

**Exponent<sup>®</sup>**  
**2015**  
**Annual Report**



Dear Fellow Stockholders:

In 2015, we grew revenues, expanded margins and closed the year with strong earnings and a healthy balance sheet.

For the year, total revenues increased 3% to \$312.8 million and revenues before reimbursements reached \$295.7 million. Net income increased 7% to \$43.6 million, or \$1.60 per diluted share, and EBITDA rose to \$76.4 million.

We generated \$60.5 million in cash from operating activities, and ended the year with \$171.6 million in cash and short-term investments. We also repurchased \$23.3 million in common stock and paid \$15.6 million in dividends during the year. While the decline in defense technology development and the completion of a major project in the third quarter created headwinds for top-line growth in 2015, we believe our bottom-line results and capital structure demonstrate the resilience of our model.

In 2015, we experienced strong demand for our reactive and proactive services. We continue to assist clients with navigating the regulatory process and product performance assessments. We benefited from the broadening of product offerings and exploration of new materials in the consumer electronics and biomedical industries, as well as increased commercial construction and infrastructure spending.

As we move through 2016, we are focused on further expanding our unique market position in assessing reliability, safety, human health effects and environmental impacts of increasingly complex technologies, products, and processes. We will leverage our experience and reputation in reactive services to continue the development of our proactive services, such as design evaluations, risk management and regulatory consulting.

In summary, our long-term financial goals include producing organic revenue growth, improving profitability and maintaining a healthy balance sheet. We remain optimistic about our future and look forward to continuing to deliver strong financial results and driving shareholder value through our ongoing stock repurchases and dividend payments.

We would like to thank our employees for their dedication, and our clients and investors for their continued support.

With regards,

A handwritten signature in black ink, appearing to read 'Paul R. Johnston', with a stylized, cursive flourish at the end.

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



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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FORM 10-K

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Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended January 1, 2016.

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

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**EXPONENT, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of incorporation or organization)

**77-0218904**  
(I.R.S. Employer Identification No.)

**149 Commonwealth Drive, Menlo Park, California**  
(Address of principal executive offices)

**94025**  
(Zip Code)

**(650) 326-9400**  
(Registrant's telephone number, including area code)

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, \$0.001 par value per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes \_\_\_\_ No X

The aggregate market value of the common stock held by non-affiliates of the registrant based on the closing sales price of the common stock as reported on the NASDAQ Global Select Market on July 2, 2015, the last business day of the registrant's most recently completed second quarter, was \$996,092,846. Shares of the registrant's common stock held by each executive officer and director and by each entity or person that, to the registrant's knowledge, owned 10% or more of registrant's outstanding common stock as of July 2, 2015 have been excluded in that such persons may be deemed to be affiliates of the registrant. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the registrant's common stock outstanding as of February 19, 2016 was 25,720,598.

#### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Definitive Proxy Statement for the registrant's 2016 Annual Meeting of Stockholders to be held on May 26, 2016 are incorporated by reference into Part III of this Annual Report on Form 10-K.

**EXPONENT, INC.**  
**FORM 10-K ANNUAL REPORT**  
**FISCAL YEAR ENDED JANUARY 1, 2016**  
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**FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K contains, and incorporates by reference, 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), including but not limited to statements regarding future growth and market opportunities, revenue, margins, headcount, utilization and operating expenses, 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 and in the documents incorporated herein by reference, statements other than statements of current or historical fact are forward-looking statements. The words “anticipate,” “believe,” “estimate,” “continue”, “could”, “may”, “plan”, “expect” and similar expressions, as they relate to the Company or its management, identify certain of 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 Annual Report under the heading “Risk Factors” and elsewhere.

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. The Company undertakes no obligation to update or revise any such forward-looking statements.

## **PART I**

### **Item 1. Business**

#### **GENERAL**

Exponent, Inc., together with its subsidiaries, (“Exponent”, the “Company”, “we”, “us” and “our”) is a science and engineering consulting firm that provides solutions to complex problems. Our multidisciplinary team of scientists, physicians, engineers, business and regulatory consultants brings together more than 90 different technical disciplines to solve complicated issues facing industry and government today. Our professional staff can perform in-depth scientific research and analysis, or very rapid-response evaluations to provide our clients with the critical information they need.

The history of Exponent, Inc. goes back to 1967, with the founding of the partnership Failure Analysis Associates, which was incorporated the following year in California and reincorporated in Delaware as Failure Analysis Associates, Inc. in 1988. The Failure Group, Inc. was organized in 1989 as a holding company for Failure Analysis Associates, Inc. and changed its name to Exponent, Inc. in 1998.

#### **CLIENTS**

##### *General*

Exponent serves clients in automotive, aviation, chemical, construction, consumer products, energy,

government, health, insurance, manufacturing, technology and other sectors of the economy. Many of our engagements are initiated directly by large corporations or by lawyers or insurance companies whose clients anticipate, or are engaged in, litigation related to their products, equipment, processes or services. The scope of our services in failure prevention and technology evaluation has grown as the technological complexity of products has increased over the years.

##### *Pricing and Terms of Engagements*

We provide our services on either a fixed-price basis or on a time and material basis, charging in the latter case hourly rates for each staff member involved in a project, based on his or her skills and experience. Our standard rates for professionals range from \$165 to \$650 per hour. Our engagement agreements typically provide for monthly billing, require payment of our invoices within 30 days of receipt and permit clients to terminate engagements at any time. Clients normally agree to indemnify us and our personnel against liabilities arising out of the use or application of the results of our work or recommendations.

#### **SERVICES**

Exponent provides high quality engineering and scientific consulting services to clients around the world. Our service offerings are provided on a project-by-project basis. Many projects require support from multiple practices. We currently operate 22 practices and centers in two operating segments, Engineering and Other Scientific and Environmental and Health:

#### **ENGINEERING AND OTHER SCIENTIFIC**

- Biomechanics
- Biomedical Engineering
- Buildings & Structures
- Civil Engineering
- Construction Consulting
- Electrical Engineering & Computer Science
- Engineering Management Consulting
- Human Factors
- Industrial Structures
- Materials & Corrosion Engineering
- Mechanical Engineering
- Polymer Science & Materials Chemistry
- Statistical & Data Sciences
- Technology Development
- Thermal Sciences
- Vehicle Analysis



## **ENVIRONMENTAL AND HEALTH**

- Chemical Regulation & Food Safety
- Ecological & Biological Sciences
- Environmental & Earth Sciences
- Epidemiology, Biostatistics & Computational Biology
- Occupational & Environmental Health Risk Assessment
- Toxicology & Mechanistic Biology

## **ENGINEERING AND OTHER SCIENTIFIC**

### **Biomechanics**

Our Biomechanics Practice uses engineering and biomedical science to solve complex problems at the intersection of biology and engineering. Our expertise is used to understand and evaluate the interaction between the human body as a biological system and the physical environment to explore the cause, nature, and severity of injuries.

During the past year, our biomechanics staff performed analyses of human injury related to a variety of products including recreational vehicles, sporting goods, trucks, trains, aircraft, industrial equipment, and automobiles. They also looked at the implications of using protective devices (such as restraint systems, airbags, and helmets) on reducing the potential for injury, and assessed injuries in the workplace, in the home, and during recreational activities.

### **Biomedical Engineering**

Our Biomedical Engineering Practice applies engineering principles to the medical field, including the evaluation of designs and performance of medical devices and biologics. Our engineers and scientists assist clients with characterization of cells, tissues, biomaterials, and medical devices. As part of our regulatory compliance, we can perform preclinical testing and formulate a related regulatory strategy, conduct design verification and validation, as well as design and manufacturing failure analyses, recall management, and medical device explant analysis. In addition, our staff can perform analysis of clinical outcomes for medical devices using administrative claims databases. Our expertise is also utilized in product liability, intellectual property litigation, technology acquisition and due diligence matters.

## **Buildings & Structures**

The basic function of a building is to provide structurally sound, durable and environmentally controlled space to house and protect occupants and contents. If this basic function is not achieved, it is because one or more aspect(s) of the building design or construction failed to perform its intended function. Our architects, engineers, and scientists have been investigating such failures for decades, and we use this experience to solve problems with building systems and components, including finding the best repair options and mitigating the risk of future failures.

During the past year, we have evaluated numerous problems with residential, commercial and industrial structures for insurers, attorneys and owners. Our evaluations often include property inspections, testing, engineering analysis and the development of repair recommendations. In addition, we have worked with owners to assess and mitigate the risk of failure associated with hazards such as hurricanes, earthquakes, tsunamis and aging infrastructure. We have assessed these risks to high-rise buildings, industrial facilities, pipelines and nuclear power plant structures.

### **Civil Engineering**

Our Civil Engineering Practice provides broad expertise that includes geotechnical engineering, geological engineering, engineering geology, and geology to address a host of geo-failures, including landslides, foundation and retaining wall failures, pipeline failures, dam and levee failures and construction claims. We also provide peer review services for complicated structures. Our water resources staff specializes in the application of proven hydrologic, hydraulic, hydrodynamic, and sediment transport research and science to provide scientifically sound and cost-effective solutions to our clients.

Over the past year, our consultants have been engaged in a number of investigations related to wildland fires, landslides, retaining wall and foundation failures, large construction claims, flooding and sediment transport. This practice has had a diverse portfolio of projects and clients that represent a broad spectrum of industries.

### **Construction Consulting**

Our Construction Consulting Practice provides project advisory, risk analysis, strategic planning,

dispute resolution, delay analysis and financial damages services. During the past year, we expanded the practice by leveraging key client relationships in several construction sectors including utilities and oil and gas. Our multi-disciplinary staff, which includes engineers, architects, construction managers, schedulers, accountants, and technical specialists, provides these services to both the public and private sectors for clients who represent a diverse mix of companies and agencies.

Our projects include many sectors of the construction and engineering industry which include power plants, transmission and distribution facilities, petrochemical facilities, water/wastewater treatment plants, bridges and roads, rail systems, tunnels, airports, commercial buildings, institutional buildings, industrial and manufacturing facilities, sporting arenas and gaming facilities. We provide services to firms involved in the engineering and construction industry including construction owners, lending agencies, engineering and construction contractors, subcontractors, designers, attorneys and insurance carriers.

### **Electrical Engineering & Computer Science**

Our Electrical Engineering and Computer Science Practice offers a broad range of expertise to address complex issues for industrial, government and private clients. Our power engineers advise and offer guidance to clients on problems relating to electrical systems including power generation, transmission and distribution. Our team of electrical engineers works on failure analysis, product robustness and reliability for consumer and industrial electronics. Our computer engineers and scientists work with high-tech industries and computer controlled applications to evaluate product safety and software reliability. The computer engineering and science expertise we offer encompasses a breadth of areas including information and numerical sciences, algorithms and data structures, computer graphics, computer architecture, networking and communications, as well as security and cryptography. We operate laboratories for testing heavy equipment and electronics and we have a broad capability in analyzing computer software.

Over the past year, we performed a wide array of investigations ranging from assessing electrical damage to infrastructure from the effect of weather related events to working with clients to develop sophisticated machine learning algorithms applied to large quantities of unstructured data. We continue to work with consumer electronics manufacturers and the transportation industry on the reliability and

robustness of computer controlled equipment for user safety. We have also provided our expertise to clients with intellectual property matters by advising them on matters of integrated circuit design, semiconductor fabrication and computer software implementations.

### **Engineering Management Consulting**

Our Engineering Management Consulting Practice provides multi-disciplinary expertise and rapid response to assist clients with management consulting services related to technical issues. Our consultants provide services in the areas of asset strategy, technology strategy, regulatory strategy, asset planning, project management, engineering, construction, maintenance, operations, and risk analysis. This practice primarily services the electric and gas utility industries, including transmission, distribution, fossil fuel generation, nuclear generation, and renewable generation.

We provide unique and advanced services including risk and reliability assessment and mitigation. Our scientists and engineers assist our clients in minimizing losses related to asset failures and/or business operations. Accidents, unanticipated events, and system failures are the primary causes of deferred or lost production interruptions and may lead to loss of life, injury, property damage, and undesired releases. Our multi-disciplinary staff has also performed diverse technical, business interruption, and compliance-related risk and reliability assessments for chemical, petrochemical, petroleum, and manufacturing clients worldwide.

### **Human Factors**

Our Human Factors Practice evaluates human performance and safety in product and system use. Our consultants study how the limitations and capabilities of people, including memory, perception, reaction time, judgment, physical size and dexterity, affect the way they use a product, interact with an organization or environment, process information or participate in an activity.

We address the reliability of human memory and retrospective reporting in the gathering of fact-based evidence. We review warnings and labeling issues related to consumer products, pharmaceuticals, motor vehicles, medical devices and industrial products. In addition, we assist manufacturers with compliance with regulatory guidelines related to products and work with them regarding analysis of adverse event reports and consumer complaints in publicly available databases overseen by the Consumer

Product Safety Commission and the Food and Drug Administration. We also provide support assessing alleged false advertising claims for consumer products, foods and pharmaceuticals.

### **Industrial Structures**

Our Industrial Structures Practice, based in Düsseldorf and Berlin, Germany, specializes in design and assessment of industrial structures subject to extreme conditions. Our staff has provided design reviews and assessments on more than 1,000 structures around the world, and our staff has participated in the creation of several engineering standards.

Our Industrial Structures Practice provides planning, assessment, rehabilitation and dismantling analysis of load-bearing structures in four particular areas: antenna masts, power plants, buildings and special structures like refractories or tanks. One service we provide in over 900 locations throughout the year is quality assurance of antenna masts for a variety of facilities including telecommunications, wind energy and industrial chimneys. Our consultants provide inspection services related to new construction and assess design deficiencies related to new and existing facilities, as well as assist our clients with on-time, quality construction on their projects.

With the use of our self-developed computer software for non-linear material behavior, we provide close-to-reality assessment of a wide variety of structures such as cracked reinforced concrete structures, multi-layer refractories or masonry towers. Beyond industrial structures, more and more commercial property projects are becoming part of this practice.

### **Materials & Corrosion Engineering**

Our in-depth knowledge of materials science, corrosion, and metallurgical engineering, combined with the breadth of our collective experience across many industries and disciplines gives our Materials and Corrosion Engineering Practice a unique ability to efficiently provide our clients with solutions to their complex materials-based problems. We use our knowledge and experience to understand how and why materials, products, and processes may not perform their intended function, as well as to prevent future problems. In the past year, our Materials and Corrosion Engineering Practice helped clients solve critical materials-related issues in the consumer electronics, medical device, chemical processing, transportation, energy, and aerospace fields, among others.

### **Mechanical Engineering**

We provide clients with a thorough comprehension of current or alternative designs to determine potential vulnerabilities before failures occur, develop appropriate risk mitigation methods, and provide post failure investigations. Our consultants review the safety and reliability of processes and products. We assist in performing product recall investigations and reviewing internal compliance programs as part of the implementation of corrective action plans. We have performed these activities in the transportation, heavy industry, energy, and consumer product areas.

Our staff develop and utilize detailed, validated computational models to evaluate equipment, consumer products and medical devices to solve a variety of technical challenges associated with their design and optimization. Our scientists and engineers also provide services in the area of intellectual property and are often asked to interpret the language of a patent from a scientific and engineering perspective and provide insight regarding the proper technical interpretation of patent claims. During the past year our mechanical engineers worked on a wide variety of projects ranging from high profile consumer product recall investigations to pipeline integrity evaluations and worker safety issues.

Industrial equipment integrity analysis and management is a growing part of our business involved with increasing productivity and lowering risk in manufacturing. We advise clients on mitigating engineering asset failures, improving equipment reliability, and performance and better understanding their risk profile. Our approach combines engineering mechanics with computational algorithms, industry-accepted standards, and operational data.

### **Polymer Science & Materials Chemistry**

Our Polymer Science and Materials Chemistry Practice consults with industrial, government, legal, insurance and individual clients regarding polymers and textiles used in diverse applications as well as chemical aspects of batteries, drug delivery systems, and other products that depend on highly controlled manufacturing environments. We assist clients in understanding the short- and long-term performance of plastic, rubber, adhesive, coating, composite and electrochemical energy systems when challenged by physical, chemical, thermal and other operational stressors.

Our consultants participate in product development programs, perform failure analyses and provide support to clients involved in regulatory and legal proceedings. Clients value our technical expertise related to chemistry, formulation, manufacturing and materials performance, our understanding of the history and evolution of these materials, and our ability to assist them in identifying and incorporating emerging materials and manufacturing technologies into their businesses. During the past year, significant program activities addressed components of consumer electronics, wearable devices, battery technology, implantable medical devices, combination drug delivery systems, historical formulations and components, manufacturing technology, industrial textiles, performance apparel, building materials, automotive materials, technology scouting, materials science aspects of health risk, service life prediction, sustainability, and polymer-related intellectual property, including trade secrets.

### **Statistical & Data Sciences**

Our Statistical & Data Sciences Practice comprises our company's core capabilities in statistical methodology and offers its expertise to serve clients at any and all stages of the empirical research process including product development, manufacturing, and regulatory stages. The practice specializes in determining whether a particular activity or product poses an unreasonable risk. Risk estimation involves establishing a reference period and then collecting information about the number of injuries (or other adverse events) suffered and the amount of exposure during this period. Through analysis and synthesis of client-supplied data, combined with information from public sources, we help clients measure their own risk in the context of similar risks and determine appropriate courses of action.

During the past year, we worked on a variety of engineering, health, and environmental projects for government, industry, and legal clients. Our statisticians and data scientists performed assessments of manufacturing quality systems, applied data mining methods to the analysis of medical device complaints, examined the field reliability of electronic networks and computer equipment, and assessed the effects of selected factors on industrial exposure to environmental contaminants.

### **Technology Development**

Drawing on our multidisciplinary science, engineering, testing, failure analysis and failure

prevention expertise, our Technology Development Practice specializes in harnessing advanced technologies and concepts from our experience with the commercial and defense sectors to deliver innovation to our clients. We identify and leverage the best in off-the-shelf technologies combined with custom development to deliver solutions ranging from fully integrated systems to concept architectures. Our focus is on a close collaboration with the end user, ease of use, reliability, high quality, and speed of engineering design and execution.

Historically, Technology Development has focused its efforts in the government/defense sector; in 2014 and 2015 the Practice shifted towards more commercial work and made some structural changes to more closely align with the commercial side of the company. Focus areas for this effort were in oil and gas, sports technology, transportation, and cybersecurity.

In the ongoing work for government/defense, we have continued to build on our landmine detection expertise for both vehicle and handheld applications. This work includes renewing our long term support for the U.K. Ministry of Defence and their robotic buried threat detection system.

### **Thermal Sciences**

Our Thermal Sciences Practice provides multi-disciplinary expertise to assist clients in chemical, fire protection, and mechanical engineering. We have investigated and analyzed thousands of fires and explosions ranging from high loss disasters at manufacturing facilities, energy facilities and oil and gas installations to small insurance claims. Information gained from these analyses has helped us assist clients with preventive measures related to the design of their facilities and products. We assist clients in minimizing the risk of fires and explosions, we provide regulatory consulting for permitting new industrial facilities, and we assist manufacturers in addressing the risk of fires associated with consumer products. Our engineers use fire modeling and other computational fluid dynamics modeling tools to supplement our analytical, experimental, and field-based activities. Preventive services include process safety hazard analysis for the chemical and oil and gas industries, fire protection engineering and dust explosion consulting.

In recent years, the Thermal Sciences Practice has developed tools to evaluate fire and explosion risks of lithium-ion batteries. We have consulted with a

variety of clients to evaluate and mitigate fire and explosion hazards of batteries in applications including consumer products, vehicles and energy storage.

During the past year, our work in oil and gas exploration and production, Liquefied Natural Gas (LNG) and downstream oil and gas sectors has continued to remain active. Our services in these areas include assessing new oil well control technologies, assessing potential fire and explosion risks and consequences, investigating loss of containment incidents and assessing the integrity of fixed assets. We have also seen growth in our non-litigation fire protection engineering services.

### **Vehicle Analysis**

We have performed thousands of investigations for the automotive, trucking, recreational vehicle, marine, aerospace, and rail industries. Internal research programs and client projects have resulted in technological contributions that have assisted manufacturers in the understanding of product performance and provided insight to government agencies in establishing policy and regulations. Information gained from these analyses has also assisted clients in assessing preventive measures related to the design of their products, as well as evaluating failures.

Our Test and Engineering Center located in Phoenix, Arizona, is the setting for our most complex tests, along with rigorous analysis of results. We have gained a worldwide reputation for our ability to mobilize resources expeditiously and efficiently, integrate a broad array of technical disciplines, and provide valuable insight that is objective and withstands rigorous scrutiny. Many of our projects involve addressing the cause of accidents and our clients rely on us to determine what happened in an accident and why it happened. In many cases, they also want us to assess what could have been done to reduce the severity of the accident or to mitigate occupant injuries to those involved. Whether the objective is design analysis, component testing, or accident reconstruction, our knowledge of vehicle systems and engineering principles coupled with our experience from conducting full-scale tests aim to add insight and proficiency to every project.

## **ENVIRONMENTAL AND HEALTH**

### **Chemical Regulation & Food Safety**

Our Center for Chemical Regulation and Food Safety includes both technical and regulatory specialists who are experienced in dealing with foods, and with pesticide and non-pesticide products including conventional chemicals, biochemicals, antimicrobials/biocides, and products of biotechnology, cosmetics and industrial chemicals. We provide practical, scientific and regulatory support to meet global business objectives at every stage of the product cycle, from research and development to retail and beyond.

During the past year our Chemical Regulation and Food Safety staff have conducted a wide array of work. The European and U.S. sides of the Center were jointly involved with the ongoing support of a new pesticide active ingredient and end-use product. The European side of our business was involved with many projects related to plant protection and biocidal product regulatory submissions, from new active substances and those under review to product-specific dossiers for individual European member states. In addition, we provided many specialist assessments relating to human and environmental exposure and product efficacy and national and international Maximum Residue Limit/import tolerance submissions. We continued to provide clients with regulatory compliance support for food contact materials, food additives and novel foods, as well as undertaking safety assessments for food and cosmetics products. For industrial chemicals we continued to provide full regulatory support for our clients who prepared and submitted registrations and risk assessments. In the U.S. we continued to provide services related to new pesticide active ingredient and end-use product development and registrations in the U.S. and Canada, registration review under EPA, import tolerances in the U.S. and Canada, due diligence, and data compensation, as well as the approval of new pesticide inert ingredients and new non-pesticide active ingredient approvals. Our food safety consultants continued to assist clients with food additives, food contact notifications, and nutrition-related analyses, as well as product safety proactive and reactive support services, recall and litigation support.

### **Ecological & Biological Sciences**

Our ecological and biological scientists provide strategic support on issues related to natural resources damages associated with chemicals and forest fires,

international environmental disputes, ecosystem service assessments for businesses, climate change, ecological risk assessment, ecotoxicology, novel remediation methods, restoration of wetlands and other natural resources, large development projects, resource utilization (mineral mining, oil and gas, wood pulp), genomic assessments, and the use of chemicals and other products in commerce. The practice specializes in assessing the effects of chemical, biological, and physical stressors on aquatic and terrestrial ecosystems. Many of these assessments utilize a causal analysis approach to systematically and transparently determine causation in complex and interrelated situations. The practice is comprised of nationally recognized experts that cover disciplines related to the ecological implications and risks associated with these projects.

### **Environmental & Earth Sciences**

Our environmental scientists and engineers provide cost-effective, scientifically defensible and realistic assessments and solutions to complex environmental issues. We offer technical, regulatory and litigation support to industries that include oil and gas, mining and minerals, chemicals, forest products, railroads, aerospace, and trade associations, and to municipal and government clients. Our consultants specialize in the areas of environmental fate and transport, environmental chemistry and forensics, hydrogeology, air toxics, modeling and monitoring, water quality and water supply, data analytics, remediation consulting, environmental engineering and waste management, climate impacts, and evaluation of environmental and social risks. Our work often involves complex and high visibility environmental problems and issues, often the focus of environmental or toxic tort claims, where evaluation of contamination, historical reconstruction of events, releases, and doses, and water resource issues are central to problem resolution. We provide strategic and advisory consulting on risk mitigation, planning, and regulatory issues.

### **Epidemiology, Biostatistics & Computational Biology**

Our health scientists apply epidemiology to examine and address complex health issues in a variety of settings. Through the principles of epidemiology, we analyze the interaction of host, agent, and environment to reach conclusions about the causes and occurrence of disease in human populations.

Our consultants combine the expertise of several medical specialties, exposure assessment

professionals, and other scientists who have advanced degrees in statistics and public health. All of our physicians have graduate training in epidemiology and biostatistics. Our research work has included numerous community health assessments, disease cluster investigations, survey research, occupational cohort and case-control studies, exposure assessment studies, cancer modeling, meta-analyses, and state-of-the-art reviews.

### **Occupational & Environmental Health Risk Assessment**

In our Occupational and Environmental Health Risk Assessment Center, we apply scientific processes to characterize and estimate health risks from exposures to chemical, physical, and biological agents in the workplace, home, and outdoor environment. Risk assessment is a systematic process for analyzing information on exposure and effects of toxic agents and other environmental hazards to assess the likelihood of adverse effects to health and safety of individuals and populations (i.e., health risks) potentially exposed to such agents. The risk assessment process integrates information regarding whether a particular agent is or is not casually linked to a particular health effect (hazard identification); the relation between the magnitude of exposure and the probability of occurrence of the health effect (dose-response or toxicity assessment); the route, duration and magnitude of exposure (exposure assessment); and the characterization of the nature and magnitude of health risk (risk characterization). Risk assessments are used in a variety of contexts, including evaluating potential impacts of exposure to chemicals and other agents associated with consumer products, occupational settings, or specific contaminated sites, and in developing risk-based criteria to protect workers and the public. The risk assessment process is of necessity highly interdisciplinary to address complex health issues, and draws from diverse fields such as biology, chemistry, ecology, engineering, environmental sciences, industrial hygiene, mathematical modeling, medicine, public health, statistics and toxicology.

Exponent's Occupational and Environmental Health Risk Assessment Center is composed of an interdisciplinary team of scientists, physicians, and engineers who have decades of experience assisting clients address and evaluate complex workplace and environmental health and safety questions. Exponent scientists, physicians, and engineers are highly knowledgeable in risk assessment methodologies and related analyses that are critical components of many

environmental regulatory decisions, workplace practices, and that are frequently used in litigation.

Our multidisciplinary team has extensive experience investigating a broad variety of health concerns such as claims of illnesses from exposures to ionizing radiation and electromagnetic fields, chemicals, dusts and other airborne particulates, smoke and fumes, nanoparticles, molds and other micro-organisms. Together, we develop strategies to aid in controlling such exposures, when needed. In addition, our staff has extensive experience in addressing health issues related to medical devices, consumer products, manufacturing processes, and sanitation. Our atmospheric scientists provide air quality and meteorological modeling, permitting, and licensing support services. Our environmental and health scientists investigate accidental releases of chemicals, evaluate transport and fate of chemical substances, simulate home and workplace exposures as well as develop measures of prevention and control exposure, and assist clients with emergency preparedness and response.

### **Toxicology & Mechanistic Biology**

The members of our Toxicology and Mechanistic Biology Center have exceptional expertise and depth in toxicology and mechanistic biology. Our knowledge and experience contribute to the ability of our clients to make better informed decisions that affect the regulation of their substances in commerce. We work with our clients to resolve issues that affect the safe use of a wide variety of substances. By evaluating the mechanisms by which substances interact with complex biological systems, we provide perspectives on the potential for adverse effects at realistic human and environmental exposure levels, and develop strategies to manage human health and environmental risks. The members of our staff are recognized nationally and internationally for their outstanding credentials and decades of experience from government, academia and industry.

We have addressed issues for clients on industrial chemicals, pesticides, drugs, medical devices, nanotechnology, and other agents. We have developed and published various detailed reviews on toxicity mode of action assessments, specifically how substances cause harm and whether or not laboratory data are relevant to human risk. We have provided nonclinical toxicology support in nearly all phases of pharmaceutical and combination drug development from preclinical studies to post-marketing safety assessments. We have been active in developing study plans to assess potential endocrine toxicity of

chemical substances and in reviewing data for the U.S. Environmental Protection Agency Endocrine Disruptor Screening Program.

### **COMPETITION**

The marketplace for our services is fragmented and we face different sources of competition in providing various services. In addition, the services that we provide to some of our clients can be performed in-house by those clients. Clients that have the capability to perform such services themselves will retain Exponent or other independent consultants because of independence concerns.

In each of our practices and centers, we believe that the principal competitive factors are: technical capability and breadth of services, ability to deliver services on a timely basis, professional reputation and knowledge of litigation and regulatory processes. Although we believe that we generally compete favorably in each of these areas, some of our competitors may be able to provide services acceptable to our clients at lower prices.

We believe that the barriers to entry are low and that for many of our technical disciplines, competition is increasing. In response to competitive forces in the marketplace, we continue to look for new markets for our various technical disciplines.

### **BUSINESS SEGMENTS AND GEOGRAPHIC OPERATIONS OVERVIEW**

We report two operating segments based on two primary areas of service: Engineering and Other Scientific, and Environmental and Health. Engineering and Other Scientific is a broad service group providing technical consulting in different practices primarily in engineering. Environmental and Health provides services in the area of environmental, epidemiology and health risk analysis. This operating segment provides a wide range of consulting services relating to environmental hazards and risks and the impact on both human health and the environment. For more information about the financial condition and results of operations of each segment, please see *Part II - "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations"* and *"Item 8: Financial Statements and Supplementary Data."* For information about the Company's operations in different geographical areas, please see *"Note 16: Segment Reporting"* of our *Notes to Consolidated Financial Statements*. For information about the Company's disclosures regarding foreign currency

exchange rate risk, please see “*Item 7A. Quantitative and Qualitative Disclosures About Market Risk.*”

## **EMPLOYEES**

As of January 1, 2016, we employed 999 full-time, part-time and hourly employees, including 777 engineering and scientific staff, 61 technical support staff and 161 administrative and support staff. Our staff includes 694 employees with advanced degrees, of which 473 employees have achieved the level of Ph.D., Sc.D. or M.D.

## **ADDITIONAL INFORMATION**

The address of our Internet website is [www.exponent.com](http://www.exponent.com). We make available, free of charge through our website, access to our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and other

periodic and current Securities and Exchange Commission (SEC) reports, along with amendments to all of those reports, as soon as reasonably practicable after we file or furnish the reports with the SEC. Additionally, copies of materials filed or furnished by us with the SEC may be accessed at the SEC’s Public Reference Room at 100 F Street NE, Washington, D.C. or at the SEC’s website at <http://www.sec.gov>. For information about the SEC’s Public Reference Room, the public may contact 1-800-SEC-0330. Copies of material filed or furnished by us with the SEC may also be obtained by writing to us at our corporate headquarters, Exponent, Inc., Attention: Investor Relations, 149 Commonwealth Drive, Menlo Park, CA 94025, or by calling (650) 326-9400. The content of our Internet website is not incorporated into and is not part of this Annual Report on Form 10-K.



## EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of Exponent and their ages as of February 26, 2016 are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
Paul R. Johnston, Ph.D.	62	President, Chief Executive Officer and Director
Paul D. Boehm, Ph.D.	67	Group Vice President
Robert D. Caligiuri, Ph.D.	64	Group Vice President
Catherine Ford Corrigan, Ph.D.	47	Group Vice President
Steven J. Murray, Ph.D.	41	Group Vice President
John D. Oстераas, Ph.D.	61	Group Vice President
Richard Reiss, Sc.D.	49	Group Vice President
Richard L. Schlenker, Jr.	50	Executive Vice President, Chief Financial Officer and Corporate Secretary
Sally B. Shepard	55	Vice President – Human Resources

Executive officers of Exponent are appointed by the Board of Directors and serve at the discretion of the Board or until the appointment of their successors. There is no family relationship between any of the directors and officers of the Company.

**Paul R. Johnston, Ph.D.**, joined the Company in 1981, was promoted to Principal Engineer in 1987, and to Vice President in 1996. In 1997, he assumed responsibility for the firm’s network of offices. In July 2003, he was appointed Chief Operating Officer and added responsibility for the Health and Environmental Groups. In 2006, he assumed line responsibility for all of the firm’s consulting groups. Dr. Johnston was named President in May 2007. He was named Chief Executive Officer and elected to the Board of Directors in May 2009. Dr. Johnston received his Ph.D. (1981) in Civil Engineering and M.S. (1977) in Structural Engineering from Stanford University. He received his B.A.I. (1976) in Civil Engineering with First Class Honors from Trinity College, University of Dublin, Ireland where he was elected a Foundation Scholar in 1975. Dr. Johnston is a Registered Professional Civil Engineer in the State of California and a Chartered Engineer in Ireland.

**Paul D. Boehm, Ph.D.**, joined the Company in April 2004 as a Group Vice President and Principal Scientist. Prior to joining the Company, Dr. Boehm was Vice President and Market Manager, Oil and Gas Sector, at Battelle Memorial Institute from 2001 to

2004. From 1999 to 2001, Dr. Boehm was Vice President and Managing Director, Environmental Health and Safety Consulting at Arthur D. Little, Inc. Dr. Boehm received his Ph.D. (1977) and M.S. (1973) in Oceanography from the University of Rhode Island and B.S. (1970) in Chemical Engineering from the University of Rochester. Dr. Boehm has published more than 100 articles in peer-reviewed journals and authored numerous reports on environmental forensics and impact assessments. Dr. Boehm has been chosen to serve on several National Research Council panels.

**Robert D. Caligiuri, Ph.D.**, joined the Company in 1987. He was promoted to Principal Engineer in 1990 and Group Vice President in 1999. Dr. Caligiuri received his Ph.D. (1977) and M.S. (1974) in Materials Science and Engineering from Stanford University and B.S. (1973) in Mechanical Engineering from the University of California, Davis. Prior to joining the Company he was a Program Manager and Materials Scientist for SRI International. He is a Registered Professional Metallurgical Engineer in the States of Arkansas, California, Utah, Michigan, North Carolina, Texas and Washington and a Fellow of ASM International.

**Catherine Ford Corrigan, Ph.D.**, joined the Company in 1996. She was promoted to Principal in the Biomechanics practice in 2002, and was appointed Group Vice President in May 2012. Dr.

Corrigan earned her Ph.D. (1996) in Medical Engineering and Medical Physics and M.S. (1992) in Mechanical Engineering from the Massachusetts Institute of Technology and her B.S. in Bioengineering from the University of Pennsylvania. Prior to joining Exponent, Dr. Corrigan was a researcher in the Orthopaedic Biomechanics Laboratory at Beth Israel Hospital and Harvard Medical School.

**Steven J. Murray, Ph.D.**, joined the Company in 2001. He was promoted to Principal Engineer in 2008. Dr. Murray was promoted to Corporate Vice President in May 2014 and Group Vice President in January 2015. Dr. Murray received his Ph.D. (2000) in Materials Science and Engineering (Electronic Materials Panel) from the Massachusetts Institute of Technology, B.S. (1996) in Materials Science and Mineral Engineering and B.S. (1996) in Mechanical Engineering from the University of California, Berkeley. He is a Registered Professional Electrical Engineer in the State of Oregon and Registered Professional Mechanical Engineer in the State of California.

**John D. Osteraas, Ph.D.**, worked for the Company from 1982 to 1985 as a Senior Engineer. He rejoined the Company in 1990 as a Managing Engineer. He was promoted to Principal Engineer in 1992 and Group Vice President in 2006. Dr. Osteraas received his Ph.D. (1990) in Civil Engineering, M.S. (1977) in Civil Engineering: Structural Engineering from Stanford University and B.S. (1976) in Civil and Environmental Engineering from the University of Wisconsin. Dr. Osteraas is a Registered Professional Engineer in 17 states and is a Fellow of the American Society of Civil Engineers.

**Richard Reiss, Sc.D.**, joined the Company in 2006 as a Principal Scientist. He was promoted to Group Vice President in January 2015. Dr. Reiss earned his Sc.D. (1994) in Environmental Health from the Harvard University School of Public Health, M.S. (1991) in Environmental Engineering from Northwestern University and B.S. (1989) in Chemical Engineering from the University of California, Santa Barbara. Prior to joining Exponent he was a Vice President with Sciences International. Dr. Reiss is a Fellow of the Society of Risk Analysis.

**Richard L. Schlenker, Jr.** joined the Company in 1990. Mr. Schlenker is the Executive Vice President, Chief Financial Officer and Corporate Secretary of the Company. He was appointed Executive Vice President in April 2010, Chief Financial Officer in July 1999 and Secretary of the Company in

November 1997. Mr. Schlenker was the Director of Human Resources from 1998 until his appointment as Chief Financial Officer. He was the Manager of Corporate Development from 1996 until 1998. From 1993 to 1996, Mr. Schlenker was a Business Manager, where he managed the business activities for multiple consulting practices within the Company. Prior to 1993, he held several different positions in finance and accounting within the Company. Mr. Schlenker holds a B.S. in Finance from the University of Southern California.

**Sally B. Shepard**, rejoined the Company in 2014 as Vice President - Human Resources. From 2012 to 2014 she served as Vice President Human Resources at 41st Parameter. From 2002 to 2009 she served as Vice President Human Resources at CoWare, Inc., which was acquired by Synopsys. From 2000 to 2001 Ms. Shepard served as Vice President Human Resources at Lutris Technologies. She also provided Human Resources consulting services for a variety of companies between roles. From 1981 to 1999 Ms. Shepard held a variety of roles at Exponent including Managing Engineer, Business Manager, Director of Human Resources and Information Technology, and Vice President of Corporate Human Resources. Ms. Shepard holds a B.S. (1982) in Mechanical Engineering from Stanford University.

#### **Item 1A. Risk Factors**

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

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

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

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

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

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

Exponent's business involves the delivery of professional services and is labor-intensive. Our success depends in large part upon our ability to attract, retain and motivate highly qualified technical and managerial personnel. Qualified personnel are in great demand and are likely to remain a limited resource for the foreseeable future. We cannot provide any assurance that we can continue to attract sufficient numbers of highly qualified technical and managerial personnel and to retain existing employees. 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 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 January 1, 2016, consisted primarily of obligations of U.S. agencies, state and local 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 January 1, 2016, 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 may 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 may experience security breaches that could lead to the inability to protect confidential information.***

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 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.

***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 and laboratory space in Menlo Park, California and our test and engineering center in Phoenix, Arizona, 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 of \$20,597,000 as of January 1, 2016. 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 and China 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; greater difficulties in managing and staffing foreign operations; successful entry and execution in new markets; restrictions on the repatriation of earnings; and potentially adverse tax consequences.

***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.

***A decline in the U.S. Government defense budget, changes in budgetary priorities or timing of contract awards may adversely affect our business.***

Our operating results could be adversely affected by spending caps or changes in the budgetary priorities of the U.S. Government or the Department of Defense (DoD), as well as delays in program starts or the award of contracts or task orders under contracts. Current U.S. Government spending levels for defense-related programs may not be sustained and future spending and program authorizations may not increase or may decrease or shift to programs in areas in which we do not provide services or are less likely to be awarded contracts. Such changes in spending authorizations and budgetary priorities may occur as a result of the rapid growth of the federal budget deficit, increasing political pressure and legislation. The U.S. Government also conducts periodic reviews of U.S. defense strategies and priorities, which may shift DoD budgetary priorities, reduce overall U.S. Government spending or delay contract or task order awards for defense-related programs. In addition, changes to the DoD acquisition system and contracting models could affect whether and how we pursue certain opportunities and the terms under which we are able to do so. A significant decline in overall U.S. Government spending, the substantial reduction or elimination of particular defense-related programs or significant delays in contract or task order awards could adversely affect our business.

***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 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 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

Our Silicon Valley office facilities consist of a 153,738 square foot building, with office and laboratory space located on a 6.3-acre tract of land we own in Menlo Park, California and an adjacent 27,000 square feet of leased warehouse storage space.

Our Test and Engineering Center (TEC) occupies 147 acres in Phoenix, Arizona. We lease this land from the state of Arizona under a 30-year lease agreement that expires in January 2028 and have options to renew for two fifteen-year periods. We constructed an indoor test facility as well as an engineering and test preparation building at the TEC.

In addition, we lease office, warehouse and laboratory space in 18 other locations in 13 states and the District of Columbia, as well as in Germany, China, Hong Kong, Switzerland and the United Kingdom. Leases for these offices, warehouse and laboratory facilities have terms generally ranging between one and ten years. Aggregate lease expense in fiscal 2015 for all leased properties was \$6,202,000.

**Item 3. Legal Proceedings**

Exponent is not engaged in any material legal proceedings.

**Item 4. Mine Safety Disclosures**

Not applicable.

**PART II**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

Exponent’s common stock is traded on the NASDAQ Global Select Market, under the symbol “EXPO.” The following table sets forth for the fiscal periods indicated the high and low sales prices for our common stock. The share prices have been adjusted to give effect to the two-for-one stock split on May 28, 2015.

Stock prices by quarter	High	Low
Fiscal Year Ended January 2, 2015:		
First Quarter	\$ 38.95	\$ 32.86
Second Quarter	\$ 38.16	\$ 32.41
Third Quarter	\$ 38.82	\$ 34.92
Fourth Quarter	\$ 42.01	\$ 35.31
Fiscal Year Ended January 1, 2016:		
First Quarter	\$ 45.95	\$ 39.20
Second Quarter	\$ 48.50	\$ 41.50
Third Quarter	\$ 46.74	\$ 40.58
Fourth Quarter	\$ 54.73	\$ 45.66

As of February 19, 2016, there were 198 holders of record of our common stock. Because many of the shares of our common stock are held by brokers and other institutions on behalf of stockholders, we believe that there are considerably more beneficial holders of our common stock than record holders.

We paid \$15.5 million, \$13.0 million and \$7.9 million of dividends during fiscal 2015, 2014 and 2013, respectively. Total dividends paid per share were \$0.60, \$0.50 and \$0.30 during fiscal 2015, 2014 and 2013, respectively. On February 3, 2016, our Board of Directors announced a quarterly cash dividend of \$0.18 per share of the Company’s common stock, payable March 25, 2016, to stockholders of record as of March 4, 2016. We anticipate paying quarterly dividends each year in March, June, September and December, subject to declaration by our Board of Directors. See Part II, “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.”

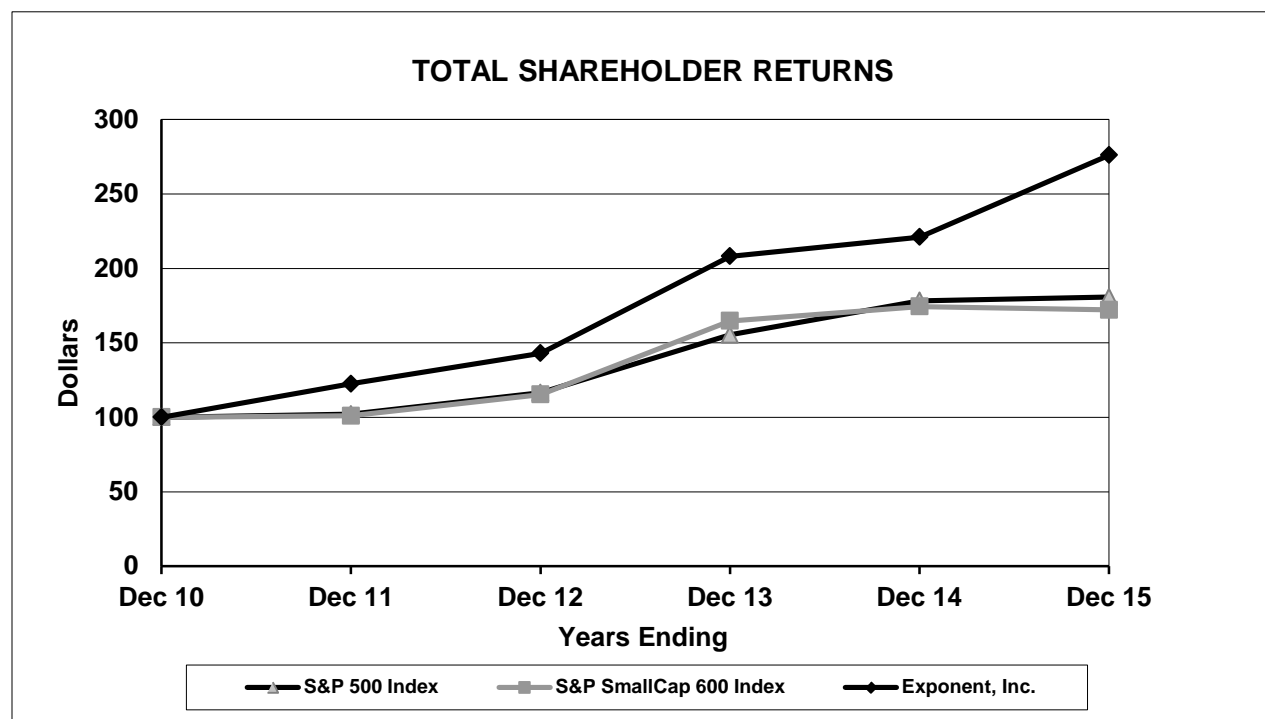
The following table provides information on the Company's share repurchases (of Company common stock) for the quarter ended January 1, 2016 (in thousands, except price per share):

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Plan or Program
October 3 to October 30	-	\$ -	-	\$15,265
Additional funds authorized for share repurchases				\$35,000
October 31 to November 27	-	-	-	\$50,265
November 28 to January 1	67	\$ 52.32	67	\$46,765
Total	67	\$ 52.32	67	

The foregoing repurchases of the Company's common stock were effected pursuant to a repurchase program authorized by the Company's Board of Directors. On February 15, 2013, the Board of Directors authorized \$35,000,000 for the repurchase of the Company's common stock. On May 29, 2014, the Company's Board of Directors authorized an additional \$35,000,000 for the repurchase of the Company's common stock. On October 20, 2015, the Company's Board of Directors authorized an additional \$35,000,000 for the repurchase of the Company's common stock. These repurchase programs have no expiration dates. As of January 1, 2016, there remained \$46,765,000 available for repurchases under these authorizations.

#### COMPANY STOCK PRICE PERFORMANCE GRAPH

The graph compares the Company's cumulative total stockholder return calculated on a dividend-reinvested basis from 2010 through 2015 with those of the Standard & Poor's ("S&P") 500 Index and the S&P SmallCap 600 Index. The Company does not have a comparable peer group and thus has selected the S&P Small Cap 600 Index. The graph assumes that \$100 was invested on the last day of 2010. Note that the historic stock price performance is not necessarily indicative of future stock price performance.





## Item 6. Selected Financial Data

The following selected consolidated financial data are derived from our consolidated financial statements. This data should be read in conjunction with the consolidated financial statements and notes thereto, and with *Part II - "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations."*

(In thousands, except per share data)	Fiscal Year				
	2015	2014	2013	2012	2011
<b>Consolidated Statements of Income Data:</b>					
Revenues before reimbursements	\$ 295,705	\$ 289,209	\$ 280,043	\$ 266,562	\$ 246,667
Revenues	\$ 312,832	\$ 304,704	\$ 296,168	\$ 292,653	\$ 272,446
Operating income	\$ 68,933	\$ 63,549	\$ 55,946	\$ 57,620	\$ 53,460
Net income	\$ 43,599	\$ 40,701	\$ 38,640	\$ 37,225	\$ 32,695
Net income per share:					
Basic	\$ 1.64	\$ 1.51	\$ 1.42	\$ 1.35	\$ 1.16
Diluted	\$ 1.60	\$ 1.47	\$ 1.38	\$ 1.30	\$ 1.11
Cash dividends declared per share	\$ 0.60	\$ 0.50	\$ 0.30	\$ -	\$ -
<b>Consolidated Balance Sheet Data:</b>					
Cash and cash equivalents	\$ 125,751	\$ 129,490	\$ 122,948	\$ 113,268	\$ 84,439
Short-term investments	\$ 45,842	\$ 24,913	\$ 33,171	\$ 20,881	\$ 25,260
Working capital	\$ 192,312	\$ 176,153	\$ 171,402	\$ 156,016	\$ 130,510
Total assets	\$ 387,507	\$ 365,299	\$ 344,166	\$ 315,417	\$ 268,788
Long-term liabilities	\$ 44,229	\$ 41,666	\$ 36,960	\$ 27,217	\$ 21,298
Total stockholders' equity	\$ 262,804	\$ 244,288	\$ 235,059	\$ 216,429	\$ 186,715

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### OVERVIEW

Exponent, Inc. is a science and engineering consulting firm that provides solutions to complex problems. Our multidisciplinary team of scientists, physicians, engineers, business and regulatory consultants brings together more than 90 different technical disciplines to solve complicated issues facing industry and government today. Our services include analysis of products, people, property, processes and finances related to litigation, product recall, regulatory compliance, research, development and design.

### CRITICAL ACCOUNTING ESTIMATES

In preparing our consolidated financial statements, we make assumptions, judgments and estimates that can have a significant impact on our revenue,

operating income and net income, as well as on the value of certain assets and liabilities on our consolidated balance sheet. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis we evaluate our assumptions, judgments and estimates and make changes accordingly. We believe that the assumptions, judgments and estimates involved in accounting for revenue recognition and estimating the allowance for doubtful accounts and contract losses have the greatest potential impact on our consolidated financial statements, so we consider these to be our critical accounting policies. We discuss below the assumptions, judgments and estimates associated with these policies. Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results. For further information on our critical

accounting policies, see “*Note 1: Summary of Significant Accounting Policies*” of our *Notes to Consolidated Financial Statements*.

**Revenue recognition.** We derive our revenues primarily from professional fees earned on consulting engagements, fees earned for the use of our equipment and facilities, as well as reimbursements for outside direct expenses associated with the services that are billed to our clients.

Substantially all of our engagements are service contracts performed under time and material or fixed-price billing arrangements. For time and material and fixed-price service projects, revenue is generally recognized as the services are performed. For substantially all of our fixed-price service engagements, we recognize revenue based on the relationship of incurred labor hours at standard rates to our estimate of the total labor hours at standard rates we expect to incur over the term of the contract. Our estimate of total labor hours we expect to incur over the term of the contract is based on the nature of the project and our past experience on similar projects. We believe this methodology achieves a reliable measure of the revenue from the consulting services we provide to our customers under fixed-price contracts.

Significant management judgments and estimates must be made and used in connection with the revenues recognized in any accounting period. These judgments and estimates include an assessment of collectability and, for fixed-price engagements, an estimate as to the total effort required to complete the project. If we made different judgments or utilized

different estimates, the amount and timing of our revenue for any period could be materially different.

All contracts are subject to review by management, which requires a positive assessment of the collectability of contract amounts. If, during the course of the contract, we determine that collection of revenue is not reasonably assured, we do not recognize the revenue until its collection becomes reasonably assured, which in those situations would generally be upon receipt of cash. We assess collectability based on a number of factors, including past transaction history with the client, as well as the credit-worthiness of the client. Losses on fixed-price contracts are recognized during the period in which the loss first becomes evident. Contract losses are determined to be the amount by which the estimated total costs of the contract exceeds the total fixed price of the contract.

**Estimating the allowance for doubtful accounts and contract losses.** We make estimates of our ability to collect accounts receivable and our unbilled but recognized work-in-process. In circumstances where we are aware of a specific customer’s inability to meet its financial obligations to us or for disputes with customers that affect our ability to fully collect our accounts receivable and unbilled work-in-process, we record a specific allowance to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers we recognize allowances for doubtful accounts and contract losses taking into consideration factors such as historical write-offs, customer concentration, customer credit-worthiness, current economic conditions, and aging of amounts due.

The following table sets forth, for the periods indicated, the percentage of revenues of certain items in our consolidated statements of income and the percentage increase (decrease) in the dollar amount of such items year to year:

	PERCENTAGE OF REVENUES FOR FISCAL YEARS			PERIOD TO PERIOD CHANGE	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Revenues	100.0%	100.0%	100.0%	2.7%	2.9%
Operating expenses:					
Compensation and related expenses	59.0	60.2	62.2	0.5	(0.3)
Other operating expenses	8.6	8.6	8.5	2.6	3.9
Reimbursable expenses	5.5	5.1	5.4	10.5	(3.9)
General and administrative expenses	4.9	5.2	5.0	(3.5)	7.7
	<u>78.0</u>	<u>79.1</u>	<u>81.1</u>	<u>1.1</u>	<u>0.4</u>
Operating income	22.0	20.9	18.9	8.5	13.6
Other income, net	0.7	1.4	2.7	(50.2)	(44.8)
Income before income taxes	22.7	22.3	21.6	4.7	6.3
Provision for income taxes	8.8	8.9	8.5	1.0	7.7
Net income	<u>13.9%</u>	<u>13.4%</u>	<u>13.0%</u>	<u>7.1%</u>	<u>5.3%</u>

## EXECUTIVE SUMMARY

Revenues for fiscal 2015 increased 3% and revenues before reimbursements increased 2% as compared to the prior year. The increase in revenues before reimbursements was due to an increase in billable hours and an increase in billing rates. We experienced demand for our consulting services from a diverse set of clients for both reactive and proactive projects.

During fiscal 2015, we experienced demand for our reactive services performing high profile accident and failure investigations and evaluating potentially significant product recalls.

We also experienced demand for our proactive consulting services, performing design evaluations of consumer electronics and medical devices in addition to regulatory consulting for the chemical and food industries.

During fiscal 2015, we had notable performances in several practices including our materials & corrosion engineering, biomedical engineering, and polymer science & materials chemistry practices, as well as our infrastructure group. We experienced strong

demand from the consumer electronics industry, as our clients broadened their product offerings and needed assistance with the use of new materials. We also continued to assist clients in the biomedical industry with regulatory approvals and assessing the field performance of their products. Our infrastructure group benefited from increased commercial construction and infrastructure spending.

The low growth rate in revenues was due to one of our major investigations in our Environmental and Health segment ending in July of 2015 and a continued step down in the level of activity in our technology development practice due to constraints on defense spending and the withdrawal of United States and United Kingdom combat troops from Afghanistan.

The increase in revenues before reimbursements and low expense growth resulted in a 7% increase in net income to \$43,599,000 during fiscal 2015 as compared to \$40,701,000 during the prior year. Diluted earnings per share increased to \$1.60 per share as compared to \$1.47 during the prior year due to the increase in net income and the decrease in our share count from our ongoing share repurchase program.

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

## OVERVIEW OF THE YEAR ENDED JANUARY 1, 2016

Our revenues consist of professional fees earned on consulting engagements, fees for use of our equipment and facilities, and reimbursements for outside direct expenses associated with the services performed that are billed to our clients.

We operate on a 52-53 week fiscal year with each year ending on the Friday closest to December 31<sup>st</sup>. The fiscal years ended January 1, 2016 and January 2, 2015 included 52 weeks of activity. The fiscal year ended January 3, 2014 included 53 weeks of activity. Fiscal 2016 will end on Friday, December 30, 2016.

During fiscal 2015, billable hours increased 1.6% to 1,125,000 as compared to 1,107,000 during fiscal 2014. The increase in billable hours was due to continued demand for our proactive and reactive consulting services.

Our utilization was 72% for fiscal 2015 and 2014. Technical full-time equivalent employees increased 1.3% to 751 during fiscal 2015 as compared to 741 during fiscal 2014 due to our recruiting and retention efforts. We continue to selectively hire key talent to expand our capabilities.

## FISCAL YEARS ENDED JANUARY 1, 2016, AND JANUARY 2, 2015

### Revenues

(In thousands except percentages)	Fiscal Years		Percent Change
	2015	2014	
Engineering and Other Scientific	\$ 237,959	\$ 223,384	6.5%
Percentage of total revenues	76.1%	73.3%	
Environmental and Health	74,873	81,320	(7.9)%
Percentage of total revenues	23.9%	26.7%	
Total revenues	<u>\$ 312,832</u>	<u>\$ 304,704</u>	2.7%

The increase in revenues for our Engineering and Other Scientific segment was due to an increase in billable hours and an increase in billing rates. During fiscal 2015, billable hours for this segment increased by 5.2% to 835,000 as compared to 794,000 during fiscal 2014. The increase was due to demand for services in our materials & corrosion engineering, biomedical engineering, polymer science & materials chemistry practices, as well as our infrastructure group. Utilization increased to 75% for fiscal 2015 as compared to 74% for fiscal 2014. Technical full-time equivalents increased 3.5% to 537 for fiscal 2015 from 519 for fiscal 2014 due to our recruiting and retention efforts.

The decrease in revenues from our Environmental and Health segment was due to a decrease in billable hours. During fiscal 2015, billable hours for this segment decreased by 7.3% to 290,000 as compared to 313,000 during fiscal 2014. Utilization decreased to 65% for fiscal 2015 as compared to 68% for fiscal 2014. The decrease in billable hours and utilization was due to one of our major investigations ending in July of 2015 and weaker demand for our services in our health centers. Technical full-time equivalents decreased 3.6% to 214 during fiscal 2015 as compared to 222 for fiscal 2014 due to our efforts to align resources with anticipated demand.

Revenues are primarily derived from services provided in response to client requests or events that occur without notice and engagements are generally terminable or subject to postponement or delay at any time by our 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.

### Compensation and Related Expenses

(In thousands except percentages)	Fiscal Years		Percent Change
	2015	2014	
Compensation and related expenses	\$ 184,502	\$ 183,533	0.5%
Percentage of total revenues	59.0%	60.2%	

The increase in compensation and related expenses during fiscal 2015 was due to an increase in payroll, fringe benefits, and bonus expense partially offset by a change in the value of assets associated with our deferred compensation plan. During fiscal 2015 payroll and fringe benefits increased \$1,683,000 and \$971,000, respectively, due to the increase in technical full-time equivalent employees, our annual salary increase and, an increase in health insurance

rates. Bonuses increased \$1,204,000 due to a corresponding increase in income before income taxes, before bonus expense, and before stock-based compensation expense. During fiscal 2015, deferred compensation expense decreased \$2,850,000 with a corresponding decrease to other income (expense), net, as compared with the prior year due to the change in value of assets associated with our deferred compensation plan. This decrease consisted of a decrease in the value of the plan assets of \$325,000 during fiscal 2015 as compared to an increase in the value of the plan assets of \$2,525,000 during fiscal 2014. We expect our compensation expense, excluding the change in value of deferred compensation plan assets, to increase as we selectively add new talent.

### Other Operating Expenses

(In thousands except percentages)	Fiscal Years		Percent Change
	2015	2014	
Other operating expenses	\$ 26,975	\$ 26,285	2.6%
Percentage of total revenues	8.6%	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 was primarily due to an increase in computer expense of \$274,000, an increase in office expense of \$167,000, an increase in technical materials of \$150,000, and several individually insignificant increases, which were associated with the increase in technical full-time equivalent employees and investments in our corporate infrastructure. We expect other operating expense to grow as we selectively add new talent and make investments in our corporate infrastructure.

### Reimbursable Expenses

(In thousands except percentages)	Fiscal Years		Percent Change
	2015	2014	
Reimbursable expenses	\$ 17,127	\$ 15,495	10.5%
Percentage of total revenues	5.5%	5.1%	

The increase in reimbursable expenses was primarily due to an increase in project-related costs in our materials & corrosion engineering practice within our Engineering and Other Scientific segment. The amount of reimbursable expenses will vary from year to year depending on the nature of our projects.

### General and Administrative Expenses

(In thousands except percentages)	Fiscal Years		Percent Change
	2015	2014	
General and administrative expenses	\$ 15,295	\$ 15,842	(3.5)%
Percentage of total revenues	4.9%	5.2%	

The decrease in general and administrative expenses during fiscal 2015 was primarily due to a decrease in legal fees of \$566,000 and a decrease in charitable contributions of \$507,000, partially offset by an increase in outside consulting services of \$218,000 and an increase in accounting fees of \$164,000. The decrease in legal fees was due to a decrease in costs associated with legal claims during fiscal 2015 as compared to fiscal 2014. The increase in outside consulting services was due to investments in our corporate infrastructure. We expect general and administrative expenses to increase as we selectively add new talent, expand our business development efforts, and pursue staff development initiatives.

### Other Income (Expense), Net

(In thousands except percentages)	Fiscal Years		Percent Change
	2015	2014	
Other income and expense, net	\$ 2,200	\$ 4,416	(50.2)%
Percentage of total revenues	0.7%	1.4%	

Other income (expense), net, consists primarily of interest income earned on available cash, cash equivalents and short-term investments, changes in the value of assets associated with our deferred compensation plan and rental income from leasing excess space in our Silicon Valley facility. The decrease in other income (expense), net, was primarily due to the change in value of assets associated with our deferred compensation plan. During fiscal 2015, other income, net decreased \$2,850,000 with a corresponding decrease to deferred compensation expense as compared to fiscal 2014. This change consisted of a decrease in the value of the plan assets of \$325,000 during fiscal 2015 as compared to an increase in the value of the plan assets of \$2,525,000 during fiscal 2014.

## Income Taxes

(In thousands except percentages)	Fiscal Years		Percent Change
	2015	2014	
Income taxes	\$ 27,534	\$ 27,264	1.0%
Percentage of total revenues	8.8%	8.9%	
Effective tax rate	38.7%	40.1%	

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

## FISCAL YEARS ENDED JANUARY 2, 2015, AND JANUARY 3, 2014

### Revenues

(In thousands except percentages)	Fiscal Years		Percent Change
	2014	2013	
Engineering and Other Scientific	\$ 223,384	\$ 215,972	3.4%
Percentage of total revenues	73.3%	72.9%	
Environmental and Health	81,320	80,196	1.4%
Percentage of total revenues	26.7%	27.1%	
Total revenues	<u>\$ 304,704</u>	<u>\$ 296,168</u>	2.9%

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 partially offset by fiscal 2014 having one less week of activity than fiscal 2013. During fiscal 2014, billable hours for this segment increased by 2.1% to 794,000 as compared to 778,000 during fiscal 2013. The increase was due to demand for services in our materials & corrosion engineering, biomedical engineering, polymer science & materials chemistry, human factors, and construction consulting practices. Utilization was 74% for both fiscal 2014 and fiscal 2013. Technical full-time equivalents increased 4.6% to 519 for fiscal 2014 from 496 for fiscal 2013 due to our recruiting and retention efforts.

The increase in revenues from our Environmental and Health segment was due to an increase in billable hours and an increase in billing rates partially offset by fiscal 2014 having one less week of activity than fiscal 2013. During fiscal 2014, billable hours for this segment increased by 1.3% to 313,000 as compared to 309,000 during fiscal 2013. Utilization increased to 68% for fiscal 2014 as compared to 65% for fiscal

2013. The increase in billable hours and utilization was due to demand for our services in our environmental sciences and ecological sciences practices. Technical full-time equivalents were 222 during fiscal 2014 as compared to 223 for fiscal 2013.

### Compensation and Related Expenses

(In thousands except percentages)	Fiscal Years		Percent Change
	2014	2013	
Compensation and related expenses	\$ 183,533	\$ 184,084	(0.3)%
Percentage of total revenues	60.2%	62.2%	

The decrease in compensation and related expenses during fiscal 2014 was due to a change in the value of assets associated with our deferred compensation plan partially offset by an increase in payroll and bonus expense. During fiscal 2014, deferred compensation expense decreased \$3,519,000 with a corresponding decrease to other income (expense), net, as compared with the prior 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 the plan assets of \$2,525,000 during fiscal 2014 as compared to an increase in the value of the plan assets of \$6,044,000 during fiscal 2013. Payroll increased \$1,657,000 due to a 3.1% increase in technical full-time equivalent employees and the impact of our annual salary increases partially offset by fiscal 2014 having one less week of activity than fiscal 2013. Bonuses increased \$1,503,000 due to a corresponding increase in profitability.

### Other Operating Expenses

(In thousands except percentages)	Fiscal Years		Percent Change
	2014	2013	
Other operating expenses	\$ 26,285	\$ 25,299	3.9%
Percentage of total revenues	8.6%	8.5%	

Other operating expenses include facilities-related costs, technical materials, computer-related expenses and depreciation and amortization of property, equipment and leasehold improvements. The increase in other operating expenses was primarily due to an increase in occupancy expense of \$514,000 and an increase in depreciation and amortization of \$454,000. The increases in occupancy expense and depreciation and amortization were due to the continued expansion of our facilities to accommodate

the increase in technical full-time equivalent employees.

### Reimbursable Expenses

(In thousands except percentages)	Fiscal Years		Percent Change
	2014	2013	
Reimbursable expenses	\$ 15,495	\$ 16,125	(3.9)%
Percentage of total revenues	5.1%	5.4%	

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

### General and Administrative Expenses

(In thousands except percentages)	Fiscal Years		Percent Change
	2014	2013	
General and administrative expenses	\$ 15,842	\$ 14,714	7.7%
Percentage of total revenues	5.2%	5.0%	

The increase in general and administrative expenses during fiscal 2014 was primarily due to an increase in travel and meals of \$561,000 and an increase in contributions of \$506,000. The increase in travel and meals was due to a firm-wide managers' meeting held during the third quarter of 2014.

### Other Income (Expense), Net

(In thousands except percentages)	Fiscal Years		Percent Change
	2014	2013	
Other income and expense, net	\$ 4,416	\$ 7,999	(44.8)%
Percentage of total revenues	1.4%	2.7%	

Other income (expense), net, consists primarily of interest income earned on available cash, cash equivalents and short-term investments, changes in the value of assets associated with our deferred compensation plan and rental income from leasing excess space in our Silicon Valley facility. The decrease in other income (expense), net, was primarily due to the change in value of assets associated with our deferred compensation plan. This change consisted of an increase in the value of the plan assets of \$2,525,000 during fiscal 2014 as compared to an increase in the value of the plan assets of \$6,044,000 during fiscal 2013.

### Income Taxes

(In thousands except percentages)	Fiscal Years		Percent Change
	2014	2013	
Income taxes	\$ 27,264	\$ 25,305	7.7%
Percentage of total revenues	8.9%	8.5%	
Effective tax rate	40.1%	39.6%	

The increase in income taxes was due to a corresponding increase in pre-tax income. The increase in our effective tax rate was due to manufacturing deductions claimed in fiscal 2013. These manufacturing deductions were non-recurring.

### LIQUIDITY AND CAPITAL RESOURCES

(In thousands)	Fiscal Years		
	2015	2014	2013
Net cash provided by (used in):			
Operating activities	\$ 60,489	\$ 48,252	\$ 61,792
Investing activities	\$ (27,035)	\$ 2,435	\$ (18,880)
Financing activities	\$ (36,916)	\$ (43,128)	\$ (33,769)

We financed our business in fiscal 2015 through available cash and cash flows from operating activities. We invest our excess cash in cash equivalents and short-term investments. As of January 1, 2016, our cash, cash equivalents and short-term investments were \$171,593,000 compared to \$154,403,000 at January 2, 2015. We believe our existing balances of cash, cash equivalents and short-term investments will be sufficient to satisfy our working capital needs, capital expenditures, outstanding commitments, stock repurchases, dividends and other liquidity requirements over at least the next 12 months.

Generally, our net cash provided by operating activities is used to fund our day-to-day operating activities. First quarter operating cash requirements are generally higher due to payment of our annual bonuses accrued during the prior year. Our largest source of operating cash flows is cash 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.

Net cash provided by operating activities was \$60.5 million for fiscal 2015 as compared to \$48.3 million and \$61.8 million in fiscal 2014 and 2013, respectively. The increase in net cash provided by operating activities during fiscal 2015 as compared to

fiscal 2014 was primarily due to an increase in cash receipts from clients. The decrease in net cash provided by operating activities during fiscal 2014, as compared to fiscal 2013, was due to a decrease in cash receipts from clients. Accounts receivable increased during fiscal 2014 as compared to a decrease during fiscal 2013.

During fiscal 2015, 2014 and 2013, net cash provided by (used in) investing activities was primarily related to the purchase and sale or maturity of short-term investments.

The decrease in net cash used in financing activities during fiscal 2015, as compared to fiscal 2014, was due to a decrease in repurchases of our common stock partially offset by an increase in our quarterly dividend payments. The increase in net cash used in financing activities during fiscal 2014, as compared to fiscal 2013, was due to an increase in our quarterly dividend payments and an increase in repurchases of our common stock.

We expect to continue our investing activities, including capital expenditures. Furthermore, cash reserves may be used to repurchase common stock under our stock repurchase programs, pay dividends, procure facilities and equipment or strategically acquire professional service firms that are complementary to our business.

The following schedule summarizes our principal contractual commitments as of January 1, 2016 (in thousands):

Fiscal year	Operating lease commitments	Purchase Obligations	Total
2016	\$ 7,919	\$ 432	\$ 8,351
2017	5,780	-	5,780
2018	3,221	-	3,221
2019	2,062	-	2,062
2020	1,151	-	1,151
Thereafter	1,444	-	1,444
	<u>\$ 21,577</u>	<u>\$ 432</u>	<u>\$ 22,009</u>

The above table does not reflect unrecognized tax benefits of \$1,878,000, the timing of which is uncertain. Refer to "Note 7: Income Taxes" of the *Notes to Consolidated Financial Statements* for additional discussion on unrecognized tax benefits.

On December 14, 2015, we entered into an agreement to purchase a 1.1 acre parcel of land with 27,000 square feet of warehouse storage space in Menlo Park, California adjacent to our owned office and lab facilities. We have leased this warehouse storage space for the past 25 years. The total purchase price is \$8,250,000. On February 18, 2016 all of the purchase contingencies were released and we expect the sale to close in the next year.

We maintain nonqualified deferred compensation plans for the benefit of a select group of highly compensated employees. Vested amounts due under the plans of \$40,322,000 were recorded as a long-term liability on our consolidated balance sheet at January 1, 2016. Company assets that are earmarked to pay benefits under the plans are held in a rabbi trust and are subject to the claims of our creditors. As of January 1, 2016, invested amounts under the plans of \$36,522,000 were recorded as a long-term asset on our consolidated balance sheet.

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

#### **Off-Balance Sheet Arrangements**

As part of our ongoing business, we do not engage in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities.



## Non-GAAP Financial Measures

Regulation G, conditions for use of Non-Generally Accepted Accounting Principles (“Non-GAAP”) financial measures, and other SEC regulations define and prescribe the conditions for use of certain 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, interest income, depreciation and amortization. We define EBITDAS as EBITDA before stock-based compensation. We regard EBITDA and EBITDAS as useful measures of operating performance and cash flow to complement operating income, net income and other GAAP financial performance measures. Additionally, management believes that EBITDA and EBITDAS provide meaningful comparisons of past, present and future operating results. These measures are used to evaluate our financial results, develop budgets and determine employee compensation. These measures, however, should be considered in addition to, and not as a substitute or superior to, operating income, cash flows, or other measures of financial performance prepared in accordance with GAAP. A reconciliation of the Non-GAAP measures to the nearest comparable GAAP measure is set forth below.

The following table shows EBITDA as a percentage of revenues before reimbursements for fiscal years 2015, 2014 and 2013:

(in thousands, except percentages)

	Fiscal Years		
	2015	2014	2013
Revenues before reimbursements	\$ 295,705	\$ 289,209	\$ 280,043
EBITDA	\$ 76,405	\$ 73,219	\$ 68,769
EBITDA as a % of revenues before reimbursements	25.8%	25.3%	24.6%

The increase in EBITDA as a percentage of revenues before reimbursements for fiscal 2015 as compared to fiscal 2014 was primarily due to the increase in revenues before reimbursements and low expense growth.

The increase in EBITDA as a percentage of revenues before reimbursements for fiscal 2014 as compared to fiscal 2013 was primarily due to an increase in utilization. Utilization for fiscal 2014 increased to 72% as compared to 71% during fiscal 2013 due to strong demand for our consulting services from a diverse set of clients for both reactive and proactive projects and our management of headcount to align resources with anticipated demand.

The following table is a reconciliation of EBITDA and EBITDAS to the most comparable GAAP measure, net income, for fiscal 2015, 2014 and 2013:

(in thousands)

	<b>Fiscal Years</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
Net Income	\$ 43,599	\$ 40,701	\$ 38,640
Add back (subtract):			
Income taxes	27,534	27,264	25,305
Interest income, net	(207)	(150)	(127)
Depreciation and amortization	5,479	5,404	4,951
<b>EBITDA</b>	<b>76,405</b>	<b>73,219</b>	<b>68,769</b>
Stock-based compensation	12,959	13,079	13,168
<b>EBITDAS</b>	<b>\$ 89,364</b>	<b>\$ 86,298</b>	<b>\$ 81,937</b>

#### **Item 7A. Quantitative and Qualitative Disclosure About Market Risk**

Exponent is 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 the Company's investment policy. The maximum effective maturity of any issue in our portfolio of cash equivalents and short-term investments 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 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 investment portfolio. 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. Our foreign currency risk is primarily in our Environmental and Health operating segment.

At January 1, 2016, we had net assets of approximately \$5.9 million with a functional currency of the British Pound, net assets of approximately \$2.5 million with a functional currency of the Euro, and net assets of approximately \$2.5 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 re-measurement of monetary assets and liabilities. At January 1, 2016, we had net assets denominated in the non-functional currency of approximately \$3.0 million. As such, a ten percent change in the value of the local currency would result in \$0.3 million foreign currency gain or loss in our results of operations.

We do not use foreign exchange contracts to hedge any foreign currency exposures. To date, the impacts of foreign currency exchange rate changes on our consolidated revenues and consolidated net income

have not been material. However, our continued international expansion increases our exposure to exchange rate fluctuations and as a result such fluctuations could have a significant impact on our future results of operations.

#### **Item 8. Financial Statements and Supplementary Data**

See Item 15 of this Form 10-K for required financial statements and supplementary data.

#### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

#### **Item 9A. Controls and Procedures**

KPMG LLP, an independent registered public accounting firm, has audited the internal control over financial reporting of Exponent, Inc., as stated in their report which is included in Part IV, Item 15 of this Form 10-K.

##### **(a) Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures.**

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13(a)-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Based on this evaluation, our principal executive officer and our principal financial officer concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

##### **(b) Management's Report on Internal Control Over Financial Reporting.**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). Our internal control over financial reporting is designed to provide reasonable assurance, but not absolute assurance, regarding the reliability of financial reporting and the preparation of financial statements in accordance with U.S. generally accepted accounting principles. There are inherent limitations to the effectiveness of any system of internal control over financial reporting. These limitations include the possibility of human error, the

circumvention or overriding of the system and reasonable resource constraints. Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control - Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective at the reasonable assurance level as of January 1, 2016.

##### **(c) Changes in Internal Control Over Financial Reporting.**

There have not been any changes in the Company's internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act, during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **Item 9B. Other Information**

None.

### **PART III**

Certain information required by Part III is omitted from this Annual Report on Form 10-K. We intend to file a definitive Proxy Statement pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K, and certain information included therein is incorporated herein by reference.

#### **Item 10. Directors, Executive Officers and Corporate Governance**

The information required by this item is incorporated by reference to the Company's definitive Proxy Statement for its 2016 Annual Meeting of Stockholders (the "Proxy Statement"). See Item 1 for

information regarding the executive officers of the Company.

**Item 11. Executive Compensation**

The information required by this item is incorporated by reference to the Proxy Statement.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The information required by this item is incorporated by reference to the Proxy Statement. See also the

table on the Company's share repurchases in Part II, Item 5 above.

**Item 13. Certain Relationships and Related Transactions, and Director Independence**

The information required by this item is incorporated by reference to the Proxy Statement.

**Item 14. Principal Accounting Fees and Services**

The information required by this item is incorporated by reference to the Proxy Statement.

## **PART IV**

### **Item 15. Exhibits, Financial Statement Schedules**

**(a) The following documents are filed as part of this Annual Report on Form 10-K.**

#### **1. Financial Statements**

The following consolidated financial statements of Exponent, Inc. and subsidiaries and the Report of Independent Registered Public Accounting Firm are included herewith:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	34
Consolidated Statements of Income for the years ended January 1, 2016, January 2, 2015 and January 3, 2014	36
Consolidated Statements of Comprehensive Income for the years ended January 1, 2016, January 2, 2015 and January 3, 2014	37
Consolidated Balance Sheets as of January 1, 2016 and January 2, 2015	38
Consolidated Statements of Stockholders' Equity for the years ended January 1, 2016, January 2, 2015 and January 3, 2014	39
Consolidated Statements of Cash Flows for the years ended January 1, 2016, January 2, 2015 and January 3, 2014	41
Notes to Consolidated Financial Statements	42

#### **2. Financial Statement Schedules**

The following financial statement schedule of Exponent, Inc. for the years ended January 1, 2016, January 2, 2015 and January 3, 2014 is filed as part of this Report and should be read in conjunction with the consolidated financial statements of Exponent, Inc. and subsidiaries:

	<u>Page</u>
Schedule II - Valuation and Qualifying Accounts	61

Schedules other than those listed above have been omitted since they are either not required, not applicable, or the information is otherwise included elsewhere in the report.

#### **3. Exhibits**

	<u>Page</u>
(a) Exhibit Index	63

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
Exponent, Inc.:

We have audited the accompanying consolidated balance sheets of Exponent, Inc. and subsidiaries as of January 1, 2016 and January 2, 2015, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended January 1, 2016. In connection with our audits of the consolidated financial statements, we have also audited the accompanying financial statement schedule II. We also have audited the internal control over financial reporting of Exponent, Inc. as of January 1, 2016, based on *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The management of Exponent, Inc. is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting, appearing under Item 9A(b). Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule II, and an opinion on the internal control over financial reporting of Exponent, Inc. based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Exponent, Inc. and subsidiaries as of January 1, 2016 and January 2, 2015, and the results of their operations and their cash flows for each of the years in the three-year period ended January 1, 2016, in conformity with U.S. generally accepted accounting principles. Also in our opinion the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects, the information set forth therein. Also in our opinion, Exponent, Inc. and subsidiaries maintained, in all

material respects, effective internal control over financial reporting as of January 1, 2016, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ KPMG LLP  
San Francisco, California  
February 26, 2016

**Exponent, Inc. and Subsidiaries**  
**Consolidated Statements of Income**

	Fiscal Years		
(In thousands, except per share data)	2015	2014	2013
Revenues:			
Revenues before reimbursements	\$ 295,705	\$ 289,209	\$ 280,043
Reimbursements	17,127	15,495	16,125
Revenues	<u>312,832</u>	<u>304,704</u>	<u>296,168</u>
Operating expenses:			
Compensation and related expenses	184,502	183,533	184,084
Other operating expenses	26,975	26,285	25,299
Reimbursable expenses	17,127	15,495	16,125
General and administrative expenses	15,295	15,842	14,714
	<u>243,899</u>	<u>241,155</u>	<u>240,222</u>
Operating income	68,933	63,549	55,946
Other income:			
Interest income	207	150	127
Miscellaneous income, net	1,993	4,266	7,872
Income before income taxes	<u>71,133</u>	<u>67,965</u>	<u>63,945</u>
Provision for income taxes	27,534	27,264	25,305
Net income	<u>\$ 43,599</u>	<u>\$ 40,701</u>	<u>\$ 38,640</u>
Net income per share:			
Basic	\$ 1.64	\$ 1.51	\$ 1.42
Diluted	\$ 1.60	\$ 1.47	\$ 1.38
Shares used in per share computations:			
Basic	26,606	26,910	27,232
Diluted	27,298	27,666	28,050
Cash dividends declared per common share	\$ 0.60	\$ 0.50	\$ 0.30

See accompanying notes to the Consolidated Financial Statements.



**Exponent, Inc. and Subsidiaries**  
**Consolidated Statements of Comprehensive Income**

(In thousands)	Fiscal Years		
	2015	2014	2013
Net income	\$ 43,599	\$ 40,701	\$ 38,640
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments, net of tax of \$(38), \$304, and \$(187), respectively	(822)	(1,017)	373
Unrealized gain (loss) arising during the period on investments, net of tax of \$53, \$(3), and \$10, respectively	(79)	4	(14)
Comprehensive income	\$ 42,698	\$ 39,688	\$ 38,999

See accompanying notes to the Consolidated Financial Statements.

**Exponent, Inc. and Subsidiaries**  
**Consolidated Balance Sheets**

(In thousands, except par value)	January 1, 2016	January 2, 2015
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 125,751	\$ 129,490
Short-term investments	45,842	24,913
Accounts receivable, net of allowance for contract losses and doubtful accounts of \$2,792 and \$3,386, respectively	88,577	86,368
Prepaid expenses and other assets	12,616	14,727
Total current assets	<u>272,786</u>	<u>255,498</u>
Property, equipment and leasehold improvements, net	28,485	28,264
Goodwill	8,607	8,607
Deferred income taxes	39,456	35,614
Deferred compensation plan assets	36,522	36,195
Other assets	1,651	1,121
	<u>\$ 387,507</u>	<u>\$ 365,299</u>
<b>Liabilities and Stockholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 10,580	\$ 8,935
Accrued payroll and employee benefits	62,092	62,184
Deferred revenues	7,802	8,226
Total current liabilities	<u>80,474</u>	<u>79,345</u>
Other liabilities	1,913	1,862
Deferred compensation	40,322	37,745
Deferred rent	1,994	2,059
Total liabilities	<u>124,703</u>	<u>121,011</u>
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Preferred stock, \$.001 par value; 2,000 shares authorized; no shares outstanding	-	-
Common stock, \$.001 par value; 80,000 shares authorized; 32,853 shares issued	33	33
Additional paid-in capital	179,816	160,208
Accumulated other comprehensive income (loss)		
Investment securities, available for sale	(65)	14
Foreign currency translation adjustments	(1,740)	(918)
	<u>(1,805)</u>	<u>(904)</u>
Retained earnings	269,259	246,961
Treasury stock, at cost: 7,133 and 7,111 shares held, respectively	(184,499)	(162,010)
Total stockholders' equity	<u>262,804</u>	<u>244,288</u>
	<u>\$ 387,507</u>	<u>\$ 365,299</u>

See accompanying notes to the Consolidated Financial Statements.

**Exponent, Inc. and Subsidiaries**  
**Consolidated Statements of Stockholders' Equity**

(In thousands)	Common Stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance at December 28, 2012	32,853	\$ 33	\$123,676	\$ (250)	\$206,057	6,442	\$ (113,087)	\$216,429
Employee stock purchase plan	-	-	648	-	-	(38)	518	1,166
Exercise of stock options, net of swaps	-	-	(302)	-	(1,031)	(122)	1,627	294
Excess tax benefit for equity incentive plans	-	-	4,267	-	-	-	-	4,267
Amortization of unrecognized stock-based compensation	-	-	7,107	-	-	-	-	7,107
Purchase of treasury shares	-	-	-	-	-	876	(25,011)	(25,011)
Foreign currency translation adjustments	-	-	-	373	-	-	-	373
Grant of restricted stock units to settle accrued bonus	-	-	5,807	-	-	-	-	5,807
Settlement of restricted stock units	-	-	(273)	-	(9,352)	(431)	3,597	(6,028)
Unrealized loss on investments	-	-	-	(14)	-	-	-	(14)
Dividends and dividend equivalent rights	-	-	303	-	(8,274)	-	-	(7,971)
Net income	-	-	-	-	38,640	-	-	38,640
Balance at January 3, 2014	32,853	\$ 33	\$141,233	\$ 109	\$226,040	6,727	\$ (132,356)	\$235,059
Employee stock purchase plan	-	-	810	-	-	(32)	337	1,147
Exercise of stock options, net of swaps	-	-	67	-	-	(84)	893	960
Excess tax benefit for equity incentive plans	-	-	5,100	-	-	-	-	5,100
Amortization of unrecognized stock-based compensation	-	-	6,792	-	-	-	-	6,792
Purchase of treasury shares	-	-	-	-	-	850	(30,921)	(30,921)
Foreign currency translation adjustments	-	-	-	(1,017)	-	-	-	(1,017)
Grant of restricted stock units to settle accrued bonus	-	-	6,008	-	-	-	-	6,008
Settlement of restricted stock units	-	-	(343)	-	(6,050)	(350)	37	(6,356)
Unrealized gain on investments	-	-	-	4	-	-	-	4
Dividends and dividend equivalent rights	-	-	541	-	(13,730)	-	-	(13,189)
Net income	-	-	-	-	40,701	-	-	40,701
Balance at January 2, 2015	32,853	\$ 33	\$160,208	\$ (904)	\$246,961	7,111	\$ (162,010)	\$244,288

See accompanying notes to the Consolidated Financial Statements.

(In thousands)	Common Stock		Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings	Treasury Stock		Total
	Shares	Amount				Shares	Amount	
Balance at January 2, 2015	32,853	\$ 33	\$160,208	\$ (904)	\$246,961	7,111	\$ (162,010)	\$244,288
Employee stock purchase plan	-	-	836	-	-	(27)	350	1,186
Exercise of stock options, net of swaps	-	-	(94)	-	-	(150)	1,922	1,828
Excess tax benefit for equity incentive plans	-	-	6,396	-	-	-	-	6,396
Amortization of unrecognized stock-based compensation	-	-	6,618	-	-	-	-	6,618
Purchase of treasury shares	-	-	-	-	-	530	(23,314)	(23,314)
Foreign currency translation adjustments	-	-	-	(822)	-	-	-	(822)
Grant of restricted stock units to settle accrued bonus	-	-	6,169	-	-	-	-	6,169
Settlement of restricted stock units	-	-	(975)	-	(4,943)	(331)	(1,447)	(7,365)
Unrealized loss on investments	-	-	-	(79)	-	-	-	(79)
Dividends and dividend equivalent rights	-	-	658	-	(16,358)	-	-	(15,700)
Net income	-	-	-	-	43,599	-	-	43,599
Balance at January 1, 2016	<u>32,853</u>	<u>\$ 33</u>	<u>\$179,816</u>	<u>\$ (1,805)</u>	<u>\$269,259</u>	<u>7,133</u>	<u>\$ (184,499)</u>	<u>\$262,804</u>

See accompanying notes to the Consolidated Financial Statements.

**Exponent, Inc. and Subsidiaries**  
**Consolidated Statements of Cash Flows**

(In thousands)	Fiscal Years		
	2015	2014	2013
Cash flows from operating activities:			
Net income	\$ 43,599	\$ 40,701	\$ 38,640
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property, equipment and leasehold improvements	5,479	5,404	4,951
Amortization of premiums and accretion of discounts on short-term investments	595	885	340
Deferred rent expense	(65)	(273)	800
Provision for doubtful accounts and contract losses	929	1,718	1,705
Stock-based compensation	12,959	13,079	13,168
Deferred income tax provision	(3,827)	(6,077)	(3,398)
Excess tax benefit for equity incentive plans	(6,396)	(5,100)	(4,267)
Changes in operating assets and liabilities:			
Accounts receivable	(3,138)	(11,106)	6,676
Prepaid expenses and other assets	421	(5,320)	(4,596)
Accounts payable and accrued liabilities	7,718	6,142	3,002
Accrued payroll and employee benefits	2,639	6,744	4,665
Deferred revenues	(424)	1,455	106
Net cash provided by operating activities	<u>60,489</u>	<u>48,252</u>	<u>61,792</u>
Cash flows from investing activities:			
Capital expenditures	(5,379)	(4,947)	(6,226)
Purchase of short-term investments	(43,946)	(5,260)	(33,422)
Maturity of short-term investments	22,290	11,642	19,190
Sale of short-term investments	-	1,000	1,578
Net cash (used in) provided by investing activities	<u>(27,035)</u>	<u>2,435</u>	<u>(18,880)</u>
Cash flows from financing activities:			
Excess tax benefit for equity incentive plans	6,396	5,100	4,267
Payroll taxes for restricted stock units	(7,365)	(6,356)	(6,402)
Repurchase of common stock	(23,314)	(30,921)	(25,519)
Exercise of share-based payment awards	3,014	2,107	1,812
Dividends and dividend equivalent rights	(15,647)	(13,058)	(7,927)
Net cash used in financing activities	<u>(36,916)</u>	<u>(43,128)</u>	<u>(33,769)</u>
Effect of foreign currency exchange rates on cash and cash equivalents	<u>(277)</u>	<u>(1,017)</u>	<u>537</u>
Net (decrease) increase in cash and cash equivalents	(3,739)	6,542	9,680
Cash and cash equivalents at beginning of year	129,490	122,948	113,268
Cash and cash equivalents at end of year	<u>\$ 125,751</u>	<u>\$ 129,490</u>	<u>\$ 122,948</u>

See accompanying notes to the Consolidated Financial Statements.

## **Exponent, Inc. and Subsidiaries**

### **Notes to Consolidated Financial Statements**

#### **Note 1: Summary of Significant Accounting Policies**

##### **Basis of Presentation**

Exponent, Inc. together with its subsidiaries (collectively referred to as the “Company”) is a science and engineering consulting firm that provides solutions to complex problems. The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

The Company operates on a 52-53 week fiscal year with each year ending on the Friday closest to December 31<sup>st</sup>. Fiscal periods 2015 and 2014 included 52 weeks of activity and ended on January 1, 2016 and January 2, 2015, respectively. Fiscal period 2013 included 53 weeks of activity and ended on January 3, 2014. Fiscal period 2016 will end on December 30, 2016.

##### **Stock Split**

On May 28, 2015, the Company’s stockholders approved an amendment to the Company’s certificate of incorporation to (i) amend the number of authorized shares of common stock to 80,000,000, (ii) amend the number of authorized shares of preferred stock to 2,000,000, and (iii) effect a two-for-one stock split. As a result of the stock split, each shareholder of record at the close of business on May 28, 2015, received one additional share of common stock. Restricted stock unit awards and stock option awards have also been adjusted to reflect the two-for-one stock split. For periods prior to the stock split, all share and per share data in the Company’s consolidated financial statements and related notes have been retroactively adjusted to reflect the stock split.

##### **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. Actual results could differ from those estimates.

##### **Revenue Recognition**

The Company derives its revenues primarily from professional fees earned on consulting engagements, fees earned for the use of its equipment and facilities, and reimbursements for outside direct expenses associated with the services that are billed to its clients. Any taxes assessed on revenues relating to services provided to its clients are recorded on a net basis.

The Company reports service revenues net of subcontractor fees. The Company has determined that it is not the primary obligor with respect to these subcontractors because:

- its clients are directly involved in the subcontractor selection process;
- the subcontractor is responsible for fulfilling the scope of work; and
- the Company passes through the costs of subcontractor agreements with only a minimal fixed percentage mark-up to compensate it for processing the transactions.

Reimbursements, including those related to travel and other out-of-pocket expenses, and other similar third party costs such as the cost of materials, 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.

Substantially all of the Company’s engagements are performed under time and material or fixed-price billing arrangements. On time and material and fixed-price projects, revenue is generally recognized as the services are performed. For substantially all of the Company’s fixed-price engagements, it recognizes revenue based on the relationship of incurred labor hours at standard rates to its 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 toward completion;
- if the contract is terminated early, the customer is required to pay the Company for time at standard rates plus materials incurred to date;
- the Company does not recognize revenue for award fees or bonuses until specific contractual criteria are met;
- 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.

Product revenue is recognized when both title and risk of loss transfer to the customer and customer acceptance has occurred, provided that no significant obligations remain.

Gross revenues and reimbursements for the fiscal years ended January 1, 2016, January 2, 2015 and January 3, 2014, respectively, were:

(In thousands)	Fiscal Years		
	2015	2014	2013
Gross revenues	\$320,404	\$313,723	\$302,742
Less: Subcontractor fees	7,572	9,019	6,574
Revenues	<u>312,832</u>	<u>304,704</u>	<u>296,168</u>
Reimbursements:			
Out-of-pocket reimbursements	5,967	5,862	6,619
Other outside direct expenses	11,160	9,633	9,506
	<u>17,127</u>	<u>15,495</u>	<u>16,125</u>
Revenues before reimbursements	<u>\$295,705</u>	<u>\$289,209</u>	<u>\$280,043</u>

Significant management judgments and estimates must be made in connection with the revenues recognized in any accounting period. These judgments and estimates include an assessment of collectability and, for fixed-price engagements, an estimate as to the total effort required to complete the project. If the Company made different judgments or utilized different estimates, the amount and timing of its revenue for any period could be materially different.

All consulting contracts are subject to review by management, which requires a positive assessment of

the collectability of contract amounts. If, during the course of the contract, the Company determines that collection of revenue is not reasonably assured, it does not recognize the revenue until its collection becomes reasonably assured, which in those situations would generally be upon receipt of cash. The Company assesses collectability based on a number of factors, including past transaction history with the client, as well as the credit-worthiness of the client. Losses on fixed-price contracts are recognized during the period in which the loss first becomes evident. Contract losses are determined to be the amount by which the estimated total costs of the contract exceeds the total fixed price of the contract.

### Foreign Currency Translation

The Company translates the assets and liabilities of foreign subsidiaries, whose functional currency is the local currency, at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average rates of exchange prevailing during the year. The adjustment resulting from translating the financial statements of such foreign subsidiaries is included in accumulated other comprehensive income, which is reflected as a separate component of stockholders' equity.

### Cash Equivalents

Cash equivalents consist of highly liquid investments such as money market mutual funds, commercial paper and debt securities with original remaining maturities of three months or less from the date of purchase.

### Short-term Investments

Short-term investments consist of debt securities classified as available-for-sale and are carried at their fair value as of the balance sheet date. Short-term investments generally mature between three months and three years from the purchase date. Investments with maturities beyond one year are classified as short-term based on their highly liquid nature and because such marketable securities represent investments readily available for current operations.

The amortized cost of securities is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in interest income. Realized gains or losses are determined on the specific identification method and are reflected in other income. Net unrealized gains and losses are recorded directly in accumulated other comprehensive income except for unrealized losses that are deemed to be other-than-temporary, which are reflected in net income.

Investments are reviewed on a regular basis to evaluate whether or not any security has experienced an other-than temporary decline in fair value. When assessing investments for other-than-temporary declines in fair value, the Company considers the significance of the decline in value as a percentage of the original cost, how long the market value of the investment has been less than its original cost, any news that has been released specific to the investee, and the Company's intent to sell, or whether it is more likely than not it will be required to sell the investment before recovery of the investment's cost basis.

#### **Allowances for Doubtful Accounts and Contract Losses**

The Company maintains allowances for estimated losses resulting from the inability of customers to meet their financial obligations or for disputes that affect the Company's ability to fully collect amounts due. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations or aware of a dispute with a specific customer, a specific allowance is recorded to reduce the net recognized receivable to the amount the Company reasonably believes will be collected. For all other customers the Company recognizes allowances for doubtful accounts based upon historical write-offs, customer concentration, customer credit-worthiness, current economic conditions, aging of amounts due and changes in customer payment terms.

#### **Property, Equipment and Leasehold Improvements**

Property, equipment and leasehold improvements are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are recognized using the straight-line method. Buildings are depreciated over their estimated useful lives ranging from thirty to forty years. Equipment is depreciated over its estimated useful life, which generally ranges from two to seven years. Leasehold improvements are amortized over the shorter of their estimated useful lives, generally seven years, or the term of the related lease.

#### **Impairment of Long-Lived Assets**

The Company evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the assets to future undiscounted cash flows to be generated by the asset. If such assets are considered to be impaired, the

impairment to be recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. The Company has not recognized impairment losses on any long-lived assets in fiscal 2015, 2014 or 2013.

#### **Goodwill**

The Company assesses the impairment of goodwill annually and whenever events or changes in circumstances indicate that the carrying amount may be impaired. The Company's annual goodwill impairment review is completed during the fourth quarter of each year. The Company evaluates goodwill for each reporting unit for impairment by assessing qualitative factors to determine whether it is necessary to perform the two-step goodwill impairment test. The Company considers events and circumstances, including but not limited to, macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, changes in management or key personnel, changes in strategy, changes in customers, a change in the composition or carrying amount of a reporting unit's net assets and changes in the price of its common stock. If, after assessing the totality of events or circumstances, the Company determines that it is more likely than not that the fair value of a reporting unit is greater than its carrying amount, then the two-step goodwill impairment test is not performed.

If the two-step goodwill test is performed, the Company determines the existence of impairment by assessing the fair value of the applicable reporting unit, including goodwill, using expected future cash flows to be generated by the reporting unit. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of the goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied value of the reporting unit goodwill.

The Company completed its annual assessment for all reporting units with goodwill for fiscal 2015 and determined, after assessing the totality of the qualitative factors, that it is more likely than not that the fair value of each reporting unit is greater than its respective carrying amount. Accordingly there was no indication of impairment of goodwill for any of the Company's reporting units and the two-step goodwill impairment test was not performed. The



Company did not recognize any goodwill impairment losses in fiscal years 2015, 2014 or 2013.

### Deferred Revenues

Deferred revenues represent amounts billed to clients in advance of services provided.

### Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the expected tax consequences of temporary differences between the tax basis and the financial reporting basis of assets and liabilities. Deferred tax assets and liabilities are measured using the enacted tax rates and laws in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities from changes in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets if it is more likely than not that some portion or all of the deferred tax assets will not be realized. U.S. income taxes are provided on the earnings of foreign subsidiaries unless the subsidiaries' earnings are considered permanently reinvested outside the U.S. An uncertain tax position is recognized if it is determined that it is more likely than not to be sustained upon examination. The tax position is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits as income tax expense. Accrued interest and penalties are insignificant at January 1, 2016 and January 2, 2015.

### Fair Value of Financial Instruments

Financial instruments consist of cash and cash equivalents, short-term investments, accounts receivable, other assets and accounts payable. Cash, cash equivalents and short-term investments are recorded at fair value. The carrying amount of the Company's accounts receivable, other assets and accounts payable approximates their fair values due to their short maturities.

### Stock-Based Compensation

Stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period of the entire award. The Company estimates the number of awards that are expected to vest and revises the estimate as actual forfeitures differ from that estimate. Estimated forfeiture rates are based on the Company's historical experience.

### Net Income Per Share

Basic per share amounts are computed using the weighted-average number of common shares outstanding during the period. Dilutive per share amounts are computed using the weighted-average number of common shares outstanding and potentially dilutive securities, using the treasury stock method if their effect would be dilutive.

The following schedule reconciles the denominators of the Company's calculation for basic and diluted net income per share:

(In thousands)	Fiscal Years		
	2015	2014	2013
Shares used in basic			
per share computation	26,606	26,910	27,232
Effect of dilutive common stock options outstanding	135	136	164
Effect of unvested restricted stock units outstanding	557	620	654
Shares used in diluted			
per share computation	<u>27,298</u>	<u>27,666</u>	<u>28,050</u>

There were no equity awards excluded from the diluted per share calculation for the fiscal years ended January 1, 2016, January 2, 2015 and January 3, 2014.

### Recently Adopted Accounting Pronouncements

On November 20, 2015, the Financial Accounting Standards Board ("FASB") issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes, requiring all deferred tax assets and liabilities, and any related valuation allowance, to be classified as noncurrent on the balance sheet. The classification change for all deferred taxes as noncurrent simplifies entities' processes as it eliminates the need to separately identify the net current and net noncurrent deferred tax asset or liability in each jurisdiction and allocate valuation allowances. We elected to retrospectively adopt the accounting standard in the beginning of our fourth quarter of fiscal 2015. Prior periods in our Consolidated Financial Statements were retrospectively adjusted. Deferred income taxes at January 2, 2015 of \$11,002,000 previously classified as current assets were reclassified as noncurrent assets.

### Recent Accounting Pronouncements Not Yet Effective

On May 28, 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of

promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. generally accepted accounting principles (“GAAP”) when it becomes effective. In August 2015 the FASB issued ASU No. 2015-14, which deferred by one year the effective date for the new revenue recognition standard for entities reporting under U.S. GAAP. In accordance with the deferral, the new standard will be effective for the Company on the first day of fiscal 2018 (December 30, 2017). Early application is permitted beginning fiscal 2017. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU No. 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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 ASU No. 2016-02 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

**Note 2: Cash, cash equivalents and short-term investments**

Cash, cash equivalents and short-term investments consisted of the following as of January 1, 2016:

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Classified as current assets:				
Cash	\$ 115,221	\$ -	\$ -	\$ 115,221
Cash equivalents:				
Money market securities	10,530	-	-	10,530
Total cash equivalents	10,530	-	-	10,530
Total cash and cash equivalents	125,751	-	-	125,751
Short-term investments:				
U.S. Agency securities	41,946	1	(106)	41,841
State and municipal bonds	4,002	-	(1)	4,001
Total short-term investments	45,948	1	(107)	45,842
Total cash, cash equivalents and short-term investments	\$ 171,699	\$ 1	\$ (107)	\$ 171,593

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

(In thousands)	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Classified as current assets:				
Cash	\$ 84,012	\$ -	\$ -	\$ 84,012
Cash equivalents:				
Money market securities	45,478	-	-	45,478
Total cash equivalents	45,478	-	-	45,478
Total cash and cash equivalents	129,490	-	-	129,490
Short-term investments:				
State and municipal bonds	24,890	27	(4)	24,913
Total short-term investments	24,890	27	(4)	24,913
Total cash, cash equivalents and short-term investments	\$ 154,380	\$ 27	\$ (4)	\$ 154,403

### 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 have been no transfers between fair value measurement levels during the years ended January 1, 2016 and January 2, 2015. 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 January 1, 2016 (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets</u>				
Money market securities <sup>(1)</sup>	\$ 10,530	\$ 10,530	\$ -	\$ -
Fixed income available for sale securities <sup>(2)</sup>	45,842	-	45,842	-
Fixed income trading securities held in deferred compensation plan <sup>(3)</sup>	9,295	9,295	-	-
Equity trading securities held in deferred compensation plan <sup>(3)</sup>	33,645	33,645	-	-
Total	\$ 99,312	\$ 53,470	\$ 45,842	\$ -
<u>Liabilities</u>				
Deferred compensation plan <sup>(4)</sup>	46,740	46,740	-	-
Total	\$ 46,740	\$ 46,740	\$ -	\$ -

<sup>(1)</sup> Included in cash and cash equivalents on the Company's consolidated balance sheet.

<sup>(2)</sup> Included in short-term investments on the Company's consolidated balance sheet.

<sup>(3)</sup> Included in other current assets and deferred compensation plan assets on the Company's consolidated balance sheet.

<sup>(4)</sup> Included in accrued liabilities and deferred compensation on the Company's consolidated balance sheet.

The fair value of these certain financial assets and liabilities was determined using the following inputs at January 2, 2015 (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets</u>				
Money market securities <sup>(1)</sup>	\$ 45,478	\$ 45,478	\$ -	\$ -
Fixed income available for sale securities <sup>(2)</sup>	24,913	-	24,913	-
Fixed income trading securities held in deferred compensation plan <sup>(3)</sup>	9,672	9,672	-	-
Equity trading securities held in deferred compensation plan <sup>(3)</sup>	34,176	34,176	-	-
Total	\$ 114,239	\$ 89,326	\$ 24,913	\$ -
<u>Liabilities</u>				
Deferred compensation plan <sup>(4)</sup>	45,394	45,394	-	-
Total	\$ 45,394	\$ 45,394	\$ -	\$ -

<sup>(1)</sup> Included in cash and cash equivalents on the Company's consolidated balance sheet.

<sup>(2)</sup> Included in short-term investments on the Company's consolidated balance sheet.

<sup>(3)</sup> Included in other current assets and deferred compensation plan assets on the Company's consolidated balance sheet.

<sup>(4)</sup> Included in accrued liabilities and deferred compensation on the Company's consolidated balance sheet.

Fixed income available-for-sale securities as of January 1, 2016 and January 2, 2015 represent primarily obligations of United States agencies and state and local government agencies. Fixed income and equity trading securities represent mutual funds held in the Company's deferred compensation plan. See Note 11 for additional information about the Company's deferred compensation plan.

The following table summarizes the cost and estimated fair value of short-term fixed income securities classified as short-term investments based on remaining effective maturities as of January 1, 2016:

(In thousands)	Amortized Cost	Estimated Fair Value
Due within one year	\$ 19,948	\$ 19,950
Due between one and two years	26,000	25,892
Total	\$ 45,948	\$ 45,842

At January 1, 2016 and January 2, 2015, the Company did not have any assets or liabilities valued using significant unobservable inputs.

The following financial instruments are not measured at fair value on the Company's consolidated balance sheet at January 1, 2016, but require disclosure of their fair values: accounts receivable, other assets and accounts payable. The estimated fair value of such instruments at January 1, 2016 approximates their carrying value as reported on the consolidated balance sheet.

There were no other-than-temporary impairments or credit losses related to available-for-sale securities during the years ended January 1, 2016, January 2, 2015 and January 3, 2014.

**Note 4: Property, Equipment and Leasehold Improvements**

(In thousands)	Fiscal Years	
	2015	2014
Property:		
Land	\$ 4,450	\$ 4,450
Buildings	35,817	35,570
Construction in progress	1,457	12
Equipment:		
Machinery and equipment	37,520	35,131
Office furniture and equipment	7,824	7,714
Leasehold improvements	13,580	13,169
	<u>100,648</u>	<u>96,046</u>
Less accumulated depreciation and amortization	<u>72,163</u>	<u>67,782</u>
Property, equipment and leasehold improvements, net	<u>\$ 28,485</u>	<u>\$ 28,264</u>

Depreciation and amortization for the fiscal years ended January 1, 2016, January 2, 2015 and January 3, 2014, was \$5,479,000, \$5,404,000 and \$4,951,000, respectively.

**Note 5: Goodwill**

Below is a breakdown of goodwill, reported by segment as of January 1, 2016 and January 2, 2015:

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

There were no changes in the carrying amount of goodwill for the fiscal years ended January 1, 2016, January 2, 2015 and January 3, 2014. There were no goodwill impairments or gains or losses on disposals for any portion of the Company's reporting units during the fiscal years ended January 1, 2016, January 2, 2015 and January 3, 2014.

**Note 6: Other Significant Balance Sheet Components**

**Account receivable, net**

(In thousands)	Fiscal Years	
	2015	2014
Billed accounts receivable	\$ 62,360	\$ 63,331
Unbilled accounts receivable	29,009	26,423
Allowance for contract losses and doubtful accounts	(2,792)	(3,386)
Total accounts receivable, net	<u>\$ 88,577</u>	<u>\$ 86,368</u>

**Accounts payable and accrued liabilities**

(In thousands)	Fiscal Years	
	2015	2014
Accounts payable	\$ 3,622	\$ 2,230
Accrued liabilities	6,958	6,705
Total accounts payable and other accrued liabilities	<u>\$ 10,580</u>	<u>\$ 8,935</u>

**Accrued payroll and employee benefits**

(In thousands)	Fiscal Years	
	2015	2014
Accrued bonuses payable	\$ 38,042	\$ 37,010
Accrued 401(k) contributions	7,323	6,887
Accrued vacation	8,836	8,277
Deferred compensation	6,418	7,648
Other accrued payroll and employee benefits	1,473	2,362
Total accrued payroll and employee benefits	<u>\$ 62,092</u>	<u>\$ 62,184</u>

Other accrued payroll and employee benefits consist primarily of accrued wages, payroll taxes and disability insurance programs. A portion of accrued bonuses payable will be settled by issuing fully vested restricted stock units. See Note 9 and Note 15 for additional information.

**Note 7: Income Taxes**

Income before income taxes includes income from foreign operations of \$6,656,000, \$4,157,000 and \$6,007,000 for fiscal 2015, 2014 and 2013, respectively.

Total income tax expense for the fiscal years ended January 1, 2016, January 2, 2015 and January 3, 2014 consisted of the following:

(In thousands)	Fiscal Years		
	2015	2014	2013
Current			
Federal	\$ 25,081	\$ 26,647	\$ 22,468
Foreign	1,385	896	1,411
State	4,895	5,798	4,824
	<u>31,361</u>	<u>33,341</u>	<u>28,703</u>
Deferred			
Federal	(3,411)	(5,059)	(2,703)
State	(416)	(1,018)	(695)
	<u>(3,827)</u>	<u>(6,077)</u>	<u>(3,398)</u>
Total	<u>\$ 27,534</u>	<u>\$ 27,264</u>	<u>\$ 25,305</u>

The Company's effective tax rate differs from the statutory federal tax rate of 35% as shown in the following schedule:

(In thousands)	Fiscal Years		
	2015	2014	2013
Tax at federal statutory rate	\$24,897	\$23,788	\$22,381
State taxes, net of federal benefit	2,910	3,226	2,819
Tax exempt interest income	(23)	(44)	(36)
Non-deductible expenses	261	289	226
Non-deductible stock-based compensation	(42)	-	(79)
Other	(469)	5	(6)
Tax expense	<u>\$27,534</u>	<u>\$27,264</u>	<u>\$25,305</u>
Effective tax rate	<u>38.7%</u>	<u>40.1%</u>	<u>39.6%</u>

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at January 1, 2016 and January 2, 2015 are presented in the following schedule:

(In thousands)	Fiscal Years	
	2015	2014
Deferred tax assets:		
Accrued liabilities and allowances	\$ 17,780	\$ 17,244
Deferred compensation	27,425	26,873
Other	43	28
Total deferred tax assets	<u>45,248</u>	<u>44,145</u>
Deferred tax liabilities:		
State taxes	(1,850)	(1,717)
Deductible goodwill	(3,014)	(2,978)
Property, equipment and leasehold improvements	(205)	(459)
Unrealized gain of deferred compensation plan assets	(723)	(3,377)
Other	-	-
Total deferred tax liabilities	<u>(5,792)</u>	<u>(8,531)</u>
Net deferred tax assets	<u>\$ 39,456</u>	<u>\$ 35,614</u>

Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax assets.

The Company is entitled to a deduction for federal and state tax purposes with respect to employees' stock award activity. The net deduction in taxes otherwise payable arising from that deduction has been credited to additional paid-in capital. For the fiscal years ended January 1, 2016, January 2, 2015 and January 3, 2014, the net deduction in tax payable arising from employees' stock award activity was \$6,396,000, \$5,100,000 and \$4,267,000, respectively.

The Company and its subsidiaries file income tax returns in the United States federal jurisdiction, California and various other state and foreign jurisdictions. The Company is no longer subject to United States federal income tax examination for years prior to 2012. The Company is no longer subject to California franchise tax examinations for years prior to 2011. With few exceptions, the Company is no longer subject to state and local or non-United States income tax examination by tax authorities for years prior to 2011.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at January 3, 2014	\$ 1,147,000
Additions based on tax positions related to the current year	486,000
Additions for tax positions of prior years	-
Reductions due to lapse of statute of limitations	(87,000)
Reductions due to change in accounting method	-
Settlements	-
<b>Balance at January 2, 2015</b>	<b>\$ 1,546,000</b>
Additions based on tax positions related to the current year	406,000
Additions for tax positions of prior years	80,000
Reductions due to lapse of statute of limitations	(154,000)
Reductions due to change in accounting method	-
Settlements	-
<b>Balance at January 1, 2016</b>	<b>\$ 1,878,000</b>

Unrecognized tax benefits are included in other liabilities in the accompanying balance sheet. To the

extent these unrecognized tax benefits are ultimately recognized, they will impact the effective tax rate by \$1,296,000 in a future period. There are no uncertain tax positions whose resolution in the next 12 months is expected to materially affect operating results.

Deferred income taxes have not been provided on the undistributed earnings of foreign subsidiaries in the United Kingdom, Germany, China and Hong Kong. The amount of such earnings at January 1, 2016 was \$7,736,000. These earnings have been permanently reinvested and the Company does not plan to initiate any action that would precipitate the payment of income taxes thereon. The unrecognized deferred tax liability for these earnings is estimated to be approximately \$1,478,000.

## Note 8: Stockholders' Equity

### Preferred Stock

The Company has authorized 2,000,000 shares of undesignated preferred stock with a par value of \$0.001 per share. None of the preferred shares were issued and outstanding at January 1, 2016 and January 2, 2015.

### Dividends

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

	Fiscal Year 2015	
	Dividends Per Share	Amount (in thousands)
First Quarter	\$ 0.15	\$ 3,858
Second Quarter	\$ 0.15	3,887
Third Quarter	\$ 0.15	3,870
Fourth Quarter	\$ 0.15	3,867
		<u>\$ 15,482</u>
	Fiscal Year 2014	
	Dividends Per Share	Amount (in thousands)
First Quarter	\$ 0.125	\$ 3,262
Second Quarter	\$ 0.125	3,270
Third Quarter	\$ 0.125	3,262
Fourth Quarter	\$ 0.125	3,216
		<u>\$ 13,010</u>

On February 3, 2016 the Company's Board of Directors announced a cash dividend of \$0.18 per share of the Company's common stock, payable March 25, 2016, to stockholders of record as of March 4, 2016. The Company expects to continue



paying quarterly dividends in the future, subject to declaration by the Company's Board of Directors.

### **Treasury Stock**

Net losses related to the re-issuance of treasury stock to settle restricted stock unit and stock option awards of \$4,943,000, \$6,050,000 and \$10,383,000 were recorded as a reduction to retained earnings during fiscal 2015, 2014 and 2013, respectively.

### **Repurchase of Common Stock**

The Company repurchased 530,000 shares of its common stock for \$23,314,000 during the fiscal year ended January 1, 2016. The Company repurchased 850,000 shares of its common stock for \$30,921,000 during the fiscal year ended January 2, 2015. The Company repurchased 876,000 shares of its common stock for \$25,011,000 during the fiscal year ended January 3, 2014. On October 20, 2015 the Board of Directors authorized an additional \$35,000,000 for the repurchase of Exponent's common stock. On May 29, 2014 the Board of Directors authorized an additional \$35,000,000 for the repurchase of Exponent's common stock. On February 15, 2013 the Board of Directors authorized \$35,000,000 for the repurchase of Exponent's common stock. These repurchase programs have no expiration dates. As of January 1, 2016, the Company had remaining authorization under its stock repurchase plan of \$46,765,000 to repurchase shares of common stock.

### **Note 9: Stock-Based Compensation**

On May 29, 2008, the Company's stockholders approved the 2008 Equity Incentive Plan and the 2008 Employee Stock Purchase Plan ("ESPP"). The 2008 Equity Incentive Plan and ESPP were previously adopted by the Company's Board of Directors on April 8, 2008, subject to stockholder approval. Upon stockholder approval of the 2008 Equity Incentive Plan and ESPP each of the following plans were terminated: the 1999 Stock Option Plan, the Restricted Stock Award Plan, the 1998 Stock Option Plan and the Employee Stock Purchase Plan established in 1992.

The 2008 Equity Incentive Plan allows for the award of stock options, stock awards (including stock units, stock grants and stock appreciation rights or other similar equity awards) and cash awards to officers, employees, consultants and non-employee members of the Board of Directors. The total number of shares reserved for issuance under the 2008 Equity Incentive Plan was 4,828,150 shares of common stock, subject to adjustment resulting from a stock split or the payment of a stock dividend or any other increase or

decrease in the number of issued shares of the Company's stock effected without receipt of consideration by the Company. As of January 1, 2016, 1,077,325 shares were available for grant under the 2008 Equity Incentive Plan.

The ESPP allows for officers and employees to purchase common stock through payroll deductions of up to 15% of a participant's eligible compensation. Shares of common stock are purchased under the ESPP at 95% of the fair market value of the Company's common stock on each purchase date. Subject to adjustment resulting from a stock split or the payment of a stock dividend or any other increase or decrease in the number of issued shares of the Company's stock effected without receipt of consideration by the Company, the total number of shares reserved for issuance under the ESPP was 400,000 shares of common stock. As of January 1, 2016, 66,030 shares were available for grant. Weighted average purchase prices for shares sold under the ESPP plan in fiscal 2015, 2014 and 2013 were \$43.88, \$35.68 and \$30.32, respectively.

### **Restricted Stock Units**

The Company grants restricted stock units to employees and outside directors. These 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 received a fully vested restricted stock unit award is granted a matching number of unvested restricted stock unit awards. These unvested restricted stock unit awards 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 59 ½ years or older, all unvested restricted stock unit awards will continue to vest provided 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.

All restricted stock units granted have dividend equivalent rights ("DER"), which entitle holders of restricted stock units to the same dividend value per share as holders of common stock. DER are subject

to the same vesting and other terms and conditions as the corresponding unvested RSUs. DER are accumulated and paid in additional restricted stock units when the underlying shares vest and are forfeited if the underlying shares are forfeited.

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. For the fiscal years ended January 1, 2016, January 2, 2015 and January 3, 2014, the Company recorded stock-based compensation expense associated with accrued bonus

awards of \$6,341,000, \$6,287,000 and \$6,061,000, respectively.

The Company recorded stock-based compensation expense associated with the unvested restricted stock unit awards of \$6,066,000 \$6,103,000 and \$6,030,000 during the fiscal years ended January 1, 2016, January 2, 2015 and January 3, 2014, respectively. The total fair value of restricted stock unit awards vested during the fiscal years ended January 1, 2016, January 2, 2015 and January 3, 2014, was \$18.6 million, \$16.5 million and \$15.4 million, respectively. The weighted-average grant date fair values of restricted stock unit awards granted during the fiscal years ended January 1, 2016, January 2, 2015 and January 3, 2014 were \$43.76, \$37.29 and \$27.09, respectively.

The number of unvested restricted stock unit awards outstanding as of January 1, 2016 is as follows <sup>(1)</sup>:

	Number of awards outstanding	Weighted-average grant date fair value	Weighted-average remaining contractual term (years)	Aggregate intrinsic value (in thousands) <sup>(2)</sup>
Balance as of January 2, 2015	886,780	\$ 26.40		
Awards granted	331,191	43.76		
Awards vested	(428,878)	29.72		
Awards forfeited	(9,116)	32.25		
Balance as of January 1, 2016	<u>779,977</u>	<u>\$ 31.88</u>	<u>1.5</u>	<u>\$ 38,960</u>
Expected to vest as of January 1, 2016	<u>769,883</u>	<u>\$ 31.94</u>	<u>1.5</u>	<u>\$ 38,456</u>

<sup>(1)</sup> Does not include employee stock purchase plans or stock option plans.

<sup>(2)</sup> The intrinsic value is calculated as the market value as of the end of the fiscal period. As reported by the NASDAQ Global Select Market, the market value as of January 1, 2016 was \$49.95.

## Stock Options

The Company currently grants stock options under the 2008 Equity Incentive Plan. Options are granted for terms of ten years and generally vest ratably over a four-year period from the grant date. The Company grants options at exercise prices equal to the fair value of the Company's common stock on the date of grant. All stock options have dividend equivalent rights ("DER"), which entitle holders of stock options to the same dividend value per share as

holders of common stock. DER are subject to the same vesting terms as the corresponding stock options. DER are accumulated and paid in cash when the underlying stock options vest and are forfeited if the underlying stock options do not vest. During the fiscal years ended January 1, 2016, January 2, 2015 and January 3, 2014, the Company recorded stock-based compensation expense of \$552,000, \$689,000 and \$1,077,000, respectively, associated with stock options.

Option activity is as follows<sup>(1)</sup>:

	Number of shares outstanding	Weighted- average exercise price	Weighted- average remaining contractual term (years)	Aggregate intrinsic value (in thousands)
Balance as of January 2, 2015	395,000	\$ 19.21		
Options granted	40,000	44.20		
Options forfeited and expired	-	-		
Options exercised	(150,000)	12.18		
Balance as of January 1, 2016	285,000	\$ 26.42	6.59	\$ 6,706
Vested and expected to vest as of January 1, 2016	281,263	\$ 26.28	6.57	\$ 6,657
Exercisable at January 1, 2016	171,250	\$ 20.89	5.65	\$ 4,977

<sup>(1)</sup> Does not include restricted stock or employee stock purchase plans.

The total intrinsic value of options exercised during the fiscal years ended January 1, 2016, January 2, 2015 and January 3, 2014 was \$5,524,000, \$1,975,000 and \$3,177,000, respectively. The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Company's closing stock price on the last trading day of the fiscal year ended January 1, 2016, and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on January 1, 2016. This amount changes based on the fair-value of the Company's stock.

The Company uses the Black-Scholes option-pricing model to determine the fair value of options granted. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by the Company's stock price as well as assumptions regarding a number of complex and subjective variables. These variables include expected stock price volatility over the term of the award, actual and projected employee stock

option exercise behaviors, the risk-free interest rate and expected dividends.

The Company used historical exercise and post-vesting forfeiture and expiration data to estimate the expected term of options granted. The historical volatility of the Company's common stock over a period of time equal to the expected term of the options granted was used to estimate expected volatility. The risk-free interest rate used in the option-pricing model was based on United States Treasury zero coupon issues with remaining terms similar to the expected term on the options. The dividend yield assumption considers the expectation of continued declaration of dividends, offset by option holders' dividend equivalent rights. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. Historical data was used to estimate pre-vesting option forfeitures and stock-based compensation expense was recorded only for those awards that are expected to vest. All share-based payment awards are recognized on a straight-line basis over the requisite service periods of the awards.

The assumptions used to value option grants for the fiscal years ended January 1, 2016, January 2, 2015 and January 3, 2014 are as follows:

	Stock Option Plan		
	2015	2014	2013
Expected life (in years)	6.1	6.1	6.4
Risk-free interest rate	1.69%	1.8%	1.4%
Volatility	27%	32%	36%
Dividend yield	0%	0%	0%

The weighted-average grant date fair value of options granted during the fiscal years ended January 1, 2016, January 2, 2015 and January 3, 2014 were \$13.30, \$12.23 and \$9.39, respectively.

The amount of stock-based compensation expense and the related income tax benefit recognized in the Company's consolidated statements of income for the fiscal years ended January 1, 2016, January 2, 2015 and January 3, 2014 is as follows:

	2015	2014	2013
(In thousands)			
Compensation and related expenses:			
Restricted stock units	\$ 11,907	\$ 11,889	\$ 11,680
Stock option grants	552	689	1,077
Sub-total	<u>12,459</u>	<u>12,578</u>	<u>12,757</u>
General and administrative expenses:			
Restricted stock units	500	501	411
Sub-total	<u>500</u>	<u>501</u>	<u>411</u>
Total stock-based compensation expense	<u>\$ 12,959</u>	<u>\$ 13,079</u>	<u>\$ 13,168</u>
Income tax benefit	<u>\$ 5,068</u>	<u>\$ 5,141</u>	<u>\$ 5,195</u>

As of January 1, 2016, there was \$6,331,000 of unrecognized compensation cost, expected to be recognized over a weighted average period of 2.4 years, related to unvested restricted stock unit awards and \$331,000 of unrecognized compensation cost, expected to be recognized over a weighted average period of 2.4 years, related to unvested stock options. Total unrecognized compensation costs will be adjusted for future changes in estimated forfeitures.

#### Note 10: Retirement Plans

The Company provides a defined contribution retirement plan for its employees whereby the Company contributes to each eligible employee's account 7% of the employee's eligible base salary plus overtime. The employee does not need to make a contribution to the plan to be eligible for the Company's 7% contribution. To be eligible under the plan, an employee must be at least 21 years of age and be either a full-time or part-time salaried employee. The 7% Company contribution will vest 20% per year for the first 5 years of employment and then immediately thereafter. The Company's expenses related to this plan were \$7,317,000, \$6,954,000, and \$6,564,000 in fiscal 2015, 2014, and 2013, respectively.

#### Note 11: 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 January 1, 2016 and January 2, 2015 the invested amounts under the plans totaled \$42,940,000 and \$43,848,000, respectively. These assets are classified as trading securities and are recorded at fair market value with changes recorded as adjustments to other income and expense.

As of January 1, 2016 and January 2, 2015, vested amounts due under the plans totaled \$46,740,000 and

\$45,394,000, respectively. Changes in the liability are recorded as adjustments to compensation expense. During the fiscal years 2015, 2014 and 2013, the Company recognized compensation expense of \$(325,000), \$2,525,000, and \$6,044,000, respectively, as a result of changes in the market value of the trust assets with the same amount being recorded as other income, net.

#### Note 12: Commitments and Contingencies

The following is a summary of the future minimum payments, required under non-cancelable operating leases, with terms in excess of one year, as of January 1, 2016:

(In thousands)	
Fiscal year	Lease commitments
2016	\$ 7,919
2017	5,780
2018	3,221
2019	2,062
2020	1,151
Thereafter	1,444
	<u>\$ 21,577</u>

Total rent expense from property leases in fiscal 2015, 2014, and 2013 was \$6,202,000, \$5,951,000 and \$5,929,000, respectively. Total expense from other operating leases in fiscal 2015, 2014, and 2013 was \$1,794,000, \$1,965,000 and \$1,704,000, respectively. The Company had \$432,000 in outstanding purchase commitments as of January 1, 2016. These commitments are expected to be fulfilled by the end of fiscal 2016.

On December 14, 2015, the Company entered into an agreement to purchase a 1.1 acre parcel of land with 27,000 square feet of warehouse storage space in Menlo Park, California adjacent to the Company's owned office and lab facilities. The Company has leased this warehouse storage space for the past 25 years. The total purchase price is \$8,250,000. On February 18, 2016, all of the purchase contingencies were released and the Company expects the sale to close in the next year.

The Company is a party to various legal actions from time to time and may be contingently liable in connection with claims and contracts arising in the normal course of business, the outcome of which the Company believes, after consultation with legal counsel, will not have a material adverse effect on its financial condition, results of operations or liquidity.

However, due to the risks and uncertainties inherent in legal proceedings, actual results could differ from current expected results. All legal costs associated with litigation are expensed as incurred.

#### Note 13: Miscellaneous Income, Net

Miscellaneous income, net, consisted of the following:

(In thousands)	Fiscal Years		
	2015	2014	2013
Rental income	2,015	2,003	1,913
(Loss) gain on deferred compensation investments	(325)	2,525	6,044
Gain (loss) on foreign exchange	255	(293)	(89)
Other	48	31	4
Total	<u>\$ 1,993</u>	<u>\$ 4,266</u>	<u>\$ 7,872</u>

#### Note 14: Industry and Client Credit Risk

The Company serves clients in various segments of the economy. During fiscal 2015 the Company provided services representing approximately 20% of revenues to clients in the energy and utilities industries. During fiscal 2015 the Company provided services representing approximately 18% of revenues to clients in the consumer products industry. During fiscal 2015 the Company provided services representing approximately 15% of revenues to clients in the transportation industry.

No single customer comprised more than 10% of the Company's revenues for the years ended January 1, 2016, January 2, 2015 and January 3, 2014. No single customer comprised more than 10% of the Company's accounts receivable at January 1, 2016 and January 2, 2015.

## Note 15: Supplemental Cash Flow Information

The following is supplemental disclosure of cash flow information:

(In thousands)	Fiscal Years		
	2015	2014	2013
Cash paid during the year:			
Income taxes	\$24,651	\$27,421	\$24,701
Non-cash investing and financing activities:			
Unrealized gain (loss) on Investments	\$ (79)	\$ 4	\$ (14)
Vested stock unit awards granted to settle accrued bonus	\$ 6,169	\$ 6,008	\$ 5,807
Accrual for capital expenditures	\$ 321	\$ -	\$ -

## Note 16: 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.

Segment information is presented for selected data from the statements of income and statements of cash flows for fiscal years 2015, 2014 and 2013. Segment information for selected data from the balance sheets is presented for the fiscal years ended January 1, 2016 and January 2, 2015. Our CEO, the chief operating decision maker, does not review total assets in his evaluation of segment performance and capital allocation.

### Revenues

(In thousands)	Fiscal Years		
	2015	2014	2013
Engineering and Other Scientific	\$ 237,959	\$ 223,384	\$ 215,972
Environmental and Health	74,873	81,320	80,196
Total revenues	<u>\$ 312,832</u>	<u>\$ 304,704</u>	<u>\$ 296,168</u>

## Operating Income

(In thousands)	Fiscal Years		
	2015	2014	2013
Engineering and Other Scientific	\$ 76,817	\$ 72,207	\$ 67,070
Environmental and Health	21,810	25,145	25,072
Total segment operating income	98,627	97,352	92,142
Corporate operating expense	<u>(29,694)</u>	<u>(33,803)</u>	<u>(36,196)</u>
Total operating income	<u>\$ 68,933</u>	<u>\$ 63,549</u>	<u>\$ 55,946</u>

## Capital Expenditures

(In thousands)	Fiscal Years		
	2015	2014	2013
Engineering and Other Scientific	\$ 3,197	\$ 3,719	\$ 5,180
Environmental and Health	164	211	148
Total segment capital expenditures	3,361	3,930	5,328
Corporate capital expenditures	<u>2,018</u>	<u>1,017</u>	<u>898</u>
Total capital expenditures	<u>\$ 5,379</u>	<u>\$ 4,947</u>	<u>\$ 6,226</u>

## Depreciation and Amortization

(In thousands)	Fiscal Years		
	2015	2014	2013
Engineering and Other Scientific	\$ 3,919	\$ 3,637	\$ 3,097
Environmental and Health	182	197	299
Total segment depreciation and amortization	4,101	3,834	3,396
Corporate depreciation and amortization	<u>1,378</u>	<u>1,570</u>	<u>1,555</u>
Total depreciation and amortization	<u>\$ 5,479</u>	<u>\$ 5,404</u>	<u>\$ 4,951</u>

Information regarding the Company's operations in different geographical areas:

<b>Property, Equipment and Leasehold Improvements, net</b>		
Fiscal Years		
(In thousands)	2015	2014
United States	\$ 27,775	\$ 27,761
Foreign Countries	710	503
Total	<u>\$ 28,485</u>	<u>\$ 28,264</u>

**Revenues <sup>(1)</sup>**

(In thousands)	Fiscal Years		
	2015	2014	2013
United States	\$ 281,618	\$ 273,635	\$ 263,341
Foreign Countries	<u>31,214</u>	<u>31,069</u>	<u>32,827</u>
Total	<u>\$ 312,832</u>	<u>\$ 304,704</u>	<u>\$ 296,168</u>

<sup>(1)</sup> Geographic revenues are allocated based on the location of the client.

## Comparative Quarterly Financial Data (unaudited)

Summarized quarterly financial data is as follows:

Fiscal 2015 (In thousands, except per share data)	April 3, 2015	July 3, 2015	October 2, 2015	January 1, 2016
Revenues before reimbursements	\$ 76,141	\$ 75,272	\$ 74,503	\$ 69,789
Revenues	80,293	79,864	78,994	73,681
Operating income	15,028	18,705	20,921	14,279
Income before income taxes	17,071	19,292	18,773	15,997
Net income	<u>\$ 10,333</u>	<u>\$ 11,697</u>	<u>\$ 11,719</u>	<u>\$ 9,850</u>
Net income per share				
Basic	\$ 0.39	\$ 0.44	\$ 0.44	\$ 0.37
Diluted	\$ 0.38	\$ 0.43	\$ 0.43	\$ 0.36
Shares used in per share computations				
Basic	26,622	26,714	26,597	26,491
Diluted	27,390	27,368	27,268	27,133
Fiscal 2014 (In thousands, except per share data)	April 4, 2014	July 4, 2014	October 3, 2014	January 2, 2015
Revenues before reimbursements	\$ 72,967	\$ 72,331	\$ 74,264	\$ 69,647
Revenues	75,962	76,574	78,557	73,611
Operating income	14,094	16,084	19,238	14,133
Income before income taxes	15,365	18,398	18,375	15,827
Net income	<u>\$ 9,154</u>	<u>\$ 11,264</u>	<u>\$ 11,040</u>	<u>\$ 9,243</u>
Net income per share				
Basic	\$ 0.34	\$ 0.42	\$ 0.41	\$ 0.35
Diluted	\$ 0.33	\$ 0.41	\$ 0.40	\$ 0.34
Shares used in per share computations				
Basic	27,074	27,040	26,938	26,586
Diluted	27,880	27,746	27,648	27,318



**Schedule II**  
**Valuation and Qualifying Accounts**

(In thousands)	Additions		Deletions <sup>(1)</sup>		Balance at End of Year
	Balance at Beginning of Year	Provision Charged to Expense	Provision Charged to Revenues	Accounts Written-off Net of Recoveries	
<b>Year Ended January 1, 2016</b>					
Allowance for bad debt	\$ 1,016	\$ 284	\$ -	\$ (462)	\$ 838
Allowance for contract losses	\$ 2,370	\$ -	\$ 645	\$ (1,061)	\$ 1,954
<b>Year Ended January 2, 2015</b>					
Allowance for bad debt	\$ 942	\$ 264	\$ -	\$ (190)	\$ 1,016
Allowance for contract losses	\$ 1,829	\$ -	\$ 1,454	\$ (913)	\$ 2,370
<b>Year Ended January 3, 2014</b>					
Allowance for bad debt	\$ 933	\$ 515	\$ -	\$ (506)	\$ 942
Allowance for contract losses	\$ 1,733	\$ -	\$ 1,189	\$ (1,093)	\$ 1,829

<sup>(1)</sup> Balance includes currency translation adjustments.

Recoveries of accounts receivable previously written off were \$7,000, \$135,000 and \$50,000 for the years ended January 1, 2016, January 2, 2015 and January 3, 2014, respectively.

Schedules other than above have been omitted since they are either not required, not applicable, or the information is otherwise included in the Report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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: February 26, 2016

/s/ Richard L. Schlenker, Jr.  
Richard L. Schlenker, Jr., Executive Vice President,  
Chief Financial Officer and Corporate Secretary

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Paul R. Johnston</u> Paul R. Johnston, Ph.D.	President, Chief Executive Officer and Director (Principal Executive Officer)	February 26, 2016
<u>/s/ Richard L. Schlenker, Jr.</u> Richard L. Schlenker, Jr.	Executive Vice President, Chief Financial Officer and Corporate Secretary (Principal Financial and Accounting Officer)	February 26, 2016
<u>/s/ Michael R. Gaulke</u> Michael R. Gaulke	Chairman of the Board of Directors	February 26, 2016
<u>/s/ Karen A. Richardson</u> Karen A. Richardson	Director	February 26, 2016
<u>/s/ Stephen C. Riggins</u> Stephen C. Riggins	Director	February 26, 2016
<u>/s/ John B. Shoven</u> John B. Shoven, Ph.D.	Director	February 26, 2016
<u>/s/ Debra L. Zumwalt</u> Debra L. Zumwalt	Director	February 26, 2016

## EXHIBIT INDEX

The following exhibits are filed as part of, or incorporated by reference into (as indicated parenthetically), the Annual Report on Form 10-K. Unless otherwise indicated all filings are under SEC File Number 000-18655:

- 3.1(i) Restated Certificate of Incorporation of the Company (incorporated by reference from the Company's Registration Statement on Form S-1 as filed on June 25, 1990, registration number 33-35562).
- 3.1(ii) Certificate of Amendment of Restated Certificate of Incorporation of the Company (incorporated by reference from the Company's Current Report on Form 8-K filed on May 24, 2006).
- 3.1(iii) Certificate of Amendment of Restated Certificate of Incorporation of the Company (incorporated by reference from the Company's Current Report on Form 8-K filed on May 28, 2015).
- 3.2(i) Amended and Restated Bylaws of the Company, as amended and restated May 29, 2014 (incorporated by reference from the Company's Current Report on Form 8-K as filed on May 30, 2014).
- 4.1 Specimen copy of Common Stock Certificate of the Company (incorporated by reference from the Company's Registration Statement on Forms S-1 as filed on June 25, 1990, registration number 33-35562).
- \*10.6 Exponent, Inc. 1998 Non Statutory Stock Option Plan dated October 24, 1998 (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 1999).
- 10.10 Exponent, Inc. 1999 Stock Option Plan (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999).
- \*10.11 Exponent, Inc. 1999 Restricted Stock Plan (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999).
- 10.15 Commercial Lease No. 03-53542 between the Company and the Arizona State Land Department, effective January 17, 1998 (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2003).
- \*10.17 Exponent Nonqualified Deferred Compensation Plan (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2004).
- \*10.19 Form of Indemnification Agreement entered into or proposed to be entered into between the Company and its officers and directors (incorporated by reference from the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2006).
- 10.20 Services Agreement between the Company and Exponent Engineering P.C. (incorporated by reference from the Company's Quarterly Report on Form 10-Q for the fiscal period ended March 31, 2006).
- 10.24 Amendment No. 1 to Exponent, Inc. 1998 Nonstatutory Stock Option Plan dated January 29, 2007 (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2006).
- 10.25 Amendment No. 1 to Exponent, Inc. 1999 Stock Option Plan dated January 29, 2007 (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2006).
- 10.26 Amendment No. 1 to Exponent, Inc. 1999 Restricted Stock Plan dated January 29, 2007 (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 29, 2006).
- 10.28 2008 Employee Stock Purchase Plan (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2009).

- \*10.31 Form of Restricted Stock Unit Employee Bonus Grant Agreement under the 2008 Equity Incentive Plan (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2009).
- \*10.32 Form of Restricted Stock Unit Employee Matching Grant Agreement under the 2008 Equity Incentive Plan (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2009).
- \*10.33 Form of Restricted Stock Unit Director Grant Agreement under the 2008 Equity Incentive Plan (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2009).
- \*10.34 Amended and Restated Restricted Stock Unit Bonus Grant Agreement under the 1999 Restricted Stock Plan (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2009).
- \*10.35 Amended and Restated Restricted Stock Unit Matching Grant Agreement under the 1999 Restricted Stock Plan (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2009).
- \*10.36 Amended and Restated Restricted Stock Unit Director Grant Agreement under the 1999 Restricted Stock Plan (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended January 1, 2009).
- \*10.37 Exponent, Inc. Amended and Restated 2008 Equity Incentive Plan (filed as Appendix A to the Company's Schedule 14A filed on April 19, 2012).
- 10.38 Exponent, Inc. 401(k) Savings Plan, as amended and restated effective January 1, 2010 (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2010).
- 10.39 First Amendment to the Exponent, Inc. 401(k) Savings Plan (as amended and restated January 1, 2010) (incorporated by reference from the Company's Quarterly Report on Form 10-Q for the fiscal period ended July 1, 2011).
- 10.40 Second Amendment to the Exponent, Inc. 401(k) Savings Plan (as amended and restated January 1, 2010) (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2011).
- \*10.41 Form of Stock Option Agreement under the 2008 Equity Incentive Plan (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 2011).
- 10.42 Third Amendment to the Exponent, Inc. 401(k) Savings Plan (as amended and restated January 1, 2010) (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2012).
- \*10.43 Amendment to Form of Stock Option Agreement under the 2008 Equity Incentive Plan (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended December 28, 2012).
- 10.44 Fourth Amendment to the Exponent, Inc. 401(k) Savings Plan (as amended and restated January 1, 2010) (incorporated by reference from the Company's Annual Report on Form 10-K for the fiscal year ended January 3, 2014).
- 10.45 Form of Indemnification Agreement entered into or proposed to be entered into between the Company and its officers and directors (incorporated by reference from the Company's Current Report on Form 8-K as filed on May 30, 2014).
- 21.1 List of subsidiaries.

- 23.1 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a – 14(a) of the Securities Exchange Act of 1934.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a – 14(a) of 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.LAB XBRL Taxonomy Label Linkbase Document
- 101.PRE XBRL Taxonomy Presentation Linkbase Document
- 101.DEF XBRL Taxonomy Definition Linkbase Document

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\* Indicates management compensatory plan, contract or arrangement