EXPONENT INC
Form 10-Q
November 02, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 28, 2018

OR

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

For the transition period from __________________ to __________________

Commission File Number 0-18655

EXPONENT, INC.

(Exact name of registrant as specified in its charter)

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

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

(650) 326-9400

(Registrant's telephone number, including area code)

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

Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically 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 x 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 x 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 x

As of October 26, 2018, the latest practicable date, the registrant had 52,012,151 shares of common stock, $0.001 par value per share, outstanding.

EXPONENT, INC.

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

EXPONENT, INC.

Condensed Consolidated Balance Sheets

September 28, 2018 and December 29, 2017

(in thousands, except par value)

(unaudited)

	September 28, 2018	December 29, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 120,977	$ 124,794
Short-term investments	81,373	71,604
Accounts receivable, net of allowance for contract losses and doubtful accounts of $3,912 and $3,526 at September 28, 2018 and December 29, 2017, respectively	122,911	110,100
Prepaid expenses and other assets	11,243	9,011
Total current assets	336,504	315,509
Property, equipment and leasehold improvements, net	43,969	35,014
Goodwill	8,607	8,607
Deferred income taxes	32,966	30,437
Deferred compensation plan assets	57,432	48,676
Other assets	1,415	1,346
Total assets	$ 480,893	$ 439,589
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 13,221	$ 14,741
Accrued payroll and employee benefits	66,060	70,064
Deferred revenues	8,864	8,302
Total current liabilities	88,145	93,107

Other liabilities	2,911	3,326
Deferred compensation	57,998	52,776
Deferred rent	1,205	1,292
Total liabilities	150,259	150,501
Stockholders’ equity:		
Common stock, $0.001 par value; 120,000 shares authorized; 65,707 shares issued at September 28, 2018 and December 29, 2017	66	66
Additional paid-in capital	225,454	210,230
Accumulated other comprehensive income (loss)		
Investment securities, available-for-sale	(288)	(236)
Foreign currency translation adjustments	(2,726)	(1,793)
	(3,014)	(2,029)
Retained earnings	332,907	303,990
Treasury stock, at cost; 13,655 and 14,169 shares held at September 28, 2018 and December 29, 2017, respectively	(224,779)	(223,169)
Total stockholders’ equity	330,634	289,088
Total liabilities and stockholders’ equity	$ 480,893	$ 439,589

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

EXPONENT, INC.

Condensed Consolidated Statements of Income

For the Three and Nine Months Ended September 28, 2018 and September 29, 2017

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Revenues:				
Revenues before reimbursements	$ 88,714	$ 82,359	$ 269,370	$ 246,946
Reimbursements	6,588	5,196	18,010	12,571
Revenues	95,302	87,555	287,380	259,517
Operating expenses:				
Compensation and related expenses	55,639	51,493	168,676	157,447
Other operating expenses	7,826	7,500	22,857	21,966
Reimbursable expenses	6,588	5,196	18,010	12,571
General and administrative expenses	4,655	4,061	13,167	13,277
Total operating expenses	74,708	68,250	222,710	205,261
Operating income	20,594	19,305	64,670	54,256
Other income, net:				
Interest income, net	740	372	1,813	872
Miscellaneous income, net	2,655	2,353	4,875	6,660
Total other income, net	3,395	2,725	6,688	7,532
Income before income taxes	23,989	22,030	71,358	61,788
Income taxes	6,536	7,387	15,140	16,778
Net income	$ 17,453	$ 14,643	$ 56,218	$ 45,010

Net income per share:				
Basic	$ 0.33	$ 0.28	$ 1.06	$ 0.85
Diluted	$ 0.32	$ 0.27	$ 1.04	$ 0.83
Shares used in per share computations:				
Basic	53,032	52,740	52,928	52,724
Diluted	54,302	53,926	54,181	53,952
Cash dividends declared per common share	$ 0.130	$ 0.105	$ 0.390	$ 0.315

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

EXPONENT, INC.

Condensed Consolidated Statements of Comprehensive Income

For the Three and Nine Months Ended September 28, 2018 and September 29, 2017

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Net income	$ 17,453	$ 14,643	$ 56,218	$ 45,010
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	(304)	456	(933)	1,046
Unrealized (losses) gains on available-for- sale investment securities arising during the period, net of tax	(31)	13	(52)	17
Comprehensive income	$ 17,118	$ 15,112	$ 55,233	$ 46,073

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

EXPONENT, INC.

Condensed Consolidated Statements of Cash Flows

For the Nine Months Ended September 28, 2018 and September 29, 2017

(in thousands)

(unaudited)

	Nine Months Ended September 28, 2018	September 29, 2017
Cash flows from operating activities:		
Net income	$56,218	$ 45,010
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and leasehold improvements	4,710	4,762
Amortization of premiums and accretion of discounts on short-term investments	(51)	-
Deferred rent	(87)	(314)
Provision for contract losses and doubtful accounts	1,359	1,657
Stock-based compensation	13,605	12,728
Deferred income tax provision	(2,510)	(421)
Changes in operating assets and liabilities:		
Accounts receivable	(14,170)	(39,051)
Prepaid expenses and other assets	(8,999)	1,049
Accounts payable and accrued liabilities	(3,609)	3,950
Accrued payroll and employee benefits	(202)	(2,558)
Deferred revenues	562	152
Net cash provided by operating activities	46,826	26,964
Cash flows from investing activities:		
Capital expenditures	(12,170)	(3,354)
Purchase of short-term investments	(37,788)	(20,997)
Maturity of short-term investments	28,000	4,000
Net cash used in investing activities	(21,958)	(20,351)
Cash flows from financing activities:		
Payroll taxes for restricted stock units	(8,839)	(9,520)
Repurchase of common stock	-	(8,431)
Exercise of share-based payment awards	1,065	1,733

Dividends and dividend equivalents rights	(20,497)	(16,419)
Net cash used in financing activities	(28,271)	(32,637)
Effect of foreign currency exchange rates on cash and cash equivalents	(414)	866
Net decrease in cash and cash equivalents	(3,817)	(25,158)
Cash and cash equivalents at beginning of period	124,794	114,967
Cash and cash equivalents at end of period	$ 120,977	$ 89,809

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 and nine months ended September 28, 2018 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 29, 2017, which was filed with the U.S. Securities and Exchange Commission on February 23, 2018.

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 2018	
	Dividends Per Share	Amount (in thousands)
First Quarter	$ 0.13	$ 6,700
Second Quarter	0.13	6,764
Third Quarter	0.13	6,765
Total	$ 0.39	$ 20,229

	Fiscal Year 2017	
	Dividends Per Share	Amount (in thousands)
First Quarter	$ 0.105	$ 5,374
Second Quarter	0.105	5,424
Third Quarter	0.105	5,424
Fourth Quarter	0.105	5,416
Total	$ 0.420	$ 21,638

On October 18, 2018, the Company's Board of Directors announced a cash dividend of $0.13 per share of the Company's common stock, payable December 21, 2018 to stockholders of record as of December 7, 2018. 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. On May 28, 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU replaced most existing revenue recognition guidance in U.S. generally accepted accounting principles ("GAAP"). The Company adopted the ASU as of the beginning of its first quarter of fiscal 2018 using the modified retrospective transition method. Under the modified retrospective transition method, the cumulative effect of applying the ASU is recognized at the date of initial application. The cumulative effect of adopting the ASU was not material and thus no cumulative effect adjustment was recorded. The Company's analysis of its contracts under the ASU supports the recognition of revenue over time, which is consistent with the Company's revenue recognition model prior to the adoption of the ASU.

Recent Accounting Pronouncements Not Yet Effective. On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases*, which requires lessees to recognize most leases on their balance sheet. The new standard will be effective for the Company on the first day of fiscal 2019 (December 29, 2018). Early adoption is permitted. The standard requires use of the modified retrospective transition method, with elective relief, which requires application of the guidance for all periods presented. The Company is evaluating the effect that ASU No. 2016-02 will have on its consolidated financial statements and related disclosures. The standard will require the Company to record a right of use asset and a lease liability that will materially gross up its balance sheet.

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 the 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 third quarter of fiscal 2018, the Company recognized revenue of $76,337,000 associated with time and materials contracts. These revenues represent 80% of the Company's consolidated revenues and include revenues of $59,582,000 for the Company's Engineering and Other Scientific segment and $16,755,000 for the Company's Environmental and Health segment. During the first nine months of fiscal 2018, the Company recognized revenue of $239,473,000 associated with time and materials contracts. These revenues represent 83% of the Company's consolidated revenues and include revenues of $186,486,000 for the Company's Engineering and Other Scientific segment and $52,987,000 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
- its contracts are typically progress billed on a monthly basis.

During the third quarter of fiscal 2018 the Company recognized revenue of $18,965,000 associated with fixed-price contracts. These revenues represent 20% of the Company's consolidated revenues and include revenues of $18,315,000 for the Company's Engineering and Other Scientific segment and $650,000 for the Company's Environmental and Health segment. During the first nine months of fiscal 2018 the Company recognized revenue of $47,907,000 associated with fixed-price contracts. These revenues represent 17% of the Company's consolidated revenues and include revenues of $45,494,000 for the Company's Engineering and Other Scientific segment and $2,413,000 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 third quarter of fiscal 2018 $4,163,000 of revenues were recognized that were included in the deferred revenue balance at June 29, 2018. During the first nine months of fiscal 2018 $5,332,000 of revenues were recognized that were included in the deferred revenue balance at December 29, 2017.

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 $4.7 million during the third quarter of fiscal 2018. The total amount of subcontractor fees not included in revenues because the Company was acting as an agent were $21.9 million during the first nine months 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 and nine months ended September 28, 2018 and September 29, 2017. 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 September 28, 2018:

	Fair Value Measurements at Reporting Date Using			
(In thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market securities [(1)]	$ 605	$ 605	$ -	$ -
Fixed income available- for-sale securities [(2)]	81,373	-	81,373	-
Fixed income trading securities held in deferred compensation plan [(3)]	17,835	17,835	-	-
Equity trading securities held in deferred compensation plan [(3)]	45,435	45,435	-	-
Total	$ 145,248	$ 63,875	$ 81,373	$ -
Liabilities				
Deferred compensation plan [(4)]	65,036	65,036	-	-
Total	$ 65,036	$ 65,036	$ -	$ -

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

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The fair value of these certain financial assets and liabilities was determined using the following inputs at December 29, 2017:

	Fair Value Measurements at Reporting Date Using			
(In thousands)	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market securities [1]	$ 9,742	$ 9,742	$ -	$ -
Fixed income available- for-sale securities [2]	71,604	-	71,604	-
Fixed income trading securities held in deferred compensation plan [3]	13,686	13,686	-	-
Equity trading securities held in deferred compensation plan [3]	39,664	39,664	-	-
Total	$ 134,696	$ 63,092	$ 71,604	$ -
Liabilities				
Deferred compensation plan [4]	59,050	59,050	-	-
Total	$ 59,050	$ 59,050	$ -	$ -

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

Fixed income available-for-sale securities as of September 28, 2018 and December 29, 2017 represent obligations of the United States Treasury and 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 September 28, 2018:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Classified as current assets:				
Cash	$ 120,372	$ -	$ -	$ 120,372
Cash equivalents:				
Money market securities	605	-	-	605
Total cash equivalents	605	-	-	605
Total cash and cash equivalents	120,977	-	-	120,977
Short-term investments:				
U.S. Treasury and agency securities	81,837	-	(464)	81,373
Total short-term investments	81,837	-	(464)	81,373
Total cash, cash equivalents and short-term investments	$ 202,814	$ -	$ (464)	$ 202,350

Cash, cash equivalents and short-term investments consisted of the following as of December 29, 2017:

(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Classified as current assets:				
Cash	$ 115,052	$ -	$ -	$ 115,052
Cash equivalents:				
Money market securities	9,742	-	-	9,742
Total cash equivalents	9,742	-	-	9,742
Total cash and cash equivalents	124,794	-	-	124,794
Short-term investments:				
U.S. Treasury and agency securities	71,997	-	(393)	71,604
Total short-term investments	71,997	-	(393)	71,604
Total cash, cash equivalents and short-term investments	$ 196,791	$ -	$ (393)	$ 196,398

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 September 28, 2018:

(In thousands)	Amortized Cost	Estimated Fair Value
Due within one year	$ 39,966	$ 39,796
Due between one and two years	41,871	41,577
Total	$ 81,837	$ 81,373

At September 28, 2018 and December 29, 2017, 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 September 28, 2018 and December 29, 2017, but require disclosure of their fair values: accounts receivable, other assets and accounts payable. The estimated fair value of such instruments at September 28, 2018 and December 29, 2017 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 and nine months ended September 28, 2018 and September 29, 2017.

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:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Shares used in basic per share computation	53,032	52,740	52,928	52,724
Effect of dilutive common stock options outstanding	441	294	391	278
Effect of dilutive restricted stock units outstanding	829	892	862	950
Shares used in diluted per share computation	54,302	53,926	54,181	53,952

There were no options excluded from the diluted per share calculations for the three and nine months ended September 28, 2018 and September 29, 2017.

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 $2,084,000 and $2,155,000 during the three months ended September 28, 2018 and September 29, 2017, respectively. For the nine months ended September 28, 2018 and September 29, 2017, the Company recorded stock-based compensation expense associated with accrued bonus awards of $6,484,000 and $6,284,000, respectively. The value of the unvested restricted stock unit awards granted is recognized on a straight-line basis over the shorter of the four-year vesting period or the period between the grant date and the date the award recipient turns 59½. If the award recipient is 59½ years or older on the date of grant, the value of the entire award is expensed upon grant. The Company recorded stock-based compensation expense associated with the unvested restricted stock unit awards of $1,372,000 and $1,294,000 during the three months ended September 28, 2018 and September 29, 2017, respectively. The Company recorded stock-based compensation expense associated with the unvested restricted stock unit awards of $6,340,000 and $5,788,000 during the nine months ended September 28, 2018 and September 29, 2017, 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 $116,000 and $92,000 during the three months ended September 28, 2018 and September 29, 2017, respectively. The Company recorded stock-based compensation expense associated with stock option grants of $781,000 and $656,000 during the nine months ended September 28, 2018 and September 29, 2017 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 21, 2015, the Company's Board of Directors authorized the use of $35,000,000 for the repurchase of shares of the Company's common stock. On October 19, 2016, the Company's Board of Directors authorized an additional $35,000,000 for the repurchase of shares of the Company's common stock.

The Company did not repurchase any shares of its common stock during the nine months ended September 28, 2018. The Company repurchased 278,364 shares of its common stock for $8,431,000 during the nine months ended September 29, 2017. As of September 28, 2018, the Company had remaining authorization under its stock repurchase plans of $45,376,000 to repurchase shares of common stock.

Net losses related to the re-issuance of treasury stock to settle restricted stock unit and stock option awards of $5,892,000 and $5,667,000 were recorded as a reduction to retained earnings during the nine months ended September 28, 2018 and September 29, 2017, respectively.

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 September 28, 2018 and December 29, 2017, the invested amounts under the plans totaled $63,270,000 and $53,350,000, respectively, and are recorded in prepaid expenses and other 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 September 28, 2018 and December 29, 2017, vested amounts due under the plans totaled $65,036,000 and $59,050,000, respectively, and are recorded within accrued payroll and employee benefits and deferred compensation 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 September 28, 2018 and September 29, 2017, the Company recognized compensation expense of $1,840,000 and $1,699,000, 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. During the nine months ended September 28, 2018 and September 29, 2017, the Company recognized compensation expense of $2,577,000 and $4,617,000, 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)	Nine Months Ended September 28, 2018	September 29, 2017
Cash paid during period:		
Income taxes	$ 19,721	$ 17,208
Non-cash investing and financing activities:		
Unrealized (loss) gain on short-term investments	$ (52)	$ 17
Vested stock unit awards issued to settle accrued bonuses	$ 7,643	$ 6,910
Accrual for capital expenditures	$ 1,643	$ 162

Note 9: Accounts Receivable, Net

At September 28, 2018 and December 29, 2017, accounts receivable, net, was comprised of the following:

(In thousands)	September 28, 2018	December 29, 2017
Billed accounts receivable	$ 83,939	$ 78,139
Unbilled accounts receivable	42,884	35,487
Allowance for contract losses and doubtful accounts	(3,912)	(3,526)
Total accounts receivable, net	$ 122,911	$ 110,100

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 and nine months ended September 28, 2018 and September 29, 2017 follows:

<u>Revenues</u>

	Three Months Ended		Nine Months Ended	
(In thousands)	September 28, 2018	September 29, 2017	September 28, 2018	September 29, 2017
Engineering and Other Scientific	$ 77,853	$ 70,670	$ 231,980	$ 207,148
Environmental and Health	17,449	16,885	55,400	52,369
Total revenues	$ 95,302	$ 87,555	$ 287,380	$ 259,517

Operating Income

(In thousands)	Three Months Ended September 28, 2018	Three Months Ended September 29, 2017	Nine Months Ended September 28, 2018	Nine Months Ended September 29, 2017
Engineering and Other Scientific	$ 25,784	$ 23,645	$ 77,499	$ 70,279
Environmental and Health	5,401	5,450	18,181	16,753
Total segment operating income	31,185	29,095	95,680	87,032
Corporate operating expense	(10,591)	(9,790)	(31,010)	(32,776)
Total operating income	$ 20,594	$ 19,305	$ 64,670	$ 54,256

Capital Expenditures

(In thousands)	Three Months Ended September 28, 2018	Three Months Ended September 29, 2017	Nine Months Ended September 28, 2018	Nine Months Ended September 29, 2017
Engineering and Other Scientific	$ 1,878	$ 662	$ 3,982	$ 2,464
Environmental and Health	43	64	141	170
Total segment capital expenditures	1,921	726	4,123	2,634
Corporate capital expenditures	2,795	102	9,542	720
Total capital expenditures	$ 4,716	$ 828	$ 13,665	$ 3,354

Depreciation and Amortization

(In thousands)	Three Months Ended September 28, 2018	Three Months Ended September 29, 2017	Nine Months Ended September 28, 2018	Nine Months Ended September 29, 2017
Engineering and Other Scientific	$1,102	$ 1,103	$ 3,318	$ 3,381
Environmental and Health	44	47	124	132
Total segment depreciation and amortization	1,146	1,150	3,442	3,513
Corporate depreciation and amortization	415	417	1,268	1,249
Total depreciation and amortization	$1,561	$ 1,567	$ 4,710	$ 4,762

One client comprised 12% of the Company’s revenues during the three months ended September 28, 2018. The same client comprised 14% of the Company’s revenues during the nine months ended September 28, 2018. No other single client comprised more than 10% of the Company’s revenues during the three and nine months ended September 28, 2018. One client comprised 17% of the Company’s revenues during the three months ended September 29, 2017. The same client comprised 14% of the Company’s revenues during the nine months ended September 29, 2017. No other single client comprised more than 10% of the Company’s revenues during the three and nine months ended September 29, 2017. The same client comprised 17% and 24% of the Company’s accounts receivable at September 28, 2018 and December 29, 2017, respectively. No other single client comprised more than 10% of the Company’s accounts receivable at September 28, 2018 and December 29, 2017.

Note 11: Contingencies

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

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included herein and with our audited consolidated financial statements and notes thereto for the fiscal year ended December 29, 2017, which are contained in our fiscal 2017 Annual Report on Form 10-K, which was filed with the U.S. Securities and Exchange Commission on February 23, 2018 (our "2017 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 nine months ended September 28, 2018, 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 29, 2017.

RESULTS OF CONSOLIDATED OPERATIONS

Executive Summary

Revenues for the third quarter of 2018 increased 9% to $95,302,000 as compared to $87,555,000 during the same period last year. Revenues before reimbursements for the third quarter of 2018 increased 8% to $88,714,000 as compared to $82,359,000 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 third quarter of 2018, we provided technology assessments and design consulting services and assisted our clients with product recalls and litigation. We benefited from increasing demand for our inter-disciplinary teams from several industries and across geographies as technologies become increasingly complex and concerns for human health, safety and the environment continue to grow. Strong global demand continued from the consumer electronics and agriculture chemicals industries for proactive services. We have been retained to provide expert services to resolve disputes on large construction projects around the world leveraging our diverse engineering and construction expertise to evaluate cost overruns, delays and non-performance claims that arise during these complex capital projects.

During the third quarter of 2018, we had strong growth in our human factors, materials & corrosion engineering, thermal sciences, electrical engineering & computer science and construction consulting practices. During the quarter, we completed our work on a large human factors assessment for a client in the consumer products industry. This project represented approximately 3% of our revenues before reimbursements in the third quarter of 2018 as compared to 8% during the same period last year.

Net income increased 19% to $17,453,000 during the third quarter of 2018 as compared to $14,643,000 during the same period last year. Diluted earnings per share increased to $0.32 per share as compared to $0.27 in 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 September 28, 2018

During the third quarter of 2018, billable hours increased 3% to 320,000 as compared to 310,000 during the same period last year. Our utilization decreased to 73% during the third quarter of 2018 as compared to 76% during the same period last year. Technical full-time equivalent employees increased 7% to 843 during the third quarter of 2018 as compared to 787 during the same period last year. We continue to selectively hire key talent to expand our capabilities.

Three Months Ended September 28, 2018 compared to Three Months Ended September 29, 2017

Revenues

(in thousands, except percentages)	Three Months Ended **September 28, 2018**	**September 29, 2017**	**Percent Change**
Engineering and Other Scientific	$77,853	$ 70,670	10.2 %
Percentage of total revenues	81.7 %	80.7 %	
Environmental and Health	17,449	16,885	3.3 %
Percentage of total revenues	18.3 %	19.3 %	
Total revenues	$95,302	$ 87,555	8.8 %

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 third quarter of 2018, billable hours for this segment increased by 5% to 253,000 as compared to 242,000 during the same period last year. Utilization for this segment decreased to 76% during the third quarter of 2018 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, electrical engineering & computer science and construction consulting practices. Battery technology consulting remains strong, especially for the consumer electronics and transportation industries. 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 643 during the third quarter of 2018 as compared to 594 for the same period last year due to our continuing recruiting and retention efforts.

The increase in revenues for our Environmental and Health segment was due to an increase in billing rates. During the third quarter of 2018, billable hours for this segment decreased by 1% to 67,000 as compared to 68,000 during the same period last year. Utilization in this segment decreased to 65% during the third quarter of 2018 as compared to 68% during the same period last year. The decrease in billable hours and utilization was due to the completion of the large human factors assessment in the middle of the third quarter of 2018, 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 200 during the third quarter of 2018 as compared to 193 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 **September 28, 2018**	**September 29, 2017**	**Percent Change**
Compensation and related expenses	$ 55,639	$ 51,493	8.1 %
Percentage of total revenues	58.4 %	58.8 %	

The increase in compensation and related expenses during the third quarter of 2018 was due to an increase in payroll expense, an increase in fringe benefits, and an increase in bonus expense. Payroll expense increased $2,145,000 and fringe benefits increased $1,147,000 due to the increase in technical full-time equivalent employees. Bonus expense increased by $516,000 during the third quarter of 2018 due to a corresponding increase to income before income taxes, before bonus expense, and before stock-based compensation. During the third quarter of 2018, deferred compensation expense increased $141,000 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 $1,840,000 during the third quarter of 2018 as compared to an increase in the value of plan assets of $1,699,000 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 **September 28, 2018**	**September 29, 2017**	**Percent Change**
Other operating expenses	$ 7,826	$ 7,500	4.3 %
Percentage of total revenues	8.2 %	8.6 %	

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 third quarter of 2018 was primarily due to an increase in occupancy expense of $231,000. The increase in occupancy expense was due to our increase in technical full-time equivalent employees. We expect other operating expenses to grow as we selectively add new talent and make investments in our corporate infrastructure.

Reimbursable Expenses

(in thousands, except percentages)	Three Months Ended **September 28, 2018**	**September 29, 2017**	**Percent Change**
Reimbursable expenses	$ 6,588	$ 5,196	26.8 %
Percentage of total revenues	6.9 %	5.9 %	

The increase in reimbursable expenses was primarily due to an increase in miscellaneous costs, vehicle procurements, and outside testing services associated with our projects. 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 September 28, 2018	September 29, 2017	Percent Change
General and administrative expenses	$ 4,655	$ 4,061	14.6 %
Percentage of total revenues	4.9 %	4.6 %	

The increase in general and administrative expenses during the third quarter of 2018 was primarily due to an increase in travel and meals of $356,000 and several other individually insignificant increases. The increase in travel and meals was due to a firm-wide principals' meeting during the third quarter of 2018. 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 September 28, 2018	September 29, 2017	Percent Change
Other income, net	$ 3,395	$ 2,725	24.6 %
Percentage of total revenues	3.6 %	3.1 %	

Other income, net, consists primarily of changes in the value of assets associated with our deferred compensation plan, interest income earned on available cash, cash equivalents and short-term investments, and rental income from leasing space in our Silicon Valley facility. The increase in other income, net, was primarily due to an increase in interest income of $368,000 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 third quarter of 2018, other income, net, increased $141,000 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 $1,840,000 during the third quarter of 2018 as compared to an increase in the value of the plan assets of $1,699,000 during the same period last year.

Income Taxes

Three Months Ended

(in thousands, except percentages)	September 28, 2018	September 29, 2017	Percent Change
Income taxes	$ 6,536	$ 7,387	(11.5)%
Percentage of total revenues	6.9 %	8.4 %	
Effective tax rate	27.2 %	33.5 %	

The decrease in the effective tax rate was due to a decrease in the United States federal income tax rate to 21% for the third quarter of 2018 as compared to 35% during the same period last year. The decrease in the United States federal income tax rate was partially offset by a decrease in the excess tax benefit associated with share-based awards and the release of unrecognized tax benefits during the third quarter of 2017. The excess tax benefit associated with share-based awards decreased to $90,000 during the third quarter of 2018 as compared to $464,000 during the same period last year. During the third quarter of 2017 we released $437,000 of our unrecognized tax benefit due to the completion of two tax audits.

Nine Months Ended September 28, 2018 compared to Nine Months Ended September 29, 2017

Revenues

(in thousands, except percentages)	Nine Months Ended **September 28, 2018**	**September 29, 2017**	**Percent Change**
Engineering and Other Scientific	$231,980	$ 207,148	12.0 %
Percentage of total revenues	80.7 %	79.8 %	
Environmental and Health	55,400	52,369	5.8 %
Percentage of total revenues	19.3 %	20.2 %	
Total revenues	$287,380	$ 259,517	10.7 %

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 nine months of 2018, billable hours for this segment increased by 7% to 758,000 as compared to 709,000 during the same period last year. Utilization for this segment decreased to 76% during the first nine months of 2018 as compared to 78% during the same period last year. The increase in billable hours was due to growth from our proactive design consulting services, specifically related to ongoing projects with clients in the consumer products industry. During the first nine months of 2018 we continued work on the large human factors assessment for which we completed work in the middle of the third quarter of 2018. This segment had strong growth in its human factors, vehicle engineering, electrical engineering & computer science, thermal sciences, materials & corrosion engineering, and mechanical engineering practices during the first nine months of 2018. We continued to see strong demand for our services related to product recalls including assignments from the consumer products and automotive industries. Proactive services continued to expand as companies seek our interdisciplinary advice throughout the product life cycle, consistent with the increased importance placed on understanding how users interact with complex technologies. Technical full-time equivalent employees in this segment increased 9% to 636 during the first nine months of 2018 as compared to 584 for the same period last year due to our continuing recruiting and retention efforts.

The increase in revenues for our Environmental and Health segment was due to an increase in billable hours and an increase in billing rates. During the first nine months of 2018, billable hours for this segment increased by 4% to 215,000 as compared to 207,000 during the same period last year. Utilization for this segment was 69% for the first nine months of both 2018 and 2017. The increase in billable hours was due to growth in our chemical regulation and food safety practice where we expanded our proactive services as society remains concerned about chemicals affecting ecosystems and human health. This segment’s contribution to the large ongoing human factors assessment also contributed to the increase in billable hours. This large human factors assessment was completed in the middle of the third quarter of 2018. Technical full-time equivalent employees in this segment increased by 4% to 199 during the first nine months of 2018 as compared to 192 during the same period last year due to our continuing recruiting and retention efforts.

Compensation and Related Expenses

(in thousands, except percentages)	Nine Months Ended September 28, 2018	September 29, 2017	Percent Change
Compensation and related expenses	$168,676	$ 157,447	7.1 %
Percentage of total revenues	58.7 %	60.7 %	

The increase in compensation and related expenses during the first nine months of 2018 was due to an increase in payroll expense, an increase in fringe benefits, an increase in bonus expense, and an increase in stock-based compensation, partially offset by a change in the value of assets associated with our deferred compensation plan. Payroll expense increased $5,844,000 and fringe benefits increased $1,973,000 due to the increase in technical full-time equivalent employees. Bonus expense increased $4,720,000 due to a corresponding increase to income before income taxes, before bonus expense, and before stock-based compensation. Stock-based compensation increased $701,000 due primarily to an increase in the amortization of restricted stock unit grants. During the first nine months of 2018, deferred compensation expense decreased $2,040,000 with a corresponding decrease 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 decrease consisted of an increase in the value of plan assets of $2,577,000 during the first nine months of 2018 as compared to an increase in the value of plan assets of $4,617,000 during the same period last year.

Other Operating Expenses

(in thousands, except percentages)	Nine Months Ended September 28, 2018	September 29, 2017	Percent Change
Other operating expenses	$22,857	$ 21,966	4.1 %
Percentage of total revenues	8.0 %	8.5 %	

Other operating expenses include facilities-related costs, technical materials, computer-related expenses and depreciation and amortization of property, equipment and leasehold improvements. The increase in other operating expenses during the first nine months of 2018 was primarily due to an increase in occupancy expense of $744,000. The increase in occupancy expense was due to our increase in technical full-time equivalent employees.

Reimbursable Expenses

(in thousands, except percentages)	Nine Months Ended September 28, 2018	September 29, 2017	Percent Change
Reimbursable expenses	$18,010	$ 12,571	43.3 %
Percentage of total revenues	6.3 %	4.8 %	

The increase in reimbursable expenses was primarily due to an increase in travel related costs associated with our large human factors assessment project. The amount of reimbursable expenses will vary from quarter to quarter depending on the nature of our projects.

General and Administrative Expenses

(in thousands, except percentages)	Nine Months Ended September 28, 2018	September 29, 2017	Percent Change
General and administrative expenses	$13,167	$ 13,277	(0.8)%
Percentage of total revenues	4.6 %	5.1 %	

The decrease in general and administrative expenses during the first nine months of 2018 was primarily due to a decrease in travel and meals of $384,000, partially offset by several individually insignificant increases. The decrease in travel and meals was due to a firm-wide managers' meeting during the first nine months of 2017.

Other Income, Net

(in thousands, except percentages)	Nine Months Ended September 28, 2018	September 29, 2017	Percent Change
Other income, net	$ 6,688	$ 7,532	(11.2)%
Percentage of total revenues	2.3 %	2.9 %	

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 decrease in other income, net, was primarily due to a change in the value of assets associated with our deferred compensation plan, partially offset by an increase in interest income. During the first nine months of 2018, other income, net, decreased $2,040,000 with a corresponding decrease 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 decrease consisted of an increase in the value of the plan assets of $2,577,000 during the first nine months of 2018 as compared to an increase in the value of the plan assets of $4,617,000 during the same period last year. During the first nine months of 2018, interest income increased $941,000 due to higher interest rates for our cash equivalents and short-term investments.

Income Taxes

(in thousands, except percentages)	Nine Months Ended September 28, 2018	September 29, 2017	Percent Change
Income taxes	$15,140	$ 16,778	(9.8)%
Percentage of total revenues	5.3 %	6.5 %	
Effective tax rate	21.2 %	27.2 %	

The decrease in income tax expense was due to a decrease in the United States federal income tax rate, partially offset by a decrease in the excess tax benefit associated with share-based awards. The excess tax benefit associated with share-based awards decreased to $4,154,000 during the first nine months of 2018 as compared to $6,518,000 during the same period last year. Excluding the impact of the excess tax benefit, the effective tax rate would have been 27.0% during the first nine months of 2018 as compared to 37.7% during the same period last year. The decrease in the effective tax rate, excluding the impact of the excess tax benefit, was due to a decrease in the United States federal income tax rate to 21% during the first nine months of 2018 as compared to 35% during the same period last year.

LIQUIDITY AND CAPITAL RESOURCES

(in thousands)	Nine Months Ended September 28, 2018	September 29, 2017
Net cash provided by operating activities	$46,826	$ 26,964
Net cash used in investing activities	(21,958)	(20,351)
Net cash used in financing activities	(28,271)	(32,637)

We financed our business during the first nine months of 2018 through available cash. We invest our excess cash in cash equivalents and short-term investments. As of September 28, 2018, our cash, cash equivalents and short-term investments were $202.4 million compared to $196.4 million at December 29, 2017. 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 increase in net cash provided by operating activities was primarily due to the increase in net income and a smaller increase in accounts receivable during the first nine months of 2018 as compared to the same period last year.

The increase in net cash used in investing activities during the first nine months of 2018, as compared to the same period last year, was due to an increase in capital expenditures, partially offset by a decrease in the purchase of short-term investments, net of maturities. During the first quarter of 2018, we closed on the purchase of 2.9 acres of land in Natick, Massachusetts on which we are currently building office and laboratory facilities. The total purchase price for the land was $5.2 million.

The decrease in net cash used in financing activities during the first nine months of 2018, as compared to the same period last year, was due to a decrease in repurchases of common stock and a decrease in payroll taxes for restricted stock units, partially offset by 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 2017 Annual Report. There have been no material changes in our contractual obligations since December 29, 2017.

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 $57,998,000 were recorded as a long-term liability on our unaudited condensed consolidated balance sheet at September 28, 2018. 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 September 28, 2018, invested amounts under the plan of $57,432,000 were recorded as a long-term asset on our unaudited condensed consolidated balance sheet.

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

Non-GAAP Financial Measures

Regulation G, Conditions for Use of Non-Generally Accepted Accounting Principles ("Non-GAAP") Financial Measures, and other 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 and nine months ended September 28, 2018 and September 29, 2017:

(in thousands, except percentages)	Three Months Ended		Nine Months Ended	
	September 28, 2018	**September 29, 2017**	**September 28, 2018**	**September 29, 2017**
Revenues before reimbursements	$88,714	$ 82,359	$269,370	$ 246,946
EBITDA	$24,810	$ 23,225	$74,255	$ 65,678
EBITDA as a % of revenues before reimbursements	28.0 %	28.2 %	27.6 %	26.6 %

The decrease in EBITDA as a percentage of revenues before reimbursements during the third quarter of 2018 as compared to the same period last year was due to a decrease in utilization. Utilization for the third quarter of 2018 was 73% as compared to 76% during the same period last year.

The increase in EBITDA as a percentage of revenues before reimbursements during the first nine months of 2018 as compared to the same period last year was due to 9% growth in revenues before reimbursements, a 1% decrease in general and administrative expenses and a 4% increase in other operating expenses. The decrease in general and administrative expenses was due to a firm-wide managers' meeting during the first nine months of 2017. Other operating expenses increased at a lower rate than our revenues before reimbursements due to the leverage of our corporate infrastructure.

The following table is a reconciliation of EBITDA and EBITDAS to the most comparable GAAP measure, net income, for the three and nine months ended September 28, 2018 and September 29, 2017:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 28, 2018	**September 29, 2017**	**September 28, 2018**	**September 29, 2017**
Net income	$ 17,453	$ 14,643	$56,218	$ 45,010
Add back (subtract):				

Income taxes	6,536	7,387	15,140	16,778
Interest income, net	(740)	(372)	(1,813)	(872)
Depreciation and amortization	1,561	1,567	4,710	4,762
EBITDA	24,810	23,225	74,255	65,678
Stock-based compensation	3,572	3,541	13,605	12,728
EBITDAS	$ 28,382	$ 26,766	$ 87,860	$ 78,406

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 September 28, 2018, we had net assets of approximately $4.4 million with a functional currency of the British Pound, net assets of approximately $4.9 million with a functional currency of the Euro, and net assets of approximately $3.3 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 September 28, 2018, we had net assets denominated in the non-functional currency of approximately $185,000.

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 September 28, 2018, the Company’s disclosure controls and procedures were effective.

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

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three month period ended September 28, 2018 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, in our latest Annual Report on Form 10-K 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 and the government sector. 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.

We hold substantial investments that could present liquidity risks.

Our cash equivalent and short-term investment portfolio as of September 28, 2018, 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 September 28, 2018, 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 the Company 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.

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, warehouse 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; 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 September 28, 2018 (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]
June 30 to July 27	-	$ -	-	$ 45,376
July 28 to August 24	-	-	-	$ 45,376
August 25 to September 28	-	-	-	$ 45,376
Total	-	$ -	-	$ 45,376

(1) On October 20, 2015, the Company's Board of Directors authorized the use of $35,000,000 for the repurchase of shares of the Company's common stock. On October 18, 2016, the Company's Board of Directors authorized an additional $35,000,000 for the repurchase of shares of the Company's common stock. These plans have no expiration date.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

(a) Exhibit Index

31.1	Certification of Chief Executive Officer pursuant to Rule 13a – 14(a) under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a – 14(a) under the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Schema Document
101.CAL	XBRL Taxonomy Calculation Linkbase Document
101.DEF	XBRL Taxonomy Definition Linkbase Document
101.LAB	XBRL Taxonomy Label Linkbase Document
101.PRE	XBRL Taxonomy Presentation Linkbase Document

SIGNATURES

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

EXPONENT, INC.
(Registrant)

Date: November 2, 2018

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

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