

EXPONENT INC  
Form 10-Q  
May 08, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended April 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 (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)

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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 May 1, 2015, the latest practicable date, the registrant had 12,990,741 shares of common stock, \$0.001 par value per share, outstanding.

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EXPONENT, INC.

FORM 10-Q

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## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## EXPONENT, INC.

## Condensed Consolidated Balance Sheets

April 3, 2015 and January 2, 2015

(in thousands, except par value)

(unaudited)

|   | April 3,<br>2015 | January 2,<br>2015 |
|---|------------------|--------------------|
| Assets  |                  |                    |
| Current assets:   |                  |                    |
| Cash and cash equivalents   | \$ 123,658       | \$ 129,490         |
| Short-term investments  | 21,368           | 24,913             |
| Accounts receivable, net of allowance for doubtful accounts<br>of \$3,596 and \$3,386 at April 3, 2015 and<br>January 2, 2015, respectively | 88,076           | 86,368             |
| Prepaid expenses and other assets   | 12,121           | 14,727             |
| Deferred income taxes   | 11,602           | 11,002             |
| Total current assets  | 256,825          | 266,500            |
| Property, equipment and leasehold improvements, net   | 27,587           | 28,264             |
| Goodwill  | 8,607            | 8,607              |
| Deferred income taxes   | 25,917           | 24,612             |
| Deferred compensation plan assets   | 37,148           | 36,195             |
| Other assets  | 1,159            | 1,121              |
| Total assets  | \$357,243        | \$365,299          |
| Liabilities and Stockholders' Equity  |                  |                    |
| Current liabilities:  |                  |                    |
| Accounts payable and accrued liabilities  | \$8,933          | \$8,935            |
| Accrued payroll and employee benefits   | 40,169           | 62,184             |
| Deferred revenues   | 5,776            | 8,226              |
| Total current liabilities   | 54,878           | 79,345             |

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|  |           |           |
|--|-----------|-----------|
| Other liabilities  | 1,985     | 1,862     |
| Deferred compensation  | 44,648    | 37,745    |
| Deferred rent  | 1,914     | 2,059     |
| Total liabilities  | 103,425   | 121,011   |
| Stockholders' equity:  |           |           |
| Common stock, \$0.001 par value; 100,000 shares authorized;<br>16,427 shares issued at April 3, 2015 and January 2, 2015 | 16        | 16        |
| Additional paid-in capital   | 174,161   | 160,225   |
| Accumulated other comprehensive income   |           |           |
| Investment securities, available-for-sale  | 7         | 14        |
| Foreign currency translation adjustments   | (1,419 )  | (918 )    |
|  | (1,412 )  | (904 )    |
| Retained earnings  | 248,089   | 246,961   |
| Treasury stock, at cost; 3,436 and 3,556 shares held at<br>April 3, 2015 and January 2, 2015, respectively               | (167,036) | (162,010) |
| Total stockholders' equity   | 253,818   | 244,288   |
| Total liabilities and stockholders' equity   | \$357,243 | \$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 Months Ended April 3, 2015 and April 4, 2014

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

|                                     | Three Months<br>Ended |                  |
|-------------------------------------|-----------------------|------------------|
|                                     | April 3,<br>2015      | April 4,<br>2014 |
| Revenues:                           |                       |                  |
| Revenues before reimbursements      | \$76,141              | \$72,967         |
| Reimbursements                      | 4,152                 | 2,995            |
| Revenues                            | 80,293                | 75,962           |
| Operating expenses:                 |                       |                  |
| Compensation and related expenses   | 51,115                | 48,858           |
| Other operating expenses            | 6,510                 | 6,317            |
| Reimbursable expenses               | 4,152                 | 2,995            |
| General and administrative expenses | 3,488                 | 3,698            |
| Total operating expenses            | 65,265                | 61,868           |
| Operating income                    | 15,028                | 14,094           |
| Other income, net:                  |                       |                  |
| Interest income, net                | 34                    | 44               |
| Miscellaneous income, net           | 2,009                 | 1,227            |
| Total other income, net             | 2,043                 | 1,271            |
| Income before income taxes          | 17,071                | 15,365           |
| Income taxes                        | 6,738                 | 6,211            |
| Net income                          | \$10,333              | \$9,154          |



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Net income per share:

|         |        |        |
|---------|--------|--------|
| Basic   | \$0.78 | \$0.68 |
| Diluted | \$0.75 | \$0.66 |

Shares used in per share computations:

|         |        |        |
|---------|--------|--------|
| Basic   | 13,311 | 13,537 |
| Diluted | 13,695 | 13,940 |

Cash dividends declared per common share \$0.30 \$0.25

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

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EXPONENT, INC.

**Condensed Consolidated Statements of Comprehensive Income**

For the Three Months Ended April 3, 2015 and April 4, 2014

**(in thousands)**

**(unaudited)**

|  | Three Months<br>Ended |                     |
|--|-----------------------|---------------------|
|  | April 3,<br>2015      | April<br>4,<br>2014 |
| Net income   | \$10,333              | \$9,154             |
| Other comprehensive income (loss):   |                       |                     |
| Foreign currency translation<br>adjustments, net of tax  | (501 )                | 52                  |
| Unrealized (losses) gains on available-for-sale investment securities<br>arising during the period, net of tax | (7 )                  | 14                  |
| Comprehensive income   | \$9,825               | \$9,220             |

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

**EXPONENT, INC.**

## Condensed Consolidated Statements of Cash Flows

For the Three Months Ended April 3, 2015 and April 4, 2014

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

|   | Three Months Ended |                  |
|---|--------------------|------------------|
|   | April 3,<br>2015   | April 4,<br>2014 |
| Cash flows from operating activities:   |                    |                  |
| Net income  | \$10,333           | \$9,154          |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                    |                  |
| Depreciation and amortization of property, equipment and leasehold improvements             | 1,381              | 1,322            |
| Amortization of premiums and accretion of discounts on short-term investments               | 213                | 225              |
| Deferred rent   | (145 )             | (99 )            |
| Provision for doubtful accounts   | 390                | 249              |
| Stock-based compensation  | 5,221              | 5,293            |
| Deferred income tax provision   | (1,938 )           | (3,324 )         |
| Excess tax benefit from equity incentive plans  | (4,431 )           | (4,499 )         |
| Changes in operating assets and liabilities:  |                    |                  |
| Accounts receivable   | (2,098 )           | (8,215 )         |
| Prepaid expenses and other assets   | 2,689              | (4,988 )         |
| Accounts payable and accrued liabilities  | 4,553              | 8,167            |
| Accrued payroll and employee benefits   | (12,017 )          | (9,838 )         |
| Deferred revenues   | (2,450 )           | 433              |
| Net cash provided by (used in) operating activities   | 1,701              | (6,120 )         |
| Cash flows from investing activities:   |                    |                  |
| Capital expenditures  | (627 )             | (915 )           |
| Maturity of short-term investments  | 3,320              | 1,140            |
| Net cash provided by investing activities   | 2,693              | 225              |
| Cash flows from financing activities:   |                    |                  |
| Excess tax benefit from equity incentive plans  | 4,431              | 4,499            |
| Payroll taxes for restricted stock units  | (7,267 )           | (6,267 )         |

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|  |            |            |
|--|------------|------------|
| Repurchase of common stock   | (3,500 )   | (6,831 )   |
| Exercise of share-based payment awards                                 | 289        | 329        |
| Dividends and dividend equivalents rights                              | (4,023 )   | (3,310 )   |
| Net cash used in financing activities                                  | (10,070 )  | (11,580 )  |
| Effect of foreign currency exchange rates on cash and cash equivalents | (156 )     | 148        |
| Net decrease in cash and cash equivalents                              | (5,832 )   | (17,327 )  |
| Cash and cash equivalents at beginning of period                       | 129,490    | 122,948    |
| Cash and cash equivalents at end of period                             | \$ 123,658 | \$ 105,621 |

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

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**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 months ended April 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.

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

|               | Fiscal Year 2015 |            |
|---------------|------------------|------------|
|               | Dividend Amount  |            |
|               | Per              | (in        |
|               | Share            | thousands) |
| First Quarter | \$0.30           | \$ 3,858   |
|               |                  | \$ 3,858   |

Fiscal Year 2014

|                | Dividend | Amount     |
|----------------|----------|------------|
|                | Per      | (in        |
|                | Share    | thousands) |
| First Quarter  | \$0.25   | \$ 3,262   |
| Second Quarter | \$0.25   | 3,270      |
| Third Quarter  | \$0.25   | 3,262      |
| Fourth Quarter | \$0.25   | 3,216      |
|                |          | \$ 13,010  |

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 2017 (December 31, 2016), or 2018 if the FASB’s proposal for a one year deferral is approved. Early application is not permitted. 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 three months ended April 3, 2015 and April 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 April 3, 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) |
| <u>Assets</u>   |          |  |   |   |
| Money market securities <sup>(1)</sup>  | \$48,940 | \$ 48,940  | \$ -  | \$ -                                      |
| Fixed income available-for-sale securities <sup>(2)</sup>                         | 21,368   | -  | 21,368  | -   |
| Fixed income trading securities held in deferred compensation plan <sup>(3)</sup> | 12,376   | 12,376   | -   | -   |

|   |           |          |          |     |
|---|-----------|----------|----------|-----|
| Equity trading securities held in deferred compensation plan <sup>(3)</sup> | 31,542    | 31,542   | -        | -   |
| Total   | \$114,226 | \$92,858 | \$21,368 | \$- |
| Liabilities   |           |          |          |     |
| Deferred compensation plan <sup>(4)</sup>                                   | 51,419    | 51,419   | -        | -   |
| Total   | \$51,419  | \$51,419 | \$-      | \$- |

(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<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <u>Assets</u>   |   |   |   |  |
| 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  | -   | -  |
| Total   | \$114,239                                       | \$ 89,326   | \$ 24,913   | \$ -   |
| <u>Liabilities</u>  |   |   |   |  |
| Deferred compensation plan <sup>(4)</sup>   | 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 April 3, 2015 and January 2, 2015 represent primarily obligations of state and local government 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.

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

| (In thousands)   | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|--|-------------------|---------------------|----------------------|----------------------------|
| Classified as current assets:                              |                   |                     |                      |                            |
| Cash   | \$ 74,718         | \$ -                | \$ -                 | \$ 74,718                  |
| Cash equivalents:  |                   |                     |                      |                            |
| Money market securities                                    | 48,940            | -                   | -                    | 48,940                     |
| Total cash equivalents                                     | 48,940            | -                   | -                    | 48,940                     |
| Total cash and cash equivalents                            | 123,658           | -                   | -                    | 123,658                    |
| Short-term investments:                                    |                   |                     |                      |                            |
| State and municipal bonds                                  | 21,357            | 13                  | (2 )                 | 21,368                     |
| Total short-term investments                               | 21,357            | 13                  | (2 )                 | 21,368                     |
| Total cash, cash equivalents<br>and short-term investments | \$ 145,015        | \$ 13               | \$ (2 )              | \$ 145,026                 |

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

| (In thousands)   | Amortized<br>Cost | Unrealized<br>Gains | Unrealized<br>Losses | Estimated<br>Fair<br>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<br>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 April 3, 2015:

| (In thousands)                | Amortized<br>Cost | Estimated<br>Fair<br>Value |
|-------------------------------|-------------------|----------------------------|
| Due within one year           | \$ 18,739         | \$ 18,750                  |
| Due between one and two years | 2,618             | 2,618                      |
| Total                         | \$ 21,357         | \$ 21,368                  |

At April 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 April 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 April 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 months ended April 3, 2015 and April 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:

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| (In thousands)  | Three Months<br>Ended |                  |
|---|-----------------------|------------------|
|   | April 3,<br>2015      | April 4,<br>2014 |
| Shares used in basic per share computation            | 13,311                | 13,537           |
| Effect of dilutive common stock options outstanding   | 71                    | 79               |
| Effect of dilutive restricted stock units outstanding | 313                   | 324              |
| Shares used in diluted per share computation          | 13,695                | 13,940           |

Common stock options to purchase 10,989 shares were excluded from the diluted per share calculation for the three months ended April 3, 2015 due to their antidilutive effect. The weighted-average exercise price for the antidilutive shares was \$88.39 for the three months ended April 3, 2015. There were no options excluded from the diluted per share calculations for the three months ended April 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 \$1,693,000 and \$1,586,000 during the three months ended April 3, 2015 and April 4, 2014, 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 \$3,131,000 and \$3,227,000 during the three months ended April 3, 2015 and April 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. For options granted on or after January 1, 2012, all 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 \$397,000 and \$480,000 during the three months ended April 3, 2015 and April 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 40,483 shares of its common stock for \$3,500,000 during the three months ended April 3, 2015. The Company repurchased 102,719 shares of its common stock for \$7,631,000 during the three months ended April 4, 2014. As of April 3, 2015, the Company had remaining authorization under its stock repurchase plans of \$31,578,000 to repurchase shares of common stock.

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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 three months ended April 3, 2015 and April 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 April 3, 2015 and January 2, 2015, the invested amounts under the plans totaled \$43,918,000 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 April 3, 2015 and January 2, 2015, vested amounts due under the plans totaled \$51,419,000 and \$45,394,000, respectively. Changes in the liability are recorded as adjustments to compensation expense. During the three months ended April 3, 2015 and April 4, 2014, the Company recognized compensation expense of \$1,381,000 and \$731,000, 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.

#### Note 7: Supplemental Cash Flow Information

The following is supplemental disclosure of cash flow information:

| (In thousands)                                   | Three Months Ended |               |
|--|--------------------|---------------|
|  | April 3, 2015      | April 4, 2014 |
| Cash paid during period:                         |                    |               |
| Income taxes                                     | \$390              | \$428         |
| Non-cash investing and financing activities:     |                    |               |
| Unrealized (loss) gain on short-term investments | \$(7 )             | \$14          |

|   |         |         |
|---|---------|---------|
| Vested stock unit awards issued to settle accrued bonuses | \$6,169 | \$6,008 |
| Stock repurchases payable to broker                       | \$-     | \$800   |

Note 8: Accounts Receivable, Net

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

| (In thousands)                  | April 3,<br>2015 | January<br>2,<br>2015 |
|---------------------------------|------------------|-----------------------|
| Billed accounts receivable      | \$58,799         | \$63,331              |
| Unbilled accounts receivable    | 32,873           | 26,423                |
| Allowance for doubtful accounts | (3,596 )         | (3,386 )              |
| Total accounts receivable, net  | \$88,076         | \$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 months ended April 3, 2015 and April 4, 2014 follows:

## Revenues

| (In thousands)                   | Three Months<br>Ended |                  |
|----------------------------------|-----------------------|------------------|
|                                  | April 3,<br>2015      | April 4,<br>2014 |
| Engineering and Other Scientific | \$59,801              | \$55,827         |
| Environmental and Health         | 20,492                | 20,135           |
| Total revenues                   | \$80,293              | \$75,962         |

## Operating Income

| (In thousands)                   | Three Months<br>Ended |                  |
|----------------------------------|-----------------------|------------------|
|                                  | April 3,<br>2015      | April 4,<br>2014 |
| Engineering and Other Scientific | \$19,245              | \$18,818         |
| Environmental and Health         | 6,464                 | 5,973            |
| Total segment operating income   | 25,709                | 24,791           |
| Corporate operating expense      | (10,681)              | (10,697)         |
| Total operating income           | \$15,028              | \$14,094         |

## Capital Expenditures

Three  
Months  
Ended

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| (In thousands)   | April<br>3,<br>2015 | April<br>4,<br>2014 |
|--|---------------------|---------------------|
| Engineering and Other Scientific<br>Environmental and Health | \$392<br>24         | \$530<br>55         |
| Total segment capital expenditures                           | 416                 | 585                 |
| Corporate capital expenditures                               | 211                 | 330                 |
| Total capital expenditures                                   | \$627               | \$915               |

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## Depreciation and Amortization

| (In thousands)                              | Three Months Ended |               |
|---|--------------------|---------------|
|   | April 3, 2015      | April 4, 2014 |
| Engineering and Other Scientific            | \$ 1,104           | \$ 873        |
| Environmental and Health                    | 43                 | 47            |
| Total segment depreciation and amortization | 1,147              | 920           |
| Corporate depreciation and amortization     | 234                | 402           |
| Total depreciation and amortization         | \$ 1,381           | \$ 1,322      |

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

## Note 10: Goodwill

Below is a breakdown of goodwill reported by segment as of April 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 months ended April 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.

**Note 12: Subsequent Event**

On April 22, 2015, the Company announced that its Board of Directors approved a two-for-one stock split of its common stock and a change in the number of authorized shares of common and preferred stock to 80 million and 2 million, respectively, each subject to stockholder approval of both the split and the change in authorized shares at the 2015 annual meeting of stockholders on May 28, 2015. If the Company's stockholders approve the stock split and the change in authorized shares, each stockholder of record at the close of business on May 28, 2015 will receive one additional share of common stock for every outstanding share of common stock held on the record date.

On April 22, 2015, the Company announced that its Board of Directors declared a cash dividend to be paid on June 26, 2015 to all common stockholders of record as of June 12, 2015. If the proposed stock split and the change in authorized shares are approved by stockholders the cash dividend will be \$0.15 per share after giving effect to the split. If the proposed stock split, the change in authorized shares, or both are not approved by stockholders (such that the split does not occur), the cash dividend will be \$0.30 per share.

## 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 first quarter of 2015 increased 6% and revenues before reimbursements increased 4% as compared to the same period last year. The increase in revenues and revenues before reimbursements was 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.

For the quarter we had notable performances from our materials & corrosion engineering, mechanical engineering, polymer science & materials chemistry, human factors, and buildings & structures practices, as well as from our environmental group.

Net income increased to \$10,333,000 during the first quarter of 2015 as compared to \$9,154,000 during the same period last year. Diluted earnings per share increased to \$0.75 per share as compared to \$0.66 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. We continue to expect one of our major investigations to step down from its elevated level of activity as it moves through the project life cycle. We also continue to expect a 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 April 3, 2015

During the first quarter of 2015, billable hours increased 7% to 292,000 as compared to 274,000 during the same period last year due to continued demand for our proactive and reactive consulting services. Our utilization increased to 75% during the first quarter of 2015 as compared to 72% during the first 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 745 during the first quarter of 2015 as compared to 732 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 April 3, 2015 compared to Three Months Ended April 4, 2014**

Revenues

| (in thousands, except percentages) | Three Months Ended |               |                |
|------------------------------------|--------------------|---------------|----------------|
|                                    | April 3, 2015      | April 4, 2014 | Percent Change |
| Engineering and Other Scientific   | \$59,801           | \$55,827      | 7.1%           |
| Percentage of total revenues       | 74.5 %             | 73.5 %        |                |
| Environmental and Health           | 20,492             | 20,135        | 1.8%           |
| Percentage of total revenues       | 25.5 %             | 26.5 %        |                |
| Total revenues                     | \$80,293           | \$75,962      | 5.7%           |

The increase in revenues for our Engineering and Other Scientific segment was due to an increase in billable hours. During the first quarter of 2015, billable hours for this segment increased by 7% to 211,000 as compared to 197,000 during the same period last year. Utilization increased to 77% during the first 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, polymer science & materials chemistry, human factors, and buildings & structures practices. Technical full-time equivalent employees increased 4% to 529 during the first quarter of 2015 as compared to 508 for the same period last year due to our continuing recruiting and retention efforts.

The increase in revenues for our Environmental and Health segment was due to an increase in billable hours partially offset by the impact of unfavorable foreign exchange rates. During the first quarter of 2015, billable hours for this segment increased by 5% to 81,000 as compared to 77,000 during the same period last year. Utilization increased to 72% for the first quarter of 2015 as compared to 66% for the same period last year. The increase in billable hours and utilization was due to strong demand for our services in our environmental & earth sciences, ecological & biological sciences, and chemical regulation & food safety practices. Technical full-time equivalent employees decreased by 4% to 216 during the first quarter of 2015 as compared to 224 during the same period last year .

#### Compensation and Related Expenses

| (in thousands, except percentages) | Three Months Ended |               |                |
|------------------------------------|--------------------|---------------|----------------|
|                                    | April 3, 2015      | April 4, 2014 | Percent Change |
| Compensation and related expenses  | \$51,115           | \$48,858      | 4.6%           |
| Percentage of total revenues       | 63.7 %             | 64.3 %        |                |

The increase in compensation and related expenses during the first quarter of 2015 was due to an increase in bonus expense, an increase in payroll and benefits expense, and the change in the value of assets associated with our deferred compensation plan. Bonus expense increased \$952,000 due to an increase in income before income taxes, before bonus expense, and before stock-based compensation expense. Payroll expense increased \$503,000 and fringe benefits increased \$296,000 due to the increase in technical full-time equivalent employees. During the first quarter of 2015, deferred compensation expense increased \$650,000 with a corresponding increase to other income (expense), net, as compared to the first quarter of 2014 due to the change in value of assets associated with our deferred compensation plan. This increase consisted of an increase in the value of the plan assets of \$1,381,000 during the first quarter of 2015 as compared to an increase in the value of the plan assets of \$731,000 during same period last year. 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 |               |                |
|------------------------------------|--------------------|---------------|----------------|
|                                    | April 3, 2015      | April 4, 2014 | Percent Change |
| Other operating expenses           | \$6,510            | \$6,317       | 3.1%           |
| Percentage of total revenues       | 8.1 %              | 8.3 %         |                |

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 quarter of 2015 was due to investments in our corporate infrastructure and costs associated

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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 |
|------------------------------------|--------------------|---------------|----------------|
|                                    | April 3, 2015      | April 4, 2014 |                |
| Reimbursable expenses              | \$4,152            | \$2,995       | 38.6%          |
| Percentage of total revenues       | 5.2 %              | 3.9 %         |                |

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The increase in reimbursable expenses was primarily due to an increase in project-related costs in our technology development and materials & corrosion engineering practices 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 |
|-------------------------------------|--------------------|------------|----------------|
|                                     | April 2015         | April 2014 |                |
| General and administrative expenses | \$3,488            | \$3,698    | (5.7)%         |
| Percentage of total revenues        | 4.3 %              | 4.9 %      |                |

The decrease in general and administrative expenses during the first quarter of 2015 was due to a decrease in legal expenses of \$417,000 partially offset by an increase in bad debt expense of \$118,000 and an increase in outside consulting services of \$73,000. The decrease in legal expenses was due to a decrease in costs associated with legal claims during the first quarter of 2015 as compared to the first 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 (Expense), Net

| (in thousands, except percentages) | Three Months Ended |            | Percent Change |
|------------------------------------|--------------------|------------|----------------|
|                                    | April 2015         | April 2014 |                |
| Other income (expense), net        | \$2,043            | \$1,271    | 60.7%          |
| Percentage of total revenues       | 2.5 %              | 1.7 %      |                |

Other income (expense), 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 quarter of 2015, other income (expense), net, increased \$650,000 with a corresponding increase to deferred compensation expense, as compared to the first quarter in 2014 due to a change in the value of assets associated with our deferred compensation plan. This increase consisted of an increase in the value of the plan assets of \$1,381,000 during the first quarter of 2015 as compared to an increase in the value of the plan assets of \$731,000 during the first quarter of 2014.

#### Income Taxes

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| (in thousands, except percentages) | Three Months Ended |               | Percent Change |
|------------------------------------|--------------------|---------------|----------------|
|                                    | April 3, 2015      | April 4, 2014 |                |
| Income taxes                       | \$6,738            | \$6,211       | 8.5%           |
| Percentage of total revenues       | 8.4 %              | 8.2 %         |                |
| Effective tax rate                 | 39.5 %             | 40.4 %        |                |

The increase in income taxes was due to a corresponding increase in pre-tax income. The decrease in our effective tax rate was due to an increase in undistributed foreign earnings from tax jurisdictions with lower income tax rates than the United States. These undistributed foreign earnings in the U.K., Germany and China are indefinitely invested outside of the United States.

## LIQUIDITY AND CAPITAL RESOURCES

| (in thousands)                                      | Three Months<br>Ended |                  |
|---|-----------------------|------------------|
|   | April 3,<br>2015      | April 4,<br>2014 |
| Net cash provided by (used in) operating activities | \$1,701               | \$(6,120 )       |
| Net cash provided by investing activities           | 2,693                 | 225              |
| Net cash used in financing activities               | (10,070)              | (11,580)         |

We financed our business during the first quarter of 2015 through available cash. We invest our excess cash in cash equivalents and short-term investments. As of April 3, 2015, our cash, cash equivalents and short-term investments were \$145.0 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 three 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 three 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 \$44,648,000 were recorded as a long-term liability on our unaudited condensed consolidated balance sheet at April 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 April 3, 2015 invested amounts under the plan of \$37,148,000 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 months ended April 3, 2015 and April 4, 2014:

| (in thousands, except percentages)              | Three Months Ended |               |
|---|--------------------|---------------|
|   | April 3, 2015      | April 4, 2014 |
| Revenues before reimbursements                  | \$76,141           | \$72,967      |
| EBITDA  | \$18,418           | \$16,643      |
| EBITDA as a % of revenues before reimbursements | 24.2 %             | 22.8 %        |

The increase in EBITDA as a percentage of revenues before reimbursements during the first quarter 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 months ended April 3, 2015 and April 4, 2014:

| (in thousands)                | Three Months<br>Ended |                  |
|-------------------------------|-----------------------|------------------|
|                               | April 3,<br>2015      | April 4,<br>2014 |
| Net income                    | \$ 10,333             | \$ 9,154         |
| Add back (subtract):          |                       |                  |
| Income taxes                  | 6,738                 | 6,211            |
| Interest income, net          | (34 )                 | (44 )            |
| Depreciation and amortization | 1,381                 | 1,322            |
| EBITDA                        | 18,418                | 16,643           |
| Stock-based compensation      | 5,221                 | 5,293            |
| EBITDAS                       | \$ 23,639             | \$ 21,936        |

### 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 April 3, 2015, we had net assets of approximately \$2.6 million with a functional currency of the British Pound, net assets of approximately \$2.3 million with a functional currency of the Euro, and net assets of approximately \$1.6 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 April 3, 2015, we had net assets denominated in the non-functional currency of approximately \$0.6 million. As such, a ten percent change in the value of the local currency would result in \$0.06 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 April 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 April 3, 2015 (in thousands, except price per share):

|                           | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid Per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Programs | Approximate<br>Dollar Value<br>of Shares<br>That May<br>Yet Be<br>Purchased<br>Under the<br>Programs <sup>(1)</sup> |
|---------------------------|---|---------------------------------------|--|---|
| January 3 to January 30   | -   | \$ -                                  | -  | \$ 35,078   |
| January 31 to February 27 | -   | -                                     | -  | \$ 35,078   |
| February 28 to April 3    | 40  | 86.45                                 | 40   | \$ 31,578   |
| Total                     | 40  | \$ 86.45                              | 40   | \$ 31,578   |

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 \$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

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|         |  |
|---------|--|
| 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: May 8, 2015

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

/s/ Richard L. Schlenker  
Richard L. Schlenker, Chief Financial Officer

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