EXPONENT INC
Form 10-Q
November 05, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 28, 2012

OR

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

For the transition period from ______________ to ______________

Commission File Number 0-18655

EXPONENT, INC.

(Exact name of registrant as specified in its charter)

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

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

(650) 326-9400

(Registrant’s telephone number, including area code)

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

Yes S No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes S No £

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

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

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

Yes £ No S

As of October 26, 2012, the latest practicable date, the registrant had 13,223,806 shares of Common Stock, $0.001 par value per share, outstanding.

EXPONENT, INC.

FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

EXPONENT, INC.

Condensed Consolidated Balance Sheets

September 28, 2012 and December 30, 2011

(in thousands, except par value)

(unaudited)

	September 28, 2012	December 30, 2011
Assets		
Current assets:		
Cash and cash equivalents	$ 87,653	$ 84,439
Short-term investments	22,086	25,260
Accounts receivable, net of allowance for doubtful accounts of $2,668 and $2,339 at September 28, 2012 and December 30, 2011, respectively	88,355	73,065
Prepaid expenses and other assets	9,820	8,521
Deferred income taxes	7,504	7,293
Total current assets	215,418	198,578
Property, equipment and leasehold improvements, net	27,180	27,215
Goodwill	8,607	8,607
Deferred income taxes	17,099	14,692
Deferred compensation plan assets	24,437	18,911
Other assets	833	785
Total assets	$ 293,574	$ 268,788
Liabilities and Stockholders’ Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 10,225	$ 6,738
Accrued payroll and employee benefits	42,987	48,089

Deferred revenues	5,338	5,948
Total current liabilities	58,550	60,775
Other liabilities	1,025	700
Deferred compensation	24,320	18,756
Deferred rent	1,546	1,842
Total liabilities	85,441	82,073
Stockholders’ equity:		
Common stock, $0.001 par value; 100,000 shares authorized; 16,427 shares issued at September 28, 2012 and December 30, 2011	16	16
Additional paid-in capital	121,482	108,071
Accumulated other comprehensive loss		
Investment securities, available for sale	47	52
Foreign currency translation adjustments	(296)	(523)
	(249)	(471)
Retained earnings	198,751	179,432
Treasury stock, at cost; 3,240 and 3,127 shares held at September 28, 2012 and December 30, 2011, respectively	(111,867)	(100,333)
Total stockholders’ equity	208,133	186,715
Total liabilities and stockholders’ equity	$ 293,574	$ 268,788

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

EXPONENT, INC.

Condensed Consolidated Statements of Income

For the Three and Nine Months Ended September 28, 2012 and September 30, 2011

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Revenues:				
Revenues before reimbursements	$ 66,725	$ 61,387	$ 201,513	$ 186,143
Reimbursements	6,573	4,564	18,194	18,387
Revenues	73,298	65,951	219,707	204,530
Operating expenses:				
Compensation and related expenses	42,589	36,051	130,621	117,259
Other operating expenses	5,908	5,858	17,422	17,344
Reimbursable expenses	6,573	4,564	18,194	18,387
General and administrative expenses	3,500	2,954	9,565	9,273
Total operating expenses	58,570	49,427	175,802	162,263
Operating income	14,728	16,524	43,905	42,267
Other income (expense), net:				
Interest income, net	80	79	245	141
Miscellaneous income (expense), net	1,522	(2,203)	3,161	(669)
Total other income (expense), net	1,602	(2,124)	3,406	(528)
Income before income taxes	16,330	14,400	47,311	41,739
Income taxes	6,105	5,656	18,558	16,775
Net income	$ 10,225	$ 8,744	$ 28,753	$ 24,964
Net income per share:				

Basic	$ 0.75	$ 0.63	$ 2.08	$ 1.74
Diluted	$ 0.72	$ 0.60	$ 2.01	$ 1.67
Shares used in per share computations:				
Basic	13,694	13,975	13,796	14,313
Diluted	14,196	14,554	14,317	14,904

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

EXPONENT, INC.

Condensed Consolidated Statements of Comprehensive Income

For the Three and Nine Months Ended September 28, 2012 and September 30, 2011

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Net income	$ 10,225	$ 8,744	$ 28,753	$ 24,964
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	306	(206)	227	87
Unrealized (loss) gain on investments, net of tax	(17)	23	(5)	50
Comprehensive income	$ 10,514	$ 8,561	$ 28,975	$ 25,101

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

EXPONENT, INC.

Condensed Consolidated Statements of Cash Flows

For the Nine Months Ended September 28, 2012 and September 30, 2011

(in thousands)

(unaudited)

	Nine Months Ended September 28, 2012	September 30, 2011
Cash flows from operating activities:		
Net income	$28,753	$ 24,964
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and leasehold improvements	3,459	3,257
Amortization of premiums on short-term investments	428	199
Deferred rent	(296)	(392)
Provision for doubtful accounts	1,304	1,224
Stock-based compensation	9,932	8,208
Deferred income tax provision	(2,780)	(3,614)
Tax benefit for stock plans	(2,762)	(2,216)
Changes in operating assets and liabilities:		
Accounts receivable	(16,594)	(1,761)
Prepaid expenses and other assets	(4,849)	(2,017)
Accounts payable and accrued liabilities	6,574	(1,220)
Accrued payroll and employee benefits	(925)	130
Deferred revenues	(610)	(1,347)
Net cash provided by operating activities	21,634	25,415
Cash flows from investing activities:		
Capital expenditures	(3,425)	(2,638)
Purchase of short-term investments	(515)	(26,599)
Maturity of short-term investments	2,735	-
Sale of short-term investments	518	1,080
Net cash used in investing activities	(687)	(28,157)
Cash flows from financing activities:		
Tax benefit for stock plans	2,762	2,216
Payroll taxes for restricted stock units	(3,531)	(3,473)

Repurchase of common stock	(19,437)	(38,551)
Exercise of share-based payment awards	2,071	1,148
Net cash used in financing activities	(18,135)	(38,660)
Effect of foreign currency exchange rates on cash and cash equivalents	402	98
Net increase (decrease) in cash and cash equivalents	3,214	(41,304)
Cash and cash equivalents at beginning of period	84,439	106,549
Cash and cash equivalents at end of period	$87,653	$ 65,245

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

EXPONENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 28, 2012 and September 30, 2011

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, 2012 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 30, 2011 which was filed with the U.S. Securities and Exchange Commission on February 27, 2012.

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

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

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.

Note 2: Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including available-for-sale fixed income securities, trading fixed income and equity securities held in its deferred compensation plan and the liability associated with its deferred compensation plan. The fair value of these certain financial assets and liabilities was determined using the following inputs at September 28, 2012 (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market securities [1]	$ 48,018	$ 48,018	$ -	$ -
Fixed income available for sale securities [2]	22,086	-	22,086	-
Fixed income trading securities held in deferred compensation plan [3]	9,652	9,652	-	-
Equity trading securities held in deferred compensation plan [3]	16,933	16,933	-	-
Total	$ 96,689	$ 74,603	$ 22,086	$ -
Liabilities				
Deferred compensation plan [4]	26,468	26,468	-	-
Total	$ 26,468	$ 26,468	$ -	$ -

(1) Included in cash and cash equivalents on the Company’s unaudited condensed consolidated balance sheet.

(2) Included in short-term investments on the Company’s unaudited condensed consolidated balance sheet.

(3) Included in other current assets and deferred compensation plan assets on the Company’s unaudited condensed consolidated balance sheet.

(4) Included in accrued liabilities and deferred compensation on the Company’s unaudited condensed consolidated balance sheet.

The fair value of these certain financial assets and liabilities was determined using the following inputs at December 30, 2011 (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market securities (1)	$ 44,448	$ 44,448	$ -	$ -
Fixed income available for sale securities (2)	25,260	-	25,260	-
Fixed income trading securities held in deferred compensation plan (3)	7,456	7,456	-	-
Equity trading securities held in deferred compensation plan (3)	12,626	12,626	-	-
Total	$ 89,790	$ 64,530	$ 25,260	$ -
Liabilities				
Deferred compensation plan (4)	19,927	19,927	-	-
Total	$ 19,927	$ 19,927	$ -	$ -

(1) Included in cash and cash equivalents on the Company's consolidated balance sheet.
(2) Included in short-term investments on the Company's consolidated balance sheet.
(3) Included in other current assets and deferred compensation plan assets on the Company's consolidated balance sheet.
(4) Included in accrued liabilities and deferred compensation on the Company's consolidated balance sheet.

Fixed income available-for-sale securities as of September 28, 2012 and December 30, 2011 represent primarily obligations of state and local government agencies. Fixed income and equity trading securities represent mutual funds held in the Company's deferred compensation plan. See Note 6 for additional information about the Company's deferred compensation plan.

As of September 28, 2012, the Company held state and municipal bonds with a fair value of $22,086,000 and an amortized cost of $22,008,000. The unrealized gain recorded in accumulated other comprehensive income was $78,000. There were no securities in a continuous unrealized loss position for more than twelve months. As of September 28, 2012, the fair value and amortized cost of available-for-sale securities with contractual maturities of less than one year were $20,548,000 and $20,476,000, respectively. As of September 28, 2012, the fair value and amortized cost of available-for-sale securities with contractual maturities of between one and two years were

$1,538,000 and $1,532,000, respectively.

As of December 30, 2011, the Company held state and municipal bonds with a fair value of $25,260,000 and an amortized cost of $25,173,000.

At September 28, 2012 and December 30, 2011, the Company did not have any assets valued using significant unobservable inputs.

Note 3: Net Income Per Share

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

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

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Shares used in basic per share computation	13,694	13,975	13,796	14,313
Effect of dilutive common stock options outstanding	150	201	158	203
Effect of dilutive restricted stock units outstanding	352	378	363	388
Shares used in diluted per share computation	14,196	14,554	14,317	14,904

There were no options excluded from the diluted per share calculations for the three and nine months ended September 28, 2012 and September 30, 2011.

Note 4: Stock-Based Compensation

Restricted Stock Units

Restricted stock unit grants are designed to attract and retain employees, and to better align employee interests with those of the Company’s stockholders. For a select group of employees, up to 40% of their annual bonus is settled with fully vested restricted stock unit awards. Under these fully vested restricted stock unit awards, the holder of each award has the right to receive one share of the Company's common stock for each fully vested restricted stock unit four years from the date of grant. Each individual who receives a fully vested restricted stock unit award is also granted a matching number of unvested restricted stock unit awards. Unvested restricted stock unit awards are also granted for select new hires and promotions. These unvested restricted stock unit awards generally cliff vest four years from the date of grant, at which time the holder of each award will have the right to receive one share of the Company's common stock for each restricted stock unit award provided the holder of each award has met certain employment conditions. In the case of retirement at 59½ years or older, all unvested restricted stock unit awards will continue to vest, provided that the holder of each award does all consulting work through the Company and does not become an employee for a past or present client, beneficial party or competitor of the Company.

The value of these restricted stock unit awards is determined based on the market price of the Company's common stock on the date of grant. The value of fully vested restricted stock unit awards issued is recorded as a reduction to accrued bonuses. The portion of bonus expense that the Company expects to settle with fully vested restricted stock unit awards is recorded as stock-based compensation during the period the bonus is earned. The Company recorded stock-based compensation expense associated with accrued bonus awards of $1,568,000 and $1,329,000 during the three months ended September 28, 2012 and September 30, 2011, respectively. For the nine months ended September 28, 2012 and September 30, 2011, the Company recorded stock-based compensation expense associated with accrued bonus awards of $4,701,000 and $4,043,000, respectively. The value of the unvested restricted stock unit awards granted is recognized on a straight-line basis over the shorter of the four-year vesting period or the period between the grant date and the date the award recipient turns 59½. If the award recipient is 59½ years or older on the date of grant, the value of the entire award is expensed upon grant. The Company recorded stock-based compensation expense associated with the unvested restricted stock unit awards of $1,018,000 and $805,000 during the three months ended September 28, 2012 and September 30, 2011, respectively. The Company recorded stock-based compensation expense associated with the unvested restricted stock unit awards of $4,757,000 and $3,728,000 during the nine months ended September 28, 2012 and September 30, 2011, respectively.

Stock Options

Stock options are granted for terms of ten years and generally vest 25% per year over a four-year period from the grant date. For options granted on or after January 1, 2012, all unvested stock option awards will continue to vest in the case of retirement at 59½ or older, provided that the holder of each award does all consulting work through the Company and does not become an employee for a past or present client, beneficial party or competitor of the Company. The Company grants options at exercise prices equal to the fair value of the Company’s common stock on the date of grant. The Company recorded stock-based compensation expense of $162,000 and $140,000 during the three months ended September 28, 2012 and September 30, 2011, respectively, associated with stock option grants. The Company recorded stock-based compensation expense of $474,000 and $437,000 during the nine months ended September 28, 2012 and September 30, 2011, respectively, associated with stock option grants.

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

The Company used historical exercise and post-vesting forfeiture and expiration data to estimate the expected term of options granted. The historical volatility of the Company’s common stock over a period of time equal to the expected term of the options granted was used to estimate expected volatility. The risk-free interest rate used in the option-pricing model was based on United States Treasury zero-coupon issues with remaining terms similar to the expected term on the options. The Company does not anticipate paying any cash dividends in the foreseeable future and therefore used an expected dividend yield of zero in the option-pricing model. The Company is required to estimate forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ from those estimates. Historical data was used to estimate pre-vesting option forfeitures and stock-based compensation expense was recorded only for those awards that are expected to vest. All share-based payment awards are recognized on a straight-line basis over the requisite service periods of the awards.

Note 5: Treasury Stock

On February 19, 2009, the Company’s Board of Directors authorized $25.1 million for the repurchase of the Company’s common stock. On May 25, 2011, the Company’s Board of Directors authorized an additional $35 million for the repurchase of the Company’s common stock. On February 9, 2012, the Company’s Board of Directors authorized an additional $35 million for the repurchase of the Company’s common stock.

The Company repurchased 404,948 shares of its common stock for $19,437,000 during the nine months ended September 28, 2012. The Company repurchased 971,615 shares of its common stock for $39,333,000 during the nine months ended September 30, 2011. As of September 28, 2012, the Company had $24,969,000 remaining as authorized to repurchase shares of common stock under its stock repurchase plans.

The Company reissued 292,316 shares of its treasury stock with a cost of $7,902,000 to settle restricted stock unit awards, stock options and purchases under the Employee Stock Purchase Plan during the nine months ended September 28, 2012. The Company reissued 242,838 shares of its treasury stock with a cost of $6,199,000 to settle restricted stock unit awards, stock options and purchases under the Employee Stock Purchase Plan during the nine months ended September 30, 2011.

Note 6: Deferred Compensation Plan

The Company maintains a nonqualified deferred compensation plan for the benefit of a select group of highly compensated employees. Under this plan participants may elect to defer up to 100% of their compensation. Company assets that are earmarked to pay benefits under the plan are held in a rabbi trust and are subject to the claims of the Company's creditors. As of September 28, 2012 and December 30, 2011, the invested amounts under the plan totaled $26,585,000 and $20,082,000, 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 September 28, 2012 and December 30, 2011, vested amounts due under the plan totaled $26,468,000 and $19,927,000, respectively. Changes in the liability are recorded as adjustments to compensation expense. During the three months and nine months ended September 28, 2012, the Company recognized an increase to compensation expense of $1,094,000 and $2,027,000, respectively, as a result of changes in the market value of the trust assets with the same amount being recorded as other income (expense), net. During the three months and nine months ended September 30, 2011, the Company recognized a decrease to compensation expense of $2,511,000 and $1,656,000, respectively, as a result of changes in the market value of the trust assets with the same amount being recorded as other income (expense), net.

Note 7: Supplemental Cash Flow Information

The following is supplemental disclosure of cash flow information (in thousands):

	Nine Months Ended	
	September 28, 2012	September 30, 2011
Cash paid during period:		
Income taxes	$ 16,026	$ 14,147
Non-cash investing and financing activities:		
Unrealized (loss) gain on short-term investments	$ (5)	$ 50
Vested stock unit awards issued to settle accrued bonuses	$ 5,343	$ 4,538
Stock repurchases payable to broker	$ -	$ 782

Note 8: Accounts Receivable, Net

At September 28, 2012 and December 30, 2011, accounts receivable, net, was comprised of the following (in thousands):

	September 28, 2012	December 30, 2011
Billed accounts receivable	$ 51,880	$ 50,338
Unbilled accounts receivable	39,143	25,066
Allowance for doubtful accounts	(2,668)	(2,339)
Total accounts receivable, net	$ 88,355	$ 73,065

Note 9: Inventory

At September 28, 2012, the Company had $2,639,000 of finished goods inventory included in prepaid expenses and other current assets on its unaudited condensed consolidated balance sheet. At December 30, 2011 the Company had $739,000 and $849,000 of finished goods and raw materials inventory, respectively, included in prepaid expenses and other current assets on its consolidated balance sheet.

Note 10: Segment Reporting

The Company has two operating segments based on two primary areas of service. The Engineering and other scientific operating segment is a broad service group providing technical consulting in different practices primarily in the areas of engineering and technology development. The Environmental and health operating segment provides services in the area of environmental, epidemiology and health risk analysis. This operating segment provides a wide range of consulting services relating to environmental hazards and risks and the impact on both human health and the environment.

Segment information for the three and nine months ended September 28, 2012 and September 30, 2011 is as follows (in thousands):

Revenues

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Engineering and other scientific	$ 53,071	$ 47,785	$ 158,784	$ 151,233
Environmental and health	20,227	18,166	60,923	53,297
Total revenues	$ 73,298	$ 65,951	$ 219,707	$ 204,530

Operating Income

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Engineering and other scientific	$ 16,217	$ 14,708	$ 47,573	$ 45,212
Environmental and health	6,933	5,691	20,722	15,794
Total segment operating income	23,150	20,399	68,295	61,006
Corporate operating expense	(8,422)	(3,875)	(24,390)	(18,739)
Total operating income	$ 14,728	$ 16,524	$ 43,905	$ 42,267

Capital Expenditures

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Engineering and other scientific	$ 1,103	$ 723	$ 2,039	$ 1,684
Environmental and health	174	86	348	287
Total segment capital expenditures	1,277	809	2,387	1,971
Corporate capital expenditures	206	162	1,038	667
Total capital expenditures	$ 1,483	$ 971	$ 3,425	$ 2,638

Depreciation and Amortization

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Engineering and other scientific	$677	$ 686	$ 2,061	$ 1,986
Environmental and health	72	64	209	168
Total segment depreciation and amortization	749	750	2,270	2,154
Corporate depreciation and amortization	384	375	1,189	1,103
Total depreciation and amortization	$1,133	$ 1,125	$ 3,459	$ 3,257

No single customer comprised more than 10% of the Company's revenues during the three and nine months ended September 28, 2012. No single customer comprised more than 10% of the Company's revenues during the three and nine months ended September 30, 2011. No single customer comprised more than 10% of the Company's accounts receivable at September 28, 2012. Agencies of the U.S. federal government comprised 12% of the Company's accounts receivable at December 30, 2011.

Note 11: Goodwill

Below is a breakdown of goodwill reported by segment as of September 28, 2012 (in thousands):

	Environmental and health	Engineering and other scientific	Total
Goodwill	$ 8,099	$ 508	$8,607

There were no changes in the carrying amount of goodwill for the nine months ended September 28, 2012. There were no goodwill impairments or gains or losses on disposals for any portion of the Company's reporting units during the nine months ended September 28, 2012.

Note 12: Contingencies

In July of 2008, the Company was served with a writ by a former client. The writ did not articulate a claim. The Company met with the former client in November of 2008 and again in January of 2009 and learned in those discussions of potential claims against the Company arising out of the testimony delivered by one of the Company's employees. The former client claims that this testimony contributed to an adverse verdict against them. Given the uncertainty as to whether the claimant will choose to pursue one or more claims against the Company, and the nature of the potential claims against the Company, an estimated loss cannot be determined at this time. The Company believes it has a strong defense against all such potential claims and intends to vigorously defend itself. Further, the Company believes that some of the potential claims would be covered by insurance. Although the Company's ultimate liability in this matter (if any) cannot be determined, based upon information currently available, the Company believes, after consultation with legal counsel, the ultimate resolution of these potential claims will not have a material adverse effect on its financial condition, results of operations or liquidity.

In addition to the above matter, the Company is a party to various other 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. All legal costs associated with litigation are expensed as incurred.

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included herein and with our audited consolidated financial statements and notes thereto for the fiscal year ended December 30, 2011, which are contained in our fiscal 2011 Annual Report on Form 10-K which was filed with the U.S. Securities and Exchange Commission on February 27, 2012.

Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain “forward-looking” statements (as such term is defined in the Private Securities Litigation Reform Act of 1995, and the rules promulgated pursuant to the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended thereto) that are based on the beliefs of the Company’s management, as well as assumptions made by and information currently available to the Company’s management. Such forward-looking statements are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. When used in this document the words “anticipate,” “believe,” “estimate,” “expect” and similar expressions, as they relate to the Company or its management, identify such forward-looking statements. Such statements reflect the current views of the Company or its management with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Company’s actual results, performance, or achievements could differ materially from those expressed in, or implied by, any such forward-looking statements. Factors that could cause or contribute to such material differences include the possibility that the demand for our services may decline as a result of changes in general and industry specific economic conditions, the timing of engagements for our services, the effects of competitive services and pricing, the absence of backlog related to our business, our ability to attract and retain key employees, the effect of tort reform and government regulation on our business and liabilities resulting from claims made against us. Additional risks and uncertainties are discussed in our fiscal 2011 Annual Report on Form 10-K under the heading “Risk Factors” and elsewhere in the report. The inclusion of such forward-looking information should not be regarded as a representation by the Company or any other person that the future events, plans, or expectations contemplated by the Company will be achieved. Due to such uncertainties and risks, you are warned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. The Company does not intend to release publicly any updates or revisions to any such forward-looking statements.

Business Overview

Exponent, Inc. is an engineering and scientific consulting firm that provides solutions to complex problems. Our multidisciplinary team of scientists, physicians, engineers and business consultants brings together more than 90 different technical disciplines to solve complicated issues facing industry and business today. Our services include analysis of product development, product recall, regulatory compliance, and discovery of potential problems related to products, people or property and impending litigation, as well as the development of highly technical new products.

CRITICAL ACCOUNTING ESTIMATES

In preparing our unaudited condensed consolidated financial statements, we make assumptions, judgments and estimates that can have a significant impact on our revenue, operating income and net income, as well as on the value of certain assets and liabilities on our consolidated balance sheet. We base our assumptions, judgments and estimates on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ materially from these estimates under different assumptions or conditions. On a regular basis we evaluate our assumptions, judgments and estimates and make changes accordingly. We believe that the assumptions, judgments and estimates involved in the accounting for revenue recognition and estimating the allowance for doubtful accounts have the greatest potential impact on our consolidated financial statements, so we consider these to be our critical accounting policies. Historically, our assumptions, judgments and estimates relative to our critical accounting policies have not differed materially from actual results. Policies covering revenue recognition and estimating the allowance for doubtful accounts are described in our fiscal 2011 Annual Report on Form 10-K under “Critical Accounting Estimates” and Note 1 (Summary of Significant Accounting Policies) of the Notes to Consolidated Financial Statements.

RESULTS OF CONSOLIDATED OPERATIONS

Executive Summary

Revenues for the third quarter of 2012 increased 11% and revenues before reimbursements increased 9% as compared to the same period last year. This growth was due to solid overall demand for our consulting services from a diverse set of clients for both reactive and proactive projects and elevated levels of activity on a few major assignments. We continued to work on a steady flow of reactive projects related to litigation, insurance claims and product recalls for a diverse set of clients, with significant projects in the chemical, energy and automotive sectors. We continued to see an increase in proactive projects related to design consulting, regulatory consulting, and engineering management consulting. We assisted consumer electronics and medical device clients in their design and manufacturing efforts. In defense technology development, we continued to work on several projects related to the detection of improvised explosive devices. Utilization in the quarter was strong due to broad-based demand for our services and the continuing benefit from a few large projects. We continue to expect these projects to decline from their level of activity over the next several quarters as they move through their project life cycle.

During the quarter, we assisted clients with several high-profile investigations that engaged consultants across many of our practices. The growth in consulting revenue and the increase in utilization combined with moderate growth in other operating and general and administrative expenses resulted in a 13% increase in income before taxes as compared to the same period last year. Net income increased to $10,225,000 during the third quarter of 2012 as compared to $8,744,000 during the same period last year. Diluted earnings per share increased to $0.72 per share as compared to $0.60 in the same period last year due to the increase in net income and our ongoing share repurchase program.

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

Overview of the Three Months Ended September 28, 2012

During the third quarter of 2012, billable hours increased 7% to 267,000 as compared to 250,000 during the same period last year. The increase in billable hours was due to strong demand for our consulting services across a broad set of practices and continued elevated levels of activity on several major assignments. Technical full-time equivalent employees increased 5% to 694 during the third quarter of 2012 as compared to 664 during the same period last year due to our recruiting and retention efforts. Our utilization was 74% during the third quarter of 2012 as compared to 72% during the same period last year. We continue to selectively hire key talent to expand our capabilities and have managed our headcount to align with anticipated demand.

Three Months Ended September 28, 2012 compared to Three Months Ended September 30, 2011

Revenues

(in thousands, except percentages)	Three Months Ended September 28, 2012	September 30, 2011	Percent Change
Engineering and other scientific	$53,071	$47,785	11.1 %
Percentage of total revenues	72.4 %	72.5 %	
Environmental and health	20,227	18,166	11.3 %
Percentage of total revenues	27.6 %	27.5 %	
Total revenues	$73,298	$65,951	11.1 %

The increase in revenues for our engineering and other scientific segment was due to an increase in billable hours, higher billing rates and an increase in reimbursable project-related costs. During the third quarter of 2012, billable hours for this segment increased 5% to 186,000 as compared to 177,000 during the same period last year. The increase in billable hours was due to strong demand for our services in our mechanics and materials, electrical, thermal, human factors, and engineering management consulting practices. Technical full-time equivalent employees increased 4% to 473 during the third quarter of 2012 as compared to 457 for the same period last year due to our continuing recruiting and retention efforts. Utilization increased to 76% for the third quarter of 2012 as compared to 74% for the same period last year due to new work in key areas and elevated levels of activity on a number of major assignments. Reimbursable project-related costs for consulting projects in defense technology development increased to $3,572,000 during the third quarter of 2012 as compared to $1,586,000 during the same period last year due to the timing of reimbursable expenses on these projects.

The increase in revenues for our environmental and health segment was due to an increase in billable hours. During the third quarter of 2012, billable hours for this segment increased by 11% to 81,000 as compared to 73,000 during the same period last year. The increase in billable hours was due to strong demand for our services in our environmental sciences, ecological sciences, chemical registration and food safety practices. Utilization increased to 71% for the third quarter of 2012 as compared to 68% for the same period last year due to new work in key areas and elevated levels of activity on a number of major assignments. Technical full-time equivalent employees increased by 7% to 221 during the third quarter of 2012 as compared to 207 for the same period last year due to our continuing recruiting and retention efforts.

Compensation and Related Expenses

(in thousands, except percentages)	Three Months Ended September 28, 2012	Three Months Ended September 30, 2011	Percent Change
Compensation and related expenses	$42,589	$ 36,051	18.1 %
Percentage of total revenues	58.1 %	54.7 %	

The increase in compensation and related expenses during the third quarter of 2012 was due to an increase in payroll, fringe benefits, stock-based compensation, bonus expense, and the change in value of assets associated with our deferred compensation plan. Payroll increased by $1,361,000 and fringe benefits increased by $111,000 due to the increase in technical full-time equivalent employees and the impact of our annual salary increase on March 31, 2012. Stock based compensation expense increased $222,000 due to an increase in the value of unvested restricted stock units granted during the first nine months of 2012 as compared to the value of unvested restricted stock units granted during the same period last year. Bonuses increased by $1,220,000 due to a corresponding increase in profitability. During the third quarter of 2012, deferred compensation expense increased $3,617,000 with a corresponding increase to other income (expense), net, as compared to the third quarter of 2011 due to the change in value of assets associated with our deferred compensation plan. This increase consisted of an increase in the value of the plan assets of $1,094,000 during the third quarter of 2012 and a decrease in the value of the plan assets of $2,523,000 during the third quarter of 2011. We expect our compensation expense to increase as we selectively add new talent.

Other Operating Expenses

(in thousands, except percentages)	Three Months Ended September 28, 2012	September 30, 2011	Percent Change
Other operating expenses	$5,908	$ 5,858	0.9 %
Percentage of total revenues	8.1 %	8.9 %	

Other operating expenses include facilities-related costs, technical materials, computer-related expenses and depreciation and amortization of property, equipment and leasehold improvements. The increase in other operating expenses during the third quarter of 2012 was primarily due to an increase in occupancy expense of $43,000. The increase in occupancy expense was due to planned maintenance activities for our owned facilities and costs associated with the increase in technical full-time equivalent employees during the third quarter of 2012.

Reimbursable Expenses

(in thousands, except percentages)	Three Months Ended September 28, 2012	September 30, 2011	Percent Change
Reimbursable expenses	$6,573	$ 4,564	44.0 %
Percentage of total revenues	9.0 %	6.9 %	

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

General and Administrative Expenses

(in thousands, except percentages)	Three Months Ended September 28, 2012	September 30, 2011	Percent Change
General and administrative expenses	$3,500	$ 2,954	18.5 %
Percentage of total revenues	4.8 %	4.5 %	

The increase in general and administrative expenses was primarily due to $426,000 of expenses related to a firm-wide managers' meeting that was held at the end of the third quarter of 2012. 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)	Three Months Ended September 28, 2012	September 30, 2011	Percent Change
Other income (expense), net	$1,602	$ (2,124)	175.4 %
Percentage of total revenues	2.2 %	(3.2)%	

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 space in our Silicon Valley facility. During the third quarter of 2012, other income (expense), net increased $3,617,000 with a corresponding increase to deferred compensation expense as compared to third quarter of 2011 due to the change in value of assets associated with our deferred compensation plan. This year-over-year increase consisted of an increase in the value of the plan assets of $1,094,000 during the third quarter of 2012 and a decrease in the value of the plan assets of $2,523,000 during the third quarter of 2011.

Income Taxes

(in thousands, except percentages)	Three Months Ended September 28, 2012	September 30, 2011	Percent Change
Income taxes	$6,105	$ 5,656	7.9 %
Percentage of total revenues	8.3 %	8.6 %	
Effective tax rate	37.4 %	39.3 %	

The increase in income taxes was due to a corresponding increase in pre-tax income. The decrease in the effective tax rate was primarily due to a change in estimate associated with the Company’s apportionment of income between the states.

Nine Months Ended September 28, 2012 compared to Nine Months Ended September 30, 2011

Revenues

(in thousands, except percentages)	Nine Months Ended September 28, 2012	Nine Months Ended September 30, 2011	Percent Change
Engineering and other scientific	$158,784	$151,233	5.0 %
Percentage of total revenues	72.3 %	73.9 %	
Environmental and health	60,923	53,297	14.3 %
Percentage of total revenues	27.7 %	26.1 %	
Total revenues	$219,707	$204,530	7.4 %

The increase in revenues for our engineering and other scientific segment was due to an increase in billable hours and higher billing rates, partially offset by the decrease in product sales in defense technology development. During the first nine months of 2012, billable hours for this segment increased 6% to 560,000 as compared to 527,000 during the same period last year. The increase in billable hours was due to strong demand for our services. Product sales in defense technology development decreased to $2,866,000 for the first nine months of 2012 as compared to $6,999,000 during the same period last year due to lower sales of surveillance systems to the United States Army. Technical full-time equivalent employees increased 4% to 472 during the first nine months of 2012 as compared to 456 for the same period last year due to our continuing recruiting and retention efforts. Utilization increased to 76% for the first nine months of 2012 as compared to 74% for the same period last year due to new work in key areas, elevated levels of activity on a number of major assignments, and our management of headcount to align resources with anticipated demand.

The increase in revenues for our environmental and health segment was also due to an increase in billable hours. During the first nine months of 2012, billable hours for this segment increased by 15% to 242,000 as compared to 211,000 during the same period last year. The increase in billable hours was due to strong demand for our services. Utilization increased to 72% for the first nine months of 2012 as compared to 68% for the same period last year due to new work in key areas, elevated levels of activity on a number of major assignments, and our management of headcount to align resources with anticipated demand. Technical full-time equivalent employees increased by 8% to 216 during the nine months of 2012 as compared to 200 for the same period last year due to our continuing recruiting and retention efforts.

Compensation and Related Expenses

(in thousands, except percentages)	Nine Months Ended September 28, 2012	Nine Months Ended September 30, 2011	Percent Change

Compensation and related expenses	$130,621	$117,259	11.4 %
Percentage of total revenues	59.5 %	57.3 %	

The increase in compensation and related expenses during the first nine months of 2012 was due to an increase in payroll, fringe benefits, bonus expense, stock-based compensation expense and the change in value of assets associated with our deferred compensation plan. Payroll increased by $4,647,000 and fringe benefits increased by $649,000 due an increase in technical full-time equivalent employees and our annual salary increase on March 31, 2012. Bonuses increased by $3,374,000 due to a corresponding increase in profitability. Stock-based compensation expense increased $1,045,000 due to an increase in the value of unvested restricted stock units granted during the first nine months of 2012 as compared to the value of unvested restricted stock units granted during the same period last year. During the first nine months of 2012, deferred compensation expense increased $3,679,000 with a corresponding increase to other income (expense), net, as compared to the first nine months of 2011 due to the change in value of assets associated with our deferred compensation plan. This increase consisted of an increase in the value of the plan assets of $2,027,000 during the first nine months of 2012 as compared to a decrease in the value of the plan assets of $1,652,000 during the first nine months of 2011. We expect our compensation expense to increase as we selectively add new talent.

Other Operating Expenses

(in thousands, except percentages)	Nine Months Ended September 28, 2012	September 30, 2011	Percent Change
Other operating expenses	$17,422	$17,344	0.4 %
Percentage of total revenues	7.9 %	8.5 %	

Other operating expenses include facilities-related costs, technical materials, computer-related expenses and depreciation and amortization of property, equipment and leasehold improvements. Other operating expenses remained relatively consistent with the same period last year due to our continuing efforts to manage our cost structure by reducing discretionary spending and negotiating favorable agreements with our vendors. We expect other operating expenses to grow as we selectively add new talent and make investments in our corporate infrastructure.

Reimbursable Expenses

(in thousands, except percentages)	Nine Months Ended September 28, 2012	September 30, 2011	Percent Change
Reimbursable expenses	$18,194	$18,387	(1.0)%
Percentage of total revenues	8.3 %	9.0 %	

Reimbursable expenses remained relatively consistent with the same period last year. The amount of reimbursable expenses will vary from quarter to quarter depending on the nature of our projects.

General and Administrative Expenses

(in thousands, except percentages)	Nine Months Ended September 28, 2012	September 30, 2011	Percent Change
General and administrative expenses	$9,565	$9,273	3.1 %
Percentage of total revenues	4.4 %	4.5 %	

The increase in general and administrative expenses during the first nine months of 2012 was primarily due to $426,000 of expenses related to a firm-wide managers’ meeting that was held at the end of the third quarter of 2012 and several individually insignificant increases in other general and administrative expenses, partially offset by a decrease in legal expense of $545,000. The decrease in legal expenses was due to a decrease in costs associated with legal claims during the first nine months of 2012 as compared to the same period last year. We expect general and administrative expenses to increase as we selectively add new talent, expand our business development efforts and pursue staff development initiatives.

Other Income (Expense), Net

(in thousands, except percentages)	Nine Months Ended September 28, 2012	September 30, 2011	Percent Change
Other income (expense), net	$3,406	$ (528)	745.1 %
Percentage of total revenues	1.6 %	(0.3)%	

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 space in our Silicon Valley facility. During the first nine month of 2012, other income (expense), net, increased $3,679,000 with a corresponding increase to deferred compensation expense as compared to the first nine months of 2011 due to the change in value of assets associated with our deferred compensation plan. This increase consisted of an increase in the value of the plan assets of $2,027,000 during the first nine months of 2012 as compared to a decrease in the value of the plan assets of $1,652,000 during the first nine months of 2011.

Income Taxes

(in thousands, except percentages)	Nine Months Ended September 28, 2012	Nine Months Ended September 30, 2011	Percent Change
Income taxes	$18,558	$16,775	10.6 %
Percentage of total revenues	8.4 %	8.2 %	
Effective tax rate	39.2 %	40.2 %	

The increase in income taxes was due to a corresponding increase in pre-tax income. The decrease in the effective tax rate was primarily due to a change in estimate associated with the Company's apportionment of income between the states.

LIQUIDITY AND CAPITAL RESOURCES

As of September 28, 2012 and December 30, 2011, our cash, cash equivalents and short-term investments were $109.7 million. The following table summarizes our cash flows (in thousands):

	Nine Months Ended September 28, 2012	Nine Months Ended September 30, 2011
Net cash provided by operating activities	$21,634	$25,415
Net cash used in investing activities	(687)	(28,157)
Net cash used in financing activities	(18,135)	(38,660)

The decrease in net cash provided by operating activities during the first nine months of 2012 as compared to the same period last year was due to a larger increase in accounts receivable, partially offset by an increase in net income and an increase in accounts payable and accrued liabilities. Accounts receivable increased $16,594,000 during the first nine months of 2012, as compared to an increase of $1,761,000 during the same period last year. The larger increase in accounts receivable during the first nine months of 2012 was due to an increase in revenue and an increase in unbilled revenue due to certain contracts in our defense technology development practice that were structured to bill near the completion of the project and as a result were outstanding at the end of the quarter. Accounts payable and accrued liabilities increased $6,574,000 during the first nine months of 2012 as compared to a decrease of $1,220,000 during the first nine months of 2011. The larger increase in accounts payable and accrued liabilities during the first nine months of 2012 was due to the timing of payments to vendors and project-related costs in our defense technology development practice.

The decrease in net cash used in investing activities was due to a decrease in purchases of short-term investments of $26,084,000.

The decrease in net cash used in financing activities was due to a decrease in repurchases of our common stock under our stock repurchase program of $19,114,000.

For the remainder of 2012, we expect to continue our investing activities including capital expenditures. Furthermore, cash reserves may be used to repurchase common stock under our stock repurchase program or strategically acquire professional services firms that are complementary to our business.

The following schedule summarizes our principal contractual commitments as of September 28, 2012 (in thousands):

Fiscal year	Operating lease commitments	Capital leases	Purchase obligations	Total
2012 (remaining portion)	$ 1,898	$ 13	$ 3,078	$4,989
2013	7,303	49	-	7,352
2014	6,179	48	-	6,227
2015	4,719	-	-	4,719
2016	3,290	-	-	3,290
Thereafter	6,210	-	-	6,210
	$ 29,599	$ 110	$ 3,078	$32,787

We maintain a nonqualified deferred compensation plan for the benefit of a select group of highly compensated employees. Vested amounts due under the plan of $24,320,000 were recorded as a long-term liability on our unaudited condensed consolidated balance sheet at September 28, 2012. Company assets that are earmarked to pay benefits under the plan are held in a rabbi trust and are subject to the claims of our creditors. As of September 28, 2012 invested amounts under the plan of $24,437,000 were recorded as a long-term asset on our condensed consolidated balance sheet.

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

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

Non-GAAP Financial Measures

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

The following table shows EBITDA as a percentage of revenues before reimbursements for the three and nine months ended September 28, 2012 and September 30, 2011 (in thousands, except percentages):

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Revenues before reimbursements	$66,725	$ 61,387	$201,513	$186,143
EBITDA	$17,383	$ 15,446	$50,525	$44,855
EBITDA as a % of revenues before reimbursements	26.1 %	25.2 %	25.1 %	24.1 %

The increase in EBITDA as a percentage of revenues before reimbursements was primarily due to an increase in utilization combined with moderate growth in other operating and general administrative expenses. Utilization in the quarter was strong due to broad based demand for our services and the continuing benefit from a few large projects.

The following table is a reconciliation of EBITDA and EBITDAS to the most comparable GAAP measure, net income, for the three and nine months ended September 28, 2012 and September 30, 2011 (in thousands):

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Net income	$10,225	$ 8,744	$28,753	$ 24,964
Add back (subtract):				
Income taxes	6,105	5,656	18,558	16,775
Interest income, net	(80)	(79)	(245)	(141)
Depreciation and amortization	1,133	1,125	3,459	3,257
EBITDA	17,383	15,446	50,525	44,855
Stock-based compensation	2,748	2,274	9,932	8,208
EBITDAS	$20,131	$ 17,720	$60,457	$ 53,063

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to interest rate risk associated with our balances of cash, cash equivalents and short-term investments. We manage our interest rate risk by maintaining an investment portfolio primarily consisting of debt instruments with high credit quality and relatively short average effective maturities in accordance with our investment policy. The maximum effective maturity of any issue in our portfolio is 3 years and the maximum average effective maturity of the portfolio cannot exceed 12 months. If interest rates were to instantaneously increase or decrease by 100 basis points, the change in the fair market value of our portfolio of cash equivalents and short-term investments would not have a material impact on our financial statements. We do not use derivative financial instruments in our portfolio. There have not been any material changes during the period covered by this Quarterly Report on Form 10-Q to our interest rate risk exposures, or how these exposures are managed. Notwithstanding our efforts to manage interest rate risk, there can be no assurances that we will be adequately protected against the risks associated with interest rate fluctuations.

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

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

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

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three month period ended September 28, 2012 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes from risk factors as previously discussed under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 30, 2011.

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

The following table provides information on the Company's repurchases of the Company's common stock for the three months ended September 28, 2012 (in thousands, except price per share):

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Programs [1]
June 30 to July 27	-	$ -	-	$ 25,951
July 28 to August 24	-	-	-	$ 25,951
August 25 to September 28	19	51.94	19	$ 24,969
Total	19	$ 51.94	19	$ 24,969

(1) On May 25, 2011, the Board of Directors authorized $35.0 million for the repurchase of the Company's common stock. On February 9, 2012, the Board of Directors authorized an additional $35.0 million for the repurchase of the Company's common stock. These plans have no expiration date.

Item 6. Exhibits

(a) Exhibit Index

31.1 Certification of Chief Executive Officer pursuant to Rule 13a – 14(a) under the Securities Exchange Act of 1934.

31.2 Certification of Chief Financial Officer pursuant to Rule 13a – 14(a) under the Securities Exchange Act of 1934.

32.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.

32.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.

SIGNATURES

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

EXPONENT, INC.
(Registrant)

Date: November 2, 2012

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

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