EXPONENT INC
Form 10-Q
August 08, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 4, 2014

OR

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

For the transition period from ____________________ to ____________________

Commission File Number 0-18655

EXPONENT, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**77-0218904**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

149 COMMONWEALTH DRIVE, MENLO PARK, CALIFORNIA	**94025**
(Address of principal executive office)	(Zip Code)

(650) 326-9400

(Registrant's telephone number, including area code)

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

Yes x 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 x 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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

As of August 1, 2014, the latest practicable date, the registrant had 13,087,900 shares of Common Stock, $0.001 par value per share, outstanding.

EXPONENT, INC.

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

EXPONENT, INC.

Condensed Consolidated Balance Sheets

July 4, 2014 and January 3, 2014

(in thousands, except par value)

(unaudited)

	July 4, 2014	January 3, 2014
Assets		
Current assets:		
Cash and cash equivalents	$112,895	$122,948
Short-term investments	31,647	33,171
Accounts receivable, net of allowance for doubtful accounts of $2,927 and $2,771 at July 4, 2014 and January 3, 2014, respectively	85,795	76,980
Prepaid expenses and other assets	14,551	10,450
Deferred income taxes	10,330	8,135
Total current assets	255,218	251,684
Property, equipment and leasehold improvements, net	28,831	28,721
Goodwill	8,607	8,607
Deferred income taxes	22,498	21,102
Deferred compensation plan assets	34,856	33,501
Other assets	1,110	551
Total assets	$351,120	$344,166
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$9,985	$8,442
Accrued payroll and employee benefits	47,590	56,934
Deferred revenues	6,936	6,771
Total current liabilities	64,511	72,147

Other liabilities	1,884	1,181
Deferred compensation	36,606	33,447
Deferred rent	2,200	2,332
Total liabilities	105,201	109,107
Stockholders’ equity:		
Common stock, $0.001 par value; 100,000 shares authorized; 16,427 shares issued at July 4, 2014 and January 3, 2014	16	16
Additional paid-in capital	157,594	141,250
Accumulated other comprehensive income		
Investment securities, available for sale	32	10
Foreign currency translation adjustments	468	99
	500	109
Retained earnings	233,436	226,040
Treasury stock, at cost; 3,339 and 3,363 shares held at July 4, 2014 and January 3, 2014, respectively	(145,627)	(132,356)
Total stockholders’ equity	245,919	235,059
Total liabilities and stockholders’ equity	$351,120	$344,166

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

EXPONENT, INC.

Condensed Consolidated Statements of Income

For the Three and Six Months Ended July 4, 2014 and June 28, 2013

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Six Months Ended	
	July 4, 2014	June 28, 2013	July 4, 2014	June 28, 2013
Revenues:				
Revenues before reimbursements	$ 72,331	$ 71,919	$ 145,298	$ 140,911
Reimbursements	4,243	3,586	7,238	7,254
Revenues	76,574	75,505	152,536	148,165
Operating expenses:				
Compensation and related expenses	46,049	44,432	94,907	92,994
Other operating expenses	6,450	6,207	12,767	12,354
Reimbursable expenses	4,243	3,586	7,238	7,254
General and administrative expenses	3,748	3,687	7,446	7,119
Total operating expenses	60,490	57,912	122,358	119,721
Operating income	16,084	17,593	30,178	28,444
Other income, net:				
Interest income, net	40	36	84	81
Miscellaneous income, net	2,274	642	3,501	3,251
Total other income, net	2,314	678	3,585	3,332
Income before income taxes	18,398	18,271	33,763	31,776
Income taxes	7,134	7,423	13,345	12,952
Net income	$ 11,264	$ 10,848	$ 20,418	$ 18,824
Net income per share:				

Basic	$ 0.83	$ 0.80	$ 1.51	$ 1.38
Diluted	$ 0.81	$ 0.77	$ 1.47	$ 1.34
Shares used in per share computations:				
Basic	13,520	13,637	13,528	13,658
Diluted	13,873	14,007	13,919	14,068
Cash dividends declared per common share	$ 0.25	$ 0.15	$ 0.50	$ 0.30

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 Six Months Ended July 4, 2014 and June 28, 2013

(in thousands)

(unaudited)

	Three Months Ended		Six Months Ended	
	July 4, 2014	June 28, 2013	July 4, 2014	June 28, 2013
Net income	$ 11,264	$ 10,848	$ 20,418	$ 18,824
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	317	24	369	(437)
Unrealized gain (loss) on available for sale investment securities, net of tax	8	(10)	22	(22)
Comprehensive income	$ 11,589	$ 10,862	$ 20,809	$ 18,365

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

EXPONENT, INC.

Condensed Consolidated Statements of Cash Flows

For the Six Months Ended July 4, 2014 and June 28, 2013

(in thousands)

(unaudited)

	Six Months Ended July 4, 2014	Six Months Ended June 28, 2013
Cash flows from operating activities:		
Net income	$20,418	$18,824
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and leasehold improvements	2,633	2,384
Amortization of premiums and accretion of discounts on short-term investments	443	137
Deferred rent	(132)	942
Provision for doubtful accounts	828	473
Stock-based compensation	7,875	8,331
Deferred income tax provision	(3,896)	(1,692)
Excess tax benefit from equity awards	(5,090)	(3,807)
Changes in operating assets and liabilities:		
Accounts receivable	(9,643)	(1,558)
Prepaid expenses and other assets	(3,348)	(3,495)
Accounts payable and accrued liabilities	6,504	(43)
Accrued payroll and employee benefits	(6,027)	(5,175)
Deferred revenues	165	1,079
Net cash provided by operating activities	10,730	16,400
Cash flows from investing activities:		
Capital expenditures	(1,976)	(3,701)
Purchase of short-term investments	(1,067)	-
Maturity of short-term investments	2,186	14,290
Net cash (used in) provided by investing activities	(857)	10,589
Cash flows from financing activities:		
Excess tax benefit from equity awards	5,090	3,807
Payroll taxes for restricted stock units	(6,267)	(6,112)
Repurchase of common stock	(14,383)	(17,626)

Exercise of share-based payment awards	1,540	883
Dividends and dividend equivalents paid	(6,580)	(3,967)
Net cash used in financing activities	(20,600)	(23,015)
Effect of foreign currency exchange rates on cash and cash equivalents	674	(598)
Net (decrease) increase in cash and cash equivalents	(10,053)	3,376
Cash and cash equivalents at beginning of period	122,948	113,268
Cash and cash equivalents at end of period	$112,895	$116,644

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

EXPONENT, INC.

NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Note 1: Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not contain all the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments which are necessary for the fair presentation of the condensed consolidated financial statements have been included and all such adjustments are of a normal and recurring nature. The operating results for the three and six months ended July 4, 2014 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 3, 2014 which was filed with the U.S. Securities and Exchange Commission on February 28, 2014.

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.

Authorized Capital Stock. In a letter dated May 23, 2006, the Company committed to stockholders to limit its use of authorized capital stock to 40 million common shares, and 2 million preferred shares, unless the approval of the Company's stockholders is subsequently obtained, such as through a further amendment to the Company's authorized capital stock.

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

Fiscal Year 2014
DividendsAmount

	Per Share	(in thousands)
First Quarter	$ 0.25	$ 3,262
Second Quarter	$ 0.25	3,270
		$ 6,532

	Fiscal Year 2013	
	Dividends Per Share	Amount (in thousands)
First Quarter	$0.15	$ 1,969
Second Quarter	$0.15	1,998
Third Quarter	$0.15	1,945
Fourth Quarter	$0.15	1,965
		$ 7,877

Prior to 2013 the Company had never paid cash dividends on its common stock. On July 22, 2014 the Company's Board of Directors announced a cash dividend of $0.25 per share of the Company's common stock, payable September 26, 2014, to stockholders of record as of September 5, 2014. The Company expects to continue paying quarterly dividends in the future, subject to declaration by the Company's Board of Directors.

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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. Actual results could differ from those estimates.

Note 2: Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including available-for-sale fixed income securities, trading fixed income and equity securities held in its deferred compensation plan and the liability associated with its deferred compensation plan. There have been no transfers between fair value measurement levels during the six months ended July 4, 2014 and June 28, 2013. Any transfers between fair value measurement levels would be recorded on the actual date of the event or change in circumstances that caused the transfer. The fair value of these certain financial assets and liabilities was determined using the following inputs at July 4, 2014:

	Fair Value Measurements at Reporting Date Using			
(In thousands)	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)	$ 38,721	$ 38,721	$ -	$ -
Fixed income available for sale securities (2)	31,647	-	31,647	-
Fixed income trading securities held in deferred compensation plan (3)	9,642	9,642	-	-
Equity trading securities held in deferred compensation plan (3)	32,806	32,806	-	-
Total	$ 112,816	$ 81,169	$ 31,647	$ -
Liabilities				
Deferred compensation plan (4)	44,169	44,169	-	-
Total	$ 44,169	$ 44,169	$ -	$ -

(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 3, 2014:

	Fair Value Measurements at Reporting Date Using			
(In thousands)	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)	$ 37,099	$ 37,099	$ -	$ -
Fixed income available for sale securities (2)	33,171	-	33,171	-
Fixed income trading securities held in deferred compensation plan (3)	9,535	9,535	-	-
Equity trading securities held in deferred compensation plan (3)	28,444	28,444	-	-
Total	$ 108,249	$ 75,078	$ 33,171	$ -
Liabilities				
Deferred compensation plan (4)	37,926	37,926	-	-
Total	$ 37,926	$ 37,926	$ -	$ -

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

Fixed income available-for-sale securities as of July 4, 2014 and January 3, 2014 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.

Cash, cash equivalents and short-term investments consisted of the following as of July 4, 2014:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Classified as current assets:				
Cash	$ 74,174	$ -	$ -	$ 74,174
Cash equivalents:				
Money market securities	38,721	-	-	38,721
Total cash equivalents	38,721	-	-	38,721
Total cash and cash equivalents	112,895	-	-	112,895
Short-term investments:				
State and municipal bonds	31,594	53	-	31,647
Total short-term investments	31,594	53	-	31,647
Total cash, cash equivalents and short-term investments	$ 144,489	$ 53	$ -	$ 144,542

Cash, cash equivalents and short-term investments consisted of the following as of January 3, 2014:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Classified as current assets:				
Cash	$ 85,849	$ -	$ -	$ 85,849
Cash equivalents:				
Money market securities	37,099	-	-	37,099
Total cash equivalents	37,099	-	-	37,099
Total cash and cash equivalents	122,948	-	-	122,948
Short-term investments:				
State and municipal bonds	33,155	25	(9)	33,171
Total short-term investments	33,155	25	(9)	33,171
Total cash, cash equivalents and short-term investments	$ 156,103	$ 25	$ (9)	$ 156,119

The following table summarizes the cost and estimated fair value of short-term fixed income securities classified as short-term investments based on stated effective maturities as of July 4, 2014:

(In thousands)	Amortized Cost	Estimated Fair Value
Due within one year	$ 21,321	$ 21,347
Due between one and two years	10,273	10,300
Total	$ 31,594	$ 31,647

At July 4, 2014 and January 3, 2014, the Company did not have any assets or liabilities valued using significant unobservable inputs.

The following financial instruments are not measured at fair value on the Company's consolidated balance sheet at July 4, 2014 and January 3, 2014, but require disclosure of their fair values: accounts receivable, other assets and accounts payable. The estimated fair value of such instruments at July 4, 2014 and January 3, 2014 approximates their carrying value as reported on the consolidated balance sheet due to their generally short maturities. If measured at fair value in the financial statements, these instruments would be categorized as Level 2 of the fair value hierarchy.

There were no other-than-temporary impairments or credit losses related to available-for-sale securities during the three and six months ended July 4, 2014 and June 28, 2013.

Note 3: Net Income Per Share

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

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

(In thousands)	Three Months Ended July 4, 2014	Three Months Ended June 28, 2013	Six Months Ended July 4, 2014	Six Months Ended June 28, 2013
Shares used in basic per share computation	13,520	13,637	13,528	13,658
Effect of dilutive common stock options outstanding	65	70	73	75
Effect of dilutive restricted stock units outstanding	288	300	318	335
Shares used in diluted per share computation	13,873	14,007	13,919	14,068

There were no options excluded from the diluted per share calculations for the three and six months ended July 4, 2014. There were no options excluded from the diluted per share calculations for the three and six months ended June 28, 2013.

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 $1,582,000 and $1,625,000 during the three months ended July 4, 2014 and June 28, 2013, respectively. For the six months ended July 4, 2014 and June 28, 2013, the Company recorded stock-based compensation expense associated with accrued bonus awards of $3,168,000 and $3,138,000, respectively. The value of the unvested restricted stock unit awards granted 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 $936,000 and $1,166,000 during the three months ended July 4, 2014 and June 28, 2013, respectively. The Company recorded stock-based compensation expense associated with the unvested restricted stock unit awards of $4,163,000 and $4,324,000 during the six months ended July 4, 2014 and June 28, 2013, 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 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 of $64,000 and $249,000 during the three months ended July 4, 2014 and June 28, 2013, respectively, associated with stock option grants. The Company recorded stock-based compensation expense of $544,000 and $869,000 during the six months ended July 4, 2014 and June 28, 2013, respectively, associated with stock option grants.

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-based 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 share-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 197,988 shares of its common stock for $14,383,000 during the six months ended July 4, 2014. The Company repurchased 327,727 shares of its common stock for $17,118,000 during the six months ended June 28, 2013. As of July 4, 2014, the Company had remaining authorization under its stock repurchase plans of $51,617,000 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 $0 and $88,000 were recorded as a reduction to retained earnings during the three months ended July 4, 2014 and June 28, 2013, respectively. Net losses related to the re-issuance of treasury stock to settle restricted stock unit and stock option awards of $6,050,000 and $10,113,000 were recorded as a reduction to retained earnings during the six months ended July 4, 2014 and June 28, 2013, respectively.

Note 6: Deferred Compensation Plan

The Company maintains a nonqualified deferred compensation plan for the benefit of a select group of highly compensated employees. Under this plan, participants may elect to defer up to 100% of their compensation. Company assets that are earmarked to pay benefits under the plan are held in a rabbi trust and are subject to the claims of the Company’s creditors. As of July 4, 2014 and January 3, 2014, the invested amounts under the plan totaled $42,448,000 and $37,979,000, respectively. These assets are classified as trading securities and are recorded at fair value with changes recorded as adjustments to other income and expense.

As of July 4, 2014 and January 3, 2014, vested amounts due under the plan totaled $44,169,000 and $37,926,000, respectively. Changes in the liability are recorded as adjustments to compensation expense. During the three months ended July 4, 2014 and June 28, 2013, the Company recognized compensation expense of $1,952,000 and $168,000, respectively, as a result of changes in the market value of the trust assets with the same amount being recorded as income in other income, net. During the six months ended July 4, 2014 and June 28, 2013, the Company recognized compensation expense of $2,682,000 and $2,234,000, respectively, as a result of changes in the market value of the trust assets with the same amount being recorded as income in other income, net.

Note 7: Supplemental Cash Flow Information

The following is supplemental disclosure of cash flow information:

(In thousands)	Six Months Ended July 4, 2014	June 28, 2013
Cash paid during period:		
Income taxes	$ 9,346	$ 7,902
Non-cash investing and financing activities:		
Unrealized gain (loss) on available for sale investment securities, net of tax	$ 22	$ (22)
Vested stock unit awards issued to settle accrued bonuses	$ 6,008	$ 5,807
Accrual for capital expenditures	$ 767	$ -

Note 8: Accounts Receivable, Net

At July 4, 2014 and January 3, 2014, accounts receivable, net, was comprised of the following:

(In thousands)	July 4, 2014	January 3, 2014
Billed accounts receivable	$57,500	$52,674
Unbilled accounts receivable	31,222	27,077
Allowance for doubtful accounts	(2,927)	(2,771)
Total accounts receivable, net	$85,795	$76,980

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 the areas of engineering and technology development. The Environmental and Health operating segment provides services in the area of environmental, epidemiology and health risk analysis. This operating segment provides a wide range of consulting services relating to environmental hazards and risks and the impact on both human health and the environment.

Segment information for the three and six months ended July 4, 2014 and June 28, 2013 follows:

<u>Revenues</u>

	Three Months Ended		Six Months Ended	
(In thousands)	July 4, 2014	June 28, 2013	July 4, 2014	June 28, 2013
Engineering and Other Scientific	$55,293	$ 53,635	$111,120	$ 106,958
Environmental and Health	21,281	21,870	41,416	41,207
Total revenues	$76,574	$ 75,505	$152,536	$ 148,165

<u>Operating Income</u>

	Three Months Ended	Six Months Ended

(In thousands)	July 4, 2014	June 28, 2013	July 4, 2014	June 28, 2013
Engineering and Other Scientific	$ 17,700	$ 16,758	$ 36,518	$ 33,632
Environmental and Health	7,191	7,900	13,164	13,480
Total segment operating income	24,891	24,658	49,682	47,112
Corporate operating expense	(8,807)	(7,065)	(19,504)	(18,668)
Total operating income	$ 16,084	$ 17,593	$ 30,178	$ 28,444

Capital Expenditures

	Three Months Ended		Six Months Ended	
(In thousands)	July 4, 2014	June 28, 2013	July 4, 2014	June 28, 2013
Engineering and Other Scientific	$ 794	$ 1,573	$ 1,324	$ 2,934
Environmental and Health	60	31	115	69
Total segment capital expenditures	854	1,604	1,439	3,003
Corporate capital expenditures	207	138	537	698
Total capital expenditures	$ 1,061	$ 1,742	$ 1,976	$ 3,701

Depreciation and Amortization

	Three Months Ended		Six Months Ended	
(In thousands)	July 4, 2014	June 28, 2013	July 4, 2014	June 28, 2013
Engineering and Other Scientific	$ 868	$ 757	$ 1,741	$ 1,456
Environmental and Health	49	71	96	145
Total segment depreciation and amortization	917	828	1,837	1,601
Corporate depreciation and amortization	394	407	796	783
Total depreciation and amortization	$ 1,311	$ 1,235	$ 2,633	$ 2,384

No single customer comprised more than 10% of the Company’s revenues during the three or six months ended July 4, 2014 and June 28, 2013. No single customer comprised more than 10% of the Company’s accounts receivable at July 4, 2014 and January 3, 2014.

Note 10: Goodwill

Below is a breakdown of goodwill reported by segment as of July 4, 2014:

(In thousands)	Environmental and Health	Engineering and Other Scientific	Total
Goodwill	$ 8,099	$ 508	$ 8,607

There were no acquisitions, dispositions, impairments or other changes in the carrying amount of goodwill, nor any changes in the composition of the Company's reporting units, during the three and six months ended July 4, 2014.

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.

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 3, 2014, which are contained in our fiscal 2013 Annual Report on Form 10-K which was filed with the U.S. Securities and Exchange Commission on February 28, 2014.

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 2013 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 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 are described in our fiscal 2013 Annual Report on Form 10-K under “Critical Accounting Estimates” and Note 1 (Summary of Significant Accounting Policies) of the Notes to Consolidated Financial Statements.

RESULTS OF CONSOLIDATED OPERATIONS

Executive Summary

Revenues for the second quarter of 2014 increased 1% and revenues before reimbursements also increased 1% as compared to the same period last year. The increase in revenues and revenues before reimbursements was due to an increase in realized billing rates partially offset by a decrease in billable hours. The decrease in billable hours was due to revenues of $1.75 million recognized during the second quarter of 2013 related to services performed in periods prior to the second quarter of 2013 for a foreign client for which we deferred revenue recognition until receipt of payment.

During the quarter, we experienced strong demand for our consulting services from a diverse set of clients for both reactive and proactive projects. We had a steady pace of reactive projects assisting clients in litigation matters and product recall evaluations. We experienced strong demand for our proactive consulting services from several industries. In the consumer electronics industry, we helped clients assess new product designs. In the medical device industry, we assisted clients in the evaluation of new materials. In the utility industry, we provided construction consulting services for new infrastructure projects.

The increase in revenues before reimbursements contributed to a 4% increase in net income during the second quarter of 2014 as compared to the same period last year. Net income increased to $11,264,000 during the second quarter of 2014 as compared to $10,848,000 during the same period last year. Diluted earnings per share increased to $0.81 per share as compared to $0.77 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 some of our major investigations to step down from their elevated levels of activity as they move through their project life cycle. We also continue to expect a step down in the level of activity in our defense technology development practice due to the constraints on defense spending and reduction of forces in Afghanistan by the United States federal government.

Overview of the Three Months Ended July 4, 2014

During the second quarter of 2014, billable hours decreased 1% to 276,000 as compared to 280,000 during the same period last year. Total billable hours recognized in the second quarter of 2013 included 6,446 billable hours related to services performed in prior quarters for a foreign client for which we recognized revenue upon receipt of payment. Our utilization decreased to 72% during the second quarter of 2014 as compared to 75% during the second quarter of 2013. The decrease in utilization was due to the 6,446 billable hours recognized in the second quarter of 2013 related to a foreign client for which we recognized revenue upon receipt of payment, the anticipated step down in our elevated levels of activity on several major investigations, and our investment in hiring technical consultants. Technical full-time equivalent employees increased 3% to 733 during the second quarter of 2014 as compared to 714 during the same period last year due to our recruiting and retention efforts. We continue to selectively hire key talent to expand our capabilities.

Three Months Ended July 4, 2014 compared to Three Months Ended June 28, 2013

Revenues

(in thousands, except percentages)	Three Months Ended July 4, 2014	June 28, 2013	Percent Change
Engineering and Other Scientific	$ 55,293	$ 53,635	3.1 %
Percentage of total revenues	72.2 %	71.0 %	
Environmental and Health	21,281	21,870	(2.7)%
Percentage of total revenues	27.8 %	29.0 %	
Total revenues	$ 76,574	$ 75,505	1.4 %

The increase in revenues for our Engineering and Other Scientific segment was due to an increase in realized billing rates partially offset by a decrease in billable hours. During the second quarter of 2014, billable hours for this segment decreased by 1% to 194,000 as compared to 195,000 during the same period last year. The decrease in billable hours was due to the anticipated step down in our elevated levels of activity on several major investigations. Technical full-time equivalent employees increased 4% to 511 during the second quarter of 2014 as compared to 493 for the same period last year due our continuing recruiting and retention efforts. Utilization decreased to 73% during the second quarter of 2014 as compared to 76% during the same period last year. The decrease in utilization was due to the anticipated step down in our elevated levels of activity on several major investigations and our investment in hiring technical consultants.

The decrease in revenues for our Environmental and Health segment was due to a decrease in billable hours partially offset by an increase in realized billing rates. During the second quarter of 2014, billable hours for this segment decreased to 82,000 as compared to 85,000 during the same period last year. Total billable hours recognized in the second quarter of 2013 included 6,446 billable hours related to services performed in prior quarters for a foreign client for which we recognized revenue upon receipt of payment. Utilization decreased to 71% for the second quarter of 2014 as compared to 74% for the same period last year. The decrease in utilization was due to the 6,446 billable hours recognized in the second quarter of 2013 related to a foreign client for which we recognized revenue upon receipt of payment. Technical full-time equivalent employees increased to 222 during the second quarter of 2014 as compared to 221 during the same period last year.

Compensation and Related Expenses

(in thousands, except percentages)	Three Months Ended July 4, 2014	June 28, 2013	Percent Change
Compensation and related expenses	$ 46,049	$ 44,432	3.6 %
Percentage of total revenues	60.1 %	58.8 %	

The increase in compensation and related expenses during the second quarter of 2014 was due to the change in the value of assets associated with our deferred compensation plan and an increase in payroll expense and fringe benefits partially offset by a decrease in bonus expenses and a decrease in stock-based compensation. During the second quarter of 2014, deferred compensation expense increased $1,784,000 with a corresponding increase to other income, net, as compared to the second quarter of 2013 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 $1,952,000 during the second quarter of 2014 as compared to an increase in the value of the plan assets of $168,000 during same period last year. Payroll expense increased $551,000 and fringe benefits increased $437,000 due to the increase in technical full-time equivalent employees and our annual salary increase on March 29, 2014. Bonus expense decreased $607,000 due to a decrease in income before income taxes, before bonus expense, and before stock-based compensation expense and an increase in forfeitures of deferred awards expensed in prior periods. Stock based compensation expense decreased $441,000 due to differences in the timing of when restricted stock unit grants and stock option grants were expensed. 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 July 4, 2014	June 28, 2013	Percent Change
Other operating expenses	$ 6,450	$ 6,207	3.9 %
Percentage of total revenues	8.4 %	8.2 %	

Other operating expenses include facilities-related costs, technical materials, computer-related expenses and depreciation and amortization of property, equipment and leasehold improvements. The increase in other operating expenses during the second quarter of 2014 was due to an increase in occupancy expense of $119,000 and an increase in depreciation expense of $81,000. The increases in occupancy expense and depreciation expense were due to the continued expansion of our facilities to accommodate 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 July 4, 2014	June 28, 2013	Percent Change
Reimbursable expenses	$ 4,243	$ 3,586	18.3 %
Percentage of total revenues	5.5 %	4.7 %	

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

General and Administrative Expenses

(in thousands, except percentages)	Three Months Ended July 4, 2014	June 28, 2013	Percent Change
General and administrative expenses	$ 3,748	$ 3,687	1.7 %
Percentage of total revenues	4.9 %	4.9 %	

The increase in general and administrative expenses during the second quarter of 2014 was due to several individually insignificant items associated with the increase in technical full-time equivalent employees. We expect general and administrative expenses to increase as we selectively add new talent, expand our business development efforts and pursue staff development initiatives.

Other Income, Net

(in thousands, except percentages)	Three Months Ended July 4, 2014	June 28, 2013	Percent Change
Other income, net	$ 2,314	$ 678	241 %
Percentage of total revenues	3.0 %	0.9 %	

Other income, net, consists primarily of interest income earned on available cash, cash equivalents and short-term investments, changes in the value of assets associated with our deferred compensation plan and rental income from leasing space in our Silicon Valley facility. During the second quarter of 2014, other income, net, increased $1,784,000 with a corresponding increase to deferred compensation expense, as compared to the second quarter in 2013 due to a 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 $1,952,000 during the second quarter of 2014 as compared to an increase in the value of the plan assets of $168,000 during the second quarter of 2013.

Income Taxes

(in thousands, except percentages)	Three Months Ended July 4, 2014	June 28, 2013	Percent Change
Income taxes	$ 7,134	$ 7,423	(3.9)%
Percentage of total revenues	9.3 %	9.8 %	
Effective tax rate	38.8 %	40.6 %	

The decrease in income taxes and the effective tax rate was due to a benefit of approximately $340,000 related to United States taxes previously provided on undistributed foreign earnings, which we now currently intend to indefinitely reinvest outside of the United States.

Six Months Ended July 4, 2014 compared to Six Months Ended June 28, 2013

Revenues

(in thousands, except percentages)	Six Months Ended July 4, 2014	June 28, 2013	Percent Change
Engineering and Other Scientific	$ 111,120	$ 106,958	3.9 %
Percentage of total revenues	72.8 %	72.2 %	
Environmental and Health	41,416	41,207	0.5 %
Percentage of total revenues	27.2 %	27.8 %	
Total revenues	$ 152,536	$ 148,165	3.0 %

The increase in revenues for our Engineering and Other Scientific segment was due to an increase in billable hours and an increase in billing rates. During the first six months of 2014, billable hours for this segment increased 2% to 392,000 as compared to 385,000 during the same period last year. The increase in billable hours was due to strong demand for our services. Technical full-time equivalent employees increased 5% to 510 during the first six months of 2013 as compared to 488 for the same period last year due to our continuing recruiting and retention efforts. Utilization was 74% for the first six months of 2014 as compared to 76% during the same period last year. The decrease in utilization was due to the anticipated step down in our elevated levels of activity on several major investigations and our investment in hiring technical consultants.

The increase in revenues for our Environmental and Health segment was due to an increase in realized billing rates partially offset by a decrease in billable hours. During the first six months of 2014, billable hours for this segment decreased to 159,000 as compared to 160,000 during the same period last year. Total billable hours for the first six months of 2013 included 5,017 billable hours related to services performed in 2012 for a foreign client for which we recognized revenue upon receipt of payment. Utilization decreased to 68% for the first six months of 2014 as compared to 69% for the same period last year. The decrease in utilization was due to the 5,017 billable hours recognized in the first six months of 2013 related to a foreign client for which we recognized revenue upon receipt of payment. Technical full-time equivalent employees increased to 223 during the first six months of 2014 as compared to 222 during the same period last year.

Compensation and Related Expenses

(in thousands, except percentages)	Six Months Ended July 4, 2014	June 28, 2013	Percent Change
Compensation and related expenses	$94,907	$92,994	2.1 %
Percentage of total revenues	62.2 %	62.8 %	

The increase in compensation and related expenses during the first six months of 2014 was due to an increase in payroll and the change in value of assets associated with our deferred compensation plan. Payroll increased by $1,662,000 due to the increase in technical full-time equivalent employees and our annual salary increase on March 29, 2014. During the first six months of 2014, deferred compensation expense increased $448,000 with a corresponding increase to other income, net, as compared to the first six months of 2013 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 $2,682,000 during the first six months of 2014 as compared to an increase in the value of the plan assets of $2,234,000 during the first six months of 2013. We expect our compensation expense to increase as we selectively add new talent.

Other Operating Expenses

(in thousands, except percentages)	Six Months Ended July 4, 2014	June 28, 2013	Percent Change
Other operating expenses	$12,767	$12,354	3.3 %
Percentage of total revenues	8.4 %	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 six months of 2014 was due to an increase in depreciation expense of $254,000 and an increase in occupancy expense of $132,000. The increases in depreciation expense and occupancy expense were due to the continued expansion of our facilities to accommodate the increase in technical full-time equivalent employees. We expect other operating expenses to grow as we selectively add new talent and make investments in our corporate infrastructure.

Reimbursable Expenses

(in thousands, except percentages)	Six Months Ended July 4, 2014	June 28, 2013	Percent Change
Reimbursable expenses	$7,238	$7,254	(0.2)%
Percentage of total revenues	4.7 %	4.9 %	

The amount of reimbursable expenses will vary from quarter to quarter depending on the nature of our projects.

General and Administrative Expenses

(in thousands, except percentages)	Six Months Ended July 4, 2014	June 28, 2013	Percent Change
General and administrative expenses	$ 7,446	$ 7,119	4.6 %
Percentage of total revenues	4.9 %	4.8 %	

The increase in general and administrative expenses during the first six months of 2014 was primarily due to an increase in legal expense of $231,000 and several individually insignificant items associated with the increase in technical full-time equivalent employees. The increase in legal expenses was due to an increase in costs associated with legal claims during the first six months of 2014 as compared to the same period last year. We expect general and administrative expenses to increase as we selectively add new talent, expand our business development efforts and pursue staff development initiatives.

Other Income, Net

(in thousands, except percentages)	Six Months Ended July 4, 2014	June 28, 2013	Percent Change
Other income, net	$ 3,585	$ 3,332	7.6 %
Percentage of total revenues	2.4 %	2.2 %	

Other income, net, consists primarily of interest income earned on available cash, cash equivalents and short-term investments, changes in the value of assets associated with our deferred compensation plan and rental income from leasing space in our Silicon Valley facility. During the first six months of 2014, other income, net, increased $448,000 with a corresponding increase to deferred compensation expense as compared to the first six months of 2013 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 $2,682,000 during the first six months of 2014 as compared to an increase in the value of the plan assets of $2,234,000 during the first six months of 2013.

Income Taxes

(in thousands, except percentages)	Six Months Ended July 4, 2014	June 28, 2013	Percent Change
Income taxes	$ 13,345	$ 12,952	3.0 %
Percentage of total revenues	8.7 %	8.7 %	
Effective tax rate	39.5 %	40.8 %	

The decrease in income taxes and the effective tax rate was due to a benefit of approximately $340,000 related to United States taxes previously provided on undistributed foreign earnings, which we now currently intend to indefinitely reinvest outside of the United States.

RECENT ACCOUNTING PRONOUNCMENTS

On May 28, 2014, the Financial Accounting Standards Board 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. GAAP when it becomes effective. The new standard is effective for us on December 31, 2016.

Early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU No. 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	Six Months Ended July 4, 2014	June 28, 2013
Net cash used in operating activities	$10,730	$16,400
Net cash (used in) provided by investing activities	(857)	10,589
Net cash used in financing activities	(20,600)	(23,015)

We financed our business during the first six months of 2014 through available cash. We invest our excess cash in cash equivalents and short-term investments. As of July 4, 2014, our cash, cash equivalents and short-term investments were $144.5 million compared to $156.1 million at January 3, 2014. 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 during the next 12 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 decrease in net cash provided by investing activities was primarily due to a decrease in the maturity of short-term investments partially offset by a decrease in capital expenditures. The decrease in capital expenditures was due to leasehold improvements during the first six months of 2013 associated with the expansion of our facilities.

The decrease in net cash used in financing activities during the first six months of 2014 as compared to the same period last year was due to a decrease in repurchases of common stock partially offset by an increase in our quarterly dividend payments.

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 3, 2014. There have been no material changes in our contractual obligations since January 3, 2014.

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 $36,606,000 were recorded as a long-term liability on our unaudited condensed consolidated balance sheet at July 4, 2014. Company assets that are earmarked to pay benefits under the plan are held in a rabbi trust and are subject to the claims of our creditors. As of July 4, 2014 invested amounts under the plan of $34,856,000 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.

We believe that our existing cash, cash equivalents, short-term investments and our anticipated cash flows from operations will be sufficient to meet our anticipated operating requirements for at least the next twelve months.

Non-GAAP Financial Measures

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

The following table shows EBITDA as a percentage of revenues before reimbursements for the three and six months ended July 4, 2014 and June 28, 2013:

(in thousands, except percentages)	Three Months Ended July 4, 2014	Three Months Ended June 28, 2013	Six Months Ended July 4, 2014	Six Months Ended June 28, 2013
Revenues before reimbursements	$72,331	$71,919	$145,298	$140,911
EBITDA	$19,669	$19,470	$36,312	$34,079
EBITDA as a % of revenues before reimbursements	27.2 %	27.1 %	25.0 %	24.2 %

The increase in EBITDA as a percentage of revenues before reimbursements during the second quarter of 2014 and the first six months of 2014 as compared to the same periods last year was primarily due to an increase in revenues before reimbursements combined with 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 six months ended July 4, 2014 and June 28, 2013:

(in thousands)	Three Months Ended July 4, 2014	Three Months Ended June 28, 2013	Six Months Ended July 4, 2014	Six Months Ended June 28, 2013
Net income	$ 11,264	$ 10,848	$ 20,418	$ 18,824
Add back (subtract):				
Income taxes	7,134	7,423	13,345	12,952
Interest income, net	(40)	(36)	(84)	(81)
Depreciation and amortization	1,311	1,235	2,633	2,384
EBITDA	19,669	19,470	36,312	34,079
Stock-based compensation	2,582	3,040	7,875	8,331
EBITDAS	$ 22,251	$ 22,510	$ 44,187	$ 42,410

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 are exposed to some foreign currency exchange rate risk associated with our foreign operations. Given the limited nature of these operations, we believe that any exposure is minimal. Currently, we do not employ a foreign currency hedging program to mitigate our foreign currency exchange risk as we believe the risks to date have not been significant.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

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

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three month period ended July 4, 2014 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 3, 2014.

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

The following table provides information on the Company's repurchases of the Company's common stock for the three months ended July 4, 2014 (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)
April 5 to May 2	35	$ 72.30	35	$ 20,869
Additional funds authorized for share repurchases				$ 35,000
May 3 to May 30	39	69.38	39	$ 53,196
May 31 to July 4	22	71.25	22	$ 51,617

Total	96	$ 70.88	96	$ 51,617

(1) 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
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

SIGNATURES

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

EXPONENT, INC.
(Registrant)

Date: August 8, 2014

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

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