

EXPONENT INC
Form 10-Q
May 03, 2019

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 29, 2019

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 every Interactive Data File required to be submitted 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 such files).

Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes No

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.001 per share	EXPO	Nasdaq Global Select Market

As of April 26, 2019, the latest practicable date, the registrant had 51,901,032 shares of common stock outstanding.

EXPONENT, INC.

FORM 10-Q

TABLE OF CONTENTS

	Page
<u>PART I – FINANCIAL INFORMATION</u>	
<u>Item 1. Financial Statements (unaudited):</u>	
<u>Condensed Consolidated Balance Sheets March 29, 2019 and December 28, 2018</u>	<u>3</u>
<u>Condensed Consolidated Statements of Income Three Months Ended March 29, 2019 and March 30, 2018</u>	<u>4</u>
<u>Condensed Consolidated Statements of Comprehensive Income Three Months Ended March 29, 2019 and March 30, 2018</u>	<u>5</u>
<u>Condensed Consolidated Statements of Stockholders' Equity Three Months Ended March 29, 2019 and March 30, 2018</u>	<u>6</u>
<u>Condensed Consolidated Statements of Cash Flows Three Months Ended March 29, 2019 and March 30, 2018</u>	<u>7</u>
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	<u>8</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>20</u>
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>26</u>
<u>Item 4. Controls and Procedures</u>	<u>26</u>
<u>PART II – OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	<u>27</u>
<u>Item 1A. Risk Factors</u>	<u>27</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>32</u>

<u>Item 3. Defaults Upon Senior Securities</u>	<u>32</u>
<u>Item 4. Mine Safety Disclosures</u>	<u>32</u>
<u>Item 5. Other Information</u>	<u>32</u>
<u>Item 6. Exhibits</u>	<u>33</u>
<u>Signatures</u>	<u>34</u>

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements**EXPONENT, INC.****Condensed Consolidated Balance Sheets****March 29, 2019 and December 28, 2018****(in thousands, except par value)****(unaudited)**

	March 29, 2019	December 28, 2018
Assets		
Current assets:		
Cash and cash equivalents	\$79,080	\$ 127,059
Short-term investments	92,680	81,495
Accounts receivable, net of allowance for contract losses and doubtful accounts of \$4,713 and \$4,066 at March 29, 2019 and December 28, 2018, respectively	118,864	105,814
Prepaid expenses and other current assets	13,986	12,244
Total current assets	304,610	326,612
Property, equipment and leasehold improvements, net	50,854	46,103
Operating lease right-of-use assets	23,852	-
Goodwill	8,607	8,607
Deferred income taxes	33,878	34,090
Deferred compensation plan assets	66,395	52,286
Other assets	1,024	1,238
Total assets	\$489,220	\$ 468,936
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$12,377	\$ 12,283
Accrued payroll and employee benefits	46,406	76,855
Deferred revenues	7,567	9,166
Operating lease liabilities	5,843	-

Edgar Filing: EXPONENT INC - Form 10-Q

Total current liabilities	72,193	98,304
Other liabilities	2,702	2,548
Deferred compensation plan liabilities	66,670	52,708
Deferred rent	-	1,467
Operating lease liabilities	18,478	-
Total liabilities	160,043	155,027
Stockholders' equity:		
Common stock, \$0.001 par value; 120,000 shares authorized; 65,707 shares issued at March 29, 2019 and December 28, 2018	66	66
Additional paid-in capital	238,916	227,283
Accumulated other comprehensive income (loss)		
Investment securities, available-for-sale	109	(45)
Foreign currency translation adjustments	(2,691)	(2,808)
	(2,582)	(2,853)
Retained earnings	350,506	342,024
Treasury stock, at cost; 13,806 and 14,208 shares held at March 29, 2019 and December 28, 2018, respectively	(257,729)	(252,611)
Total stockholders' equity	329,177	313,909
Total liabilities and stockholders' equity	\$489,220	\$ 468,936

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 March 29, 2019 and March 30, 2018

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

	Three Months Ended	
	March 29, 2019	March 30, 2018
Revenues:		
Revenues before reimbursements	\$ 93,401	\$ 90,684
Reimbursements	5,630	5,773
Revenues	99,031	96,457
Operating expenses:		
Compensation and related expenses	65,093	57,579
Other operating expenses	8,008	7,465
Reimbursable expenses	5,630	5,773
General and administrative expenses	4,546	4,042
Total operating expenses	83,277	74,859
Operating income	15,754	21,598
Other income, net:		
Interest income, net	1,055	530
Miscellaneous income, net	6,513	322
Total other income, net	7,568	852
Income before income taxes	23,322	22,450
Income taxes	610	2,110

Edgar Filing: EXPONENT INC - Form 10-Q

Net income	\$ 22,712	\$ 20,340
Net income per share:		
Basic	\$ 0.43	\$ 0.39
Diluted	\$ 0.42	\$ 0.38
Shares used in per share computations:		
Basic	52,536	52,744
Diluted	53,814	54,012
Cash dividends declared per common share	\$ 0.16	\$ 0.13

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

- 4 -

EXPONENT, INC.

Condensed Consolidated Statements of Comprehensive Income

For the Three Months Ended March 29, 2019 and March 30, 2018

(in thousands)

(unaudited)

	Three Months Ended	
	March 29, 2019	March 30, 2018
Net income	\$ 22,712	\$ 20,340
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of tax	117	739
Unrealized gains (losses) on available-for-sale investment securities arising during the period, net of tax	154	(40)
Comprehensive income	\$ 22,983	\$ 21,039

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

EXPONENT, INC.

Condensed Consolidated Statements of Stockholders' Equity**(in thousands)****(unaudited)**

(In thousands)	Three Months Ended March 29, 2019							
	Common Stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance at December 28, 2018	65,707	\$ 66	\$ 227,283	\$ (2,853)	\$ 342,024	14,208	\$(252,611)	\$ 313,909
Employee stock purchase plan	-	-	302	-	-	(7)	70	372
Amortization of unrecognized stock-based compensation	-	-	3,663	-	-	-	-	3,663
Foreign currency translation adjustments	-	-	-	117	-	-	-	117
Grant of restricted stock units to settle accrued bonus	-	-	7,947	-	-	-	-	7,947
Settlement of restricted stock units	-	-	(860)	-	(5,146)	(395)	(5,188)	(11,194)
Unrealized gain on investments	-	-	-	154	-	-	-	154
Dividends and dividend equivalent rights	-	-	581	-	(9,084)	-	-	(8,503)
Net income	-	-	-	-	22,712	-	-	22,712
Balance at March 29, 2019	65,707	\$ 66	\$ 238,916	\$ (2,582)	\$ 350,506	13,806	\$(257,729)	\$ 329,177

(In thousands)	Three Months Ended March 30, 2018							
	Common Stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
	65,707	\$ 66	\$ 210,230	\$ (2,029)	\$ 303,990	14,169	\$(223,169)	\$ 289,088

Edgar Filing: EXPONENT INC - Form 10-Q

Balance at December 29, 2017								
Employee stock purchase plan	-	-	230	-	-	(8)	80	310
Amortization of unrecognized stock-based compensation	-	-	4,057	-	-	-	-	4,057
Foreign currency translation adjustments	-	-	-	739	-	-	-	739
Grant of restricted stock units to settle accrued bonus	-	-	7,643	-	-	-	-	7,643
Settlement of restricted stock units	-	-	(806)	-	(5,892)	(463)	(1,939)	(8,637)
Unrealized gain on investments	-	-	-	(40)	-	-	-	(40)
Dividends and dividend equivalent rights	-	-	585	-	(7,460)	-	-	(6,875)
Net income	-	-	-	-	20,340	-	-	20,340
Balance at March 30, 2018	65,707	\$ 66	\$ 221,939	\$ (1,330)	\$ 310,978	13,698	\$(225,028)	\$ 306,625

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 March 29, 2019 and March 30, 2018

(in thousands)**(unaudited)**

	Three Months Ended	
	March 29, 2019	March 30, 2018
Cash flows from operating activities:		
Net income	\$22,712	\$ 20,340
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property, equipment and leasehold improvements	1,590	1,555
Amortization of premiums and accretion of discounts on short-term investments	(132)	-
Deferred rent	-	(74)
Provision for contract losses and doubtful accounts	788	561
Stock-based compensation	5,731	6,289
Deferred income tax provision	161	(815)
Changes in operating assets and liabilities:		
Accounts receivable	(13,838)	(7,700)
Prepaid expenses and other current assets	(10,431)	(5,520)
Change in operating leases	(425)	-
Accounts payable and accrued liabilities	(333)	1,829
Accrued payroll and employee benefits	(16,477)	(12,383)
Deferred revenues	(1,599)	(390)
Net cash (used in) provided by operating activities	(12,253)	3,692
Cash flows from investing activities:		
Capital expenditures	(5,670)	(6,810)
Purchase of short-term investments	(23,848)	(11,934)
Maturity of short-term investments	13,000	8,000
Net cash used in investing activities	(16,518)	(10,744)
Cash flows from financing activities:		
Payroll taxes for restricted stock units	(11,194)	(8,637)

Edgar Filing: EXPONENT INC - Form 10-Q

Exercise of stock-based payment awards	372	310
Dividends and dividend equivalents rights	(8,593)	(6,959)
Net cash used in financing activities	(19,415)	(15,286)
Effect of foreign currency exchange rates on cash and cash equivalents	207	696
Net decrease in cash and cash equivalents	(47,979)	(21,642)
Cash and cash equivalents at beginning of period	127,059	124,794
Cash and cash equivalents at end of period	\$79,080	\$ 103,152

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 promulgated by the U.S. 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 March 29, 2019 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 December 28, 2018, which was filed with the U.S. Securities and Exchange Commission on February 22, 2019.

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

Stock Split. On May 31, 2018, the Company’s stockholders approved an amendment to the Company’s certificate of incorporation to (i) increase the number of authorized shares of common stock to 120,000,000 and (ii) effect a two-for-one stock split. As a result of the stock split, each shareholder of record at the close of business on May 31, 2018, received one additional share of common stock for each share of common stock owned by such shareholder. Restricted stock unit awards and stock option awards have also been adjusted to reflect the two-for-one stock split. For periods prior to the stock split, all share and per share data in the Company’s condensed consolidated financial statements and related notes have been retroactively adjusted to reflect the stock split.

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

	Fiscal Year 2019	
	Dividend Amount	
	Per	(in thousands)
	Share	
First Quarter	\$ 0.16	\$ 8,240
Total	\$ 0.16	\$ 8,240

	Fiscal Year 2018	
	Dividend Amount	
	Per	(in thousands)
	Share	
First Quarter	\$ 0.13	\$ 6,700
Second Quarter	0.13	6,764
Third Quarter	0.13	6,765
Fourth Quarter	0.13	6,723
Total	\$ 0.52	\$ 26,952

On April 18, 2019, the Company's Board of Directors announced a cash dividend of \$0.16 per share of the Company's common stock, payable June 21, 2019 to stockholders of record as of June 7, 2019. 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. Items subject to such estimates and assumptions include accounting for revenue recognition and estimating the allowance for contract losses and doubtful accounts. Actual results could differ from those estimates.

Recently Adopted Accounting Pronouncements. In February 2016, the Financial Accounting Standards Board (“FASB”) established Topic 842, Leases, by issuing Accounting Standards Update (“ASU”) No. 2016-02, which requires lessees to recognize leases on-balance sheet and disclose key information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, Land Easement Practical Expedient for Transition to Topic 842; ASU No. 2018-10, Codification Improvements to Topic 842, Leases; and ASU No. 2018-11, Targeted Improvements. The new standard establishes a right-of-use model (“ROU”) that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases will be classified as finance or operating, with classification affecting the pattern and classification of expense recognition in the income statement. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

The Company adopted the ASU as of the beginning of its first quarter of fiscal 2019. A modified retrospective transition approach is required, requiring the application of the new standard to all leases existing at the date of initial application. An entity may choose to use either (1) its effective date or (2) the beginning of the earliest comparative period presented in the financial statements as its date of initial application. The Company adopted the new standard on December 29, 2018 using the effective date as the date of initial application. Consequently, financial information was not updated and the disclosures required under the new standard were not provided for dates and periods before December 29, 2018.

The new standard provides a number of optional practical expedients in transition. The Company elected the ‘package of practical expedients’, which permits it not to reassess under the new standard prior conclusions about lease identification, lease classification and initial direct costs. The Company elected the practical expedient to include both lease and non-lease components as a single component and account for it as a lease for all asset classes. The Company also elected to apply the short-term lease exception for all leases. Under the short-term lease exception, the Company will not recognize ROU assets or lease liabilities for leases that, at the acquisition date, have a remaining lease term of 12 months or less.

The ASU had a material impact to the Company’s condensed consolidated balance sheet, but did not have an impact on its condensed consolidated statement of income. The most significant impact was the recognition of ROU assets and lease liabilities for its operating leases.

Note 2: Revenue Recognition

Substantially all of the Company's engagements are performed under time and materials or fixed-price arrangements. For time and materials contracts, the Company utilizes the practical expedient under Accounting Standards Codification 606 – Revenue from Contracts with Customers, which states, if an entity has a right to consideration from a customer in an amount that corresponds directly with the value of the entity's performance completed to date (for example, a service contract in which an entity bills a fixed amount for each hour of service provided), the entity may recognize revenue in the amount to which the entity has a right to invoice. During the first quarter of fiscal 2019, the Company recognized revenue of \$83,397,000 associated with time and materials contracts. These revenues represent 84% of the Company's consolidated revenues and include revenues of \$65,379,000 for the Company's Engineering and Other Scientific segment and \$18,018,000 for the Company's Environmental and Health segment. During the first quarter of fiscal 2018, the Company recognized revenue of \$83,171,000 associated with time and materials contracts. These revenues represent 86% of the Company's consolidated revenues and include revenues of \$64,557,000 for the Company's Engineering and Other Scientific segment and \$18,614,000 for the Company's Environmental and Health segment. The Company's time and materials contracts are terminable and subject to postponement or delay at any time by our clients, and as such, the performance obligations for all of the Company's time and materials contracts have an original expected duration of one year or less.

For fixed-price contracts the Company recognizes revenue over time because of the continuous transfer of control to the customer. The customer typically controls the work in process as evidenced either by contractual termination clauses or by the Company's rights to payment for work performed to date to deliver services that do not have an alternative use to the Company. Revenue for fixed-price contracts is recognized based on the relationship of incurred labor hours at standard rates to the Company's estimate of the total labor hours at standard rates it expects to incur over the term of the contract. The Company believes this methodology achieves a reliable measure of the revenue from the consulting services it provides to its customers under fixed-price contracts given the nature of the consulting services the Company provides and the following additional considerations:

- the Company considers labor hours at standard rates and expenses to be incurred when pricing its contracts;
 - the Company generally does not incur set up costs on its contracts;
 - the Company does not believe that there are reliable milestones to measure progress towards completion;
 - the customer is required to pay the Company for time at standard rates plus materials incurred to date if the contract is terminated early;
 - the Company's contracts do not include award fees or bonuses;
 - the Company does not include revenue for unpriced change orders until the customer agrees with the changes;
 - historically the Company has not had significant accounts receivable write-offs or cost overruns; and
- 9 -

the Company's contracts are typically progress billed on a monthly basis.

During the first quarter of fiscal 2019 the Company recognized revenue of \$15,634,000 associated with fixed-price contracts. These revenues represent 16% of the Company's consolidated revenues and include revenues of \$14,875,000 for the Company's Engineering and Other Scientific segment and \$759,000 for the Company's Environmental and Health segment. During the first quarter of fiscal 2018 the Company recognized revenue of \$13,286,000 associated with fixed-price contracts. These revenues represent 14% of the Company's consolidated revenues and include revenues of \$12,446,000 for the Company's Engineering and Other Scientific segment and \$840,000 for the Company's Environmental and Health segment. The Company's fixed-price contracts are terminable and subject to postponement or delay at any time by our clients, and as such, the performance obligations for all of the Company's fixed-price contracts have an original expected duration of one year or less.

Deferred revenues represent amounts billed to clients in advance of services provided. During the first quarter of fiscal 2019, \$3,411,000 of revenues were recognized that were included in the deferred revenue balance at December 28, 2018.

Reimbursements, including those related to travel and other out-of-pocket expenses, and other similar third party costs such as the cost of materials and certain subcontracts, are included in revenues, and an equivalent amount of reimbursable expenses are included in operating expenses. Any mark-up on reimbursable expenses is included in revenues before reimbursements. The Company reports revenues net of subcontractor fees for certain subcontracts where the Company has determined that it is acting as an agent because its performance obligation is to arrange for the provision of goods or services by another party. The total amount of subcontractor fees not included in revenues because the Company was acting as an agent were \$4.2 million during the first quarter of fiscal 2019. The total amount of subcontractor fees not included in revenues because the Company was acting as an agent were \$10.2 million during the first quarter of fiscal 2018.

Note 3: 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 were no transfers between fair value measurement levels during the three months ended March 29, 2019 and March 30, 2018. 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 March 29, 2019:

(In thousands)	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market securities ⁽¹⁾	\$ 770	\$ 770	\$ -	\$ -
Fixed income available-for-sale securities ⁽²⁾	92,680	-	92,680	-
Fixed income trading securities held in deferred compensation plan ⁽³⁾	25,504	25,504	-	-
Equity trading securities held in deferred compensation plan ⁽³⁾	46,240	46,240	-	-
Total	\$ 165,194	\$ 72,514	\$ 92,680	\$ -
Liabilities				
Deferred compensation plan ⁽⁴⁾	73,119	73,119	-	-
Total	\$ 73,119	\$ 73,119	\$ -	\$ -

(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 current 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 plan liabilities 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 December 28, 2018:

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market securities ⁽¹⁾	\$ 6,213	\$ 6,213	\$ -	\$ -
Fixed income available for sale securities ⁽²⁾	81,495	-	81,495	-
Fixed income trading securities held in deferred compensation plan ⁽³⁾	18,618	18,618	-	-
Equity trading securities held in deferred compensation plan ⁽³⁾	39,160	39,160	-	-
Total	\$ 145,486	\$ 63,991	\$ 81,495	\$ -
Liabilities				
Deferred compensation plan ⁽⁴⁾	59,349	59,349	-	-
Total	\$ 59,349	\$ 59,349	\$ -	\$ -

(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 current 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 plan liabilities on the Company's unaudited condensed consolidated balance sheet.

Fixed income available-for-sale securities as of March 29, 2019 and December 28, 2018 represent obligations of the United States Treasury and other United States agencies. Fixed income and equity trading securities represent mutual funds held in the Company's deferred compensation plan. See Note 7 for additional information about the Company's deferred compensation plan.

Cash, cash equivalents and short-term investments consisted of the following as of March 29, 2019:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Classified as current assets:				
Cash	\$ 73,310	\$ -	\$ -	\$ 73,310
Cash equivalents:				
Money market securities	770	-	-	770
U.S. Treasury securities	5,000	-	-	5,000
Total cash equivalents	5,770	-	-	5,770
Total cash and cash equivalents	79,080	-	-	79,080
Short-term investments:				
U.S. Treasury and agency securities	92,613	174	(107)	92,680
Total short-term investments	92,613	174	(107)	92,680
Total cash, cash equivalents and short-term investments	\$ 171,693	\$ 174	\$ (107)	\$ 171,760

Cash, cash equivalents and short-term investments consisted of the following as of December 28, 2018:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Classified as current assets:				
Cash	\$ 120,846	\$ -	\$ -	\$ 120,846
Cash equivalents:				
Money market securities	6,213	-	-	6,213
Total cash equivalents	6,213	-	-	6,213
Total cash and cash equivalents	127,059	-	-	127,059
Short-term investments:				
U.S. Treasury and agency securities	81,634	91	(230)	81,495
Total short-term investments	81,634	91	(230)	81,495
Total cash, cash equivalents and short-term investments	\$ 208,693	\$ 91	\$ (230)	\$ 208,554

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 March 29, 2019:

(In thousands)	Amortized Cost	Estimated Fair Value
Due within one year	\$ 46,919	\$ 46,815
Due between one and two years	45,694	45,865
Total	\$ 92,613	\$ 92,680

At March 29, 2019 and December 28, 2018, 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 unaudited condensed consolidated balance sheet at March 29, 2019 and December 28, 2018, but require disclosure of their fair values: accounts receivable, other assets and accounts payable. The estimated fair value of such instruments at March 29, 2019 and December 28, 2018 approximates their carrying value as reported on the Company's unaudited condensed consolidated balance sheet.

There were no other-than-temporary impairments or credit losses related to available-for-sale securities during the three months ended March 29, 2019 and March 30, 2018.

Note 4: 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:

Edgar Filing: EXPONENT INC - Form 10-Q

(In thousands)	Three Months Ended	
	March 29, 2019	March 30, 2018
Shares used in basic per share computation	52,536	52,744
Effect of dilutive common stock options outstanding	455	322
Effect of dilutive restricted stock units outstanding	823	946
Shares used in diluted per share computation	53,814	54,012

Common stock options to purchase 24,176 shares were excluded from the diluted per share calculation for the three months ended March 29, 2019 due to their antidilutive effect. The weighted-average exercise price for the antidilutive shares was \$54.95 for the three months ended March 29, 2019. There were no options excluded from the diluted per share calculations for the three months ended March 30, 2018.

Note 5: 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 \$2,068,000 and \$2,232,000 during the three months ended March 29, 2019 and March 30, 2018, 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 \$3,530,000 and \$3,508,000 during the three months ended March 29, 2019 and March 30, 2018, respectively.

Stock Options

Stock options are granted for terms of ten years and generally vest 25% per year over a four-year period from the grant date. Unvested stock option awards will continue to vest in the case of retirement at 59½ years or older, provided that the holder of each award does all consulting work through the Company and does not become an employee for a past or present client, beneficial party or competitor of the Company. The value of the unvested stock option 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 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 \$133,000 and \$549,000 during the three months ended March 29, 2019 and March 30, 2018, 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, forfeiture, and post-vesting 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 of the options. The dividend yield assumption considers the expectation of continued declaration of dividends, offset by option holders' dividend equivalent rights.

The Company accounts for forfeitures of stock-based awards when they occur. All stock-based payment awards are recognized on a straight-line basis over the requisite service periods of the awards.

Note 6: Treasury Stock

On October 19, 2016, the Company's Board of Directors announced \$35,000,000 for the repurchase of shares of the Company's common stock. On January 31, 2019, the Company's Board of Directors announced an additional \$75,000,000 for the repurchase of shares of the Company's common stock.

- 15 -

The Company did not repurchase any shares of its common stock during the three months ended March 29, 2019 and March 30, 2018. As of March 29, 2019, the Company had remaining authorization under its stock repurchase plans of \$92,462,000 to repurchase shares of common stock.

Note 7: 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 March 29, 2019 and December 28, 2018, the invested amounts under the plans totaled \$71,744,000 and \$57,778,000, respectively, and are recorded in prepaid expenses and other current assets and deferred compensation plan assets on the Company’s unaudited condensed consolidated balance sheet. These assets are classified as trading securities and are recorded at fair value with changes recorded as adjustments to miscellaneous income, net.

As of March 29, 2019 and December 28, 2018, vested amounts due under the plans totaled \$73,119,000 and \$59,349,000, respectively, and are recorded within accrued payroll and employee benefits and deferred compensation plan liabilities on the Company’s unaudited condensed consolidated balance sheet. Changes in the liability are recorded as adjustments to compensation expense. During the three months ended March 29, 2019 and March 30, 2018, the Company recognized compensation expense of \$5,869,000 and (\$305,000), respectively, as a result of changes in the market value of the trust assets with the same amount being recorded as income in miscellaneous income, net.

Note 8: Supplemental Cash Flow Information

The following is supplemental disclosure of cash flow information:

(In thousands)	Three Months Ended	
	March 29, 2019	March 30, 2018
Cash paid during period:		
Income taxes	\$ 440	\$ 678

Non-cash investing and financing activities:

Edgar Filing: EXPONENT INC - Form 10-Q

Unrealized gain (loss) on short-term investments	\$ 154	\$ (40)
Vested stock unit awards issued to settle accrued bonuses	\$ 7,947	\$ 7,643
Accrual for capital expenditures	\$ 1,903	\$ 299
Right-of-use asset obtained in exchange for operating lease obligations	\$ 25,653	\$ -

Note 9: Accounts Receivable, Net

At March 29, 2019 and December 28, 2018, accounts receivable, net, was comprised of the following:

(In thousands)	March 29, 2019	December 28, 2018
Billed accounts receivable	\$ 78,814	\$ 73,905
Unbilled accounts receivable	44,763	35,975
Allowance for contract losses and doubtful accounts	(4,713)	(4,066)
Total accounts receivable, net	\$ 118,864	\$ 105,814

On January 29th 2019, PG&E Corp. (“PG&E”) filed for bankruptcy under chapter 11 of the U.S. bankruptcy code. The Company’s total outstanding accounts receivable from PG&E on the bankruptcy filing date of January 29, 2019 was \$6.0 million. The Company currently expects to collect substantially all of the pre-bankruptcy accounts receivable from PG&E. However, due to the risks and uncertainties inherent in the bankruptcy process, the amount ultimately collected could differ from the Company’s current expectation. The Company continues to do work for PG&E post-bankruptcy filing and expects to be paid for this work in the ordinary course of business. Under the United States Bankruptcy code, PG&E is required to pay all post-bankruptcy expenses in the normal course of business. If they do not do so, the Company is eligible to have the post-bankruptcy obligation categorized as an administrative expense entitled to priority over most pre-bankruptcy creditors.

Note 10: Segment Reporting

The Company has two reportable operating segments based on two primary areas of service. The Engineering and Other Scientific segment is a broad service group providing technical consulting in different practices primarily in engineering. The Environmental and Health segment provides services in the area of environmental, epidemiology and health risk analysis. This segment provides a wide range of consulting services relating to environmental hazards and risks and the impact on both human health and the environment. Our Chief Executive Officer, the chief operating decision maker, reviews revenues and operating income for each of our reportable segments but does not review total assets in evaluating segment performance and capital allocation.

Segment information for the three months ended March 29, 2019 and March 30, 2018 follows:

Revenues

(In thousands)	Three Months Ended	
	March 29, 2019	March 30, 2018
Engineering and Other Scientific	\$ 80,254	\$ 77,047
Environmental and Health	18,777	19,410
Total revenues	\$ 99,031	\$ 96,457

Operating Income

(In thousands)	Three Months Ended	
	March 29, 2019	March 30, 2018
Engineering and Other Scientific	\$ 25,974	\$ 25,913
Environmental and Health	6,196	6,624
Total segment operating income	32,170	32,537
Corporate operating expense	(16,416)	(10,939)
Total operating income	\$ 15,754	\$ 21,598

Capital Expenditures

(In thousands)	Three Months Ended	
	March 29, 2019	March 30, 2018
Engineering and Other Scientific	\$ 1,778	\$ 813
Environmental and Health	43	51
Total segment capital expenditures	1,821	864
Corporate capital expenditures	4,520	5,946
Total capital expenditures	\$ 6,341	\$ 6,810

Depreciation and Amortization

(In thousands)	Three Months Ended	
	March 29, 2019	March 30, 2018
Engineering and Other Scientific	\$ 1,121	\$ 1,095
Environmental and Health	45	39
Total segment depreciation and amortization	1,166	1,134
Corporate depreciation and amortization	424	421
Total depreciation and amortization	\$ 1,590	\$ 1,555

No single client comprised more than 10% of the Company's revenues during the three months ended March 29, 2019. One client comprised 16% of the Company's revenues during the three months ended March 30, 2018. No other single client comprised more than 10% of the Company's revenues during the three months ended March 30, 2018. One client comprised 13% of the Company's accounts receivable at March 29, 2019. No single client comprised more than 10% of the Company's accounts receivable at December 28, 2018.

Note 11: Leases

The Company determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use ("ROU") assets, current operating lease liabilities, and long-term operating lease liabilities in the Company's condensed consolidated balance sheet. The Company does not have any finance leases as of March 29, 2019.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate, based on the information available at commencement date, in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The amortization of operating lease ROU assets and the change in operating lease liabilities is disclosed as a single line item in the condensed consolidated statement of cash flows.

Edgar Filing: EXPONENT INC - Form 10-Q

The Company leases office, laboratory, and storage space in 13 states and the District of Columbia, as well as in Germany, China, Hong Kong, Singapore, Switzerland and the United Kingdom. Leases for these office, laboratory, and storage facilities have terms generally ranging between one and ten years. Some of these leases include options to extend or terminate the lease, none of which are currently included in the lease term as the Company has determined that exercise of these options is not reasonably certain.

The Company has a Test and Engineering Center on 147 acres of land in Phoenix, Arizona. The Company leases this land from the state of Arizona under a 30-year lease agreement that expires in January of 2028 and has options to renew for two fifteen-year periods. As of March 29, 2019, the Company has determined that exercise of the renewal options is not reasonably certain and thus the extension is not included in the lease term.

The Company's equipment leases are included in the ROU asset and liability balances but are not material.

The Company leases excess space in its Silicon Valley facility. Rental income of \$741,000 was included in other income for the three months ended March 29, 2019.

The components of lease expense included in other operating expenses on the condensed consolidated statement of income were as follows:

	Three Months Ended	
(In thousands)	March 29, 2019	
Operating lease cost	\$	1,870
Variable lease cost	\$	380
Short-term lease cost	\$	95

Supplemental cash flow information related to operating leases was as follows:

	Three Months Ended	
(In thousands)	March 29, 2019	
Cash paid for amounts included in the measurement of lease liabilities:	\$	2,534

Supplemental balance sheet information related to operating leases was as follows:

Three Months Ended

March 29, 2019

Weighted Average Remaining Lease Term	5.6 years	
Weighted Average Discount Rate	4.5	%

- 18 -

Maturities of operating lease liabilities as of March 29, 2019:

(In thousands)	Operating Leases
2019 (excluding three months ended March 29, 2019)	\$ 4,700
2020	6,001
2021	4,950
2022	3,894
2023	2,601
2024	1,693
2025	1,491
2026	1,507
2027	1,466
Total lease payments	\$ 28,303
Less imputed interest	(3,982)
Total lease liability	\$ 24,321

Note 12: 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 December 28, 2018, which are contained in our fiscal 2018 Annual Report on Form 10-K, which was filed with the U.S. Securities and Exchange Commission on February 22, 2019 (our "2018 Annual Report").

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 "intend," "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 this Quarterly Report under the heading "Risk Factors" and elsewhere in this 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, 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 the discovery of potential problems related to

products, people, property and impending litigation.

CRITICAL ACCOUNTING ESTIMATES

There have been no significant changes in our critical accounting estimates during the three months ended March 29, 2019, as compared to the critical accounting estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 28, 2018.

RESULTS OF CONSOLIDATED OPERATIONS

Executive Summary

Revenues for the first quarter of 2019 increased 3% to \$99,031,000 as compared to \$96,457,000 during the same period last year. Revenues before reimbursements for the first quarter of 2019 increased 3% to \$93,401,000 as compared to \$90,684,000 during the same period last year. We experienced strong demand for our consulting services from a diverse set of clients for both proactive and reactive projects. During the first quarter of 2019, we deployed our interdisciplinary teams across multiple industry domains, allowing us to address the complex problems associated with integrated technologies. We leveraged the success of our large user study led by our human factors practice, and expanded our reach across new use cases as our clients look to unlock the power of data to inform artificial intelligence systems. Our expertise in battery technologies continues to be a source of strength as we expand into mobility devices. We also experienced increased demand for integrity management consulting related to electrical infrastructure, and engineering and construction management expertise on large international capital projects.

- 20 -

During the first quarter of 2019 we had strong growth in our human factors, materials & corrosion engineering, thermal sciences, structural engineering, construction consulting, and chemical regulation and food safety practices. During the first quarter of 2018, we worked on a large human factors assessment for a client in the consumer products industry. This project represented approximately 8% of our revenues before reimbursements in the first quarter of 2018. We completed this project during the third quarter of 2018. While we do not anticipate another project of this scale, we expanded our human factors practice during the first quarter of 2019 and are currently engaged with a variety of clients in the consumer products industry.

Net income increased 12% to \$22,712,000 during the first quarter of 2019 as compared to \$20,340,000 during the same period last year. Diluted earnings per share increased to \$0.42 per share as compared to \$0.38 in the same period last year. The increase in net income and diluted earnings per share was primarily due to a decrease in our effective tax rate. The decrease in the effective tax rate was due to an increase in the excess tax benefit associated with stock-based awards. The excess tax benefit associated with stock-based awards increased to \$5,670,000 during the first quarter of 2019 as compared to \$3,906,000 during the same period last year.

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

Overview of the Three Months Ended March 29, 2019

During the first quarter of 2019 and 2018, billable hours were 329,000. Our utilization decreased to 72% during the first quarter of 2019 as compared to 77% during the same period last year. Technical full-time equivalent employees increased 7% to 883 during the first quarter of 2019 as compared to 825 during the same period last year. We continue to selectively hire key talent to expand our capabilities.

Three Months Ended March 29, 2019 compared to Three Months Ended March 30, 2018

Revenues

(in thousands, except percentages)	Three Months Ended		Percent Change
	March 29,	March 30, 2018	

2019

Engineering and Other Scientific	\$ 80,254	\$ 77,047	4.2	%
Percentage of total revenues	81.0 %	79.9 %		
Environmental and Health	18,777	19,410	(3.3))%
Percentage of total revenues	19.0 %	20.1 %		
Total revenues	\$ 99,031	\$ 96,457	2.7	%

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 quarter of 2019, billable hours for this segment increased by 2% to 258,000 as compared to 254,000 during the same period last year. Utilization for this segment decreased to 73% during the first quarter of 2019 as compared to 78% during the same period last year. The increase in billable hours was due to strong growth in our human factors, materials & corrosion engineering, thermal sciences, structural engineering and construction consulting practices. The human factors practice is leveraging our user research laboratory in Phoenix, as well as our global footprint, to collect diverse data sets for clients. Our interdisciplinary team of materials scientists, thermal scientists and structural engineers are advising utility clients regarding infrastructure integrity management. Our construction consulting practice is teaming with several of our engineering practices to support international arbitrations related to issues on large capital projects. The decrease in utilization was due to the completion of the large human factors assessment in the middle of the third quarter of 2018. Technical full-time equivalent employees in this segment increased 8% to 679 during the first quarter of 2019 as compared to 628 for the same period last year due to our continuing recruiting and retention efforts.

The decrease in revenues for our Environmental and Health segment was due to a decrease in billable hours. During the first quarter of 2019, billable hours for this segment decreased by 5% to 71,000 as compared to 75,000 during the same period last year. Utilization in this segment decreased to 67% during the first quarter of 2019 as compared to 73% during the same period last year. The decrease in billable hours and utilization was due to this segment's contribution to the large human factor assessment during the first quarter of 2018. This assessment was completed in the middle of the third quarter of 2018. The decrease in billable hours and utilization due to the completion of the large human factors assessment was partially offset by growth related to work evaluating the effect of chemicals on human health and the environment. Technical full-time equivalent employees in this segment increased by 4% to 204 during the first quarter of 2019 as compared to 197 during the same period last year due to our continuing recruiting and retention efforts.

Compensation and Related Expenses

(in thousands, except percentages)	Three Months Ended			Percent Change
	March 29, 2019	March 30, 2018		
Compensation and related expenses	\$ 65,093	\$ 57,579	13.0	%
Percentage of total revenues	65.7	% 59.7	%	

The increase in compensation and related expenses during the first quarter of 2019 was due to a change in the value of assets associated with our deferred compensation plan and an increase in payroll expense partially offset by a decrease in bonus expense. Payroll expense increased \$2,201,000 due to the increase in technical full-time equivalent employees. Bonus expense decreased by \$777,000 during the first quarter of 2019 due to a corresponding decrease to income before income taxes, before interest income, before bonus expense, and before stock-based compensation. During the first quarter of 2019, deferred compensation expense increased \$6,174,000 with a corresponding increase to other income, net, as compared to the same period last year, due to the change in value of assets associated with our deferred compensation plan. This increase consisted of an increase in the value of plan assets of \$5,869,000 during the first quarter of 2019 as compared to a decrease in the value of plan assets of \$305,000 during the 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 and adjust compensation to market conditions.

Other Operating Expenses

(in thousands, except percentages)	Three Months Ended			Percent Change
	March 29, 2019	March 30, 2018		
Other operating expenses	\$ 8,008	\$ 7,465	7.3	%
Percentage of total revenues	8.1	% 7.7	%	

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 2019 was primarily due to an increase in occupancy expense of \$256,000, an increase in technical materials of \$134,000, and an increase in information technology expenses of \$104,000. These increases were due to our increase in technical full-time equivalent employees and investments in our corporate infrastructure. We expect other operating expenses to grow as we selectively add new talent and make investments in our corporate infrastructure.

- 22 -

Reimbursable Expenses

(in thousands, except percentages)	Three Months Ended			Percent Change
	March 29, 2019	March 30, 2018		
Reimbursable expenses	\$ 5,630	\$ 5,773		(2.5)%
Percentage of total revenues	5.7 %	6.0 %		

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
	March 29, 2019	March 30, 2018		
General and administrative expenses	\$ 4,546	\$ 4,042		12.5 %
Percentage of total revenues	4.6 %	4.2 %		

The increase in general and administrative expenses during the first quarter of 2019 was primarily due to an increase in travel and meals of \$354,000 and an increase in outside consulting of \$138,000. The increase in travel and meals was due to the increase in technical full time equivalent employees and an increase in business development activities. We expect general and administrative expenses to increase as we selectively add new talent, expand our business development initiatives, and pursue staff development initiatives.

Other Income, Net

(in thousands, except percentages)	Three Months Ended			Percent Change
	March 29, 2019	March 30, 2018		
Other income, net	\$ 7,568	\$ 852		788.3 %
Percentage of total revenues	7.6 %	0.9 %		

Other income, net, consists primarily of changes in the value of assets associated with our deferred compensation plan, interest income earned on available cash, cash equivalents and short-term investments, and rental income from

leasing space in our Silicon Valley facility. The increase in other income, net, was primarily due to an increase in interest income of \$525,000 and a change in the value of assets associated with our deferred compensation plan. The increase in interest income was due to higher interest rates for our cash equivalents and short-term investments. During the first quarter of 2019, other income, net, increased \$6,174,000 with a corresponding increase to deferred compensation expense, as compared to the same period last year, 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 \$5,869,000 during the first quarter of 2019 as compared to a decrease in the value of the plan assets of \$305,000 during the same period last year.

Income Taxes

(in thousands, except percentages)	Three Months Ended		
	March 29, 2019	March 30, 2018	Percent Change
Income taxes	\$ 610	\$ 2,110	(71.1)%
Percentage of total revenues	0.6 %	2.2 %	
Effective tax rate	2.6 %	9.4 %	

The decrease in the effective tax rate was due to an increase in the excess tax benefit associated with stock-based awards. The excess tax benefit associated with stock-based awards increased to \$5,670,000 during the first quarter of 2019 as compared to \$3,906,000 during the same period last year. Excluding the impact of the excess tax benefit, the effective tax rate would have been 26.9% during the first quarter of 2019 as compared to 26.8% during the same period last year.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	Three Months Ended	
	March 29, 2019	March 30, 2018
Net cash (used in) / provided by operating activities	\$(12,253)	\$ 3,692
Net cash used in investing activities	(16,518)	(10,744)
Net cash used in financing activities	(19,415)	(15,286)

We financed our business during the first three months of 2019 through available cash. We invest our excess cash in cash equivalents and short-term investments. As of March 29, 2019, our cash, cash equivalents and short-term investments were \$171.8 million compared to \$208.6 million at December 28, 2018. We believe our existing balances of cash, cash equivalents, short-term investments and cash generated from operations 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 decrease in net cash provided by operating activities was primarily due to a larger increase in accounts receivable and a larger decrease in accrued payroll and employee benefits.

The increase in net cash used in investing activities during the first three months of 2019, as compared to the same period last year was due to an increase in the purchase of short-term investments, net of maturities.

The increase in net cash used in financing activities during the first three months of 2019, as compared to the same period last year, was due to an increase in payroll taxes for restricted stock units and an increase in dividend payments.

We expect to continue our investing activities, including capital expenditures. Furthermore, cash reserves may be used to repurchase shares of 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 2018 Annual Report. There have been no material changes in our contractual obligations since December 28, 2018.

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 \$66,670,000 were recorded as a long-term liability on our unaudited condensed consolidated balance sheet at March 29, 2019. 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 March 29, 2019, invested amounts under the plan of \$66,395,000 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.

- 24 -

Non-GAAP Financial Measures

Regulation G, Conditions for Use of Non-Generally Accepted Accounting Principles ("Non-GAAP") Financial Measures, and other U.S. Securities and Exchange Commission ("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 for 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 (determined as shown in the reconciliation table below) as a percentage of revenues before reimbursements for the three months ended March 29, 2019:

(in thousands, except percentages)	Three Months Ended			
	March 29, 2019		March 30, 2018	
Revenues before reimbursements	\$ 93,401		\$ 90,684	
EBITDA	\$ 23,857		\$ 23,475	
EBITDA as a % of revenues before reimbursements	25.5	%	25.9	%

The decrease in EBITDA as a percentage of revenues before reimbursements during the first quarter of 2019 as compared to the same period last year was due to a decrease in utilization. Utilization for the first quarter of 2019 was 72% as compared to 77% during the same period last year.

Edgar Filing: EXPONENT INC - Form 10-Q

The following table is a reconciliation of EBITDA and EBITDAS to the most comparable GAAP measure, net income, for the three months ended March 29, 2019:

(in thousands)	Three Months Ended	
	March 29, 2019	March 30, 2018
Net income	\$ 22,712	\$ 20,340
Add back (subtract):		
Income taxes	610	2,110
Interest income, net	(1,055)	(530)
Depreciation and amortization	1,590	1,555
EBITDA	23,857	23,475
Stock-based compensation	5,731	6,289
EBITDAS	\$ 29,588	\$ 29,764

- 25 -

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 March 29, 2019, we had net assets of approximately \$5.4 million with a functional currency of the British Pound, net assets of approximately \$4.7 million with a functional currency of the Euro, and net assets of approximately \$5.6 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 March 29, 2019, we had net assets denominated in the non-functional currency of approximately \$2,371,000.

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

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this quarterly report. Based on that evaluation, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, concluded that, as of March 29, 2019, 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.

- 26 -

(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 March 29, 2019 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

Exponent operates in a rapidly changing environment that involves a number of uncertainties, some of which are beyond our control and may have a material adverse effect on our financial condition and results of operations. These uncertainties include, but are not limited to, those mentioned elsewhere in this report and those set forth below.

The unpredictable and reactive nature of our business can create uneven performance in any given quarter or fiscal year.

Revenues are primarily derived from services provided in response to client requests or events that occur without notice, and engagements, generally billed as services are performed, are terminable or subject to postponement or delay at any time by clients. As a result, backlog at any particular time is small in relation to our quarterly or annual revenues and is not a reliable indicator of revenues for any future periods. Revenues and operating margins for any particular quarter are generally affected by staffing mix, resource requirements and timing and size of engagements.

Our financial results could suffer if our clients' needs change more rapidly than we are able to secure the appropriate mix of trained, skilled and experienced personnel.

As our clients' needs change, new technologies develop, and legal and regulatory processes change, we may be unable to timely hire or train personnel with the appropriate new set of skills and experience which could negatively impact our growth and profitability.

Failure to attract and retain key employees may adversely affect our business.

Exponent's business involves the delivery of professional services and is labor-intensive. Our success depends in large part upon our ability to attract, retain and motivate highly qualified technical and managerial personnel. Qualified personnel are in great demand and are likely to remain a limited resource for the foreseeable future. We cannot provide any assurance that we can continue to attract sufficient numbers of highly qualified technical and managerial personnel and retain existing employees. We have experienced and expect to continue to experience employee turnover. The loss of key managerial employees, business generators or any significant number of employees could have a material adverse impact on our business, including our ability to secure and complete engagements.

Competition could reduce our pricing and adversely affect our business.

The markets for our services are highly competitive. In addition, there are relatively low barriers to entry into our markets and we have faced, and expect to continue to face, additional competition from new entrants into our markets. Competitive pressure could reduce the market acceptance of our services and result in price reductions that could have a material adverse effect on our business, financial condition or results of operations.

The loss of a large client could adversely affect our business.

We currently derive a significant portion of our revenues from clients in the chemical, consumer electronics, energy, insurance, transportation and utilities industries. The loss of any large client, organization or insurer could have a material adverse effect on our business, financial condition or results of operations.

Our clients may be unable to pay for our services.

If a client's financial difficulties become severe, the client may be unwilling or unable to pay our invoices in the ordinary course of business, which could adversely affect collections of both our accounts receivable and unbilled services. On occasion, some of our clients have entered bankruptcy, which has prevented us from collecting amounts owed to us. The bankruptcy of a client with substantial accounts receivable could have a material adverse effect on our financial condition and results of operations.

On January 29th 2019, PG&E Corp. (“PG&E”) filed for bankruptcy under chapter 11 of the U.S. bankruptcy code. Our total outstanding accounts receivable from PG&E on the bankruptcy filing date of January 29, 2019 was \$6.0 million. We currently expect to collect substantially all of the pre-bankruptcy accounts receivable from PG&E. However, due to the risks and uncertainties inherent in the bankruptcy process, the amount ultimately collected could differ from our current expectation. We continue to do work for PG&E post-bankruptcy filing and expect to be paid for this work in the ordinary course of business. Under the United States Bankruptcy code, PG&E is required to pay all post-bankruptcy expenses in the normal course of business. If they do not do so, we are eligible to have the post-bankruptcy obligation categorized as an administrative expense entitled to priority over most pre-bankruptcy creditors.

We hold substantial investments that could present liquidity risks.

Our cash equivalent and short-term investment portfolio as of March 29, 2019, consisted primarily of obligations of U.S. government agencies and the U.S. Treasury. We follow an established investment policy to monitor, manage and limit our exposure to interest rate and credit risk. The policy sets forth credit quality standards and limits our exposure to any one issuer, as well as our maximum exposure to various asset classes.

Investments in some financial instruments may pose risks arising from liquidity and credit concerns. As of March 29, 2019 we had no impairment charge associated with our investment portfolio relating to such adverse financial market

conditions. Although we believe our current investment portfolio has a low risk of impairment, we cannot predict future market conditions or market liquidity and can provide no assurance that our investment portfolio will remain unimpaired.

Our business is dependent on our professional reputation.

The professional reputation of Exponent and its consultants is critical to our ability to successfully compete for new client engagements and attract or retain professionals. Proven or unproven allegations against us may damage our professional reputation. Any factors that damage our professional reputation could have a material adverse effect on our business.

Our business can be adversely impacted by deregulation or reduced regulatory enforcement.

Public concern over health, safety and preservation of the environment has resulted in the enactment of a broad range of environmental and/or other laws and regulations by local, state and federal lawmakers and agencies. These laws and the implementation of new regulations affect nearly every industry, as well as the agencies of federal, state and local governments charged with their enforcement. To the extent changes in such laws, regulations and enforcement or other factors significantly reduce the exposures of manufacturers, owners, service providers and others to liability, the demand for our services may be significantly reduced.

Tort reform can reduce demand for our services.

Several of our practices have a significant concentration in litigation support consulting services. To the extent tort reform reduces the exposure of manufacturers, owners, service providers and others to liability, the demand for our litigation support consulting services may be significantly reduced.

Our engagements may result in professional or other liability.

Our services typically involve difficult engineering and scientific assignments and carry risks of professional and other liability. Many of our engagements involve matters that could have a severe impact on a client's business, cause a client to lose significant amounts of money, or prevent a client from pursuing desirable business opportunities. Accordingly, if a client is dissatisfied with our performance, the client could threaten or bring litigation in order to recover damages or to contest its obligation to pay our fees. Litigation alleging that we performed negligently, disclosed client confidential information, lost or damaged evidence, infringed on patents, were forced to withdraw from a legal matter due to a conflict or otherwise breached our obligations to a client could expose us to significant liabilities to our clients or other third parties or tarnish our reputation.

Potential conflicts of interest may preclude us from accepting some engagements.

We provide litigation support consulting and other services primarily in connection with significant disputes, or other matters that are usually adversarial or that involve sensitive client information. The nature of our consulting services has and will continue to preclude us from accepting engagements with other potential clients because of conflicts. Accordingly, the nature of our business limits the number of both potential clients and potential engagements.

We are subject to unpredictable risks of litigation.

Although we seek to avoid litigation whenever possible, from time to time we are party to various lawsuits and claims. Disputes may arise, for example, from employment issues, regulatory actions, business acquisitions and real estate and other commercial transactions. There can be no assurances that any lawsuits or claims will be immaterial in the future. Any material lawsuits or claims could adversely affect our business and reputation.

We are subject to security breaches that may disrupt our operations and/or lead to the inability to protect confidential information.

We have experienced, and expect to continue to be subjected to, security breaches and threats, none of which have been material to us to date. Despite the implementation of security measures, our operating systems are vulnerable to electronic breaches of security. Such breaches could lead to disruptions of our operations and potential unauthorized disclosure of confidential and/or personal information, which could result in legal claims or proceedings. While we have taken reasonable steps to prevent and mitigate the damage of a security breach by continuously improving our

design and coordination of security controls across our business, those steps may not be effective and there can be no assurance that any such steps can be effective against all possible risks.

Failure to protect client and employee data may have an adverse effect on our business.

We manage, utilize, and store sensitive or confidential client or employee data, including personal data and protected health information. As a result, we are subject to numerous laws and regulations designed to protect this information, such as the U.S. federal and state laws governing the protection of health or other personally identifiable information, including the Health Insurance Portability and Accountability Act, and international laws such as the European Union General Data Protection Regulation. In addition, many states, U.S. federal governmental authorities and non-U.S. jurisdictions have adopted, proposed, or are considering adopting or proposing, additional data security and/or data privacy statutes or regulations. These laws and regulations are increasing in complexity and number. If any person, including any of our employees, negligently disregards or intentionally breaches our established controls with respect to client or employee data, or otherwise mismanages or misappropriates that data, we could be subject to significant monetary damages, regulatory enforcement actions, fines, and/or criminal prosecution. In addition, unauthorized disclosure of sensitive or confidential client or employee data, whether through systems failure, employee negligence, fraud, or misappropriation, could damage our reputation and cause us to lose clients and their related revenue in the future.

- 29 -

Impairment of goodwill may require us to record a significant charge to earnings.

On our balance sheet, we have \$8,607,000 of goodwill subject to periodic evaluation for impairment. Failure to achieve sufficient levels of cash flow at reporting units, the loss of key employees, changes to the scope of operations of our business or a significant and sustained decline in our stock price could result in goodwill impairment charges. During times of financial market volatility, significant judgment is required to determine the underlying cause of the decline and whether stock price declines are short-term in nature or indicative of an event or change in circumstances.

Impairment of long-lived assets or restructuring activities may require us to record a significant charge to earnings.

Our long-lived assets, including our office, laboratory and warehouse space in Menlo Park, California, our test and engineering center in Phoenix, Arizona, and our office and laboratory facilities currently under construction in Natick, Massachusetts, are subject to periodic testing for impairment. Failure to achieve sufficient levels of cash flow at the asset group level could result in impairment of our long-lived assets. In addition, we have operating lease commitments for office and laboratory space. Changes in the business environment could lead to changes in the scope of operations of our business. These changes, including the closure of one or more offices, could result in restructuring and/or asset impairment charges.

Our international operations create special risks that could adversely affect our business.

In addition to our offices in the United States, we have physical offices in the United Kingdom, Germany, Switzerland, Hong Kong, China and Singapore and conduct business in several other countries. We expect to continue to expand globally and our international revenues may account for an increasing portion of our revenues in the future. Our international operations carry special financial, business and legal risks, including cultural and language differences; employment laws and related factors that could result in lower utilization, higher staffing costs, and cyclical fluctuations of utilization and revenues; currency fluctuations that adversely affect our financial position and operating results; burdensome regulatory requirements and other barriers to conducting business; tariffs and other trade barriers including the United Kingdom's decision to leave the European Union; managing the risks associated with engagements with foreign officials and governmental agencies, including the risks arising from the United States Foreign Corrupt Practices Act and the United Kingdom Bribery Act of 2010; managing the risks associated with global privacy and data security laws and regulations including the General Data Protection Regulation in Europe; greater difficulties in managing and staffing foreign operations; successful entry and execution in new markets; restrictions on the repatriation of earnings; potentially adverse tax consequences; and other impending legislation that could add additional risks to the business.

Inherent risks related to government contracts may adversely affect our business.

We work for various United States and foreign governmental entities and agencies. Government entities reserve the right to audit our contracts and conduct inquiries and investigations of our business practices with respect to government contracts. Findings from an audit may result in fees being refunded to the government or prospective adjustment to previously agreed upon rates that will affect future margins. If a government client discovers improper or illegal activities in the course of audits or investigations, we may become subject to various civil and criminal penalties and administrative sanctions, which may include termination of contracts, forfeiture of profits, suspension of payments, fines and suspensions or debarment from doing business with other agencies of the government. The inherent limitations of internal controls may not prevent or detect all improper or illegal activities, regardless of the adequacy of such controls. Government contracts, and the proceedings surrounding them, are often subject to more extensive scrutiny and publicity than other commercial contracts. Negative publicity related to our government contracts, regardless of whether it is accurate, may further damage our business by affecting our ability to compete for new contracts.

Governments may terminate, cancel, modify or curtail our contracts at any time prior to their completion.

Under our government contracts, the client generally has the right not to exercise options to extend or expand our contracts and may otherwise terminate, cancel, modify or curtail our contracts at its convenience. Any decision by the client not to exercise contract options or to terminate, cancel, modify or curtail our programs or contracts would adversely affect our revenues, revenue growth and profitability.

We could incur significant liabilities and suffer negative publicity if people or properties are harmed by the products and systems we sell or the services we offer.

We, on occasion, design, develop, manufacture, sell, service and maintain various products and systems. In some instances, we also train operators of such products and systems. Many of these products and systems utilize software algorithms that are probabilistic in nature and subject to significant technical limitations. There are many factors, some of which are beyond our control, which could result in the failure of our products or systems. The failure of our products or systems could lead to injury, death, or extensive property damage and may lead to product liability, professional liability, or other claims against us. Further, if our products or systems fail, or are perceived to have failed, the negative publicity from such incident could have a material adverse effect on our business.

Changes in, or interpretations of, accounting principles could have a significant impact on our financial position and results of operations.

We prepare our consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”). These principles are subject to interpretation by the SEC and various bodies formed to interpret and create appropriate accounting principles. A change in these principles can have a significant effect on our reported results and may even retroactively affect previously reported transactions. Additionally, the adoption of new or revised accounting principles may require that we make significant changes to our systems, processes and controls.

Our business can be adversely affected by downturns in the overall economy.

The markets that we serve are cyclical and subject to general economic conditions. The direction and relative strength of the global economy continues to be uncertain. If economic growth in the United States, where we primarily operate, slows, our clients may consolidate or go out of business and thus demand for our services could be reduced significantly.

Our quarterly results may vary.

Variations in our revenues and operating results occur from time to time, as a result of a number of factors, such as the significance of client engagements commenced and completed during a quarter, the timing of engagements, the number of working days in a quarter, employee hiring and utilization rates, and integration of companies acquired.

Because a high percentage of our expenses, particularly personnel and facilities related expenses, are relatively fixed in advance of any particular quarter, a variation in the timing of the initiation or the completion of our client assignments can cause significant variations in operating results from quarter to quarter.

The market price of our common stock may be volatile.

Many factors could cause the market price of our common stock to rise and fall. These include the risk factors listed above and below; changes in estimates of our performance or recommendations by securities analysts; future sales of shares of common stock in the public market; market conditions in the industry and economy as a whole; acquisitions or strategic alliances involving us or our competitors; restatement of financial results; and changes in accounting principles or methods. In addition, the stock market often experiences significant price fluctuations. These fluctuations are often unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of our common stock. When the market price of a company's stock drops significantly, shareholders often institute securities class action litigation against that company. Any litigation against us could cause us to incur substantial costs, divert the time and attention of our management and other resources, or otherwise harm our business.

There can be no assurance that we will continue to declare cash dividends or repurchase our shares at all or in any particular amounts.

Our Board of Directors has declared quarterly dividends since March 2013. Our intent to continue to pay quarterly dividends and to repurchase our shares is subject to capital availability and, in the case of dividends, periodic determinations by our Board of Directors that cash dividends are in the best interest of our stockholders and are in compliance with all laws and agreements applicable to the declaration and payment of cash dividends by us. Future dividends and share repurchases may also be affected by, among other factors: our views on potential future capital requirements for investments, including acquisitions; legal risks; stock repurchase programs; changes in federal and state income tax laws or corporate laws; contractual restrictions; and changes to our business model. Our dividend payments and share repurchases may change from time to time, and we cannot provide assurance that we will continue to declare dividends or repurchase shares at all or in any particular amounts. A reduction or suspension in our dividend payments or share repurchase activity could have a negative effect on our stock price.

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 March 29, 2019 (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⁾
December 29 to January 25	-	\$ -	-	\$ 17,462
Additional funds authorized for share repurchases				\$ 75,000
January 26 to February 22	-	-	-	\$ 92,462
February 23 to March 29	-	-	-	\$ 92,462
Total	-	\$ -	-	\$ 92,462

⁽¹⁾On October 19, 2016, the Company's Board of Directors announced \$35,000,000 for the repurchase of the Company's common stock. On January 31, 2019, the Company's Board of Directors announced \$75,000,000 for the

repurchase of the Company's common stock. These repurchase programs 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: May 3, 2019

/s/ Catherine Ford Corrigan
Catherine Ford Corrigan, Ph.D., Chief Executive Officer

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