EXPONENT INC
Form 10-Q
November 12, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 2, 2009

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)**

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 x 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 ¨ 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	x
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 x

As of November 6, 2009, the latest practicable date, the registrant had 13,761,945 shares of Common Stock, $0.001 par value per share, outstanding.

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

EXPONENT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

October 2, 2009 and January 2, 2009

(in thousands, except share data)

(unaudited)

	October 2, 2009	January 2, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 48,513	$ 32,598
Short-term investments	8,757	24,772
Accounts receivable, net of allowance for doubtful accounts of $3,794 and $2,449 at October 2, 2009 and January 2, 2009, respectively	68,669	62,208
Prepaid expenses and other assets	7,979	6,275
Deferred income taxes	5,085	4,455
Total current assets	139,003	130,308
Property, equipment and leasehold improvements, net	29,841	31,371
Goodwill	8,607	8,607
Deferred income taxes	9,325	6,893
Other assets	9,158	5,911
Total assets	$ 195,934	$ 183,090
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 5,148	$ 6,536
Accrued payroll and employee benefits	28,864	35,528
Deferred revenues	5,123	6,171
Total current liabilities	39,135	48,235
Other liabilities	351	567
Deferred compensation	8,705	4,401
Deferred rent	1,459	1,793
Total liabilities	49,650	54,996
Stockholders equity:		
Common stock, $0.001 par value; 100,000,000 shares authorized; 16,426,664 shares issued at October 2, 2009 and January 2, 2009	16	16
Additional paid-in capital	82,763	72,734
Accumulated other comprehensive loss	(296)	(345)

Retained earnings	136,121	127,127
Treasury stock, at cost; 2,682,910 and 2,737,050 shares held at October 2, 2009 and January 2, 2009, respectively	(72,320)	(71,438)
Total stockholders equity	146,284	128,094
Total liabilities and stockholders equity	$ 195,934	$ 183,090

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

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EXPONENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Three and Nine Months Ended October 2, 2009 and September 26, 2008

(in thousands, except per share data)

(unaudited)

	Three Months Ended		Nine Months Ended	
	October 2, 2009	**September 26, 2008**	**October 2, 2009**	**September 26, 2008**
Revenues:				
Revenues before reimbursements	$ 50,666	$ 51,751	$ 158,026	$ 154,574
Reimbursements	4,579	6,979	17,877	15,372
Revenues	55,245	58,730	175,903	169,946
Operating expenses:				
Compensation and related expenses	34,571	33,097	107,371	99,804
Other operating expenses	5,331	5,620	15,917	16,636
Reimbursable expenses	4,579	6,979	17,877	15,372
General and administrative expenses	2,379	3,346	8,238	9,542
Total operating expenses	46,860	49,042	149,403	141,354
Operating income	8,385	9,688	26,500	28,592
Other income, net:				
Interest income, net	93	397	527	1,362
Miscellaneous income, net	1,209	(43)	2,265	247
Total other income, net	1,302	354	2,792	1,609
Income before income taxes	9,687	10,042	29,292	30,201
Income taxes	3,854	4,100	11,676	12,119
Net income	$ 5,833	$ 5,942	$ 17,616	$ 18,082
Net income per share:				
Basic	$ 0.41	$ 0.40	$ 1.24	$ 1.21
Diluted	$ 0.39	$ 0.38	$ 1.17	$ 1.13
Shares used in per share computations:				
Basic	14,241	14,736	14,167	14,890
Diluted	15,028	15,709	15,029	15,937

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 October 2, 2009 and September 26, 2008

(in thousands)

(unaudited)

	Three Months Ended		Nine Months Ended	
	October 2, 2009	September 26, 2008	October 2, 2009	September 26, 2008
Net income	$ 5,833	$ 5,942	$ 17,616	$ 18,082
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	91	(271)	(67)	(175)
Unrealized (loss) gain on investments, net of tax		(89)	116	(19)
Comprehensive income	$ 5,924	$ 5,582	$ 17,665	$ 17,888

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

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EXPONENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Nine Months Ended October 2, 2009 and September 26, 2008

(in thousands)

(unaudited)

	Nine Months Ended	
	October 2, 2009	September 26, 2008
Cash flows from operating activities:		
Net income	$ 17,616	$ 18,082
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and leasehold improvements	3,272	2,984
Amortization of premiums and accretion of discounts of short-term investments	150	359
Amortization of contribution to deferred compensation plan		181
Deferred rent	(334)	204
Allowance for doubtful accounts	3,253	2,239
Stock-based compensation	6,437	6,352
Deferred income tax provision	(3,482)	(2,581)
Tax benefit for stock plans	(2,981)	(5,391)
Changes in operating assets and liabilities:		
Accounts receivable	(9,714)	(10,552)
Prepaid expenses and other assets	(1,632)	(146)
Accounts payable and accrued liabilities	820	4,221
Accrued payroll and employee benefits	(5,679)	776
Deferred revenues	(1,048)	(789)
Net cash provided by operating activities	6,678	15,939
Cash flows from investing activities:		
Capital expenditures	(1,663)	(4,364)
Purchase of short-term investments		(77,911)
Sale/maturity of short-term investments	16,933	96,140
Net cash provided by investing activities	15,270	13,865
Cash flows from financing activities:		
Tax benefit for stock plans	2,981	5,391
Payroll taxes for restricted stock units	(1,849)	(1,578)
Purchases of treasury stock	(9,692)	(28,435)
Proceeds from issuance of treasury stock	2,443	3,148
Net cash used in financing activities	(6,117)	(21,474)
Effect of foreign currency exchange rates on cash and cash equivalents	84	(371)

Net increase in cash and cash equivalents	15,915	7,959
Cash and cash equivalents at beginning of period	32,598	10,700
Cash and cash equivalents at end of period	$ 48,513	$ 18,659

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended October 2, 2009 and September 26, 2008

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 October 2, 2009 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 January 2, 2009.

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

The Company has evaluated subsequent events through November 11, 2009, the date which these financial statements were both available to be issued and issued. No adjustment or additional disclosure other than that already made to these financial statements is considered necessary based on this evaluation.

Authorized Capital Stock. The Company committed to stockholders in a letter dated May 23, 2006 to limit its use of the 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.

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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 October 2, 2009 (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				
Fixed income available-for-sale securities [1]	$ 53,534	$ 44,777	$ 8,757	
Fixed income trading securities held in deferred compensation plan [2]	2,814	2,814		
Equity trading securities held in deferred compensation plan [2]	6,124	6,124		
Total	$ 62,472	$ 53,715	$ 8,757	$
Liabilities				
Deferred compensation plan [3]	8,938	8,938		
Total	$ 8,938	$ 8,938	$	$

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

Fixed income available-for-sale securities primarily represent obligations of state and local government agencies. Included in fixed income available-for-sale securities are $44,777,000 of money market securities classified as cash equivalents. Fixed income and equity trading securities represent mutual funds held in the Company s deferred compensation plan. See Note 7 for additional information about the Company s deferred compensation plan.

As of April 3, 2009, included within the Company s investment portfolio was one student loan secured auction rate security purchased for $1 million and valued at $810,000. During the second quarter of 2008, the auction for this security failed. Due to the failed auction, the Company valued this auction rate security using significant unobservable inputs. During the second quarter of 2009, the issuer settled this auction rate security for $1 million. As of October 2, 2009, the Company did not have any assets valued using significant unobservable inputs.

The carrying amount of the Company s accounts receivable, other assets and accounts payable approximates their fair values. There were no other-than-temporary impairments or credit losses related to available-for-sale securities during the first nine months of 2009 and 2008.

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Note 3: Revenue Recognition

The Company derives its revenues primarily from professional fees earned on consulting engagements and fees earned for the use of its equipment and facilities, as well as reimbursements for outside direct expenses associated with the services that are billed to its clients.

Exponent reports revenues net of subcontractor fees. The Company has determined that it is not the primary obligor with respect to its 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 and expenses to its estimate of the total labor hours at standard rates and expenses 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 by which 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. Revenue from multiple-element arrangements is allocated based on the relative fair value of each element, which is generally based on the relative sales price for each element when sold separately. If the fair value of one or more delivered elements cannot be determined, then revenue is allocated based on the residual method.

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Gross revenues and reimbursements for the three and nine months ended October 2, 2009 and September 26, 2008 were as follows:

	Three Months Ended		Nine Months Ended	
(In thousands)	**October 2, 2009**	**September 26, 2008**	**October 2, 2009**	**September 26, 2008**
Gross revenues	$ 57,619	$ 59,574	$ 180,802	$ 174,309
Less: Subcontractor fees	2,374	844	4,899	4,363
Revenues	55,245	58,730	175,903	169,946
Reimbursements:				
Out-of-pocket reimbursements	1,105	1,424	3,466	3,893
Other outside direct expenses	3,474	5,555	14,411	11,479
	4,579	6,979	17,877	15,372
Revenues before reimbursements	$ 50,666	$ 51,751	$ 158,026	$ 154,574

Significant management judgments and estimates must be made and used in connection with the revenue 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 is generally upon receipt of cash. The Company assesses collectability based on a number of factors, including past transaction history with the client and project manager, as well as the creditworthiness 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.

Note 4: Net Income Per Share

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

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

	Three Months Ended		Nine Months Ended	
(In thousands)	**October 2, 2009**	**September 26, 2008**	**October 2, 2009**	**September 26, 2008**
Shares used in basic per share computation	14,241	14,736	14,167	14,890
Effect of dilutive common stock options outstanding	420	647	485	727
Effect of dilutive restricted stock units outstanding	367	326	377	320
Shares used in diluted per share computation	15,028	15,709	15,029	15,937

Common stock options to purchase 60,000 and 0 shares were excluded from the diluted per share calculation for the three months ended October 2, 2009 and September 26, 2008, respectively, due to their antidilutive effect. The weighted-average exercise price for the antidilutive shares was $31.01 for the three months ended October 2, 2009. Common stock options to purchase 60,000 and 0 shares were excluded from the diluted per share calculation for the nine months ended October 2, 2009 and September 26, 2008, respectively, due to their antidilutive effect. The weighted-average exercise price for the antidilutive shares was $31.01 for the nine months ended October 2, 2009.

Note 5: Stock-Based Compensation

Restricted Stock Units

Restricted stock unit grants are designed to attract and retain employees, and to better align employee interests with those of the Company s stockholders. For a select group of employees, up to 40% of their annual bonus is settled with fully vested restricted stock unit awards. Under these fully vested restricted stock unit awards, the holder of each award has the right to receive one share of the Company s common stock for each fully vested restricted stock unit four years from the date of grant. Each individual who receives a fully vested restricted stock unit award is also granted a matching number of unvested restricted stock unit awards. Unvested restricted stock unit awards are also granted for select new hires and promotions. These unvested restricted stock unit awards generally cliff vest four years from the date of grant, at which time the holder of each award will have the right to receive one share of the Company s common stock for each restricted stock unit award provided the holder of each award has met certain employment conditions. In the case of retirement at 59 $^{1}/2$ 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 $968,000 and $1,077,000 during the three months ended October 2, 2009 and September 26, 2008, respectively. For the nine months ended October 2, 2009 and September 26, 2008, the Company recorded stock-based compensation expense associated with accrued bonus awards of $3,051,000 and $3,263,000, respectively. The value of the unvested restricted stock unit awards issued 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 59 $^{1}/2$. If the award recipient is 59 $^{1}/2$ 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 $562,000 and $467,000 during the three months ended October 2, 2009 and September 26, 2008, respectively. The Company recorded stock-based compensation expense associated with the unvested restricted stock unit awards of $2,886,000 and $2,544,000 during the nine months ended October 2, 2009 and September 26, 2008, 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. 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 $163,000 and $182,000 during the three months ended October 2, 2009 and September 26, 2008, respectively, associated with stock option grants. The Company recorded stock-based compensation expense of $500,000 and $545,000 during the nine months ended October 2, 2009 and September 26, 2008, 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.

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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 6: Treasury Stock

On May 22, 2007, the Company s Board of Directors approved up to $35 million for repurchases of the Company s common stock. On May 29, 2008, the Company s Board of Directors authorized an additional $35 million for repurchases of the Company s common stock. On February 19, 2009, the Company s Board of Directors authorized an additional $25.1 million for the repurchase of the Company s common stock.

The Company repurchased 433,900 shares of its common stock for $10.2 million during the nine months ended October 2, 2009. The Company repurchased 933,718 shares of its common stock for $28.2 million during the nine months ended September 26, 2008. As of October 2, 2009, the Company had remaining authorization under its stock repurchase plans of $24.8 million to repurchase shares of common stock.

The Company reissued 488,040 shares of its treasury stock with a cost of $9.3 million to settle stock awards during the nine months ended October 2, 2009. The Company reissued 694,289 shares of its treasury stock with a cost of $10.2 million to settle stock awards during the nine months ended September 26, 2008.

Note 7: 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 October 2, 2009 and January 2, 2009, the invested amounts under the plan totaled $8.9 million and $5.0 million, 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 October 2, 2009 and January 2, 2009, vested amounts due under the plan totaled $8.9 million and $5.0 million, respectively. Changes in the liability are recorded as adjustments to compensation expense. During the three and nine months ended October 2, 2009, the Company recognized an increase to compensation expense of $885,000 and $1,340,000, respectively, as a result of changes in the market value of the trust assets, with the same amount being recorded as other income. During the three and nine months ended September 26, 2008, the Company recognized a decrease to compensation expense of $442,000 and $947,000, respectively, as a result of changes in the market value of the trust assets, with the same amount being recorded as other expense.

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Note 8: Supplemental Cash Flow Information

The following is supplemental disclosure of cash flow information:

(In thousands)	Nine Months Ended October 2, 2009	Nine Months Ended September 26, 2008
Cash paid during period:		
Income taxes	$ 12,439	$ 10,025
Non-cash investing and financing activities:		
Unrealized gain (loss) on short-term investments	$ 116	$ (19)
Vested stock unit awards issued to settle accrued bonuses	$ 3,739	$ 3,637
Stock repurchases payable to broker	$ 489	$ 71

Note 9: Accounts Receivable, Net

At October 2, 2009 and January 2, 2009, accounts receivable, net, was comprised of the following:

(In thousands)	October 2, 2009	January 2, 2009
Billed accounts receivable	$ 48,524	$ 43,561
Unbilled accounts receivable	23,939	21,096
Allowance for doubtful accounts	(3,794)	(2,449)
Total accounts receivable, net	$ 68,669	$ 62,208

Note 10: Inventory

At October 2, 2009, the Company had $1.2 million of raw materials inventory included in prepaid expenses and other current assets on its condensed consolidated balance sheet. At January 2, 2009, the Company had $213,000 of raw materials inventory included in prepaid expenses and other current assets on the Company s condensed consolidated balance sheet.

Note 11: Segment Reporting

The Company has two operating segments based on two primary areas of service. One operating segment is a broad service group providing technical consulting in different practices primarily in the areas of impending litigation and technology development. The Company s other operating segment provides services in the area of environmental and health sciences. 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.

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Segment information for the three and nine months ended October 2, 2009 and September 26, 2008 follows:

Revenues

(In thousands)	Three Months Ended October 2, 2009	Three Months Ended September 26, 2008	Nine Months Ended October 2, 2009	Nine Months Ended September 26, 2008
Engineering and other scientific	$ 41,032	$ 45,710	$ 132,898	$ 131,443
Environmental and health	14,213	13,020	43,005	38,503
Total revenues	$ 55,245	$ 58,730	$ 175,903	$ 169,946

Operating income

(In thousands)	Three Months Ended October 2, 2009	Three Months Ended September 26, 2008	Nine Months Ended October 2, 2009	Nine Months Ended September 26, 2008
Engineering and other scientific	$ 10,109	$ 11,813	$ 32,891	$ 35,531
Environmental and health	4,291	3,679	12,645	10,460
Total segment operating income	14,400	15,492	45,536	45,991
Corporate operating expense	(6,015)	(5,804)	(19,036)	(17,399)
Total operating income	$ 8,385	$ 9,688	$ 26,500	$ 28,592

Capital Expenditures

(In thousands)	Three Months Ended October 2, 2009	Three Months Ended September 26, 2008	Nine Months Ended October 2, 2009	Nine Months Ended September 26, 2008
Engineering and other scientific	$ 216	$ 1,152	$ 933	$ 3,481
Environmental and health	45	30	132	91
Total segment capital expenditures	261	1,182	1,065	3,572
Corporate capital expenditures	244	420	598	792
Total capital expenditures	$ 505	$ 1,602	$ 1,663	$ 4,364

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Depreciation and Amortization

(In thousands)	Three Months Ended October 2, 2009	Three Months Ended September 26, 2008	Nine Months Ended October 2, 2009	Nine Months Ended September 26, 2008
Engineering and other scientific	$ 692	$ 661	$ 2,119	$ 1,969
Environmental and health	53	91	146	146
Total segment depreciation and amortization	745	752	2,265	2,115
Corporate depreciation and amortization	348	307	1,007	869
Total depreciation and Amortization	$ 1,093	$ 1,059	$ 3,272	$ 2,984

No single customer comprised more than 10% of the Company s revenues during the three months ended October 2, 2009. The Company derived 10% of revenues from agencies of the federal government for the nine months ended October 2, 2009. During the three and nine months ended September 26, 2008, the Company derived 15% and 11%, respectively, of revenues from agencies of the federal government.

Note 12: Goodwill

Below is a breakdown of goodwill reported by segment as of October 2, 2009:

(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 three and nine months ended October 2, 2009.

Note 13: 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. The adverse verdict is currently under appeal. Given the uncertainty as to whether the claimant will incur a loss (it may prevail on appeal), whether it 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 and is 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.

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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 January 2, 2009, which are contained in our fiscal 2008 Annual Report on Form 10-K.

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 and in the documents incorporated herein by reference, 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 2008 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 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 2008 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.

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RESULTS OF CONSOLIDATED OPERATIONS

Overview of the Three Months Ended October 2, 2009

During the third quarter of 2009, we had a 5.9% decrease in revenues and a 2.1% decrease in revenues before reimbursements as compared to the same period last year. Our consolidated revenue decline was primarily due to fewer billable hours and a decrease in product sales to the United States Army in our technology development practice, partially offset by higher billing rates. Billable hours for the third quarter of 2009 decreased 2.9% to 217,694 as compared to 224,229 during the same period last year. Technical full-time equivalents decreased 0.2% to 627 during the third quarter of 2009 as compared to 628 during the same period last year. Utilization decreased to 67% for the third quarter of 2009 as compared to 69% during the same period last year. The decrease in billable hours and utilization was due to the general macroeconomic climate, ongoing softness in the automotive industry, and the winding down of our support for the United States Army s Rapid Equipping Force labs in Iraq and Afghanistan. Product sales in our technology development practice decreased 61% to $2,191,000 for the third quarter of 2009 as compared to $5,638,000 during the same period last year. This decrease in product sales was primarily due to a decrease in sales of surveillance systems to the United States Army. During the third quarter of 2009, net income decreased 1.8% due to the decrease in revenues before reimbursements, partially offset by a decrease in operating expenses.

Three Months Ended October 2, 2009 compared to Three Months Ended September 26, 2008

Revenues

	Three Months Ended		
(In thousands)	**October 2, 2009**	**September 26, 2008**	**Percent Change**
Engineering and other scientific	$ 41,032	$ 45,710	(10.2)%
Percentage of total revenues	74.3%	77.8%	
Environmental and health	14,213	13,020	9.2%
Percentage of total revenues	25.7%	22.2%	
Total revenues	$ 55,245	$ 58,730	(5.9)%

The decrease in revenues for our engineering and other scientific segment was due to a decrease in billable hours and a decrease in product sales in our technology development practice, partially offset by higher billing rates. During the third quarter of 2009, billable hours for this segment decreased by 4.6% to 160,537 as compared to 168,288 during the same period last year. Technical full-time equivalents decreased 2.1% to 457 from 467 for the same period last year. The decrease in billable hours and utilization was due to the general macroeconomic climate, ongoing softness in the automotive industry, and the winding down of our support for the United States Army s Rapid Equipping Force labs in Iraq and Afghanistan. Utilization decreased to 68% for the third quarter of 2009 as compared to 69% for the same period last year. Product sales in our technology development practice decreased 61% to $2,191,000 for the third quarter of 2009 as compared to $5,638,000 during the same period last year. This decrease in product sales was primarily due to a decrease in sales of surveillance systems to the United States Army.

The increase in revenues for our environmental and health segment was driven by an increase in billable hours and higher billing rates. The increase in billable hours was primarily due to an increase in activity in our health sciences group. During the third quarter of 2009, billable hours for this segment increased by 2.2% to 57,157 as compared to 55,941 during the same period last year. Technical full-time equivalents increased by 5.6% to 170 from 161 for the same period last year due to our recruiting and retention efforts. Utilization decreased to 65% for the third quarter of 2009 as compared to 67% during the same period last year.

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Compensation and Related Expenses

	Three Months Ended		
(In thousands)	October 2, 2009	September 26, 2008	Percent Change
Compensation and related expenses	$ 34,571	$ 33,097	4.5%
Percentage of total revenues	62.6%	56.4%	

The increase in compensation and related expenses during the third quarter of 2009 was due to an increase in payroll and the change in value of assets associated with our deferred compensation plan. Payroll increased by $485,000 due the impact of our annual salary increase. During the third quarter of 2009, the value of assets in our deferred compensation plan increased $885,000, resulting in a corresponding increase to compensation expense. During the third quarter of 2008, the value of assets in our deferred compensation plan decreased $442,000, resulting in a corresponding decrease in compensation expense.

Other Operating Expenses

	Three Months Ended		
(In thousands)	October 2, 2009	September 26, 2008	Percent Change
Other operating expenses	$ 5,331	$ 5,620	(5.1)%
Percentage of total revenues	9.6%	9.6%	

Other operating expenses include facilities-related costs, technical materials, computer-related expenses and depreciation and amortization of property, equipment and leasehold improvements. The decrease in other operating expenses was primarily due to a decrease in office expenses of $95,000, a decrease in occupancy expenses of $95,000, and a decrease in computer expense of $95,000 as part of our continuing efforts to manage our cost structure.

Reimbursable Expenses

	Three Months Ended		
(In thousands)	October 2, 2009	September 26, 2008	Percent Change
Reimbursable expenses	$ 4,579	$ 6,979	(34.4)%
Percentage of total revenues	8.3%	11.9%	

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

General and Administrative Expenses

	Three Months Ended		
(In thousands)	October 2, 2009	September 26, 2008	Percent Change
General and administrative expenses	$ 2,379	$ 3,346	(28.9)%
Percentage of total revenues	4.3%	5.7%	

The decrease in general and administrative expenses during the third quarter of 2009 was due to a decrease in travel and meals of $302,000, a decrease in personnel expenses of $248,000, and a decrease in bad debt expense of $196,000. The decrease in travel and meals and personnel expenses were due to our continuing efforts to manage our cost structure. The decrease in bad debt expense was due to a bad debt recovery of approximately $200,000.

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Other Income, Net

	Three Months Ended		
(In thousands)	**October 2, 2009**	**September 26, 2008**	**Percent Change**
Other income, net	$ 1,302	$ 354	267.8%
Percentage of total revenues	2.4%	0.6%	

Other income, 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. The increase in other income, net, was due to a change in value of assets associated with our deferred compensation plan partially offset by a decrease in interest income. During the third quarter of 2009, we recorded an increase to other income, net, of $885,000 due to an increase in the value of assets in our deferred compensation plan. During the third quarter of 2008, we recorded a decrease to other income, net, of $442,000 due to a decrease in the value of assets in our deferred compensation plan. The decrease in interest income of $304,000 was due to a decrease in the average balance of our short-term investments and lower interest rates.

Income Taxes

	Three Months Ended		
(In thousands)	**October 2, 2009**	**September 26, 2008**	**Percent Change**
Income taxes	$ 3,854	$ 4,100	(6.0)%
Percentage of total revenues	7.0%	7.0%	
Effective tax rate	39.8%	40.8%	

The decrease in income tax expense was due to a corresponding decrease in pre-tax income.

Nine Months Ended October 2, 2009 compared to Nine Months Ended September 26, 2008

Revenues

	Nine Months Ended		
(In thousands)	**October 2, 2009**	**September 26, 2008**	**Percent Change**
Engineering and other scientific	$ 132,898	$ 131,443	1.1%
Percentage of total revenues	75.6%	77.3%	
Environmental and health	43,005	38,503	11.7%
Percentage of total revenues	24.4%	22.7%	
Total revenues	$ 175,903	$ 169,946	3.5%

The increase in revenues for our engineering and other scientific segment was due to higher billing rates partially offset by a decrease in billable hours and product sales to the United States Army in our technology development practice. During the first nine months of 2009, billable hours for this segment decreased by 1.0% to 495,452 as compared to 500,506 during the same period last year. Technical full-time equivalents increased 0.9% to 461 from 457 for the same period last year due to our recruiting and retention efforts. Utilization decreased to 69% for the first nine months of 2009 as compared to 70% for the same period last year. The decrease in billable hours and utilization was due to the general macroeconomic climate, ongoing softness in the automotive industry, and the winding down of our support for the United States Army s Rapid Equipping Force labs in Iraq and Afghanistan. Product sales in our technology development practice decreased 11% to $9,715,000 for the first nine months of 2009 as compared to $10,861,000 during the same period last year. This decrease in product sales was primarily due to a decrease in sales of surveillance systems to the United States Army.

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The increase in revenues for our environmental and health segment was driven by an increase in billable hours and higher billing rates. The increase in billable hours was primarily due to an increase in activity in our health sciences group. During the first nine months of 2009, billable hours for this segment increased by 6.4% to 174,338 as compared to 163,870 during the same period last year. Technical full-time equivalents increased by 7.5% to 171 from 159 for the same period last year due to our recruiting and retention efforts. Utilization decreased to 65% for the first nine months of 2009 as compared to 66% for the same period last year.

Compensation and Related Expenses

	Nine Months Ended		
(In thousands)	October 2, 2009	September 26, 2008	Percent Change
Compensation and related expenses	$ 107,371	$ 99,804	7.6%
Percentage of total revenues	61.0%	58.7%	

The increase in compensation and related expenses during the first nine months of 2009 was due to an increase in payroll, fringe benefits, and the change in value of assets associated with our deferred compensation plan. Payroll increased by $4,169,000 and fringe benefits increased by $383,000 due to an increase in technical full-time equivalent employees and the impact of our annual salary increase. During the first nine months of 2009, the value of assets in our deferred compensation plan increased $1,340,000, resulting in a corresponding increase to compensation expense. During the first nine months of 2008, the value of assets in our deferred compensation plan decreased $947,000, resulting in a corresponding decrease to compensation expense.

Other Operating Expenses

	Nine Months Ended		
(In thousands)	October 2, 2009	September 26, 2008	Percent Change
Other operating expenses	$ 15,917	$ 16,636	(4.3)%
Percentage of total revenues	9.0%	9.8%	

Other operating expenses include facilities-related costs, technical materials, computer-related expenses and depreciation and amortization of property, equipment and leasehold improvements. The decrease in other operating expenses was primarily due to a decrease in technical materials of $332,000 and a decrease in computer expenses of $285,000 as part of our continuing efforts to manage our cost structure.

Reimbursable Expenses

	Nine Months Ended		
(In thousands)	October 2, 2009	September 26, 2008	Percent Change
Reimbursable expenses	$ 17,877	$ 15,372	16.3%
Percentage of total revenues	10.2%	9.0%	

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

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General and Administrative Expenses

	Nine Months Ended		
(In thousands)	October 2, 2009	September 26, 2008	Percent Change
General and administrative expenses	$ 8,238	$ 9,542	(13.7)%
Percentage of total revenues	4.7%	5.6%	

The decrease in general and administrative expenses during the first nine months of 2009 was due to a decrease in travel and meals of $1,178,000 and a decrease in personnel expenses of $619,000, partially offset by an increase in bad debt expense of $466,000. The decreases in travel and meals and personnel expenses were due to our continuing efforts to manage our cost structure. The increase in bad debt expense was primarily due to the second quarter bankruptcy filings of Chrysler and General Motors.

Other Income, Net

	Nine Months Ended		
(In thousands)	October 2, 2009	September 26, 2008	Percent Change
Other income, net	$ 2,792	$ 1,609	73.5%
Percentage of total revenues	1.6%	0.9%	

Other income, 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. The increase in other income, net, was due to the change in value of assets associated with our deferred compensation plan partially offset by a decrease in interest income. During the first nine months of 2009, we recorded an increase to other income, net, of $1,340,000 due to an increase in the value of assets in our deferred compensation plan. During the first nine months of 2008, we recorded a decrease to other income, net, of $947,000 due to a decrease in the value of assets in our deferred compensation plan. The decrease in interest income of $835,000 was due to a decrease in the average balance of our short-term investments and lower interest rates.

Income Taxes

	Nine Months Ended		
(In thousands)	October 2, 2009	September 26, 2008	Percent Change
Income taxes	$ 11,676	$ 12,119	(3.7)%
Percentage of total revenues	6.6%	7.1%	
Effective tax rate	39.9%	40.1%	

The decrease in income tax expense was due to a corresponding decrease in pre-tax income.

RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2009-13 - *Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements* (formerly Emerging Issues Task Force Issue No. 08-1). This standard modifies the revenue recognition guidance for arrangements that involve the delivery of multiple elements to a customer at different times as part of a single revenue generating transaction. This standard provides principles and application guidance to determine whether multiple deliverables exist, how the individual deliverables should be separated and how to allocate the revenue in the arrangement among those separate deliverables. The standard also expands the disclosure requirements for multiple deliverable revenue arrangements. This ASU should be applied on a prospective basis for revenue arrangements entered into or

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materially modified in fiscal years beginning on or after June 15, 2010, with earlier application permitted. We are currently evaluating the potential impact of ASU No. 2009-13, but do not expect the adoption to have a material impact on our consolidated financial position, results of operations or cash flows.

LIQUIDITY AND CAPITAL RESOURCES

As of October 2, 2009, our cash, cash equivalents and short-term investments were $57.3 million compared to $57.4 million at January 2, 2009.

	Nine Months Ended	
(In thousands)	**October 2, 2009**	**September 26, 2008**
Net cash provided by operating activities	$ 6,678	$ 15,939
Net cash provided by investing activities	15,270	13,865
Net cash used in financing activities	(6,117)	(21,474)

The decrease in net cash provided by operating activities during the first nine months of 2009 as compared to the same period last year was due to a decrease in accrued payroll and employee benefits, an increase in prepaid expenses and other assets and a larger decrease in accounts payable and accrued liabilities, net of the tax benefit for stock plans. Accrued payroll and employee benefits decreased by $5,679,000 during the first nine months of 2009 as compared to an increase of $776,000 during the same period last year. The decrease during the first nine months of 2009 as compared to the same period last year was due to the timing of pay dates in relation to the end of our fiscal period and a decrease in the growth of accrued bonuses. Prepaid expenses and other assets increased by $1,632,000 during the first nine months of 2009 as compared to an increase of $146,000 during the same period last year. The increase during the first nine months of 2009 as compared to the same period last year was due to an increase in inventory. Accounts payable and accrued liabilities, net of the tax benefit for stock plans decreased by $2,161,000 during the first nine months of 2009 as compared to a decrease of $1,170,000 during the same period last year. The larger decrease during the first nine months of 2009 was due to the timing of payments to vendors and a decrease in activity in our technology development practice.

The increase in net cash provided by investing activities during the first nine months of 2009 was due to a decrease in capital expenditures of $2,701,000 partially offset by a decrease of $1,296,000 in net sales and maturities of short-term investments. The decrease in capital expenditures was due to leasehold improvements associated with a new lease for office and lab space during the first nine months of 2008 and our continuing efforts to manage our cost structure.

The decrease in net cash used in financing activities during the first nine months of 2009 was primarily due to a decrease in treasury repurchases of $18,743,000 partially offset by a decrease in the tax benefit for stock award plans of $2,410,000.

We expect to continue our investing activities, including purchases of short-term investments and 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.

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The following schedule summarizes our principal contractual commitments as of October 2, 2009 (in thousands):

Fiscal year	Operating lease commitments	Capital leases	Purchase obligations	Total
2009	$ 1,510	$ 2	$ 620	$ 2,132
2010	5,170	6		5,176
2011	4,240	6		4,246
2012	3,526	3		3,529
2013	1,540	2		1,542
Thereafter	3,876			3,876
	$ 19,862	$ 19	$ 620	$ 20,501

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 $8.7 million were recorded as a long-term liability on our condensed consolidated balance sheet at October 2, 2009. 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 October 2, 2009 invested amounts under the plan of $8.7 million 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.

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 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. Our exposure to market rate risk for changes in interest rates relates primarily to our short-term investments. 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 short-term investment 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 would be 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.

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Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As required by Exchange Act Rule 13a-15(b), 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 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 nine month period ended October 2, 2009, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1A. Risk Factors

FACTORS AFFECTING OPERATING RESULTS AND MARKET PRICE OF STOCK

Exponent operates in a rapidly changing environment that involves a number of uncertainties, some of which are beyond our control. These uncertainties include, but are not limited to, those mentioned elsewhere in this report and those set forth below.

Lack of sizable backlog may lead to less predictable, and perhaps lower, future revenues.

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.

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 or any significant number of employees could have a material adverse impact on our business, including our ability to secure and complete engagements.

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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 and believe that we will continue to derive a significant portion of our revenues from clients, organizations and insurers related to the transportation and government sectors. The loss of any large client, organization or insurer, including but not limited to the above sectors, could have a material adverse effect on our business, financial condition or results of operations.

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 relative strength of the global economy continues to be increasingly uncertain. If the economy in the United States, where we primarily operate, continues to experience a prolonged slowdown, demand for our services could be reduced considerably.

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 a substantial account 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 investment portfolio as of October 2, 2009 consisted primarily of obligations of state and local government agencies. 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.

As a result of current adverse financial market conditions, investments in some financial instruments may pose risks arising from liquidity and credit concerns. As of October 2, 2009, 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. 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 implementing 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 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.

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 October 2, 2009:

(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 Program (1)
July 4 to July 31	19	$ 26.04	19	$ 28,974
August 1 to August 28	132	25.66	132	$ 25,577
August 29 to October 2	27	27.66	27	$ 24,819
Total	178	$ 26.01	178	

On May 29, 2008, the Company s Board of Directors authorized an additional $35 million for stock repurchases. On February 19, 2009, the Company s Board of Directors authorized an additional $25.1 million for stock repurchases. These plans have no expiration date.

Item 6. Exhibits

(a) Exhibits

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.

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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 11, 2009

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

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