

EXPONENT INC
Form 10-Q
November 06, 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 October 2, 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 (I.R.S. Employer Identification No.)
incorporation or organization)

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 October 30, 2015, the latest practicable date, the registrant had 25,746,928 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 October 2, 2015 and January 2, 2015</u>	3
<u>Condensed Consolidated Statements of Income Three and Nine Months Ended October 2, 2015 and October 3, 2014</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income Three and Nine Months Ended October 2, 2015 and October 3, 2014</u>	5
<u>Condensed Consolidated Statements of Cash Flows Three and Nine Months Ended October 2, 2015 and October 3, 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>	17
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	25
Item 4. <u>Controls and Procedures</u>	25
 <u>PART II – OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	26
Item 1A. <u>Risk Factors</u>	26
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
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>	28

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

EXPONENT, INC.

Condensed Consolidated Balance Sheets

October 2, 2015 and January 2, 2015

(in thousands, except par value)

(unaudited)

	October 2, 2015	January 2, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 124,457	\$ 129,490
Short-term investments	26,837	24,913
Accounts receivable, net of allowance for doubtful accounts and contract losses of \$3,340 and \$3,386 at October 2, 2015 and January 2, 2015, respectively	94,168	86,368
Prepaid expenses and other assets	12,884	14,727
Deferred income taxes	11,112	11,002
Total current assets	269,458	266,500
Property, equipment and leasehold improvements, net	29,390	28,264
Goodwill	8,607	8,607
Deferred income taxes	25,336	24,612
Deferred compensation plan assets	34,960	36,195
Other assets	1,230	1,121
Total assets	\$ 368,981	\$ 365,299
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 8,945	\$ 8,935
Accrued payroll and employee benefits	54,726	62,184
Deferred revenues	5,892	8,226
Total current liabilities	69,563	79,345

Edgar Filing: EXPONENT INC - Form 10-Q

Other liabilities	1,936	1,862
Deferred compensation	38,714	37,745
Deferred rent	1,979	2,059
Total liabilities	112,192	121,011
Stockholders' equity:		
Common stock, \$0.001 par value; 80,000 shares authorized; 32,853 shares issued at October 2, 2015 and January 2, 2015	33	33
Additional paid-in capital	177,129	160,208
Accumulated other comprehensive income		
Investment securities, available-for-sale	10	14
Foreign currency translation adjustments	(1,453)	(918)
	(1,443)	(904)
Retained earnings	263,417	246,961
Treasury stock, at cost; 7,172 and 7,111 shares held at October 2, 2015 and January 2, 2015, respectively	(182,347)	(162,010)
Total stockholders' equity	256,789	244,288
Total liabilities and stockholders' equity	\$368,981	\$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 Nine Months Ended October 2, 2015 and October 3, 2014

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

	Three Months Ended		Nine Months Ended	
	October 2, 2015	October 3, 2014	October 2, 2015	October 3, 2014
Revenues:				
Revenues before reimbursements	\$ 74,503	\$ 74,264	\$ 225,916	\$ 219,562
Reimbursements	4,491	4,293	13,235	11,531
Revenues	78,994	78,557	239,151	231,093
Operating expenses:				
Compensation and related expenses	42,853	43,948	139,745	138,855
Other operating expenses	6,766	6,715	19,979	19,482
Reimbursable expenses	4,491	4,293	13,235	11,531
General and administrative expenses	3,963	4,363	11,538	11,809
Total operating expenses	58,073	59,319	184,497	181,677
Operating income	20,921	19,238	54,654	49,416
Other income, net:				
Interest income, net	47	33	115	117
Miscellaneous income, net	(2,195)	(896)	367	2,605
Total other income, net	(2,148)	(863)	482	2,722
Income before income taxes	18,773	18,375	55,136	52,138
Income taxes	7,054	7,335	21,387	20,680
Net income	\$ 11,719	\$ 11,040	\$ 33,749	\$ 31,458

Edgar Filing: EXPONENT INC - Form 10-Q

Net income per share:

Basic	\$ 0.44	\$ 0.41	\$1.27	\$ 1.16
Diluted	\$ 0.43	\$ 0.40	\$1.23	\$ 1.13

Shares used in per share computations:

Basic	26,597	26,938	26,644	27,018
Diluted	27,268	27,648	27,350	27,778

Cash dividends declared per common share	\$ 0.150	\$ 0.125	\$0.450	\$ 0.375
--	----------	----------	---------	----------

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

EXPONENT, INC.

Condensed Consolidated Statements of Comprehensive Income

For the Three and Nine Months Ended October 2, 2015 and October 3, 2014

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	October 2, 2015	October 3, 2014	October 2, 2015	October 3, 2014
Net income	\$ 11,719	\$ 11,040	\$ 33,749	\$ 31,458
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	(199)	(840)	(535)	(471)
Unrealized gains (losses) on available-for- sale investment securities arising during the period, net of tax	13	(13)	(4)	9
Comprehensive income	\$ 11,533	\$ 10,187	\$ 33,210	\$ 30,996

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

EXPONENT, INC.

Condensed Consolidated Statements of Cash Flows

For the Nine Months Ended October 2, 2015 and October 3, 2014

(in thousands)**(unaudited)**

	Nine Months Ended	
	October 2, 2015	October 3, 2014
Cash flows from operating activities:		
Net income	\$33,749	\$31,458
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and leasehold improvements	4,034	3,979
Amortization of premiums and accretion of discounts on short-term investments	515	660
Deferred rent	(80)	(170)
Provision for doubtful accounts and contract losses	785	1,234
Stock-based compensation	10,536	10,585
Deferred income tax provision	(869)	(6,046)
Excess tax benefit from equity incentive plans	(4,983)	(5,126)
Changes in operating assets and liabilities:		
Accounts receivable	(8,585)	(13,343)
Prepaid expenses and other assets	1,206	(2,877)
Accounts payable and accrued liabilities	4,236	6,314
Accrued payroll and employee benefits	(3,900)	331
Deferred revenues	(2,334)	(923)
Net cash provided by operating activities	34,310	26,076
Cash flows from investing activities:		
Capital expenditures	(4,355)	(3,906)
Purchase of short-term investments	(16,000)	(1,067)
Maturity of short-term investments	13,555	7,586
Net cash (used in) provided by investing activities	(6,800)	2,613
Cash flows from financing activities:		
Excess tax benefit from equity incentive plans	4,983	5,126
Payroll taxes for restricted stock units	(7,365)	(6,356)

Edgar Filing: EXPONENT INC - Form 10-Q

Repurchase of common stock	(19,814)	(26,372)
Exercise of share-based payment awards	1,547	1,811
Dividends and dividend equivalents rights	(11,780)	(9,842)
Net cash used in financing activities	(32,429)	(35,633)
Effect of foreign currency exchange rates on cash and cash equivalents	(114)	(390)
Net decrease in cash and cash equivalents	(5,033)	(7,334)
Cash and cash equivalents at beginning of period	129,490	122,948
Cash and cash equivalents at end of period	\$124,457	\$115,614

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 nine months ended October 2, 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		
	Dividend	Amount
	Per Share	(in thousands)
First Quarter	\$0.150	\$ 3,858
Second Quarter	\$0.150	\$ 3,887
Third Quarter	\$0.150	\$ 3,870
		\$ 11,615

Fiscal Year 2014		
	Dividend	Amount
	Per Share	(in thousands)
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 October 21, 2015 the Company's Board of Directors announced a cash dividend of \$0.15 per share of the Company's common stock, payable December 18, 2015, to stockholders of record as of November 27, 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 nine months ended October 2, 2015 and October 3, 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 October 2, 2015:

(In thousands)	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market securities ⁽¹⁾	\$ 3,608	\$ 3,608	\$ -	\$ -
Fixed income available- for-sale securities ⁽²⁾	26,837	-	26,837	-

Edgar Filing: EXPONENT INC - Form 10-Q

Fixed income trading securities held in deferred compensation plan ⁽³⁾	9,007	9,007	-	-
Equity trading securities held in deferred compensation plan ⁽³⁾	32,277	32,277	-	-
Total	\$ 71,729	\$ 44,892	\$ 26,837	\$ -
Liabilities				
Deferred compensation plan ⁽⁴⁾	45,038	45,038	-	-
Total	\$ 45,038	\$ 45,038	\$ -	\$ -

- 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)
Assets				
Money market securities ⁽¹⁾	\$ 45,478	\$ 45,478	\$ -	\$ -
Fixed income available- for-sale securities ⁽²⁾	24,913	-	24,913	-
Fixed income trading securities held in deferred compensation plan ⁽³⁾	9,672	9,672	-	-
Equity trading securities held in deferred compensation plan ⁽³⁾	34,176	34,176	-	-
Total	\$ 114,239	\$ 89,326	\$ 24,913	\$ -
Liabilities				
Deferred compensation plan ⁽⁴⁾	45,394	45,394	-	-
Total	\$ 45,394	\$ 45,394	\$ -	\$ -

(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 October 2, 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.

- 9 -

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

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Classified as current assets:				
Cash	\$ 120,849	\$ -	\$ -	\$ 120,849
Cash equivalents:				
Money market securities	3,608	-	-	3,608
Total cash equivalents	3,608	-	-	3,608
Total cash and cash equivalents	124,457	-	-	124,457
Short-term investments:				
U.S. agency securities	16,000	14	-	16,014
State and municipal bonds	10,821	3	(1)	10,823
Total short-term investments	26,821	17	(1)	26,837
Total cash, cash equivalents and short-term investments	\$ 151,278	\$ 17	\$ (1)	\$ 151,294

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 October 2, 2015:

(In thousands)	Amortized Cost	Estimated Fair Value
Due within one year	\$ 10,821	\$ 10,823
Due between one and two years	16,000	16,014
Total	\$ 26,821	\$ 26,837

At October 2, 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 October 2, 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 October 2, 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 nine months ended October 2, 2015 and October 3, 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:

Three Months Ended	Nine Months Ended
--------------------	-------------------

Edgar Filing: EXPONENT INC - Form 10-Q

(In thousands)	October 2, 2015	October 3, 2014	October 2, 2015	October 3, 2014
Shares used in basic per share computation	26,597	26,938	26,644	27,018
Effect of dilutive common stock options outstanding	139	118	143	138
Effect of dilutive restricted stock units outstanding	532	592	563	622
Shares used in diluted per share computation	27,268	27,648	27,350	27,778

Common stock options to purchase 40,000 shares were excluded from the diluted per share calculation for the three months ended October 2, 2015 due to their antidilutive effect. The weighted-average exercise price for the antidilutive shares was \$44.20 for the three months ended October 2, 2015. Common stock options to purchase 33,993 shares were excluded from the diluted per share calculation for the nine months ended October 2, 2015 due to their antidilutive effect. The weighted-average exercise price for the antidilutive shares was \$44.20 for the nine months ended October 2, 2015. There were no options excluded from the diluted per share calculations for the three and nine months ended October 3, 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 \$1,616,000 and \$1,657,000 during the three months ended October 2, 2015 and October 3, 2014, respectively. For the nine months ended October 2, 2015 and October 3, 2014, the Company recorded stock-based compensation expense associated with accrued bonus awards of \$4,959,000 and \$4,825,000, 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 \$967,000 and \$982,000 during the three months ended October 2, 2015 and October 3, 2014, respectively. The Company recorded stock-based compensation expense associated with the unvested restricted stock unit awards of \$5,078,000 and \$5,145,000 during the nine months ended October 2, 2015 and October 3, 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 \$71,000 during the three months ended October 2, 2015 and October 3, 2014, respectively. The Company recorded stock-based compensation expense associated with stock option grants of \$499,000 and \$615,000 during the nine months ended October 2, 2015 and October 3, 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 463,402 shares of its common stock for \$19,814,000 during the nine months ended October 2, 2015. The Company repurchased 767,278 shares of its common stock for \$27,923,000 during the nine months ended October 3, 2014. As of October 2, 2015, the Company had remaining authorization under its stock repurchase plans of \$15,265,000 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 nine months ended October 2, 2015 and October 3, 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 October 2, 2015 and January 2, 2015, the invested amounts under the plans totaled \$41,284,000 and \$43,848,000, respectively. These assets are classified as trading securities and are recorded at fair value with changes recorded as adjustments to miscellaneous income, net.

As of October 2, 2015 and January 2, 2015, vested amounts due under the plans totaled \$45,038,000 and \$45,394,000, respectively. Changes in the liability are recorded as adjustments to compensation expense. During the three months ended October 2, 2015 and October 3, 2014, the Company recognized a decrease in compensation expense of \$2,688,000 and \$1,331,000, respectively, as a result of changes in the market value of the trust assets with the same amount being recorded as expense in miscellaneous income, net. During the nine months ended October 2, 2015 and October 3, 2014, the Company recognized compensation expense of (\$1,379,000) and \$1,351,000, respectively, as a result of changes in the market value of the trust assets with the same amount being recorded as expense/income in miscellaneous income, net.

Note 7: Supplemental Cash Flow Information

The following is supplemental disclosure of cash flow information:

(In thousands)	Nine Months Ended	
	October 2, 2015	October 3, 2014
Cash paid during period:		
Income taxes	\$ 17,087	\$ 17,458
Non-cash investing and financing activities:		
Unrealized (loss) gain on short-term investments	\$(4)	\$ 9
Vested stock unit awards issued to settle accrued bonuses	\$ 6,169	\$ 6,008
Accrual for capital expenditures	\$ 805	\$ 164
Stock repurchases payable to broker	\$ -	\$ 1,551

Note 8: Accounts Receivable, Net

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

	October 2, 2015	January 2, 2015
(In thousands)		
Billed accounts receivable	\$61,722	\$63,331
Unbilled accounts receivable	35,786	26,423
Allowance for doubtful accounts and contract losses	(3,340)	(3,386)
Total accounts receivable, net	\$94,168	\$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 nine months ended October 2, 2015 and October 3, 2014 follows:

Revenues

	Three Months Ended		Nine Months Ended	
(In thousands)	October 2, 2015	October 3, 2014	October 2, 2015	October 3, 2014
Engineering and Other Scientific	\$ 61,052	\$ 57,491	\$180,212	\$ 168,611
Environmental and Health	17,942	21,066	58,939	62,482
Total revenues	\$ 78,994	\$ 78,557	\$239,151	\$ 231,093

Operating Income

Three Months Ended	Nine Months Ended
--------------------	-------------------

Edgar Filing: EXPONENT INC - Form 10-Q

(In thousands)	October 2, 2015	October 3, 2014	October 2, 2015	October 3, 2014
Engineering and Other Scientific	\$ 20,252	\$ 18,939	\$ 58,605	\$ 55,457
Environmental and Health	5,039	7,007	18,134	20,171
Total segment operating income	25,291	25,946	76,739	75,628
Corporate operating expense	(4,370)	(6,708)	(22,085)	(26,212)
Total operating income	\$ 20,921	\$ 19,238	\$ 54,654	\$ 49,416

- 14 -

Capital Expenditures

(In thousands)	Three Months Ended		Nine Months Ended	
	October 2, 2015	October 3, 2014	October 2, 2015	October 3, 2014
Engineering and Other Scientific	\$ 1,057	\$ 1,509	\$ 2,268	\$ 2,833
Environmental and Health	52	36	123	151
Total segment capital expenditures	1,109	1,545	2,391	2,984
Corporate capital expenditures	1,532	385	1,964	922
Total capital expenditures	\$ 2,641	\$ 1,930	\$ 4,355	\$ 3,906

Depreciation and Amortization

(In thousands)	Three Months Ended		Nine Months Ended	
	October 2, 2015	October 3, 2014	October 2, 2015	October 3, 2014
Engineering and Other Scientific	\$951	\$ 923	\$ 2,877	\$ 2,664
Environmental and Health	46	49	133	145
Total segment depreciation and amortization	997	972	3,010	2,809
Corporate depreciation and amortization	332	374	1,024	1,170
Total depreciation and amortization	\$ 1,329	\$ 1,346	\$ 4,034	\$ 3,979

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

Note 10: Goodwill

Below is a breakdown of goodwill reported by segment as of October 2, 2015:

Environmental Engineering and

(In thousands)	and Health	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 nine months ended October 2, 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.

Note 12: Subsequent Event

On October 21, 2015, the Company announced that its Board of Directors had authorized an additional \$35,000,000 in share repurchases, increasing the Company's current authorization to approximately \$50,000,000.

- 16 -

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 third quarter of 2015 increased to \$78,994,000 as compared to \$78,557,000 during the same period last year. Revenues before reimbursements for the third quarter of 2015 increased to \$74,503,000 as compared to \$74,264,000 during same period last year. We experienced good 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. The low growth rate was due to one of our major investigations ending in July of 2015 and a continued step down in the level of activity in our technology development practice. We continue to expect any future work related to this major 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.

For the quarter we experienced good demand in both our proactive and reactive services and had strong performances from our materials & corrosion engineering, biomedical engineering, polymer science & materials chemistry, and vehicle analysis practices, as well as our infrastructure group.

Net income increased to \$11,719,000 during the third quarter of 2015 as compared to \$11,040,000 during the same period last year. Diluted earnings per share increased to \$0.43 per share as compared to \$0.40 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.

Overview of the Three Months Ended October 2, 2015

During the third quarter of 2015, billable hours increased to 286,000 as compared to 285,000 during the same period last year. Our utilization decreased to 73% during the third quarter of 2015 as compared to 74% during the third quarter of 2014. Technical full-time equivalent employees increased 1% to 749 during the third quarter of 2015 as

compared to 743 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 October 2, 2015 compared to Three Months Ended October 3, 2014

Revenues

(in thousands, except percentages)	Three Months Ended		Percent Change	
	October 2, 2015	October 3, 2014		
Engineering and Other Scientific	\$ 61,052	\$ 57,491	6.2	%
Percentage of total revenues	77.3 %	73.2 %		
Environmental and Health	17,942	21,066	(14.8	)%
Percentage of total revenues	22.7 %	26.8 %		
Total revenues	\$ 78,994	\$ 78,557	0.6	%

The increase in revenues for our Engineering and Other Scientific segment was due to an increase in billable hours. During the third quarter of 2015, billable hours for this segment increased by 7% to 216,000 as compared to 202,000 during the same period last year. Utilization increased to 77% during the third quarter of 2015 as compared to 75% during the same period last year. The increase in billable hours and utilization was due to demand for our services in our materials & corrosion engineering, biomedical engineering, polymer science & materials chemistry, and vehicle analysis practices, as well as our infrastructure group, partially offset by a continued 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. Technical full-time equivalent employees increased 3% to 538 during the third quarter of 2015 as compared to 520 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. During the third quarter of 2015, billable hours for this segment decreased by 15% to 70,000 as compared to 82,000 during the same period last year. Utilization decreased to 63% for the third quarter of 2015 as compared to 71% for the same period last year. The decrease in billable hours and utilization was due to one of our major investigations ending in July of 2015 and weaker demand for our services in our health centers. Technical full-time equivalent employees decreased to 211 during the third quarter of 2015 as compared to 223 during the same period last year due to our efforts to align resources with anticipated demand.

Compensation and Related Expenses

(in thousands, except percentages)	Three Months Ended			Percent Change
	October 2, 2015	October 3, 2014		
Compensation and related expenses	\$ 42,853	\$ 43,948	(2.5)	%
Percentage of total revenues	54.2 %	55.9 %		

The decrease in compensation and related expenses during the third 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 fringe benefits expense. During the third quarter of 2015, deferred compensation expense decreased \$1,357,000 with a corresponding decrease to other income (expense), net, as compared to the third 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 \$2,688,000 during the third quarter of 2015 as compared to a decrease in the value of the plan assets of \$1,331,000 during same period last year. Fringe benefits increased \$326,000 due primarily to an increase in health insurance rates. 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
	October 2, 2015	October 3, 2014		
Other operating expenses	\$ 6,766	\$ 6,715	0.8	%
Percentage of total revenues	8.6 %	8.5 %		

Other operating expenses include facilities-related costs, technical materials, computer-related expenses and depreciation and amortization of property, equipment and leasehold improvements. The small increase in other operating expenses during the third 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.

Reimbursable Expenses

(in thousands, except percentages)	Three Months Ended			Percent Change
	October 2, 2015	October 3, 2014		
Reimbursable expenses	\$ 4,491	\$ 4,293		4.6 %
Percentage of total revenues	5.7 %	5.5 %		

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
	October 2, 2015	October 3, 2014		
General and administrative expenses	\$ 3,963	\$ 4,363	(9.2)	%
Percentage of total revenues	5.0 %	5.6 %		

The decrease in general and administrative expenses during the third quarter of 2015 was primarily due to a decrease in travel and meals of \$400,000. The decrease in travel and meals was due to a firm-wide managers' meeting held during the third quarter of 2014. 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
	October 2, 2015	October 3, 2014		
Other income, net	\$ (2,148)	\$ (863)	(149)	%
Percentage of total revenues	(2.7)%	(1.1)%		

Other income, net, consists primarily of changes in the value of assets associated with our deferred compensation plan, interest income earned on available cash, cash equivalents and short-term investments, and rental income from leasing space in our Silicon Valley facility. During the third quarter of 2015, other income, net, decreased \$1,357,000 with a corresponding decrease to deferred compensation expense, as compared to the third 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 \$2,688,000 during the third quarter of 2015 as compared to a decrease in the value of the plan assets of \$1,331,000 during the third quarter of 2014.

Income Taxes

(in thousands, except percentages)	Three Months Ended			Percent Change
	October 2, 2015	October 3, 2014		
Income taxes	\$ 7,054	\$ 7,335	(3.8)	%
Percentage of total revenues	8.9 %	9.3 %		
Effective tax rate	37.6 %	39.9 %		

The decrease in income taxes was due to a decrease in our effective tax rate. The decrease in our effective tax rate was due to an increase in foreign earnings in jurisdictions with lower income tax rates and a decrease in state income taxes.

Nine Months Ended October 2, 2015 compared to Nine Months Ended October 3, 2014

Revenues

(in thousands, except percentages)	Nine Months Ended		Percent Change	
	October 2, 2015	October 3, 2014		
Engineering and Other Scientific	\$ 180,212	\$ 168,611	6.9	%
Percentage of total revenues	75.4 %	73.0 %		
Environmental and Health	58,939	62,482	(5.7)	)%
Percentage of total revenues	24.6 %	27.0 %		
Total revenues	\$ 239,151	\$ 231,093	3.5	%

The increase in revenues for our Engineering and Other Scientific segment was due to an increase in billable hours. During the first nine months of 2015, billable hours for this segment increased 7% to 635,000 as compared to 594,000 during the same period last year. The increase in billable hours was due to strong demand for our services, partially offset by a continued 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. Technical full-time equivalent employees increased 4% to 533 during the first nine months of 2015 as compared to 513 for the same period last year due to our continuing recruiting and retention efforts. Utilization was 76% for the first nine 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 a decrease in billable hours. During the first nine months of 2015, billable hours for this segment decreased 5% to 229,000 as compared to 241,000 during the same period last year. Utilization decreased to 68% for the first nine months of 2015 as compared to 69% for the same period last year. The decrease in billable hours and utilization was due to one of our major investigations ending in July of 2015 and weaker demand for our services in our health centers. Technical full-time equivalent employees decreased to 215 during the first nine months of 2015 as compared to 223 during the same period last year due to our efforts to align resources with anticipated demand.

Compensation and Related Expenses

(in thousands, except percentages)	Nine Months Ended			Percent Change
	October 2, 2015	October 3, 2014		
Compensation and related expenses	\$ 139,745	\$ 138,855	0.6	%
Percentage of total revenues	58.4	% 60.1	%	

The increase in compensation and related expenses during the first nine 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 nine months of 2015 payroll and fringe benefits increased \$1,365,000 and \$952,000, respectively, due to the increase in technical full-time equivalent employees, our annual salary increase, and an increase in health insurance rates. During the first nine months of 2015 bonus expense increased \$1,383,000 due to an increase in income before income taxes, before bonus expense, and before stock-based compensation expense. During the first nine months of 2015, deferred compensation expense decreased \$2,730,000 with a corresponding decrease to other income, net, as compared to the first nine months 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 \$1,379,000 during the first nine months of 2015 as compared to an increase in the value of the plan assets of \$1,351,000 during the first nine 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)	Nine Months Ended			Percent Change
	October 2, 2015	October 3, 2014		
Other operating expenses	\$ 19,979	\$ 19,482		2.6 %
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 first nine months of 2015 was due to an increase in computer expense of \$191,000, an increase in office expense of \$113,000, 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)	Nine Months Ended			Percent Change
	October 2, 2015	October 3, 2014		
Reimbursable expenses	\$ 13,235	\$ 11,531		14.8 %
Percentage of total revenues	5.5 %	5.0 %		

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)	Nine Months Ended			Percent Change
	October 2, 2015	October 3, 2014		
General and administrative expenses	\$ 11,538	\$ 11,809		(2.3)%
Percentage of total revenues	4.8 %	5.1 %		

The decrease in general and administrative expenses during the first nine months of 2015 was primarily due to a decrease in travel and meals of \$193,000. The decrease in travel and meals was due to a firm-wide managers' meeting held during the third quarter of 2014. 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)	Nine Months Ended			Percent Change
	October 2, 2015	October 3, 2014		
Other income, net	\$ 482	\$ 2,722		(82.3)%
Percentage of total revenues	0.2 %	1.2 %		

Other income, net, consists primarily of changes in the value of assets associated with our deferred compensation plan, interest income earned on available cash, cash equivalents and short-term investments, and rental income from leasing space in our Silicon Valley facility. During the first nine months of 2015, other income, net, decreased \$2,730,000 with a corresponding decrease to deferred compensation expense as compared to the first nine months of 2014 due to the change in value of assets associated with our deferred compensation plan. This decrease consisted of a

Edgar Filing: EXPONENT INC - Form 10-Q

decrease in the value of the plan assets of \$1,379,000 during the first nine months of 2015 as compared to an increase in the value of the plan assets of \$1,351,000 during the first nine months of 2014.

Income Taxes

(in thousands, except percentages)	Nine Months Ended		Percent Change	
	October 2, 2015	October 3, 2014		
Income taxes	\$21,387	\$ 20,680	3.4	%
Percentage of total revenues	8.9 %	8.9 %		
Effective tax rate	38.8 %	39.7 %		

The increase in income taxes was due to a corresponding increase in pre-tax income partially offset by a decrease in our effective tax rate. The decrease in our effective tax rate was due to an increase in foreign earnings in jurisdictions with lower income tax rates and a decrease in state income taxes.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	Nine Months Ended	
	October 2, 2015	October 3, 2014
Net cash provided by operating activities	\$34,310	\$26,076
Net cash (used in) provided by investing activities	(6,800)	2,613
Net cash used in financing activities	(32,429)	(35,633)

We financed our business during the first nine months of 2015 through available cash. We invest our excess cash in cash equivalents and short-term investments. As of October 2, 2015, our cash, cash equivalents and short-term investments were \$151.3 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 used in investing activities during the first nine months of 2015 as compared to the same period last year was due to an increase in purchases of short-term investments.

The decrease in net cash used in financing activities during the first nine months of 2015 as compared to the same period last year was due to a decrease in repurchases of common stock partially offset by an increase in dividends paid.

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 \$38,714,000 were recorded as a long-term liability on our unaudited condensed consolidated balance sheet at October 2, 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 October 2, 2015 invested amounts under the plan of \$34,960,000 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 nine months ended October 2, 2015 and October 3, 2014:

(in thousands, except percentages)	Three Months Ended		Nine Months Ended	
	October 2, 2015	October 3, 2014	October 2, 2015	October 3, 2014
Revenues before reimbursements	\$ 74,503	\$ 74,264	\$ 225,916	\$ 219,562
EBITDA	\$ 20,055	\$ 19,688	\$ 59,055	\$ 56,000
EBITDA as a % of revenues before reimbursements	26.9 %	26.5 %	26.1 %	25.5 %

The increase in EBITDA as a percentage of revenues before reimbursements during the first nine 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.

The following table is a reconciliation of EBITDA and EBITDAS to the most comparable GAAP measure, net income, for the three and nine months ended October 2, 2015 and October 3, 2014:

Edgar Filing: EXPONENT INC - Form 10-Q

(in thousands)	Three Months Ended		Nine Months Ended	
	October 2, 2015	October 3, 2014	October 2, 2015	October 3, 2014
Net income	\$ 11,719	\$ 11,040	\$ 33,749	\$ 31,458
Add back (subtract):				
Income taxes	7,054	7,335	21,387	20,680
Interest income, net	(47)	(33)	(115)	(117)
Depreciation and amortization	1,329	1,346	4,034	3,979
EBITDA	20,055	19,688	59,055	56,000
Stock-based compensation	2,634	2,710	10,536	10,585
EBITDAS	\$ 22,689	\$ 22,398	\$ 69,591	\$ 66,585

- 24 -

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 October 2, 2015, we had net assets of approximately \$4.5 million with a functional currency of the British Pound, net assets of approximately \$2.6 million with a functional currency of the Euro, and net assets of approximately \$1.2 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 October 2, 2015, we had net assets denominated in the non-functional currency of approximately \$2.1 million. As such, a ten percent change in the value of the local currency would result in \$0.21 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 growth 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 October 2, 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 October 2, 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 ⁽¹⁾
July 4 to July 31	-	\$ -	-	\$ 28,074
August 1 to August 28	95	41.99	95	\$ 24,073
August 29 to October 2	205	42.91	205	\$ 15,265
Total	300	\$ 42.62	300	\$ 15,265

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 Company's common stock. On May 29, 2014, the Company's Board of Directors authorized an additional (1) \$35,000,000 for the repurchase of the Company's common stock. On October 21, 2015, 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 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.INS XBRL Instance Document
- 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: November 6, 2015

/s/ Paul R. Johnston

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

/s/ Richard L. Schlenker

Richard L. Schlenker, Chief Financial Officer