EXPONENT INC
Form 10-Q
May 05, 2010
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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 April 2, 2010

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 April 30, 2010, the latest practicable date, the registrant had 13,859,430 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

April 2, 2010 and January 1, 2010

(in thousands, except share data)

(unaudited)

	April 2, 2010	January 1, 2010
Assets		
Current assets:		
Cash and cash equivalents	$ 68,367	$ 67,895
Short-term investments	4,245	7,490
Accounts receivable, net of allowance for doubtful accounts of $2,635 and $2,717 at April 2, 2010 and January 1, 2010, respectively	63,568	62,662
Prepaid expenses and other assets	3,571	5,789
Deferred income taxes	5,434	4,494
Total current assets	145,185	148,330
Property, equipment and leasehold improvements, net	28,770	29,115
Goodwill	8,607	8,607
Deferred income taxes	10,691	10,476
Other assets	13,025	9,953
Total assets	$ 206,278	$ 206,481
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 6,102	$ 4,498
Accrued payroll and employee benefits	22,559	35,822
Deferred revenues	4,309	4,757
Total current liabilities	32,970	45,077
Other liabilities	387	367
Deferred compensation	12,650	9,543
Deferred rent	1,608	1,423
Total liabilities	47,615	56,410
Stockholders equity:		
Common stock, $0.001 par value; 100,000,000 shares authorized; 16,426,664 shares issued at April 2, 2010 and January 1, 2010	16	16
Additional paid-in capital	90,774	83,808
Accumulated other comprehensive loss	(545)	(367)

Retained earnings	140,509	139,606
Treasury stock, at cost; 2,608,716 and 2,690,206 shares held at April 2, 2010 and January 1, 2010, respectively	(72,091)	(72,992)
Total stockholders equity	158,663	150,071
Total liabilities and stockholders equity	$ 206,278	$ 206,481

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 Months Ended April 2, 2010 and April 3, 2009

(in thousands, except per share data)

(unaudited)

	Three Months Ended	
	April 2, 2010	**April 3, 2009**
Revenues:		
Revenues before reimbursements	$ 55,201	$ 54,931
Reimbursements	4,205	4,865
Revenues	59,406	59,796
Operating expenses:		
Compensation and related expenses	37,780	37,846
Other operating expenses	5,219	5,277
Reimbursable expenses	4,205	4,865
General and administrative expenses	2,695	2,632
Total operating expenses	49,899	50,620
Operating income	9,507	9,176
Other income, net:		
Interest income, net	63	234
Miscellaneous income, net	960	158
Total other income, net	1,023	392
Income before income taxes	10,530	9,568
Income taxes	4,291	3,810
Net income	$ 6,239	$ 5,758
Net income per share:		
Basic	$ 0.44	$ 0.41
Diluted	$ 0.42	$ 0.38
Shares used in per share computations:		
Basic	14,212	14,092
Diluted	14,940	14,975

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 Months Ended April 2, 2010 and April 3, 2009

(in thousands)

(unaudited)

	Three Months Ended	
	April 2, 2010	April 3, 2009
Net income	$ 6,239	$ 5,758
Other comprehensive income:		
Foreign currency translation adjustments, net of tax	161	(122)
Unrealized gains on investments arising during the period, net of tax	17	2
Comprehensive income	$ 6,417	$ 5,638

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 Three Months Ended April 2, 2010 and April 3, 2009

(in thousands)

(unaudited)

	Three Months Ended	
	April 2, 2010	April 3, 2009
Cash flows from operating activities:		
Net income	$ 6,239	$ 5,758
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property, equipment and leasehold improvements	1,073	1,078
Amortization of premiums and accretion of discounts on short-term investments	17	60
Deferred rent	185	(178)
Allowance for doubtful accounts	362	875
Stock-based compensation	3,092	3,095
Deferred income tax provision	(1,073)	(1,195)
Tax benefit for stock plans	(1,383)	(1,068)
Changes in operating assets and liabilities:		
Accounts receivable	(1,268)	(7,427)
Prepaid expenses and other assets	(351)	264
Accounts payable and accrued liabilities	3,233	884
Accrued payroll and employee benefits	(8,241)	(10,371)
Deferred revenues	(448)	1,819
Net cash provided by (used in) operating activities	1,437	(6,406)
Cash flows from investing activities:		
Capital expenditures	(728)	(421)
Sale/maturity of short-term investments	3,200	2,492
Net cash provided by investing activities	2,472	2,071
Cash flows from financing activities:		
Tax benefit for stock plans	1,383	1,068
Payroll taxes for restricted stock units	(1,850)	(1,687)
Repurchase of common stock	(4,051)	(5,525)
Exercise of share-based payment awards	1,226	306
Net cash used in financing activities	(3,292)	(5,838)
Effect of foreign currency exchange rates on cash and cash equivalents	(145)	(25)
Net increase (decrease) in cash and cash equivalents	472	(10,198)

Cash and cash equivalents at beginning of period	67,895	32,598
Cash and cash equivalents at end of period	$ 68,367	$ 22,400

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

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EXPONENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three Months Ended April 2, 2010 and April 3, 2009

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 months ended April 2, 2010 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 1, 2010.

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 and determined 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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EXPONENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

For the Three Months Ended April 2, 2010 and April 3, 2009

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 April 2, 2010 (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]	$ 64,648	$ 60,403	$ 4,245	
Fixed income trading securities held in deferred compensation plan [2]	4,803	4,803		
Equity trading securities held in deferred compensation plan [2]	8,147	8,147		
Total	$ 77,598	$ 73,353	$ 4,245	$
Liabilities				
Deferred compensation plan [3]	12,950	12,950		
Total	$ 12,950	$ 12,950	$	$

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EXPONENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

For the Three Months Ended April 2, 2010 and April 3, 2009

The fair value of these certain financial assets and liabilities was determined using the following inputs at January 1, 2010 (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]	$ 64,416	$ 56,926	$ 7,490	
Fixed income trading securities held in deferred compensation plan [2]	2,873	2,873		
Equity trading securities held in deferred compensation plan [2]	6,960	6,960		
Total	$ 74,249	$ 66,759	$ 7,490	$
Liabilities				
Deferred compensation plan [3]	9,833	9,833		
Total	$ 9,833	$ 9,833	$	$

(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 at April 2, 2010, primarily represent obligations of state and local government agencies. Included in fixed income available-for-sale securities are $60,403,000 of money market securities classified as cash equivalents. Fixed income and equity trading securities are composed of mutual funds held in the Company s deferred compensation plan. See Note 7 for additional information about the Company s deferred compensation plan.

At April 2, 2010, the Company did not have any assets valued using significant unobservable inputs (Level 3).

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 three months of 2010 and 2009.

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.

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EXPONENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

For the Three Months Ended April 2, 2010 and April 3, 2009

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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EXPONENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

For the Three Months Ended April 2, 2010 and April 3, 2009

Gross revenues and reimbursements for the three months ended April 2, 2010 and April 3, 2009 were as follows:

	Three Months Ended	
(In thousands)	**April 2, 2010**	**April 3, 2009**
Gross revenues	$ 60,917	$ 60,722
Less: subcontractor fees	1,511	926
Revenues	59,406	59,796
Reimbursements:		
Out-of-pocket travel reimbursements	1,004	1,085
Other outside direct expenses	3,201	3,780
	4,205	4,865
Revenues before reimbursements	$ 55,201	$ 54,931

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	
(In thousands)	**April 2, 2010**	**April 3, 2009**

Shares used in basic per share computation	14,212	14,092
Effect of dilutive common stock options outstanding	334	519
Effect of dilutive restricted stock units outstanding	394	364
Shares used in diluted per share computation	14,940	14,975

Common stock options to purchase 60,000 shares were excluded from the diluted per share calculation for the three months ended April 2, 2010 and April 3, 2009, due to their antidilutive effect. The weighted-average exercise price for the antidilutive shares was $31.01 for the three months ended April 2, 2010 and April 3, 2009.

EXPONENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

For the Three Months Ended April 2, 2010 and April 3, 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 $1,081,000 and $1,106,000 during the three months ended April 2, 2010 and April 3, 2009, 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 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 $1,849,000 and $1,812,000 during the three months ended April 2, 2010 and April 3, 2009, 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 $162,000 and $177,000 during the three months ended April 2, 2010 and April 3, 2009, 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.

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EXPONENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

For the Three Months Ended April 2, 2010 and April 3, 2009

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 139,941 shares of its common stock for $3.8 million during the three months ended April 2, 2010. The Company repurchased 254,861 shares of its common stock for $5.5 million during the three months ended April 3, 2009. As of April 2, 2010, the Company had remaining authorization under its stock repurchase plans of $18.1 million to repurchase shares of common stock.

The Company reissued 221,431 shares of its treasury stock with a cost of $4.7 million to settle restricted stock unit awards, stock options and purchases under the Employee Stock Purchase Plan during the three months ended April 2, 2010. The Company reissued 169,703 shares of its treasury stock with a cost of $2.7 million to settle restricted stock unit awards, stock options and purchases under the Employee Stock Purchase Plan during the three months ended April 3, 2009.

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 April 2, 2010 and January 1, 2010, the invested amounts under the plan totaled $13.0 million and $9.8 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 April 2, 2010 and January 1, 2010, vested amounts due under the plan totaled $13.0 million and $9.8 million, respectively. Changes in the liability are recorded as adjustments to compensation expense. During the three months ended April 2, 2010, the Company recognized an increase to compensation expense of $569,000 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 months ended April 3, 2009, the Company recognized a decrease to compensation expense of $109,000 as a result of changes in the market value of the trust assets, with the same amount being recorded as other expense.

Note 8: Supplemental Cash Flow Information

The following is supplemental disclosure of cash flow information:

	Three Months Ended	
(In thousands)	**April 2, 2010**	**April 3, 2009**
Cash paid during period:		
Income taxes	$ 182	$ 330
Non-cash investing and financing activities:		
Unrealized gain on short-term investments	$ 17	$ 2
Vested stock unit awards issued to settle accrued bonuses	$ 3,566	$ 3,739

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EXPONENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

For the Three Months Ended April 2, 2010 and April 3, 2009

Note 9: Accounts Receivable, Net

At April 2, 2010 and January 1, 2010, accounts receivable, net, was comprised of the following:

(In thousands)	April 2, 2010	January 1, 2010
Billed accounts receivable	$ 40,834	$ 46,461
Unbilled accounts receivable	25,369	18,918
Allowance for doubtful accounts	(2,635)	(2,717)
Total accounts receivable, net	$ 63,568	$ 62,662

Note 10: 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.

Segment information for the three months ended April 2, 2010 and April 3, 2009 follows:

Revenues

	Three Months Ended	
(In thousands)	April 2, 2010	April 3, 2009
Engineering and other scientific	$ 44,727	$ 45,255
Environmental and health	14,679	14,541
Total revenues	$ 59,406	$ 59,796

Operating income

	Three Months Ended	
(In thousands)	April 2, 2010	April 3, 2009
Engineering and other scientific	$ 13,003	$ 11,652
Environmental and health	4,275	4,295
Total segment operating income	17,278	15,947

Corporate operating expense	(7,771)	(6,771)
Total operating income	$ 9,507	$ 9,176

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EXPONENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

For the Three Months Ended April 2, 2010 and April 3, 2009

Capital Expenditures

	Three Months Ended	
(In thousands)	**April 2, 2010**	**April 3, 2009**
Engineering and other scientific	$ 601	$ 369
Environmental and health	42	39
Total segment capital expenditures	643	408
Corporate capital expenditures	85	13
Total capital expenditures	$ 728	$ 421

Depreciation and Amortization

	Three Months Ended	
(In thousands)	**April 2, 2010**	**April 3, 2009**
Engineering and other scientific	$ 680	$ 701
Environmental and health	47	46
Total segment depreciation and amortization	727	747
Corporate depreciation and amortization	346	331
Total depreciation and amortization	$ 1,073	$ 1,078

No single customer comprised more than 10% of the Company s revenues during the three months ended April 2, 2010. During the three months ended April 3, 2009, the Company derived 12% of revenues from agencies of the federal government. No single customer comprised more than 10% of the Company s accounts receivable at April 2, 2010. Agencies of the U.S. federal government comprised 13% of the Company s accounts receivable at January 1, 2010.

Note 11: Goodwill

Below is a breakdown of goodwill reported by segment as of April 2, 2010:

(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 months ended April 2, 2010.

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. 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

EXPONENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS Continued

For the Three Months Ended April 2, 2010 and April 3, 2009

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.

The Company is party to a lawsuit arising from a third party claim alleging negligence related to the disposal of evidence following the completion of the Company s work on a project. The exact amount of damages is not alleged, but the Company understands the claim is currently less than $3 million. The case is in the pretrial stage and trial has been set for May 2010. The Company believes it has a strong defense against this claim and intends to vigorously defend itself. Further, the Company believes that some of this claim 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 this claim will not have a material adverse effect on its financial condition, results of operations or liquidity.

In addition to the above matters, 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 1, 2010, which are contained in our fiscal 2009 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 2009 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 2009 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

Executive Summary

Revenues for the first quarter of 2010 were relatively consistent with the same period in the prior year. Net income increased 8% and diluted earnings per share increased to $0.42 per share as compared to $0.38 per share in the same period last year. We were able to improve profitability by effectively managing headcount over the past year to align our resources with anticipated demand, which resulted in improved utilization and lower cost. In addition, our combined other operating and general and administrative expenses remained flat with the low levels achieved in the first quarter of 2009. The areas of our business that are related to litigation and insurance matters continued to perform well during the first quarter of 2010. The areas that are more dependent on discretionary spending continued to get mixed results. We also experienced a decline in our defense business due to the volatility associated with the size and nature of the projects in this area.

We had strong performances in our Mechanical Engineering & Materials Science Centers and our Buildings & Structures Practice. In our Mechanical Engineering & Materials Science Centers, we worked on a broad portfolio of projects in both failure analysis and design consulting for a cross-section of industries including consumer products, medical devices, transportation and energy. In our Buildings & Structures Practice we continued to work on disputes related to the performance of mobile homes, bridges and other types of structures.

As the economy recovers we expect improvement in the areas that are more dependent on discretionary spending, such as design, energy, and infrastructure consulting. For the remainder of 2010 we expect to be focused on selectively hiring new talent consistent with our goal of maintaining or improving utilization, continuing to tightly manage our other operating and general and administrative expenses, generating additional 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 April 2, 2010

During the first quarter of 2010, we had a 0.7% decrease in revenues and a 0.5% increase 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 first quarter of 2010 decreased 2.6% to 228,027 as compared to 234,022 during the same period last year. Technical full-time equivalents decreased 3.3% to 621 during the first quarter of 2010 as compared to 642 during the same period last year. Utilization increased to 71% for the first quarter of 2010 as compared to 70% during the same period last year. The decrease in billable hours was due to the general macroeconomic climate, a decrease in technical full-time equivalent employees, and a decrease in activity in our Technology Development Practice. The increase in utilization was due to our management of headcount to align resources with anticipated demand. Product sales in our Technology Development Practice decreased 43% to $508,000 for the first quarter of 2010 as compared to $890,000 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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Three Months Ended April 2, 2010 compared to Three Months Ended April 3, 2009

Revenues

	Three Months Ended		
(In thousands)	**April 2, 2010**	**April 3, 2009**	**Percent Change**
Engineering and other scientific	$ 44,727	$ 45,255	(1.2)%
Percentage of total revenues	75.3%	75.7%	
Environmental and health	14,679	14,541	0.9%
Percentage of total revenues	24.7%	24.3%	
Total revenues	$ 59,406	$ 59,796	(0.7)%

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 first quarter of 2010, billable hours for this segment decreased by 3.9% to 167,691 as compared to 174,432 during the same period last year. Technical full-time equivalents decreased 5.1% to 447 from 471 for the same period last year. The decrease in billable hours was due to the general macroeconomic climate, a decrease in technical full-time equivalent employees, and a decrease in activity in our Technology Development Practice. Utilization increased to 72% for the first quarter of 2010 as compared to 71% for the same period last year due to our management of headcount to align resources with anticipated demand. Product sales in our Technology Development Practice decreased 43% to $508,000 for the first quarter of 2010 as compared to $890,000 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 Center for Chemical Registration & Food Safety. During the first quarter of 2010, billable hours for this segment increased by 1.3% to 60,336 as compared to 59,591 during the same period last year. Technical full-time equivalents increased by 1.2% to 173 from 171 for the same period last year due to our recruiting and retention efforts. Utilization was 67% for the first quarter of 2010 and 2009.

Compensation and Related Expenses

	Three Months Ended		
(In thousands)	**April 2, 2010**	**April 3, 2009**	**Percent Change**
Compensation and related expenses	$ 37,780	$ 37,846	(0.2)%
Percentage of total revenues	63.6%	63.3%	

The decrease in compensation and related expenses during the first quarter of 2010 was due to a decrease in payroll partially offset by a change in value of assets associated with our deferred compensation plan. Payroll decreased by $857,000 due to the decrease in technical full-time equivalent employees. This decrease was partially offset by an increase in compensation expense of $678,000, with a corresponding increase to other income, due to a change in the value of assets associated with our deferred compensation plan. This increase consisted of an increase in the value of plan assets of $569,000 during the first quarter of 2010 and a decrease in the value of plan assets of $109,000 during the first quarter of 2009. Average technical full-time equivalent employees for the first quarter of 2010 were 621. On a sequential basis we expect average technical full-time equivalent employees to be approximately flat in the second quarter of 2010 and then to grow slightly during the second half of the year. We also expect a slight increase in compensation expense due to the impact of our annual salary increases which will be effective at the beginning of the second quarter of 2010.

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Other Operating Expenses

(In thousands)	Three Months Ended April 2, 2010	Three Months Ended April 3, 2009	Percent Change
Other operating expenses	$ 5,219	$ 5,277	(1.1)%
Percentage of total revenues	8.8%	8.8%	

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 due to our continuing efforts to manage our cost structure by reducing discretionary spending and negotiating favorable agreements with our vendors. For the remainder of 2010 we will continue to focus on managing our cost structure. We expect other operating expenses to grow slightly as we selectively add new talent and make investments in our corporate infrastructure.

Reimbursable Expenses

(In thousands)	Three Months Ended April 2, 2010	Three Months Ended April 3, 2009	Percent Change
Reimbursable expenses	$ 4,205	$ 4,865	(13.6)%
Percentage of total revenues	7.1%	8.1%	

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

(In thousands)	Three Months Ended April 2, 2010	Three Months Ended April 3, 2009	Percent Change
General and administrative expenses	$ 2,695	$ 2,632	2.4%
Percentage of total revenues	4.5%	4.4%	

The increase in general and administrative expenses during the first quarter of 2010 was due to an increase in legal fees of $134,000 partially offset by the decrease in bad debt expense of $82,000. For the remainder of 2010 we will continue to focus on managing our cost structure. We expect general and administrative expenses to grow slightly as we selectively add new talent, expand our business development efforts and pursue staff development initiatives.

Other Income, Net

(In thousands)	Three Months Ended April 2, 2010	Three Months Ended April 3, 2009	Percent Change
Other income, net	$ 1,023	$ 392	161.0%
Percentage of total revenues	1.7%	0.7%	

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. The change in value of assets associated with our deferred compensation plan caused a $678,000 increase in other

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income and expense, net, with a corresponding increase to compensation expense. This increase consisted of an increase in the value of plan assets of $569,000 during the first quarter of 2010 and a decrease in the value of plan assets of $109,000 during the first quarter of 2009. The decrease in interest income of $171,000 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)	**April 2, 2010**	**April 3, 2009**	**Percent Change**
Income taxes	$ 4,291	$ 3,810	12.6%
Percentage of total revenues	7.2%	6.4%	
Effective tax rate	40.8%	39.8%	

The increase in income tax expense was due to a corresponding increase in pre-tax income and an increase in our effective tax rate. The increase in our effective tax rate was primarily due to a decrease in tax-exempt interest income.

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RECENT ACCOUNTING PRONOUNCEMENTS

In October 2009, the Financial Accounting Standards Board (FASB) issued a new revenue recognition standard for arrangements with multiple deliverables. The new standard permits entities to initially use management s best estimate of selling price to value individual deliverables when those deliverables do not have vendor specific objective evidence of fair value or when third-party evidence is not available. Additionally, the new standard modifies the manner in which the transaction consideration is allocated across the separately identified deliverables by no longer permitting the residual method of allocating arrangement consideration.

Also in October 2009, the FASB amended the accounting standards for revenue recognition to exclude software contained within certain qualifying tangible products from the scope of the software revenue recognition guidance if the software is essential to the tangible product s functionality.

These new standards are effective for annual periods ending after June 15, 2010 and are effective for us beginning in the first quarter of fiscal 2011; however, early adoption is permitted. We are currently evaluating the impact of adopting these new standards on our consolidated financial position, results of operations and cash flows, including possible early adoption.

LIQUIDITY AND CAPITAL RESOURCES

As of April 2, 2010, our cash, cash equivalents and short-term investments were $72.6 million compared to $75.4 million at January 1, 2010.

	Three Months Ended	
(In thousands)	**April 2, 2010**	**April 3, 2009**
Net cash provided by (used in) operating activities	$ 1,437	$ (6,406)
Net cash provided by investing activities	2,472	2,071
Net cash used in financing activities	(3,292)	(5,838)

The increase in net cash provided by operating activities during the first three months of 2010 as compared to the same period last year was due to a smaller increase in accounts receivable and an increase in accounts payable and accrued liabilities, partially offset by a decrease in deferred revenues. Accounts receivable increased by $1,268,000 during the first three months of 2010 as compared to an increase of $7,427,000 during the same period last year. The smaller increase during the first three months of 2010 as compared to the same period last year was due to improved collections. Days sales outstanding decreased to 96 days during the first three months of 2010 compared to 99 days during the same period last year. Accounts payable and accrued liabilities, net of the tax benefit for stock plans, increased by $1,850,000 during the first three months of 2010 as compared to a decrease of

$184,000 during the same period last year. The increase in accounts payable and accrued liabilities was due to the timing of estimated income tax payments and payments to vendors. The decrease in deferred revenues was due to a decrease in pre-billed projects.

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The increase in net cash provided by investing activities during the first three months of 2010 was due to an increase of $708,000 in sales and maturities of short-term investments.

The decrease in net cash used in financing activities during the first three months of 2010 was primarily due to a decrease in repurchases of common stock of $1,474,000 and an increase in exercises of share-based payment awards of $920,000.

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.

The following schedule summarizes our principal contractual commitments as of April 2, 2010 (in thousands):

Fiscal year	Operating lease commitments	Capital leases	Purchase obligations	Total
2010	$ 4,671	$ 5	$ 698	$ 5,374
2011	5,649	6		5,655
2012	4,948	3		4,951
2013	2,745	2		2,747
2014	2,304			2,304
Thereafter	3,076			3,076
	$ 23,393	$ 16	$ 698	$ 24,107

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 $12.6 million were recorded as a long-term liability on our condensed consolidated balance sheet at April 2, 2010. 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 April 2, 2010 invested amounts under the plan of $12.6 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.

Non-GAAP Financial Measures

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

The following table shows EBITDA as a percentage of revenues before reimbursements for the three months ended April 2, 2010 and April 3, 2009:

	Three Months Ended	
(in thousands, except percentages)	**April 2, 2010**	**April 3, 2009**
Revenues before reimbursements	$ 55,201	$ 54,931
EBITDA	$ 11,540	$ 10,412
EBITDA as a % of revenues before reimbursements	20.9%	19.0%

The increase in EBITDA as a percentage of revenues before reimbursements was due to improved utilization and lower cost. We were able to manage headcount to align our resources with anticipated demand and our combined other operating and general and administrative expenses remained flat with the low levels achieved in the first quarter of 2009.

The following table is a reconciliation of EBITDA and EBITDAS to the most comparable GAAP measure, net income, for the three months ended April 2, 2010 and April 3, 2009:

	Three Months Ended	
(in thousands)	**April 2, 2010**	**April 3, 2009**
Net income	$ 6,239	$ 5,758
Add back (subtract):		
Income taxes	4,291	3,810
Interest income, net	(63)	(234)
Depreciation and amortization	1,073	1,078
EBITDA	11,540	10,412
Stock-based compensation	3,092	3,095
EBITDAS	$ 14,632	$ 13,507

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.

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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.

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 three month period ended April 2, 2010, 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, business generators or any significant number of employees could have a material adverse impact on our business, including our ability to secure and complete engagements.

Competition could reduce our pricing and adversely affect our business.

The markets for our services are highly competitive. In addition, there are relatively low barriers to entry into our markets and we have faced, and expect to continue to face, additional competition from new entrants into our markets. Competitive pressure could reduce the market acceptance of our services and result in price reductions that could have a material adverse effect on our business, financial condition or results of operations.

The loss of a large client could adversely affect our business.

We currently derive and believe that we will continue to derive a significant portion of our revenues from clients, organizations and insurers related to the transportation industry and the government sector. The loss of any large client, organization or insurer related to the transportation industry, government sector or any other large client, organization or insurer which is a significant customer, 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 direction and relative strength of the global economy continues to be uncertain. If the economic growth in the United States, where we primarily operate, continues to be slow and not improve, our clients may consolidate or go out of business and thus demand for our services could be reduced significantly.

Our clients may be unable to pay for our services.

If a client s financial difficulties become severe, the client may be unwilling or unable to pay our invoices in the ordinary course of business, which could adversely affect collections of both our accounts receivable and unbilled services. On occasion, some of our clients have entered bankruptcy, which has prevented us from collecting amounts owed to us. The bankruptcy of a client with substantial accounts receivable could have a material adverse effect on our financial condition and results of operations.

We hold substantial investments that could present liquidity risks.

Our cash equivalent and short-term investment portfolio as of April 2, 2010 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 April 2, 2010, 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.

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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.

Our engagements may result in professional or other liability.

Our services typically involve difficult engineering and scientific assignments and carry risks of professional and other liability. Many of our engagements involve matters that could have a severe impact on a client s business, cause a client to lose significant amounts of money, or prevent a client from pursuing desirable business opportunities. Accordingly, if a client is dissatisfied with our performance, the client could threaten or bring litigation in order to recover damages or to contest its obligation to pay our fees. Litigation alleging that we performed negligently, disclosed client confidential information, lost or damaged evidence, infringed on patents, or otherwise breached our obligations to a client could expose us to significant liabilities to our clients or other third parties or tarnish our reputation.

Potential conflicts of interests may preclude us from accepting some engagements.

We provide litigation support consulting and other services primarily in connection with significant disputes, or other matters that are usually adversarial or that involve sensitive client information. The nature of our consulting services may preclude us from accepting engagements with other potential clients because of conflicts. Accordingly, the nature of our business limits the number of both potential clients and potential engagements.

We may not be successful in obtaining approval from our shareholders to increase the number of common shares issuable under our equity incentive plans.

We are seeking shareholder approval of an amendment to our 2008 Equity Incentive Plan to replenish the number of common shares available for issuance to meet future needs. We may not be successful in obtaining approval from our shareholders to replenish the number of common shares issuable for future awards. This could adversely affect our ability to recruit and retain our employees.

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The market price of our common stock may be volatile.

Many factors could cause the market price of our common stock to rise and fall. These include the risk factors listed above, changes in estimates of our performance or recommendations by securities analysts, future sales of shares of common stock in the public market, market conditions in the industry and economy as a whole, acquisitions or strategic alliances involving us or our competitors, restatement of financial results and changes in accounting principles or methods. In addition, the stock market often experiences significant price fluctuations. These fluctuations are often unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of our common stock. When the market price of a company s stock drops significantly, shareholders often institute securities class action litigation against that company. Any litigation against us could cause us to incur substantial costs, divert the time and attention of our management and other resources, or otherwise harm our business.

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 April 2, 2010:

(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)
January 2 to January 29	78	$ 27.39	78	$ 19,738
January 30 to February 26	37	26.33	37	$ 18,774
February 27 to April 2	25	27.81	25	$ 18,074
Total	140	$ 27.19	140	

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 repurchases 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.

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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: May 5, 2010

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

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