.....	24.688	24.750	29.500	25.125	24.688
1997					
Revenues.....	\$433,649	\$437,735	\$430,177	\$479,055	\$1,780,616
Income before taxes.....	17,997	18,907	19,818	20,727	77,449
Net income.....	10,870	11,420	11,970	12,635	46,895
Earnings per share:					
Basic.....	.42	.44	.47	.49	1.82
Diluted.....	.42	.44	.46	.48	1.80
Stock price:					
High.....	25.000	28.500	27.875	32.563	32.563
Low.....	21.250	23.500	23.250	26.250	21.250
1996					
Revenues.....	\$471,121	\$487,021	\$436,820	\$404,008	\$1,798,970
Income before taxes.....	15,811	16,358	17,185	17,467	66,821
Net income.....	9,550	9,880	10,380	10,550	40,360
Earnings per share:					
Basic.....	.37	.39	.40	.41	1.58
Diluted.....	.37	.38	.40	.41	1.56
Stock price:					
High.....	25.375	29.375	28.375	27.375	29.375
Low.....	21.500	24.750	25.625	19.625	19.625

Effective October 1, 1997, the Company adopted SFAS No. 128 -- Earnings per Share. Earnings per share for prior years have been restated to conform to the provisions of SFAS No. 128.

The Company's common stock is listed on the New York Stock Exchange. At September 30, 1998, there were 1,352 shareholders of record.

**REPORT OF ERNST & YOUNG LLP,
INDEPENDENT AUDITORS**

The Board of Directors and Stockholders
Jacobs Engineering Group Inc.

We have audited the accompanying consolidated balance sheets of Jacobs Engineering Group Inc. and subsidiaries as of September 30, 1998 and 1997, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Jacobs Engineering Group Inc. and subsidiaries at September 30, 1998 and 1997, and the consolidated results of their operations and their cash flows for each of the three years in the period ended September 30, 1998, in conformity with generally accepted accounting principles.

Ernst & Young LLP

Los Angeles, California
November 4, 1998,
except for Note 10 as to which
the date is December 21, 1998

MANAGEMENT'S RESPONSIBILITIES FOR FINANCIAL REPORTING

The consolidated financial statements and other information included in this appendix to this proxy statement have been prepared by management, which is responsible for their fairness, integrity, and objectivity. The consolidated financial statements have been prepared in accordance with generally accepted accounting principles applied on a basis consistent with prior years and contain some amounts that are based upon management's best estimates and judgment. The other financial information contained in this appendix has been prepared in a manner consistent with the preparation of the financial statements.

In meeting its responsibility for the fair presentation of the Company's financial statements, management necessarily relies on the Company's system of internal accounting controls. This system is designed to provide reasonable, but not absolute, assurance that assets are safeguarded and that transactions are executed in accordance with management's instructions and are properly recorded in the Company's books and records. The concept of reasonable assurance is based on the recognition that in any system of internal controls, there are certain inherent limitations and that the cost of such systems should not exceed the benefits to be derived. We believe the Company's system of internal accounting controls is cost-effective and provides reasonable assurance that material errors and irregularities will be prevented, or detected and corrected on a timely basis.

The Company's consolidated financial statements have been audited by independent auditors, whose report thereon was based on examinations conducted in accordance with generally accepted auditing standards and is presented on the preceding page. As part of their audit, the independent auditors perform a review of the Company's system of internal accounting controls for the purpose of determining the amount of reliance to place on those controls relative to the audit tests they perform.

The Company's Board of Directors, through its Audit Committee which is composed entirely of nonemployee directors, meets regularly with both management and the independent auditors to review the Company's financial results and to ensure that both management and the independent auditors are properly performing their respective functions.

EXHIBIT 21.**JACOBS ENGINEERING GROUP INC.****PARENTS AND SUBSIDIARIES**

The following table sets forth all subsidiaries of the Company other than subsidiaries that, when considered in the aggregate, would not constitute a significant subsidiary, including the percentage of issued and outstanding voting securities beneficially owned by the Company.

Jacobs Engineering Company, a California corporation	100.00%
Jacobs Engineering Group of Ohio, Inc., an Ohio corporation	100.00%
Jacobs Services Company, a California corporation	100.00%
Jacobs Engineering, Inc., a Delaware corporation	100.00%
Jacobs Computing Services Limited, A Republic of Ireland company	100.00%
Pegasus Engineering Holdings Limited, a Republic of Ireland company	100.00%
Jacobs/Pegasus Engineering Limited, a Republic of Ireland company	100.00%
Jacobs Sereland SA, a Spanish company	86.76%
Jacobs Sereland SA, an Argentinian company	100.00%
JE Finance, LLC, a Delaware company	100.00%
Jacobs France, SARL, a French company	100.00%
Jacobs Finance SA, a French company	100.00%
Jacobs Engineering SA, a French company	100.00%
Jacobs Serete SA a DCS, a French company	100.00%
3S SA, a French company	100.00%
Jacobs Serete Italia SPA, an Italian company	100.00%
Jacobs Construction Management (Malaysia) Sdn. Bhd., a Malaysian company	100.00%
Jacobs Engineering Singapore Pte. Ltd., a Singapore company	100.00%
Jacobs Pan American Corp., a Virgin Islands company	100.00%
Jacobs International Limited, Inc., a Panama corporation	100.00%
Jacobs International Limited, a Republic of Ireland company	100.00%
Jacobs Engineering Limited, an English company	100.00%
JE Professional Resources Limited, an English company	100.00%
Jacobs/H&G Engineering Limited, an English company	100.00%
Jacobs/Humphreys & Glasgow Limited, an English company	100.00%
Jacobs H&G Limited, an Indian company	69.98%
HGC Constructors, Ltd., an Indian company	56.00%
Niryaat Overseas (India) Ltd., an Indian company	100.00%
Jacobs Constructors, Inc., a Louisiana corporation	100.00%
Jacobs Constructors of California Inc., a California corporation	100.00%
Jacobs Maintenance, Inc., a Louisiana corporation	100.00%
JE Merit Constructors, Inc., a Texas corporation	100.00%
JE Remediation Technologies, Inc., a Louisiana corporation	100.00%
JE Professional Resources, Inc., a California corporation	100.00%
The Pace Consultants, Inc., a Texas corporation	100.00%

Payne & Keller Company, Inc., a Louisiana corporation	100.00%
Jacobs Applied Technology, Inc., a Delaware corporation	100.00%
Applied Engineering Company - Ohio, Inc., a South Carolina corporation	100.00%
Triad Technologies, Inc., a Delaware corporation	100.00%

KDW Engineering, Inc., a California corporation	100.00%
Willow Street Properties, Inc., a California corporation	100.00%
CRSS Constructors, Inc., a Delaware corporation	100.00%
CRSS International, Inc., a South Carolina corporation	100.00%
CRSS of New York, Inc., a New York corporation	100.00%
Jacobs Engineering Foreign Sales Corporation, a Barbados corporation	100.00%
Jacobs Engineering, S.A. de C.V., a Mexican corporation	100.00%
Jacobs Engineering, S.A., a Chile corporation	100.00%
Rocky Flats Closure Site Services LLC, a Delaware company	100.00%

All subsidiaries and affiliates are included in the Consolidated Financial Statements.

Dr. Joseph J. Jacobs may be deemed to be a "parent" of Jacobs Engineering Group Inc. under the federal securities laws. Refer to Item 12 of the accompanying report on Form 10-K for information about Dr. Jacobs' share

ownership and position with the Company.

EXHIBIT 23.

CONSENT OF INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Jacobs Engineering Group Inc. of our report dated November 4, 1998, except as to Note 10 as to which the date is December 21, 1998, included in Appendix A to the Company's 1999 Annual Notice and Proxy Statement.

We also consent to the incorporation by reference in both the Registration Statement (Form S-8 No. 33-45914) pertaining to the Jacobs Engineering Group Inc. 1981 Executive Incentive Plan and in the Registration Statement (Form S-8 No. 333-01317) pertaining to the Jacobs Engineering Group Inc. 1989 Employee Stock Purchase Plan of our report dated November 4, 1998, except as to Note 10 as to which the date is December 21, 1998, with respect to the consolidated financial statements of Jacobs Engineering Group Inc. and subsidiaries incorporated by reference in the Annual Report (Form 10-K) for the year ended September 30, 1998.

ERNST & YOUNG LLP

Los Angeles, California

December 28, 1998

ARTICLE 5

MULTIPLIER: 1,000

PERIOD TYPE	YEAR
FISCAL YEAR END	SEP 30 1998
PERIOD END	SEP 30 1998
CASH	101,328
SECURITIES	16,482
RECEIVABLES	394,841
ALLOWANCES	0
INVENTORY	0
CURRENT ASSETS	566,007
PP&E	201,472
DEPRECIATION	100,907
TOTAL ASSETS	807,489
CURRENT LIABILITIES	368,348
BONDS	0
PREFERRED MANDATORY	25,867
PREFERRED	0
COMMON	0
OTHER SE	345,538
TOTAL LIABILITY AND EQUITY	807,489
SALES	0
TOTAL REVENUES	2,101,145
CGS	0
TOTAL COSTS	1,830,618
OTHER EXPENSES	0
LOSS PROVISION	0
INTEREST EXPENSE	(2,736)
INCOME PRETAX	88,784
INCOME TAX	34,399
INCOME CONTINUING	54,385
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	54,385
EPS PRIMARY	2.12
EPS DILUTED	2.08

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