

EXPONENT INC  
Form 10-Q  
August 07, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 3, 2015

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-18655

**EXPONENT, INC.**

(Exact name of registrant as specified in its charter)

**DELAWARE**

**77-0218904**

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

**149 COMMONWEALTH DRIVE, MENLO PARK, CALIFORNIA 94025**

(Address of principal executive office) (Zip Code)

**(650) 326-9400**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Edgar Filing: EXPONENT INC - Form 10-Q

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

As of July 31, 2015, the latest practicable date, the registrant had 25,922,828 shares of common stock, \$0.001 par value per share, outstanding.

EXPONENT, INC.

FORM 10-Q

TABLE OF CONTENTS

	Page
<u>PART I – FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (unaudited):</u>	
<u>Condensed Consolidated Balance Sheets</u> <u>July 3, 2015 and January 2, 2015</u>	3
<u>Condensed Consolidated Statements of Income</u> <u>Three and Six Months Ended July 3, 2015 and July 4, 2014</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income</u> <u>Three and Six Months Ended July 3, 2015 and July 4, 2014</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u> <u>Three and Six Months Ended July 3, 2015 and July 4, 2014</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	16
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	24
Item 4. <u>Controls and Procedures</u>	25
<u>PART II – OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	25
Item 1A. <u>Risk Factors</u>	25
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	25
Item 3. <u>Defaults Upon Senior Securities</u>	26
Item 4. <u>Mine Safety Disclosures</u>	26

Item 5. <u>Other Information</u>	26
Item 6. <u>Exhibits</u>	26
<u>Signatures</u>	27

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## EXPONENT, INC.

## Condensed Consolidated Balance Sheets

July 3, 2015 and January 2, 2015

(in thousands, except par value)

(unaudited)

	July 3, 2015	January 2, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$131,927	\$129,490
Short-term investments	17,935	24,913
Accounts receivable, net of allowance for doubtful accounts and contract losses of \$3,485 and \$3,386 at July 3, 2015 and January 2, 2015, respectively	93,543	86,368
Prepaid expenses and other assets	14,112	14,727
Deferred income taxes	11,604	11,002
Total current assets	269,121	266,500
Property, equipment and leasehold improvements, net	27,499	28,264
Goodwill	8,607	8,607
Deferred income taxes	25,055	24,612
Deferred compensation plan assets	36,453	36,195
Other assets	1,339	1,121
Total assets	\$368,074	\$365,299
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$9,748	\$8,935
Accrued payroll and employee benefits	48,886	62,184
Deferred revenues	5,887	8,226
Total current liabilities	64,521	79,345

Edgar Filing: EXPONENT INC - Form 10-Q

Other liabilities	1,828	1,862
Deferred compensation	40,080	37,745
Deferred rent	2,052	2,059
Total liabilities	108,481	121,011
Stockholders' equity:		
Common stock, \$0.001 par value; 80,000 shares authorized; 32,853 shares issued at July 3, 2015 and January 2, 2015	33	33
Additional paid-in capital	175,377	160,208
Accumulated other comprehensive income		
Investment securities, available-for-sale	(3 )	14
Foreign currency translation adjustments	(1,254 )	(918 )
	(1,257 )	(904 )
Retained earnings	255,689	246,961
Treasury stock, at cost; 6,931 and 7,111 shares held at July 3, 2015 and January 2, 2015, respectively	(170,249)	(162,010)
Total stockholders' equity	259,593	244,288
Total liabilities and stockholders' equity	\$368,074	\$365,299

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

**EXPONENT, INC.**

## Condensed Consolidated Statements of Income

For the Three and Six Months Ended July 3, 2015 and July 4, 2014

**(in thousands, except per share data)****(unaudited)**

	Three Months Ended		Six Months Ended	
	July 3, 2015	July 4, 2014	July 3, 2015	July 4, 2014
Revenues:				
Revenues before reimbursements	\$ 75,272	\$ 72,331	\$ 151,413	\$ 145,298
Reimbursements	4,592	4,243	8,744	7,238
Revenues	79,864	76,574	160,157	152,536
Operating expenses:				
Compensation and related expenses	45,777	46,049	96,892	94,907
Other operating expenses	6,703	6,450	13,213	12,767
Reimbursable expenses	4,592	4,243	8,744	7,238
General and administrative expenses	4,087	3,748	7,575	7,446
Total operating expenses	61,159	60,490	126,424	122,358
Operating income	18,705	16,084	33,733	30,178
Other income, net:				
Interest income, net	34	40	68	84
Miscellaneous income, net	553	2,274	2,562	3,501
Total other income, net	587	2,314	2,630	3,585
Income before income taxes	19,292	18,398	36,363	33,763
Income taxes	7,595	7,134	14,333	13,345
Net income	\$ 11,697	\$ 11,264	\$ 22,030	\$ 20,418
Net income per share:				



Edgar Filing: EXPONENT INC - Form 10-Q

Basic	\$ 0.44	\$ 0.42	\$ 0.83	\$ 0.75
Diluted	\$ 0.43	\$ 0.41	\$ 0.80	\$ 0.73

Shares used in per share computations:

Basic	26,714	27,040	26,668	27,056
Diluted	27,368	27,746	27,386	27,838

Cash dividends declared per common share	\$ 0.150	\$ 0.125	\$ 0.300	\$ 0.250
--	----------	----------	----------	----------

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements

- 4 -

EXPONENT, INC.

**Condensed Consolidated Statements of Comprehensive Income**

For the Three and Six Months Ended July 3, 2015 and July 4, 2014

**(in thousands)****(unaudited)**

	Three Months Ended		Six Months Ended	
	July 3, 2015	July 4, 2014	July 3, 2015	July 4, 2014
Net income	\$ 11,697	\$ 11,264	\$22,030	\$ 20,418
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	165	317	(336 )	369
Unrealized (losses) gains on available-for-sale investment securities arising during the period, net of tax	(10 )	8	(17 )	22
Comprehensive income	\$ 11,852	\$ 11,589	\$21,677	\$ 20,809

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements

**EXPONENT, INC.**

## Condensed Consolidated Statements of Cash Flows

For the Six Months Ended July 3, 2015 and July 4, 2014

**(in thousands)****(unaudited)**

	Six Months Ended	
	July 3, 2015	July 4, 2014
Cash flows from operating activities:		
Net income	\$22,030	\$20,418
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and leasehold improvements	2,705	2,633
Amortization of premiums and accretion of discounts on short-term investments	395	443
Deferred rent	(7 )	(132 )
Provision for doubtful accounts and contract losses	509	828
Stock-based compensation	7,902	7,875
Deferred income tax provision	(1,071 )	(3,896 )
Excess tax benefit from equity incentive plans	(4,486 )	(5,090 )
Changes in operating assets and liabilities:		
Accounts receivable	(7,684 )	(9,643 )
Prepaid expenses and other assets	1,195	(3,348 )
Accounts payable and accrued liabilities	5,117	6,504
Accrued payroll and employee benefits	(9,446 )	(6,027 )
Deferred revenues	(2,339 )	165
Net cash provided by operating activities	14,820	10,730
Cash flows from investing activities:		
Capital expenditures	(1,714 )	(1,976 )
Purchase of short-term investments	(4,000 )	(1,067 )
Maturity of short-term investments	10,555	2,186
Net cash provided by (used in) investing activities	4,841	(857 )
Cash flows from financing activities:		
Excess tax benefit from equity incentive plans	4,486	5,090
Payroll taxes for restricted stock units	(7,284 )	(6,267 )
Repurchase of common stock	(7,004 )	(14,383 )

Edgar Filing: EXPONENT INC - Form 10-Q

Exercise of share-based payment awards	631	1,540
Dividends and dividend equivalents rights	(8,007 )	(6,580 )
Net cash used in financing activities	(17,178 )	(20,600 )
Effect of foreign currency exchange rates on cash and cash equivalents	(46 )	674
Net increase (decrease) in cash and cash equivalents	2,437	(10,053 )
Cash and cash equivalents at beginning of period	129,490	122,948
Cash and cash equivalents at end of period	\$131,927	\$112,895

The accompanying notes are an integral part of these Unaudited Condensed Consolidated Financial Statements.

**EXPONENT, INC.**

**NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**Note 1: Basis of Presentation**

Exponent, Inc. (referred to as the “Company” or “Exponent”) is an engineering and scientific consulting firm that provides solutions to complex problems. The Company operates on a 52-53 week fiscal year ending on the Friday closest to the last day of December.

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not contain all the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments which are necessary for the fair presentation of the condensed consolidated financial statements have been included and all such adjustments are of a normal and recurring nature. The operating results for the three and six months ended July 3, 2015 are not necessarily representative of the results of future quarterly or annual periods. The following information should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended January 2, 2015 which was filed with the U.S. Securities and Exchange Commission on March 2, 2015.

The unaudited condensed consolidated financial statements include the accounts of Exponent, Inc. and its subsidiaries, which are all wholly owned. All intercompany accounts and transactions have been eliminated in consolidation.

**Stock Split.** On May 28, 2015, the Company’s stockholders approved an amendment to the Company’s certificate of incorporation to (i) amend the number of authorized shares of common stock to 80,000,000, (ii) amend the number of authorized shares of preferred stock to 2,000,000, and (iii) effect a two-for-one stock split. As a result of the stock split, each shareholder of record at the close of business on May 28, 2015, received one additional share of common stock. Restricted stock unit awards and stock option awards have also been adjusted to reflect the two-for-one stock split. For periods prior to the stock split, all share and per share data in the Company’s condensed consolidated financial statements and related notes have been retroactively adjusted to reflect the stock split.

**Dividend.** The Company declared and paid cash dividends per common share during the periods presented as follows:

	Fiscal Year 2015	
	Dividends	Amount
	Per	(in thousands)
	Share	
First Quarter	\$0.150	\$ 3,858
Second Quarter	\$0.150	\$ 3,887
		\$ 7,745

	Fiscal Year 2014	
	Dividends	Amount
	Per	(in thousands)
	Share	
First Quarter	\$0.125	\$ 3,262
Second Quarter	\$0.125	3,270
Third Quarter	\$0.125	3,262
Fourth Quarter	\$0.125	3,216
		\$ 13,010

On July 20, 2015 the Company's Board of Directors announced a cash dividend of \$0.15 per share of the Company's common stock, payable September 25, 2015, to stockholders of record as of September 4, 2015. The Company expects to continue paying quarterly dividends in the future, subject to declaration by the Company's Board of Directors.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include accounting for revenue recognition and estimating the allowance for doubtful accounts and contract losses. Actual results could differ from those estimates.

**Recently Adopted Accounting Pronouncements.** On May 28, 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. generally accepted accounting principles (“GAAP”) when it becomes effective. The new standard is effective for the Company on the first day of fiscal 2018 (December 30, 2017). The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

## Note 2: Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including available-for-sale fixed income securities, trading fixed income and equity securities held in its deferred compensation plan and the liability associated with its deferred compensation plan. There have been no transfers between fair value measurement levels during the six months ended July 3, 2015 and July 4, 2014. Any transfers between fair value measurement levels would be recorded on the actual date of the event or change in circumstances that caused the transfer. The fair value of these certain financial assets and liabilities was determined using the following inputs at July 3, 2015:

(In thousands)	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Other Significant Unobservable Inputs (Level 3)
Assets				
Money market securities <sup>(1)</sup>	\$ 8,509	\$ 8,509	\$ -	\$ -
Fixed income available-for-sale securities <sup>(2)</sup>	17,935	-	17,935	-
Fixed income trading securities held in deferred compensation plan <sup>(3)</sup>	9,393	9,393	-	-

Edgar Filing: EXPONENT INC - Form 10-Q

Equity trading securities held in deferred compensation plan <sup>(3)</sup>	33,864	33,864	-	-
Total	\$ 69,701	\$ 51,766	\$ 17,935	\$ -
<b>Liabilities</b>				
Deferred compensation plan <sup>(4)</sup>	46,884	46,884	-	-
Total	\$ 46,884	\$ 46,884	\$ -	\$ -

- 8 -



- (1) Included in cash and cash equivalents on the Company's unaudited condensed consolidated balance sheet.  
 (2) Included in short-term investments on the Company's unaudited condensed consolidated balance sheet.  
 (3) Included in prepaid expenses and other assets and deferred compensation plan assets on the Company's unaudited condensed consolidated balance sheet.  
 (4) Included in accrued payroll and employee benefits and deferred compensation on the Company's unaudited condensed consolidated balance sheet.

The fair value of these certain financial assets and liabilities was determined using the following inputs at January 2, 2015:

(In thousands)	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Money market securities <sup>(1)</sup>	\$ 45,478	\$ 45,478	\$ -	\$ -
Fixed income available-for-sale securities <sup>(2)</sup>	24,913	-	24,913	-
Fixed income trading securities held in deferred compensation plan <sup>(3)</sup>	9,672	9,672	-	-
Equity trading securities held in deferred compensation plan <sup>(3)</sup>	34,176	34,176	-	-
<b>Total</b>	<b>\$ 114,239</b>	<b>\$ 89,326</b>	<b>\$ 24,913</b>	<b>\$ -</b>
<b>Liabilities</b>				
Deferred compensation plan <sup>(4)</sup>	45,394	45,394	-	-
<b>Total</b>	<b>\$ 45,394</b>	<b>\$ 45,394</b>	<b>\$ -</b>	<b>\$ -</b>

(1) Included in cash and cash equivalents on the Company's consolidated balance sheet.

(2) Included in short-term investments on the Company's consolidated balance sheet.

(3) Included in prepaid expenses and other assets and deferred compensation plan assets on the Company's consolidated balance sheet.

(4) Included in accrued payroll and employee benefits and deferred compensation on the Company's consolidated balance sheet.

Fixed income available-for-sale securities as of July 3, 2015 and January 2, 2015 represent obligations of state and local government agencies and United States agencies. Fixed income and equity trading securities represent mutual

funds held in the Company's deferred compensation plan. See Note 6 for additional information about the Company's deferred compensation plan.

Cash, cash equivalents and short-term investments consisted of the following as of July 3, 2015:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Classified as current assets:				
Cash	\$ 123,418	\$ -	\$ -	\$ 123,418
Cash equivalents:				
Money market securities	8,509	-	-	8,509
Total cash equivalents	8,509	-	-	8,509
Total cash and cash equivalents	131,927	-	-	131,927
Short-term investments:				
U.S. agency securities	4,000	-	(2 )	3,998
State and municipal bonds	13,940	3	(6 )	13,937
Total short-term investments	17,940	3	(8 )	17,935
Total cash, cash equivalents and short-term investments	\$ 149,867	\$ 3	\$ (8 )	\$ 149,862

Cash, cash equivalents and short-term investments consisted of the following as of January 2, 2015:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Classified as current assets:				
Cash	\$ 84,012	\$ -	\$ -	\$ 84,012
Cash equivalents:				
Money market securities	45,478	-	-	45,478
Total cash equivalents	45,478	-	-	45,478
Total cash and cash equivalents	129,490	-	-	129,490
Short-term investments:				
State and municipal bonds	24,890	27	(4 )	24,913
Total short-term investments	24,890	27	(4 )	24,913
Total cash, cash equivalents and short-term investments	\$ 154,380	\$ 27	\$ (4 )	\$ 154,403

The following table summarizes the cost and estimated fair value of short-term fixed income securities classified as short-term investments based on stated effective maturities as of July 3, 2015:

(In thousands)	Amortized Cost	Estimated Fair Value
Due within one year	\$ 13,414	\$ 13,411
Due between one and two years	4,526	4,524
Total	\$ 17,940	\$ 17,935

At July 3, 2015 and January 2, 2015, the Company did not have any assets or liabilities valued using significant unobservable inputs.

The following financial instruments are not measured at fair value on the Company's consolidated balance sheet at July 3, 2015 and January 2, 2015, but require disclosure of their fair values: accounts receivable, other assets and accounts payable. The estimated fair value of such instruments at July 3, 2015 and January 2, 2015 approximates their carrying value as reported on the consolidated balance sheet.

There were no other-than-temporary impairments or credit losses related to available-for-sale securities during the three and six months ended July 3, 2015 and July 4, 2014.

### **Note 3: Net Income Per Share**

Basic per share amounts are computed using the weighted-average number of common shares outstanding during the period. Diluted per share amounts are calculated using the weighted-average number of common shares outstanding during the period and, when dilutive, the weighted-average number of potential common shares from the issuance of common stock to satisfy outstanding restricted stock units and the exercise of outstanding options to purchase common stock using the treasury stock method.

The following schedule reconciles the shares used to calculate basic and diluted net income per share:

(In thousands)	Three Months Ended	Six Months Ended
----------------	--------------------	------------------

Edgar Filing: EXPONENT INC - Form 10-Q

	July 3, 2015	July 4, 2014	July 3, 2015	July 4, 2014
Shares used in basic per share computation	26,714	27,040	26,668	27,056
Effect of dilutive common stock options outstanding	144	130	143	146
Effect of dilutive restricted stock units outstanding	510	576	575	636
Shares used in diluted per share computation	27,368	27,746	27,386	27,838

Common stock options to purchase 40,000 shares were excluded from the diluted per share calculation for the three months ended July 3, 2015 due to their antidilutive effect. The weighted-average exercise price for the antidilutive shares was \$44.20 for the three months ended July 3, 2015. Common stock options to purchase 30,989 shares were excluded from the diluted per share calculation for the six months ended July 3, 2015 due to their antidilutive effect. The weighted-average exercise price for the antidilutive shares was \$44.20 for the six months ended July 3, 2015. There were no options excluded from the diluted per share calculations for the three and six months ended July 4, 2014.

#### Note 4: Stock-Based Compensation

##### Restricted Stock Units

Restricted stock unit grants are designed to attract and retain employees, and to better align employee interests with those of the Company's stockholders. For a select group of employees, up to 40% of their annual bonus is settled with fully vested restricted stock unit awards. Under these fully vested restricted stock unit awards, the holder of each award has the right to receive one share of the Company's common stock for each fully vested restricted stock unit four years from the date of grant. Each individual who receives a fully vested restricted stock unit award is also granted a matching number of unvested restricted stock unit awards. Unvested restricted stock unit awards are also granted for select new hires and promotions. These unvested restricted stock unit awards generally cliff vest four years from the date of grant, at which time the holder of each award will have the right to receive one share of the Company's common stock for each restricted stock unit award provided the holder of each award has met certain employment conditions. In the case of retirement at 59½ years or older, all unvested restricted stock unit awards will continue to vest, provided that the holder of each award does all consulting work through the Company and does not become an employee for a past or present client, beneficial party or competitor of the Company.

The value of these restricted stock unit awards is determined based on the market price of the Company's common stock on the date of grant. The value of fully vested restricted stock unit awards issued is recorded as a reduction to accrued bonuses. The portion of bonus expense that the Company expects to settle with fully vested restricted stock unit awards is recorded as stock-based compensation during the period the bonus is earned. The Company recorded stock-based compensation expense associated with accrued bonus awards of \$1,650,000 and \$1,582,000 during the three months ended July 3, 2015 and July 4, 2014, respectively. For the six months ended July 3, 2015 and July 4, 2014, the Company recorded stock-based compensation expense associated with accrued bonus awards of \$3,343,000 and \$3,168,000, respectively. The value of the unvested restricted stock unit awards granted, adjusted for estimated forfeitures, is recognized on a straight-line basis over the shorter of the four-year vesting period or the period between the grant date and the date the award recipient turns 59½. If the award recipient is 59½ years or older on the date of grant, the value of the entire award is expensed upon grant. The Company recorded stock-based compensation expense associated with the unvested restricted stock unit awards of \$980,000 and \$936,000 during the three months ended July 3, 2015 and July 4, 2014, respectively. The Company recorded stock-based compensation expense associated with the unvested restricted stock unit awards of \$4,111,000 and \$4,163,000 during the six months ended July 3, 2015 and July 4, 2014, respectively.

##### Stock Options

Stock options are granted for terms of ten years and generally vest 25% per year over a four-year period from the grant date. Unvested stock option awards will continue to vest in the case of retirement at 59½ years or older, provided that the holder of each award does all consulting work through the Company and does not become an

employee for a past or present client, beneficial party or competitor of the Company. The Company grants options at exercise prices equal to the fair value of the Company's common stock on the date of grant. The Company recorded stock-based compensation expense associated with stock option grants of \$51,000 and \$64,000 during the three months ended July 3, 2015 and July 4, 2014, respectively. The Company recorded stock-based compensation expense associated with stock option grants of \$448,000 and \$544,000 during the six months ended July 3, 2015 and July 4, 2014, respectively.

The Company uses the Black-Scholes option-pricing model to determine the fair value of options granted. The determination of the fair value of stock option awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include expected stock price volatility over the term of the award, actual and projected employee stock option exercise behaviors, the risk-free interest rate and expected dividends.

The Company used historical exercise and post-vesting forfeiture and expiration data to estimate the expected term of options granted. The historical volatility of the Company's common stock over a period of time equal to the expected term of the options granted was used to estimate expected volatility. The risk-free interest rate used in the option-pricing model was based on United States Treasury zero-coupon issues with remaining terms similar to the expected term on the options. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. Historical data was used to estimate pre-vesting option forfeitures and stock-based compensation expense was recorded only for those awards that are expected to vest. All stock-based payment awards are recognized on a straight-line basis over the requisite service periods of the awards.

**Note 5: Treasury Stock**

On February 9, 2012, the Company's Board of Directors authorized \$35,000,000 for the repurchase of the Company's common stock. On February 15, 2013, the Company's Board of Directors authorized an additional \$35,000,000 for the repurchase of the Company's common stock. On May 29, 2014, the Company's Board of Directors authorized an additional \$35,000,000 for the repurchase of the Company's common stock.

The Company repurchased 162,833 shares of its common stock for \$7,004,000 during the six months ended July 3, 2015. The Company repurchased 197,988 shares of its common stock for \$14,383,000 during the six months ended July 4, 2014. As of July 3, 2015, the Company had remaining authorization under its stock repurchase plans of \$28,074,000 to repurchase shares of common stock.

Net losses related to the re-issuance of treasury stock to settle restricted stock unit and stock option awards of \$4,943,000 and \$6,050,000 were recorded as a reduction to retained earnings during the six months ended July 3, 2015 and July 4, 2014, respectively.

**Note 6: Deferred Compensation Plans**

The Company maintains nonqualified deferred compensation plans for the benefit of a select group of highly compensated employees. Under these plans, participants may elect to defer up to 100% of their compensation. Company assets that are earmarked to pay benefits under the plans are held in a rabbi trust and are subject to the claims of the Company's creditors. As of July 3, 2015 and January 2, 2015, the invested amounts under the plans totaled \$43,257,000 and \$43,848,000, respectively. These assets are classified as trading securities and are recorded at fair value with changes recorded as adjustments to other income and expense.

As of July 3, 2015 and January 2, 2015, vested amounts due under the plans totaled \$46,884,000 and \$45,394,000, respectively. Changes in the liability are recorded as adjustments to compensation expense. During the three months ended July 3, 2015 and July 4, 2014, the Company recognized compensation expense of (\$72,000) and \$1,952,000, respectively, as a result of changes in the market value of the trust assets with the same amount being recorded as income in other income (expense), net. During the six months ended July 3, 2015 and July 4, 2014, the Company recognized compensation expense of \$1,309,000 and \$2,682,000, respectively, as a result of changes in the market value of the trust assets with the same amount being recorded as income in other income, net.

**Note 7: Supplemental Cash Flow Information**



The following is supplemental disclosure of cash flow information:

(In thousands)	Six Months Ended	
	July 3, 2015	July 4, 2014
Cash paid during period:		
Income taxes	\$ 10,235	\$ 9,346
Non-cash investing and financing activities:		
Unrealized (loss) gain on short-term investments	\$(17 )	\$ 22
Vested stock unit awards issued to settle accrued bonuses	\$ 6,169	\$ 6,008
Accrual for capital expenditures	\$ 226	\$ 767

- 13 -

## Note 8: Accounts Receivable, Net

At July 3, 2015 and January 2, 2015, accounts receivable, net, was comprised of the following:

(In thousands)	July 3, 2015	January 2, 2015
Billed accounts receivable	\$63,641	\$63,331
Unbilled accounts receivable	33,387	26,423
Allowance for doubtful accounts and contract losses	(3,485 )	(3,386 )
Total accounts receivable, net	\$93,543	\$86,368

## Note 9: Segment Reporting

The Company has two operating segments based on two primary areas of service. The Engineering and Other Scientific operating segment is a broad service group providing technical consulting in different practices primarily in engineering. The Environmental and Health operating segment provides services in the area of environmental, epidemiology and health risk analysis. This operating segment provides a wide range of consulting services relating to environmental hazards and risks and the impact on both human health and the environment.

Segment information for the three and six months ended July 3, 2015 and July 4, 2014 follows:

Revenues

(In thousands)	Three Months Ended		Six Months Ended	
	July 3, 2015	July 4, 2014	July 3, 2015	July 4, 2014
Engineering and Other Scientific	\$59,359	\$55,293	\$119,160	\$111,120
Environmental and Health	20,505	21,281	40,997	41,416
Total revenues	\$79,864	\$76,574	\$160,157	\$152,536

Operating Income

Six Months Ended

Edgar Filing: EXPONENT INC - Form 10-Q

(In thousands)	Three Months			
	Ended			
	July 3, 2015	July 4, 2014	July 3, 2015	July 4, 2014
Engineering and Other Scientific	\$19,108	\$17,700	\$38,353	\$36,518
Environmental and Health	6,631	7,191	13,095	13,164
Total segment operating income	25,739	24,891	51,448	49,682
Corporate operating expense	(7,034 )	(8,807 )	(17,715)	(19,504)
Total operating income	\$18,705	\$16,084	\$33,733	\$30,178

- 14 -

Capital Expenditures

(In thousands)	Three Months Ended		Six Months Ended	
	July 3, 2015	July 4, 2014	July 3, 2015	July 4, 2014
Engineering and Other Scientific	\$819	\$794	\$1,211	\$1,324
Environmental and Health	47	60	71	115
Total segment capital expenditures	866	854	1,282	1,439
Corporate capital expenditures	221	207	432	537
Total capital expenditures	\$1,087	\$1,061	\$1,714	\$1,976

Depreciation and Amortization

(In thousands)	Three Months Ended		Six Months Ended	
	July 3, 2015	July 4, 2014	July 3, 2015	July 4, 2014
Engineering and Other Scientific	\$822	\$ 868	\$ 1,926	\$ 1,741
Environmental and Health	44	49	87	96
Total segment depreciation and amortization	866	917	2,013	1,837
Corporate depreciation and amortization	458	394	692	796
Total depreciation and amortization	\$1,324	\$ 1,311	\$ 2,705	\$ 2,633

No single customer comprised more than 10% of the Company's revenues during the three or six months ended July 3, 2015 and July 4, 2014. No single customer comprised more than 10% of the Company's accounts receivable at July 3, 2015 and January 2, 2015.

## Note 10: Goodwill

Below is a breakdown of goodwill reported by segment as of July 3, 2015:

(In thousands)	Environmental and Health	Engineering and Other Scientific	Total
----------------	--------------------------	----------------------------------	-------

Goodwill	\$ 8,099	\$ 508	\$8,607
----------	----------	--------	---------

There were no acquisitions, dispositions, impairments or other changes in the carrying amount of goodwill, nor any changes in the composition of the Company's reporting units, during the three and six months ended July 3, 2015.

**Note 11: Contingencies**

The Company is a party to various legal actions from time to time and may be contingently liable in connection with claims and contracts arising in the normal course of business, the outcome of which the Company believes, after consultation with legal counsel, will not have a material adverse effect on its financial condition, results of operations or liquidity. However, due to the risks and uncertainties inherent in legal proceedings, actual results could differ from current expected results. All legal costs associated with litigation are expensed as incurred.

- 15 -

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included herein and with our audited consolidated financial statements and notes thereto for the fiscal year ended January 2, 2015, which are contained in our fiscal 2014 Annual Report on Form 10-K which was filed with the U.S. Securities and Exchange Commission on March 2, 2015.

### Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain "forward-looking" statements (as such term is defined in the Private Securities Litigation Reform Act of 1995, and the rules promulgated pursuant to the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended) that are based on the beliefs of the Company's management, as well as assumptions made by and information currently available to the Company's management. Such forward-looking statements are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. When used in this document the words "anticipate," "believe," "estimate," "expect" and similar expressions, as they relate to the Company or its management, identify such forward-looking statements. Such statements reflect the current views of the Company or its management with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Company's actual results, performance, or achievements could differ materially from those expressed in, or implied by, any such forward-looking statements. Factors that could cause or contribute to such material differences include the possibility that the demand for our services may decline as a result of changes in general and industry specific economic conditions, the timing of engagements for our services, the effects of competitive services and pricing, the absence of backlog related to our business, our ability to attract and retain key employees, the effect of tort reform and government regulation on our business and liabilities resulting from claims made against us. Additional risks and uncertainties are discussed in our fiscal 2014 Annual Report on Form 10-K under the heading "Risk Factors" and elsewhere in the report. The inclusion of such forward-looking information should not be regarded as a representation by the Company or any other person that the future events, plans, or expectations contemplated by the Company will be achieved. Due to such uncertainties and risks, you are warned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. The Company does not intend to release publicly any updates or revisions to any such forward-looking statements.

### Business Overview

Exponent, Inc. is an engineering and scientific consulting firm that provides solutions to complex problems. Our multidisciplinary team of scientists, physicians, engineers and business consultants brings together more than 90 different technical disciplines to solve complicated issues facing industry and business today. Our services include analysis of product development, product recall, regulatory compliance, and discovery of potential problems related to products, people or property and impending litigation.

## **CRITICAL ACCOUNTING ESTIMATES**

In preparing our unaudited condensed consolidated financial statements, we make assumptions, judgments and estimates that can have a significant impact on our revenue, operating income and net income, as well as on the value of certain assets and liabilities on our consolidated balance sheet. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis we evaluate our assumptions, judgments and estimates and make changes accordingly. We believe that the assumptions, judgments and estimates involved in the accounting for revenue recognition and estimating the allowance for doubtful accounts and contract losses have the greatest potential impact on our consolidated financial statements, so we consider these to be our critical accounting policies. Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results. Policies covering revenue recognition and estimating the allowance for doubtful accounts and contract losses are described in our fiscal 2014 Annual Report on Form 10-K under “Critical Accounting Estimates” and Note 1 (Summary of Significant Accounting Policies) of the Notes to Consolidated Financial Statements.

## RESULTS OF CONSOLIDATED OPERATIONS

### Executive Summary

Revenues for the second quarter of 2015 increased 4% and revenues before reimbursements increased 4% as compared to the same period last year. The increases in revenues and revenues before reimbursements were due to an increase in billable hours. We experienced strong demand for our consulting services from a diverse set of clients for both reactive and proactive projects. We continue to be retained to investigate significant accidents and failures and continue to see strong demand for our proactive services in consumer electronics and medical devices.

For the quarter we had notable performances from our materials & corrosion engineering, biomedical engineering, polymer science & materials chemistry, buildings & structures, thermal sciences, biomechanics, and construction consulting practices, as well as from our environmental group.

Net income increased to \$11,697,000 during the second quarter of 2015 as compared to \$11,264,000 during the same period last year. Diluted earnings per share increased to \$0.43 per share as compared to \$0.41 in the same period last year due to the increase in net income and our ongoing share repurchase program.

We remain focused on selectively adding top talent and developing the skills necessary to expand our market position, providing clients with in-depth scientific research and analysis to determine what happened and how to prevent failures or exposures in the future, capitalizing on emerging growth areas, managing other operating expenses, generating cash from operations, maintaining a strong balance sheet and undertaking activities such as share repurchases and dividends to enhance shareholder value.

One of our major investigations ended in July of 2015 and as a result we expect our efforts going forward related to this investigation to be de minimis. We also continue to expect a year-over-year step down in the level of activity in our technology development practice due to the constraints on defense spending and the withdrawal of United States and United Kingdom combat troops from Afghanistan.

### Overview of the Three Months Ended July 3, 2015



Edgar Filing: EXPONENT INC - Form 10-Q

During the second quarter of 2015, billable hours increased 4% to 287,000 as compared to 276,000 during the same period last year due to continued demand for our proactive and reactive consulting services. Our utilization increased to 74% during the second quarter of 2015 as compared to 72% during the second quarter of 2014. The increase in utilization was due to demand for our consulting services from a diverse set of clients for both reactive and proactive projects and our management of headcount to better align resources with anticipated demand. Technical full-time equivalent employees increased 2% to 750 during the second quarter of 2015 as compared to 733 during the same period last year due to our recruiting and retention efforts. We continue to selectively hire key talent to expand our capabilities.

**Three Months Ended July 3, 2015 compared to Three Months Ended July 4, 2014**

Revenues

(in thousands, except percentages)	Three Months Ended		Percent Change	
	July 3, 2015	July 4, 2014		
Engineering and Other Scientific	\$ 59,359	\$ 55,293	7.4	%
Percentage of total revenues	74.3 %	72.2 %		
Environmental and Health	20,505	21,281	(3.6	)%
Percentage of total revenues	25.7 %	27.8 %		
Total revenues	\$ 79,864	\$ 76,574	4.3	%

The increase in revenues for our Engineering and Other Scientific segment was due to an increase in billable hours. During the second quarter of 2015, billable hours for this segment increased by 7% to 208,000 as compared to 194,000 during the same period last year. Utilization increased to 75% during the second quarter of 2015 as compared to 73% during the same period last year. The increase in billable hours and utilization was due to demand for our services in our polymer science & materials chemistry, biomedical engineering, engineering management consulting, and buildings & structures practices. Technical full-time equivalent employees increased 4% to 531 during the second quarter of 2015 as compared to 511 for the same period last year due to our continuing recruiting and retention efforts.

The decrease in revenues for our Environmental and Health segment was due to a decrease in billable hours and the impact of unfavorable foreign exchange rates. During the second quarter of 2015, billable hours for this segment decreased to 79,000 as compared to 82,000 during the same period last year. Utilization decreased to 70% for the second quarter of 2015 as compared to 71% for the same period last year. The decrease in billable hours and utilization was due to weaker demand for our services in our health centers. Technical full-time equivalent employees decreased to 219 during the first quarter of 2015 as compared to 222 during the same period last year.

#### Compensation and Related Expenses

(in thousands, except percentages)	Three Months Ended		Percent Change
	July 3, 2015	July 4, 2014	
Compensation and related expenses	\$45,777	\$46,049	(0.6 )%
Percentage of total revenues	57.3 %	60.1 %	

The decrease in compensation and related expenses during the second quarter of 2015 was due to a change in the value of assets associated with our deferred compensation plan partially offset by an increase in payroll expense, benefits expense, and bonus expense. During the second quarter of 2015, deferred compensation expense decreased \$2,024,000 with a corresponding decrease to other income (expense), net, as compared to the second quarter of 2014 due to the change in value of assets associated with our deferred compensation plan. This decrease consisted of a decrease in the value of the plan assets of \$72,000 during the second quarter of 2015 as compared to an increase in the value of the plan assets of \$1,952,000 during same period last year. Payroll expense increased \$749,000 and fringe benefits increased \$330,000 due to the increase in technical full-time equivalent employees and our annual salary increase. Bonus expense increased \$659,000 due to an increase in income before income taxes, before bonus expense, and before stock-based compensation expense. We expect our compensation expense, excluding the change in value of deferred compensation plan assets, to increase as we selectively add new talent.

#### Other Operating Expenses

(in thousands, except percentages)	Three Months Ended		Percent Change
	July 3, 2015	July 4, 2014	
Other operating expenses	\$ 6,703	\$ 6,450	3.9 %

Percentage of total revenues      8.4    %    8.4    %

Other operating expenses include facilities-related costs, technical materials, computer-related expenses and depreciation and amortization of property, equipment and leasehold improvements. The increase in other operating expenses during the second quarter of 2015 was due to investments in our corporate infrastructure and costs associated with the increase in technical full-time equivalent employees. We expect other operating expenses to grow as we selectively add new talent and make investments in our corporate infrastructure.

- 18 -

## Reimbursable Expenses

(in thousands, except percentages)	Three Months Ended			Percent Change
	July 3, 2015	July 4, 2014		
Reimbursable expenses	\$ 4,592	\$ 4,243		8.2 %
Percentage of total revenues	5.7 %	5.5 %		

The increase in reimbursable expenses was primarily due to an increase in project-related costs in our materials & corrosion engineering practice within our Engineering and Other Scientific segment. The amount of reimbursable expenses will vary from quarter to quarter depending on the nature of our projects.

## General and Administrative Expenses

(in thousands, except percentages)	Three Months Ended			Percent Change
	July 3, 2015	July 4, 2014		
General and administrative expenses	\$ 4,087	\$ 3,748		9.0 %
Percentage of total revenues	5.1 %	4.9 %		

The increase in general and administrative expenses during the second quarter of 2015 was due to an increase in other professional services of \$177,000 and an increase in travel and meals of \$125,000. The increase in other professional services was due to investments in our corporate infrastructure. The increase in travel and meals was due to an increase in technical full time equivalent employees and an increase in business development, staff development and recruiting activities. We expect general and administrative expenses to increase as we selectively add new talent, expand our business development initiatives and pursue staff development initiatives.

## Other Income, Net

(in thousands, except percentages)	Three Months Ended			Percent Change
	July 3, 2015	July 4, 2014		
Other income, net	\$ 587	\$ 2,314		(74.6 )%
Percentage of total revenues	0.7 %	3.0 %		

Other income, net, consists primarily of interest income earned on available cash, cash equivalents and short-term investments, changes in the value of assets associated with our deferred compensation plan and rental income from leasing space in our Silicon Valley facility. During the second quarter of 2015, other income, net, decreased \$2,024,000 with a corresponding decrease to deferred compensation expense, as compared to the second quarter in 2014 due to a change in the value of assets associated with our deferred compensation plan. This decrease consisted of a decrease in the value of the plan assets of \$72,000 during the second quarter of 2015 as compared to an increase in

the value of the plan assets of \$1,952,000 during the second quarter of 2014.

## Income Taxes

(in thousands, except percentages)	Three Months Ended		Percent Change
	July 3, 2015	July 4, 2014	
Income taxes	\$ 7,595	\$ 7,134	6.5 %
Percentage of total revenues	9.5 %	9.3 %	
Effective tax rate	39.4 %	38.8 %	

The increase in income taxes was due to a corresponding increase in pre-tax income. The increase in our effective tax rate was due to a benefit of approximately \$340,000 recorded in the second quarter of 2014 related to United States taxes previously provided on undistributed foreign earnings, which we now currently intend to reinvest outside of the United States.

**Six Months Ended July 3, 2015 compared to Six Months Ended July 4, 2014**

## Revenues

(in thousands, except percentages)	Six Months Ended		Percent Change	
	July 3, 2015	July 4, 2014		
Engineering and Other Scientific	\$119,160	\$111,120	7.2	%
Percentage of total revenues	74.4 %	72.8 %		
Environmental and Health	40,997	41,416	(1.0)	)%
Percentage of total revenues	25.6 %	27.2 %		
Total revenues	\$160,157	\$152,536	5.0	%

The increase in revenues for our Engineering and Other Scientific segment was due to an increase in billable hours. During the first six months of 2015, billable hours for this segment increased 7% to 419,000 as compared to 392,000 during the same period last year. The increase in billable hours was due to strong demand for our services. Technical full-time equivalent employees increased 4% to 530 during the first six months of 2015 as compared to 510 for the same period last year due to our continuing recruiting and retention efforts. Utilization was 76% for the first six months of 2015 as compared to 74% during the same period last year. The increase in billable hours and utilization was due to demand for our services in our polymer science & materials chemistry, materials & corrosion engineering, biomedical engineering, engineering management consulting, and buildings & structures practices.

The decrease in revenues for our Environmental and Health segment was due to the impact of translating foreign currencies to U.S. dollars partially offset by an increase in billable hours. During the first six months of 2015, billable hours for this segment increased to 160,000 as compared to 159,000 during the same period last year. Utilization increased to 71% for the first six months of 2015 as compared to 68% for the same period last year. Technical full-time equivalent employees decreased to 217 during the first six months of 2015 as compared to 223 during the same period last year.

## Compensation and Related Expenses

(in thousands, except percentages)	Six Months Ended		Percent Change	
	July 3, 2015	July 4, 2014		
Compensation and related expenses	\$96,892	\$94,907	2.1	%
Percentage of total revenues	60.5 %	62.2 %		

The increase in compensation and related expenses during the first six months of 2015 was due to an increase in payroll, an increase in fringe benefits, and an increase in bonus expense partially offset by the change in value of

assets associated with our deferred compensation plan. During the first six months of 2015 payroll and fringe benefits increased \$1,251,000 and \$626,000, respectively, due to the increase in technical full-time equivalent employees and our annual salary increase. During the first six months of 2015 bonus expense increased \$1,611,000 due to an increase in income before income taxes, before bonus expense, and before stock-based compensation expense. During the first six months of 2015, deferred compensation expense decreased \$1,373,000 with a corresponding decrease to other income, net, as compared to the first six months of 2014 due to the change in value of assets associated with our deferred compensation plan. This decrease consisted of an increase in the value of the plan assets of \$1,309,000 during the first six months of 2015 as compared to an increase in the value of the plan assets of \$2,682,000 during the first six months of 2014. We expect our compensation expense, excluding the change in value of deferred compensation plan assets, to increase as we selectively add new talent.

## Other Operating Expenses

(in thousands, except percentages)	Six Months Ended		Percent Change	
	July 3, 2015	July 4, 2014		
Other operating expenses	\$13,213	\$12,767	3.5	%
Percentage of total revenues	8.3	% 8.4	%	

Other operating expenses include facilities-related costs, technical materials, computer-related expenses and depreciation and amortization of property, equipment and leasehold improvements. The increase in other operating expenses during the first six months of 2015 was due to an increase in computer expense of \$114,000, an increase in office expense of \$107,000, and several individually insignificant increases, which were associated with the increase in technical full-time equivalent employees. We expect other operating expenses to grow as we selectively add new talent and make investments in our corporate infrastructure.

## Reimbursable Expenses

(in thousands, except percentages)	Six Months Ended		Percent Change	
	July 3, 2015	July 4, 2014		
Reimbursable expenses	\$8,744	\$7,238	20.8	%
Percentage of total revenues	5.5	% 4.7	%	

The increase in reimbursable expenses was primarily due to an increase in project-related costs in our materials & corrosion engineering practice within our Engineering and Other Scientific segment. The amount of reimbursable expenses will vary from quarter to quarter depending on the nature of our projects.

## General and Administrative Expenses

(in thousands, except percentages)	Six Months Ended		Percent Change	
	July 3, 2015	July 4, 2014		
General and administrative expenses	\$7,575	\$7,446	1.7	%
Percentage of total revenues	4.7	% 4.9	%	

The increase in general and administrative expenses during the first six months of 2015 was primarily due to several individually insignificant items associated with the increase in technical full-time equivalent employees. We expect general and administrative expenses to increase as we selectively add new talent, expand our business development efforts and pursue staff development initiatives.



## Other Income, Net

(in thousands, except percentages)	Six Months Ended		Percent Change
	July 3, 2015	July 4, 2014	
Other income, net	\$2,630	\$3,585	(26.6 )%
Percentage of total revenues	1.6 %	2.4 %	

Other income, net, consists primarily of interest income earned on available cash, cash equivalents and short-term investments, changes in the value of assets associated with our deferred compensation plan and rental income from leasing space in our Silicon Valley facility. During the first six months of 2015, other income, net, decreased \$1,373,000 with a corresponding decrease to deferred compensation expense as compared to the first six months of 2014 due to the change in value of assets associated with our deferred compensation plan. This decrease consisted of an increase in the value of the plan assets of \$1,309,000 during the first six months of 2015 as compared to an increase in the value of the plan assets of \$2,682,000 during the first six months of 2014.

## Income Taxes

(in thousands, except percentages)	Six Months Ended		Percent Change
	July 3, 2015	July 4, 2014	
Income taxes	\$14,333	\$13,345	7.4 %
Percentage of total revenues	8.9 %	8.7 %	
Effective tax rate	39.4 %	39.5 %	

The increase in income taxes was due to a corresponding increase in pre-tax income.

## LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	Six Months Ended	
	July 3, 2015	July 4, 2014
Net cash provided by operating activities	\$14,820	\$10,730
Net cash provided by (used in) investing activities	4,841	(857 )
Net cash used in financing activities	(17,178)	(20,600)

We financed our business during the first six months of 2015 through available cash. We invest our excess cash in cash equivalents and short-term investments. As of July 3, 2015, our cash, cash equivalents and short-term investments were \$149.9 million compared to \$154.4 million at January 2, 2015. We believe our existing balances of cash, cash equivalents and short-term investments will be sufficient to satisfy our working capital needs, capital expenditures, outstanding commitments, stock repurchases, dividends and other liquidity requirements over at least the next twelve months.

Generally, our net cash provided by operating activities is used to fund our day to day operating activities. First quarter operating cash requirements are generally higher due to payment in the first quarter of our annual bonuses accrued during the prior year. Our largest source of operating cash flows is collections from our clients. Our primary uses of cash from operating activities are for employee related expenditures, leased facilities, taxes, and general operating expenses including marketing and travel.

The increase in net cash provided by investing activities during the first six months of 2015 as compared to the same period last year was due to an increase in maturities of short term investments.

The decrease in net cash used in financing activities during the first six months of 2015 as compared to the same period last year was due to a decrease in repurchases of common stock.

We expect to continue our investing activities, including capital expenditures. Furthermore, cash reserves may be used to repurchase common stock under our stock repurchase programs, pay dividends or strategically acquire professional service firms that are complementary to our business.

For a summary of our commitments to make future payments under contractual obligations, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources” in our Annual Report on Form 10-K for the year ended January 2, 2015. There have been no material changes in our contractual obligations since January 2, 2015.

We maintain a nonqualified deferred compensation plan for the benefit of a select group of highly compensated employees. Vested amounts due under the plan of \$40,080,000 were recorded as a long-term liability on our unaudited condensed consolidated balance sheet at July 3, 2015. Company assets that are earmarked to pay benefits under the plan are held in a rabbi trust and are subject to the claims of our creditors. As of July 3, 2015 invested amounts under the plan of \$36,453,000 were recorded as a long-term asset on our unaudited condensed consolidated balance sheet.

As permitted under Delaware law, we have agreements whereby we indemnify our officers and directors for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. The indemnification period covers all pertinent events and occurrences during the officer's or director's lifetime. The maximum potential amount of future payments we could be required to make under these indemnification agreements is unlimited; however, we have director and officer insurance coverage that reduces our exposure and enables us to recover a portion of any future amounts paid.

### Non-GAAP Financial Measures

Regulation G, Conditions for Use of Non-Generally Accepted Accounting Principles ("Non-GAAP") Financial Measures, and other SEC rules and regulations define and prescribe the conditions for use of Non-GAAP financial information. Generally, a Non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flow that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. We closely monitor two financial measures, EBITDA and EBITDAS, which meet the definition of Non-GAAP financial measures. We define EBITDA as net income before income taxes, net interest income, depreciation and amortization. We define EBITDAS as EBITDA before stock-based compensation. The Company regards EBITDA and EBITDAS as useful measures of operating performance to complement operating income, net income and other GAAP financial performance measures. Additionally, management believes that EBITDA and EBITDAS provide meaningful comparisons of past, present and future operating results. These measures are used to evaluate our financial results, develop budgets and determine employee compensation. These measures, however, should be considered in addition to, and not as a substitute or superior to, operating income, cash flows, or other measures of financial performance prepared in accordance with GAAP. A reconciliation of the Non-GAAP measures to the nearest comparable GAAP measure is set forth below.

The following table shows EBITDA as a percentage of revenues before reimbursements for the three and six months ended July 3, 2015 and July 4, 2014:

(in thousands, except percentages)	Three Months Ended		Six Months Ended	
	July 3, 2015	July 4, 2014	July 3, 2015	July 4, 2014
Revenues before reimbursements	\$ 75,272	\$ 72,331	\$ 151,413	\$ 145,298
EBITDA	\$ 20,582	\$ 19,669	\$ 39,000	\$ 36,312
EBITDA as a % of revenues before reimbursements	27.3 %	27.2 %	25.8 %	25.0 %

The increase in EBITDA as a percentage of revenues before reimbursements during the first six months of 2015 as compared to the same period last year was primarily due to revenue growth partially offset by moderate growth in compensation and related expenses and other operating expenses.

- 23 -

The following table is a reconciliation of EBITDA and EBITDAS to the most comparable GAAP measure, net income, for the three months ended July 3, 2015 and July 4, 2014:

(in thousands)	Three Months Ended		Six Months Ended	
	July 3, 2015	July 4, 2014	July 3, 2015	July 4, 2014
Net income	\$ 11,697	\$ 11,264	\$ 22,030	\$ 20,418
Add back (subtract):				
Income taxes	7,595	7,134	14,333	13,345
Interest income, net	(34 )	(40 )	(68 )	(84 )
Depreciation and amortization	1,324	1,311	2,705	2,633
EBITDA	20,582	19,669	39,000	36,312
Stock-based compensation	2,681	2,582	7,902	7,875
EBITDAS	\$ 23,263	\$ 22,251	\$ 46,902	\$ 44,187

### Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to interest rate risk associated with our balances of cash, cash equivalents and short-term investments. We manage our interest rate risk by maintaining an investment portfolio primarily consisting of debt instruments with high credit quality and relatively short average effective maturities in accordance with our investment policy. The maximum effective maturity of any issue in our portfolio is 3 years and the maximum average effective maturity of the portfolio cannot exceed 12 months. If interest rates were to instantaneously increase or decrease by 100 basis points, the change in the fair market value of our portfolio of cash equivalents and short-term investments would not have a material impact on our financial statements. We do not use derivative financial instruments in our portfolio. There have not been any material changes during the period covered by this Quarterly Report on Form 10-Q to our interest rate risk exposures, or how these exposures are managed. Notwithstanding our efforts to manage interest rate risk, there can be no assurances that we will be adequately protected against the risks associated with interest rate fluctuations.

We have foreign currency risk related to our revenues and expenses denominated in currencies other than the U.S. dollar, primarily the British Pound, the Euro, and the Chinese Yuan. Accordingly, changes in exchange rates may negatively affect the revenues and net income of our foreign subsidiaries as expressed in U.S. dollars.

At July 3, 2015, we had net assets of approximately \$4.0 million with a functional currency of the British Pound, net assets of approximately \$2.5 million with a functional currency of the Euro, and net assets of approximately \$1.7 million with a functional currency of the Chinese Yuan associated with our operations in the United Kingdom, Germany, and China, respectively.

We also have foreign currency risk related to foreign currency transactions and monetary assets and liabilities denominated in currencies that are not the functional currency. We have experienced and will continue to experience fluctuations in our net income as a result of gains (losses) on these foreign currency transactions and the remeasurement of monetary assets and liabilities. At July 3, 2015, we had net assets denominated in the non-functional currency of approximately \$1.1 million. As such, a ten percent change in the value of the local currency would result in \$0.11 million foreign currency gain or loss in our results of operations.

We do not use foreign exchange contracts to hedge any foreign currency exposures. To date, the impacts of foreign currency exchange rate changes on our consolidated revenues and consolidated net income have not been material. However, our continued international expansion increases our exposure to exchange rate fluctuations and as a result such fluctuations could have a significant impact on our future results of operations.

#### **Item 4. Controls and Procedures**

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective.

We intend to review and evaluate the design and effectiveness of our disclosure controls and procedures on an ongoing basis, to improve our controls and procedures over time and to correct any deficiencies that we may discover in the future. Our goal is to ensure that our senior management has timely access to all material financial and non-financial information concerning our business. While we believe the present design of our disclosure controls and procedures is effective to achieve our goal, future events affecting our business may cause us to significantly modify our disclosure controls and procedures.

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three month period ended July 3, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **PART II - OTHER INFORMATION**

##### **Item 1. Legal Proceedings**

Exponent is not engaged in any material legal proceedings.



**Item 1A. Risk Factors**

There have been no material changes from risk factors as previously discussed under the heading “Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended January 2, 2015.

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

The following table provides information on the Company’s repurchases of the Company’s common stock for the three months ended July 3, 2015 (in thousands, except price per share):

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Programs <sup>(1)</sup>
April 4 to May 1	-	\$ -	-	\$ 31,578
May 2 to May 29	-	-	-	\$ 31,578
May 30 to July 3	82	42.80	82	\$ 28,074
Total	82	\$ 42.80	82	\$ 28,074

On February 9, 2012, the Board of Directors authorized \$35,000,000 for the repurchase of the Company’s common stock. On February 15, 2013, the Board of Directors authorized an additional \$35,000,000 for the repurchase of the <sup>(1)</sup> Company’s common stock. On May 29, 2014, the Company’s Board of Directors authorized an additional \$35,000,000 for the repurchase of the Company’s common stock. These plans have no expiration date.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

Not applicable.

Item 6. Exhibits

(a)

Exhibit Index

31.1 Certificate of Amendment of Restated Certificate of Incorporation of the Company (incorporated by reference (iii) from the Company's Current Report on Form 8-K filed on May 28, 2015).

31.1 Certification of Chief Executive Officer pursuant to Rule 13a – 14(a) under the Securities Exchange Act of 1934.

31.2 Certification of Chief Financial Officer pursuant to Rule 13a – 14(a) under the Securities Exchange Act of 1934.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

101.SCH	XBRL Taxonomy Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

**SIGNATURES**

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

EXPONENT, INC.

(Registrant)

Date: August 7, 2015

/s/ Paul R. Johnston

Paul R. Johnston, Ph.D., Chief Executive Officer

/s/ Richard L. Schlenker

Richard L. Schlenker, Chief Financial Officer