

EXPONENT INC
Form 10-Q
November 07, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 28, 2007

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number 0-18655

EXPONENT, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of incorporation)

77-0218904
(I.R.S. Employer Identification Number)

149 COMMONWEALTH DRIVE,

MENLO PARK, CALIFORNIA
(Address of principal executive office)

94025
(Zip Code)

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

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

Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act).

Large accelerated filer Accelerated filer Non-accelerated filer

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

Yes No

As of November 2, 2007, the latest practicable date, the registrant had 14,533,848 shares of Common Stock, \$0.001 par value per share, outstanding.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements
EXPONENT, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****September 28, 2007 and December 29, 2006****(in thousands, except share data)****(unaudited)**

	September 28, 2007	December 29, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,689	\$ 5,238
Short-term investments	43,857	52,844
Accounts receivable, net of allowance for doubtful accounts of \$2,719 and \$1,793 at September 28, 2007 and December 29, 2006, respectively	62,824	48,208
Inventory	1,812	884
Prepaid expenses and other assets	4,477	2,600
Deferred income taxes	3,571	2,232
Total current assets	125,230	112,006
Property, equipment and leasehold improvements, net	28,984	29,577
Goodwill	8,607	8,607
Other assets	11,285	11,026
Total assets	\$ 174,106	\$ 161,216
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,315	\$ 4,887
Accrued payroll and employee benefits	26,087	21,773
Deferred revenues	4,230	4,066
Total current liabilities	37,632	30,726
Other liabilities	65	142
Deferred compensation	4,335	4,946
Deferred rent	1,853	1,097
Total liabilities	43,885	36,911
Stockholders equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 16,426,664 shares issued at September 28, 2007 and December 29, 2006, respectively	16	16
Additional paid-in capital	58,584	50,799
Accumulated other comprehensive income	267	93
Retained earnings	108,579	101,226

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Treasury stock, at cost; 1,956,446 and 1,713,580 shares held at September 28, 2007 and December 29, 2006, respectively	(37,225)	(27,829)
Total stockholders' equity	130,221	124,305
Total liabilities and stockholders' equity	\$ 174,106	\$ 161,216

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

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Table of Contents**EXPONENT, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

For the Three and Nine Months Ended September 28, 2007 and September 29, 2006

(in thousands, except per share data)

(unaudited)

	Three Months Ended September 29,		Nine Months Ended September 29,	
	September 28, 2007	2006	September 28, 2007	2006
Revenues:				
Revenues before reimbursements	\$ 44,916	\$ 40,049	\$ 136,165	\$ 118,721
Reimbursements	3,988	3,284	12,249	8,293
Total revenues	48,904	43,333	148,414	127,014
Operating expenses:				
Compensation and related expenses	29,268	26,881	89,497	79,671
Other operating expenses	5,484	4,870	15,926	14,602
Reimbursable expenses	3,988	3,284	12,249	8,293
General and administrative expenses	2,701	2,695	8,760	8,127
Total operating expenses	41,441	37,730	126,432	110,693
Operating income	7,463	5,603	21,982	16,321
Other income, net:				
Interest income, net	407	430	1,351	1,461
Miscellaneous income, net	433	378	1,636	879
Total other income, net	840	808	2,987	2,340
Income before income taxes	8,303	6,411	24,969	18,661
Income taxes	3,266	2,668	9,875	7,446
Net income	\$ 5,037	\$ 3,743	\$ 15,094	\$ 11,215
Net income per share:				
Basic	\$ 0.34	\$ 0.24	\$ 1.00	\$ 0.69
Diluted	\$ 0.31	\$ 0.22	\$ 0.92	\$ 0.64
Shares used in per share computations:				
Basic	14,902	15,570	15,048	16,141
Diluted	16,163	16,837	16,372	17,428

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

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EXPONENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Nine Months Ended September 28, 2007 and September 29, 2006

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Net income	\$ 5,037	\$ 3,743	\$ 15,094	\$ 11,215
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	79	55	136	139
Unrealized gain on investments, net of tax	63	74	38	55
Comprehensive income	\$ 5,179	\$ 3,872	\$ 15,268	\$ 11,409

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

Table of Contents**EXPONENT, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Nine Months Ended September 28, 2007 and September 29, 2006****(in thousands)****(unaudited)**

	Nine Months Ended	
	September 28, 2007	September 29, 2006
Cash flows from operating activities:		
Net income	\$ 15,094	\$ 11,215
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and leasehold improvements	2,888	2,700
Amortization of premiums and accretion of discounts of short-term investments	224	439
Contribution to deferred compensation plan		(1,000)
Amortization of contribution to deferred compensation plan	489	169
Deferred rent expense	756	(34)
Allowance for doubtful accounts	1,654	1,125
Stock-based compensation	4,666	2,991
Deferred income tax provision	(2,563)	(1,906)
Tax benefit for stock option plans	(3,332)	(727)
Changes in operating assets and liabilities:		
Accounts receivable	(16,270)	(6,295)
Prepaid expenses and other assets	(1,768)	(883)
Accounts payable and accrued liabilities	4,219	1,789
Accrued payroll and employee benefits	3,205	298
Deferred revenues	164	(251)
Net cash provided by operating activities	9,426	9,630
Cash flows from investing activities:		
Capital expenditures	(2,295)	(2,471)
Other assets	10	65
Purchase of short-term investments	(69,940)	(101,082)
Sale/maturity of short-term investments	79,920	109,137
Net cash provided by investing activities	7,695	5,649
Cash flows from financing activities:		
Repayments of borrowings and long-term obligations	(45)	(35)
Tax benefit for stock option plans	3,332	727
Purchases of treasury stock	(19,733)	(24,584)
Issuance of treasury stock	2,650	623
Issuance of common stock		1,313
Net cash used in financing activities	(13,796)	(21,956)
Effect of foreign currency exchange rates on cash and cash equivalents	126	183

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Net increase (decrease) in cash and cash equivalents	3,451	(6,494)
Cash and cash equivalents at beginning of period	5,238	13,216
Cash and cash equivalents at end of period	\$ 8,689	\$ 6,722

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

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EXPONENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 28, 2007 and September 29, 2006

Note 1: Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not contain all the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments which are necessary for the fair presentation of the condensed consolidated financial statements have been included and all such adjustments are of a normal and recurring nature. The operating results for the three and nine months ended September 28, 2007 are not necessarily representative of the results of future quarterly or annual periods. The following information should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto included in the Company s Annual Report on Form 10-K for the fiscal year ended December 29, 2006.

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

Stock Split. On May 24, 2006, the Company s stockholders approved an amendment to the Company s certificate of incorporation to (i) increase the number of authorized shares of common stock to 100,000,000, (ii) increase the number of authorized shares of preferred stock to 5,000,000, 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 24, 2006, received one additional share of common stock for each share held. For periods prior to the stock split, all share and per share data in the Company s condensed consolidated financial statements and related notes have been retroactively adjusted to reflect the stock split.

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

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.

Recently Adopted Accounting Pronouncements. The Company adopted the Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48) on December 30, 2006. FIN 48 clarifies the accounting for uncertainty in tax positions and requires that companies recognize in their financial statements the benefit of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The adoption of FIN 48 did not have an impact on the Company s consolidated financial position, results of operations or cash flows. However, the tax disclosures in the condensed consolidated financial statements have been updated to comply with the adopted standard. At December 30, 2006, the Company had unrecognized tax benefits of \$258,000, which primarily related to uncertainty regarding the sustainability of certain deductions taken on the Company s

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federal and state income tax returns. There have been no significant changes to this amount during the three or nine-month period ended September 28, 2007. To the extent these unrecognized tax benefits are ultimately recognized, they will impact the effective tax rate in a future period.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The Com