

EXPONENT INC  
Form 10-Q  
August 06, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended July 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)

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

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

**149 COMMONWEALTH DRIVE, MENLO PARK, CALIFORNIA**  
(Address of principal executive office)

**94025**  
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

As of July 30, 2010, the latest practicable date, the registrant had 13,873,846 shares of Common Stock, \$0.001 par value per share, outstanding.

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**EXPONENT, INC.**

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**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****EXPONENT, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****July 2, 2010 and January 1, 2010****(in thousands, except share data)****(unaudited)**

	<b>July 2, 2010</b>	<b>January 1, 2010</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 74,071	\$ 67,895
Short-term investments	2,333	7,490
Accounts receivable, net of allowance for doubtful accounts of \$2,426 and \$2,717 at July 2, 2010 and January 1, 2010, respectively	71,618	62,662
Prepaid expenses and other assets	10,150	5,789
Deferred income taxes	5,491	4,494
<b>Total current assets</b>	<b>163,663</b>	<b>148,330</b>
Property, equipment and leasehold improvements, net	28,298	29,115
Goodwill	8,607	8,607
Deferred income taxes	11,367	10,476
Other assets	12,650	9,953
<b>Total assets</b>	<b>\$ 224,585</b>	<b>\$ 206,481</b>
<b>Liabilities and Stockholders Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 6,464	\$ 4,498
Accrued payroll and employee benefits	31,508	35,822
Deferred revenues	5,835	4,757
<b>Total current liabilities</b>	<b>43,807</b>	<b>45,077</b>
Other liabilities	407	367
Deferred compensation	12,263	9,543
Deferred rent	2,140	1,423
<b>Total liabilities</b>	<b>58,617</b>	<b>56,410</b>
Stockholders equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 16,426,664 shares issued and outstanding at July 2, 2010 and January 1, 2010	16	16
Additional paid-in capital	92,526	83,808
Accumulated other comprehensive loss	(746)	(367)

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Retained earnings	145,462	139,606
Treasury stock, at cost; 2,560,818 and 2,690,206 shares held at July 2, 2010 and January 1, 2010, respectively	(71,290)	(72,992)
Total stockholders' equity	165,968	150,071
Total liabilities and stockholders' equity	\$ 224,585	\$ 206,481

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

**Table of Contents****EXPONENT, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****For the Three and Six Months Ended July 2, 2010 and July 3, 2009****(in thousands, except per share data)****(unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 2, 2010</b>	<b>July 3, 2009</b>	<b>July 2, 2010</b>	<b>July 3, 2009</b>
<b>Revenues:</b>				
Revenues before reimbursements	\$ 55,128	\$ 52,429	\$ 110,329	\$ 107,360
Reimbursements	5,311	8,433	9,516	13,298
Revenues	60,439	60,862	119,845	120,658
<b>Operating expenses:</b>				
Compensation and related expenses	34,060	34,954	71,840	72,800
Other operating expenses	5,388	5,309	10,607	10,586
Reimbursable expenses	5,311	8,433	9,516	13,298
General and administrative expenses	2,905	3,227	5,600	5,859
Total operating expenses	47,664	51,923	97,563	102,543
Operating income	12,775	8,939	22,282	18,115
<b>Other income (expense), net:</b>				
Interest income, net	66	200	129	434
Miscellaneous income (expense), net	(560)	898	400	1,056
Total other income (expense), net	(494)	1,098	529	1,490
Income before income taxes	12,281	10,037	22,811	19,605
Income taxes	5,001	4,012	9,292	7,822
Net income	\$ 7,280	\$ 6,025	\$ 13,519	\$ 11,783
<b>Net income per share:</b>				
Basic	\$ 0.51	\$ 0.43	\$ 0.95	\$ 0.83
Diluted	\$ 0.48	\$ 0.40	\$ 0.90	\$ 0.79
<b>Shares used in per share computations:</b>				
Basic	14,377	14,167	14,295	14,129
Diluted	15,054	15,013	15,009	14,998

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

**Table of Contents****EXPONENT, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****For the Three and Six Months Ended July 2, 2010 and July 3, 2009****(in thousands)****(unaudited)**

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>July 2, 2010</b>	<b>July 3, 2009</b>	<b>July 2, 2010</b>	<b>July 3, 2009</b>
Net income	\$ 7,280	\$ 6,025	\$ 13,519	\$ 11,783
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	(190)	(36)	(351)	(158)
Unrealized (loss) gain on investments, net of tax	(11)	114	(28)	116
<b>Comprehensive income</b>	<b>\$ 7,079</b>	<b>\$ 6,103</b>	<b>\$ 13,140</b>	<b>\$ 11,741</b>

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

**Table of Contents****EXPONENT, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Six Months Ended July 2, 2010 and July 3, 2009****(in thousands)****(unaudited)**

	<b>Six Months Ended</b>	
	<b>July 2, 2010</b>	<b>July 3, 2009</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 13,519	\$ 11,783
<b>Adjustments to reconcile net income to net cash provided by (used in) operating activities:</b>		
Depreciation and amortization of property, equipment and leasehold improvements	2,151	2,179
Amortization of premiums and accretion of discounts on short-term investments	31	115
Deferred rent	717	(278)
Allowance for doubtful accounts	956	2,230
Stock-based compensation	5,093	4,744
Deferred income tax provision	(1,795)	(1,991)
Tax benefit for stock plans	(2,287)	(1,859)
<b>Changes in operating assets and liabilities:</b>		
Accounts receivable	(9,912)	(13,427)
Prepaid expenses and other assets	(7,536)	(2,341)
Accounts payable and accrued liabilities	4,500	487
Accrued payroll and employee benefits	47	(3,540)
Deferred revenues	1,078	1,042
<b>Net cash provided by (used in) operating activities</b>	<b>6,562</b>	<b>(856)</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures	(1,335)	(1,158)
Sale/maturity of short-term investments	5,080	12,772
<b>Net cash provided by investing activities</b>	<b>3,745</b>	<b>11,614</b>
<b>Cash flows from financing activities:</b>		
Tax benefit for stock plans	2,287	1,859
Payroll taxes for restricted stock units	(1,896)	(1,687)
Repurchase of common stock	(6,356)	(5,525)
Exercise of share-based payment awards	2,051	1,027
<b>Net cash used in financing activities</b>	<b>(3,914)</b>	<b>(4,326)</b>
Effect of foreign currency exchange rates on cash and cash equivalents	(217)	79
<b>Net increase in cash and cash equivalents</b>	<b>6,176</b>	<b>6,511</b>
Cash and cash equivalents at beginning of period	67,895	32,598
<b>Cash and cash equivalents at end of period</b>	<b>\$ 74,071</b>	<b>\$ 39,109</b>



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

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**EXPONENT, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**For the Three and Six Months Ended July 2, 2010 and July 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 and six months ended July 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.

**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.

**Table of Contents****EXPONENT, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended July 2, 2010 and July 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 July 2, 2010 (in thousands):

	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets</b>				
Fixed income available-for-sale securities <sup>(1)</sup>	\$ 64,688	\$ 62,355	\$ 2,333	
Fixed income trading securities held in deferred compensation plan <sup>(2)</sup>	4,516	4,516		
Equity trading securities held in deferred compensation plan <sup>(2)</sup>	7,966	7,966		
<b>Total</b>	<b>\$ 77,170</b>	<b>\$ 74,837</b>	<b>\$ 2,333</b>	<b>\$</b>
<b>Liabilities</b>				
Deferred compensation plan <sup>(3)</sup>	12,482	12,482		
<b>Total</b>	<b>\$ 12,482</b>	<b>\$ 12,482</b>	<b>\$</b>	<b>\$</b>

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

<sup>(2)</sup> Included in other current assets and other assets on the Company's condensed consolidated balance sheet.

<sup>(3)</sup> Included in accrued liabilities and deferred compensation on the Company's condensed consolidated balance sheet.

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## EXPONENT, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the Three and Six Months Ended July 2, 2010 and July 3, 2009

The fair value of these certain financial assets and liabilities was determined using the following inputs at January 1, 2010 (in thousands):

	Total	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Assets</u>				
Fixed income available-for-sale securities <sup>(1)</sup>	\$ 64,416	\$ 56,926	\$ 7,490	
Fixed income trading securities held in deferred compensation plan <sup>(2)</sup>	2,873	2,873		
Equity trading securities held in deferred compensation plan <sup>(2)</sup>	6,960	6,960		
<b>Total</b>	<b>\$ 74,249</b>	<b>\$ 66,759</b>	<b>\$ 7,490</b>	<b>\$</b>
<u>Liabilities</u>				
Deferred compensation plan <sup>(3)</sup>	9,833	9,833		
<b>Total</b>	<b>\$ 9,833</b>	<b>\$ 9,833</b>	<b>\$</b>	<b>\$</b>

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

<sup>(2)</sup> Included in other current assets and other assets on the Company's condensed consolidated balance sheet.

<sup>(3)</sup> Included in accrued liabilities and deferred compensation on the Company's condensed consolidated balance sheet.

The valuation techniques used to measure the fair value of our financial instruments having Level 2 inputs were derived from non-binding market consensus prices that are corroborated by observable market data and quoted market prices for similar instruments.

Fixed income available-for-sale securities at July 2, 2010 primarily represent obligations of state and local government agencies. Included in fixed income available-for-sale securities are \$62,355,000 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 July 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 six months of 2010 and 2009.

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**EXPONENT, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**For the Three and Six Months Ended July 2, 2010 and July 3, 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.

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 to its estimate of the total labor hours at standard rates it expects to incur over the term of the contract. The Company believes this methodology achieves a reliable measure of the revenue from the consulting services it provides to its customers under fixed-price contracts given the nature of the consulting services the Company provides and the following additional considerations:

the Company considers labor hours at standard rates and expenses to be incurred when pricing its contracts;

the Company generally does not incur set-up costs on its contracts;

the Company does not believe that there are reliable milestones 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.

**Table of Contents****EXPONENT, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended July 2, 2010 and July 3, 2009**

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

(In thousands)	Three Months Ended		Six Months Ended	
	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
Gross revenues	\$ 63,605	\$ 62,558	\$ 124,522	\$ 123,183
Less: Subcontractor fees	3,166	1,696	4,677	2,525
Revenues	60,439	60,862	119,845	120,658
Reimbursements:				
Out-of-pocket travel reimbursements	1,262	1,276	2,266	2,361
Other outside direct expenses	4,049	7,157	7,250	10,937
	5,311	8,433	9,516	13,298
Revenues before reimbursements	\$ 55,128	\$ 52,429	\$ 110,329	\$ 107,360

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:

(In thousands)	Three Months Ended		Six Months Ended	
	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
Shares used in basic per share computation	14,377	14,167	14,295	14,129

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Effect of dilutive common stock options outstanding	280	489	310	506
Effect of dilutive restricted stock units outstanding	397	357	404	363
Shares used in diluted per share computation	15,054	15,013	15,009	14,998

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



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**EXPONENT, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**For the Three and Six Months Ended July 2, 2010 and July 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 \$1,155,000 and \$977,000 during the three months ended July 2, 2010 and July 3, 2009, respectively. For the six months ended July 2, 2010 and July 3, 2009, the Company recorded stock-based compensation expense associated with accrued bonus awards of \$2,236,000 and \$2,083,000, respectively. The value of the unvested restricted stock unit awards granted is recognized on a straight-line basis over the shorter of the four-year vesting period or the period between the grant date and the date the award recipient turns 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 \$689,000 and \$512,000 during the three months ended July 2, 2010 and July 3, 2009, respectively. The Company recorded stock-based compensation expense associated with the unvested restricted stock unit awards of \$2,538,000 and \$2,324,000 during the six months ended July 2, 2010 and July 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 \$157,000 and \$160,000 during the three months ended July 2, 2010 and July 3, 2009, respectively, associated with stock option grants. The Company recorded stock-based compensation expense of \$319,000 and \$337,000 during the six months ended July 2, 2010 and July 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



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**EXPONENT, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**For the Three and Six Months Ended July 2, 2010 and July 3, 2009**

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 219,578 shares of its common stock for \$6.1 million during the six months ended July 2, 2010. The Company repurchased 254,861 shares of its common stock for approximately \$5.5 million during the six months ended July 3, 2009. As of July 2, 2010, the Company had remaining authorization under its stock repurchase plans of \$15.8 million to repurchase shares of common stock.

The Company reissued 348,966 shares of its treasury stock with a cost of \$7.8 million to settle restricted stock unit awards, stock options and purchases under the Employee Stock Purchase Plan during the six months ended July 2, 2010. The Company reissued 321,311 shares of its treasury stock with a cost of \$5.6 million to settle restricted stock unit awards, stock options and purchases under the Employee Stock Purchase Plan during the six months ended July 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 July 2, 2010 and January 1, 2010, the invested amounts under the plan totaled \$12.5 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 July 2, 2010 and January 1, 2010, vested amounts due under the plan totaled \$12.5 million and \$9.8 million, respectively. Changes in the liability are recorded as adjustments to compensation expense. During the three and six months ended July 2, 2010, the Company recognized a decrease to compensation expense of \$881,000 and \$313,000, respectively, as a result of changes in the market value of the trust assets, with the same amount being recorded as other expense. During the three and six months ended July 3, 2009, the Company recognized an increase to compensation expense of \$564,000 and \$455,000, respectively, as a result of changes in the market value of the trust assets, with the same amount being recorded as other income.

**Table of Contents****EXPONENT, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended July 2, 2010 and July 3, 2009****Note 8: Supplemental Cash Flow Information**

The following is supplemental disclosure of cash flow information:

<b>(In thousands)</b>	<b>Six Months Ended</b>	
	<b>July 2, 2010</b>	<b>July 3, 2009</b>
Cash paid during period:		
Income taxes	\$ 9,278	\$ 8,870
Non-cash investing and financing activities:		
Unrealized (loss) gain on short-term investments	\$ (28)	\$ 116
Vested stock unit awards issued to settle accrued bonuses	\$ 3,566	\$ 3,739

**Note 9: Accounts Receivable, Net**

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

<b>(In thousands)</b>	<b>July 2, 2010</b>	<b>January 1, 2010</b>
Billed accounts receivable	\$ 49,603	\$ 46,461
Unbilled accounts receivable	24,441	18,918
Allowance for doubtful accounts	(2,426)	(2,717)
 Total accounts receivable, net	 \$ 71,618	 \$ 62,662

**Note 10: Inventory**

At July 2, 2010, the Company had \$71,000 of finished goods inventory, \$1,141,000 of work-in-process inventory and \$2,829,000 of raw materials inventory included in prepaid expenses and other current assets on its condensed consolidated balance sheet. At January 1, 2010, the Company had \$143,000 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.

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

**Revenues**

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(In thousands)	Three Months Ended		Six Months Ended	
	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
Engineering and other scientific	\$ 43,981	\$ 46,611	\$ 88,708	\$ 91,866
Environmental and health	16,458	14,251	31,137	28,792
<b>Total revenues</b>	<b>\$ 60,439</b>	<b>\$ 60,862</b>	<b>\$ 119,845</b>	<b>\$ 120,658</b>

**Table of Contents****EXPONENT, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended July 2, 2010 and July 3, 2009***Operating Income*

(In thousands)	Three Months Ended		Six Months Ended	
	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
Engineering and other scientific	\$ 12,143	\$ 11,130	\$ 25,146	\$ 22,782
Environmental and health	5,372	4,059	9,647	8,354
<b>Total segment operating income</b>	<b>17,515</b>	<b>15,189</b>	<b>34,793</b>	<b>31,136</b>
Corporate operating expense	(4,740)	(6,250)	(12,511)	(13,021)
<b>Total operating income</b>	<b>\$ 12,775</b>	<b>\$ 8,939</b>	<b>\$ 22,282</b>	<b>\$ 18,115</b>

*Capital Expenditures*

(In thousands)	Three Months Ended		Six Months Ended	
	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
Engineering and other scientific	\$ 447	\$ 348	\$ 1,048	\$ 717
Environmental and health	40	48	82	87
<b>Total segment capital expenditures</b>	<b>487</b>	<b>396</b>	<b>1,130</b>	<b>804</b>
Corporate capital expenditures	120	341	205	354
<b>Total capital expenditures</b>	<b>\$ 607</b>	<b>\$ 737</b>	<b>\$ 1,335</b>	<b>\$ 1,158</b>

*Depreciation and Amortization*

(In thousands)	Three Months Ended		Six Months Ended	
	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
Engineering and other scientific	\$ 715	\$ 726	\$ 1,395	\$ 1,427
Environmental and health	47	47	94	93
<b>Total segment depreciation and amortization</b>	<b>762</b>	<b>773</b>	<b>1,489</b>	<b>1,520</b>
Corporate depreciation and amortization	316	328	662	659
<b>Total depreciation and amortization</b>	<b>\$ 1,078</b>	<b>\$ 1,101</b>	<b>\$ 2,151</b>	<b>\$ 2,179</b>

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No single customer comprised more than 10% of the Company's revenues during the three and six months ended July 2, 2010. The Company derived 12.9% and 12.4% of revenues from agencies of the federal government for the three and six months ended July 3, 2009, respectively. Agencies of the U.S. federal government comprised 12% and 13% of the Company's accounts receivable at July 2, 2010 and January 1, 2010, respectively.

**Table of Contents****EXPONENT, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****For the Three and Six Months Ended July 2, 2010 and July 3, 2009****Note 12: Goodwill**

Below is a breakdown of goodwill reported by segment as of July 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 and six months ended July 2, 2010.

**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 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 second quarter of 2010 decreased 1% as compared to the same period in the prior year. The decrease in revenues was due to a 37% decrease in reimbursements related to materials, travel, and other out-of-pocket expenses partially offset by an increase in revenues before reimbursements. Revenues before reimbursements for the second quarter of 2010 increased 5% as compared to the same period in the prior year. The increase in revenues before reimbursements was due to a steady flow of reactive projects related to litigation, insurance claims and product recalls for which we were able to perform in-depth scientific research and analysis to determine what happened. In addition, we have continued to assist clients in complying with regulations pertaining to the registration of chemicals used throughout the world.

Net income increased 21% and diluted earnings per share increased to \$0.48 per share as compared to \$0.40 per share in the same period last year. We were able to improve profitability and margins 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 decreased 3% as compared to the same period in the prior year. The areas of our business that are related to litigation, insurance matters and regulatory compliance pertaining to the registration of chemicals continued to perform well during the second quarter of 2010. As a result, we had strong performances in our human factors and mechanics and materials practices, as well as our environmental and health groups. 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.

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 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 July 2, 2010*

During the second quarter of 2010, we had a 1% decrease in revenues and a 5% increase in revenues before reimbursements as compared to the same period last year. The decrease in revenues was due to a 37% decrease in reimbursements related to materials, travel, and other out-of-pocket expenses partially offset by an increase in revenues before reimbursements. The increase in revenues before reimbursements was due to an increase in billable hours and higher billing rates. Billable hours for the second quarter of 2010 increased 3.8% to 226,401 as compared to 218,092 during the same period last year. The increase in billable hours was due to an increase in activity in the areas of our business that are related to litigation, insurance matters and regulatory compliance pertaining to the registration of chemicals. The increase in billable hours was also due in part to one less holiday during the second quarter of 2010 as compared to the second quarter of 2009. Technical full-time equivalents decreased 2.9% to 611 during the second quarter of 2010 as compared to 629 during the same period last year. Utilization increased to 71% for the second quarter of 2010 as compared to 67% during the same period last year. 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 71% to \$1,910,000 for the second quarter of 2010 as compared to \$6,540,000 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.

**Table of Contents****Three Months Ended July 2, 2010 compared to Three Months Ended July 3, 2009***Revenues*

(In thousands)	Three Months Ended		Percent Change
	July 2, 2010	July 3, 2009	
Engineering and other scientific	\$ 43,981	\$ 46,611	(5.6)%
Percentage of total revenues	72.8%	76.6%	
Environmental and health	16,458	14,251	15.5%
Percentage of total revenues	27.2%	23.4%	
<b>Total revenues</b>	<b>\$ 60,439</b>	<b>\$ 60,862</b>	<b>(0.7)%</b>

The decrease in revenues for our engineering and other scientific segment was due to a decrease in product sales in our technology development practice, partially offset by an increase in billable hours and higher billing rates. Product sales in our technology development practice decreased 71% to \$1,910,000 for the second quarter of 2010 as compared to \$6,540,000 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 second quarter of 2010, billable hours for this segment increased by 0.5% to 161,280 as compared to 160,501 during the same period last year. The increase in billable hours was due to an increase in activity in the areas of our business that are related to litigation and insurance matters. The increase in billable hours was also due in part to one less holiday during the second quarter of 2010 as compared to the second quarter of 2009. Technical full-time equivalents decreased 4.4% to 436 from 456 for the same period last year. Utilization increased to 71% for the second quarter of 2010 as compared to 68% for the same period last year. The increase in utilization was due to our management of headcount to align resources with anticipated demand.

The increase in revenues for our environmental and health segment was driven by an increase in billable hours and higher billing rates. During the second quarter of 2010, billable hours for this segment increased by 13.1% to 65,122 as compared to 57,591 during the same period last year. The increase in billable hours was due to an increase in activity in the areas of our business that are related to litigation, insurance matters and regulatory compliance pertaining to the registration of chemicals. The increase in billable hours was also due in part to one less holiday during the second quarter of 2010 as compared to the second quarter of 2009. Technical full-time equivalents increased by 1.2% to 175 from 173 for the same period last year. Utilization increased to 72% for the second quarter of 2010 as compared to 64% during the same period last year. The increase in utilization was due to our management of headcount to align resources with anticipated demand.

*Compensation and Related Expenses*

(In thousands)	Three Months Ended		Percent Change
	July 2, 2010	July 3, 2009	
Compensation and related expenses	\$ 34,060	\$ 34,954	(2.6)%
Percentage of total revenues	56.4%	57.4%	

The decrease in compensation and related expenses during the second quarter of 2010 was due to a decrease in payroll and the change in value of assets associated with our deferred compensation plan, partially offset by an increase in bonuses. Payroll decreased by \$740,000 due to a decrease in technical full-time equivalent employees, partially offset by the impact of our annual salary increase. During the second quarter of 2010, compensation and related expenses decreased \$1,445,000, with a corresponding decrease to other income, net, as compared to the second quarter of 2009 due to a change in the value of assets associated with our deferred compensation plan. This decrease consisted of a decrease in the value of plan assets of \$881,000 during the second quarter of 2010 and an increase in the value of plan assets of \$564,000 during the second quarter of 2009. Bonuses increased by \$1,267,000 due to an increase in profitability. Average technical full-time equivalent employees for the second quarter of 2010 were 611. On a sequential basis we expect average technical full-time equivalent employees to slightly grow during the second half of the year.

**Table of Contents***Other Operating Expenses*

(In thousands)	Three Months Ended		
	July 2, 2010	July 3, 2009	Percent Change
Other operating expenses	\$ 5,388	\$ 5,309	1.5%
Percentage of total revenues	8.9%	8.7%	

Other operating expenses include facilities-related costs, technical materials, computer-related expenses and depreciation and amortization of property, equipment and leasehold improvements. Other operating expenses remained relatively consistent with the same period in the prior year 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		
	July 2, 2010	July 3, 2009	Percent Change
Reimbursable expenses	\$ 5,311	\$ 8,433	(37.0)%
Percentage of total revenues	8.8%	13.9%	

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*

(In thousands)	Three Months Ended		
	July 2, 2010	July 3, 2009	Percent Change
General and administrative expenses	\$ 2,905	\$ 3,227	(10.0)%
Percentage of total revenues	4.8%	5.3%	

The decrease in general and administrative expenses during the second quarter of 2010 was due to a decrease in bad debt of \$494,000, partially offset by an increase in travel and meals of \$239,000. The decrease in bad debt was primarily due to the bankruptcy filings of Chrysler and General Motors during the second quarter of 2009. The increase in travel and meals was primarily due to an increase in business development activities. We expect some growth in general and administrative expenses for the remainder of 2010 as a result of increased business development activities, a company-wide managers meeting and professional services to assist us with entering the European defense business.

*Other Income (Expense), Net*

(In thousands)	Three Months Ended		
	July 2, 2010	July 3, 2009	Percent Change
Other income (expense), net	\$ (494)	\$ 1,098	(145)%
Percentage of total revenues	(0.8)%	1.8%	

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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 decrease in other income, net, was due to a change in value of assets associated with our deferred compensation plan and a decrease in interest income. The change in value of assets associated with our deferred compensation plan caused a \$1,445,000 decrease in other income, net with a corresponding decrease to compensation expense. This decrease consisted of a decrease in the value of plan assets of \$881,000 during the second quarter of 2010 and an increase in the value of plan assets of \$564,000 during the second quarter of 2009. The decrease in interest income of \$134,000 was due to a decrease in the average balance of our short-term investments and lower interest rates.

*Income Taxes*

(In thousands)	Three Months Ended		Percent Change
	July 2, 2010	July 3, 2009	
Income taxes	\$ 5,001	\$ 4,012	24.7%
Percentage of total revenues	8.3%	6.6%	
Effective tax rate	40.7%	40.0%	

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.

*Six Months Ended July 2, 2010 compared to Six Months Ended July 3, 2009**Revenues*

(In thousands)	Six Months Ended		Percent Change
	July 2, 2010	July 3, 2009	
Engineering and other scientific	\$ 88,708	\$ 91,866	(3.4)%
Percentage of total revenues	74.0%	76.1%	
Environmental and health	31,137	28,792	8.1%
Percentage of total revenues	26.0%	23.9%	
<b>Total revenues</b>	<b>\$ 119,845</b>	<b>\$ 120,658</b>	<b>(0.7)%</b>

The decrease in revenues for our engineering and other scientific segment was due to a decrease in product sales in our technology development practice and a decrease in billable hours, partially offset by higher billing rates. Product sales in our technology development practice decreased 68% to \$2,419,000 for the first six months of 2010 as compared to \$7,524,000 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 first six months of 2010, billable hours for this segment decreased by 1.8% to 328,970 as compared to 334,916 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. Technical full-time equivalents decreased 4.7% to 442 from 464 for the same period last year. Utilization increased to 72% for the first six months of 2010 as compared to 69% during the same period last year. The increase in utilization was due to our management of headcount to align resources with anticipated demand.

The increase in revenues for our environmental and health segment was driven by an increase in billable hours and higher billing rates. During the first six months of 2010, billable hours for this segment increased by 7.1% to 125,458 as compared to 117,181 during the same period last year. The increase in billable hours was due to an increase in activity in the areas of our business that are related to litigation, insurance matters and regulatory compliance pertaining to the registration of chemicals. Technical full-time equivalents increased by 1.2% to 174 from 172 for the same period last year. Utilization increased to 69% for the first six months of 2010 as compared to 66% during the same period last year. The increase in utilization was due to our management of headcount to align resources with anticipated demand.



**Table of Contents***Compensation and Related Expenses*

(In thousands)	Six Months Ended		Percent Change
	July 2, 2010	July 3, 2009	
Compensation and related expenses	\$ 71,840	\$ 72,800	(1.3)%
Percentage of total revenues	59.9%	60.3%	

The decrease in compensation and related expenses during the first six months of 2010 was due to a decrease in payroll and the change in value of assets associated with our deferred compensation plan, partially offset by an increase in bonuses. Payroll decreased by \$1,597,000 due to a decrease in technical full-time equivalent employees, partially offset by the impact of our annual salary increase. During the first six months of 2010, compensation and related expenses decreased \$768,000, with a corresponding decrease to other income, net, as compared to the second quarter of 2009 due to a change in the value of assets associated with our deferred compensation plan. This decrease consisted of a decrease in the value of plan assets of \$313,000 during the first six months of 2010 and an increase in the value of plan assets of \$455,000 during the first six months of 2009. Bonuses increased by \$1,555,000 due to an increase in profitability.

*Other Operating Expenses*

(In thousands)	Six Months Ended		Percent Change
	July 2, 2010	July 3, 2009	
Other operating expenses	\$ 10,607	\$ 10,586	0.2%
Percentage of total revenues	8.9%	8.8%	

Other operating expenses include facilities-related costs, technical materials, computer-related expenses and depreciation and amortization of property, equipment and leasehold improvements. Other operating expenses remained relatively consistent with the same period last year due to our continuing efforts to manage our cost structure by reducing discretionary spending and negotiating favorable agreements with our vendors.

*Reimbursable Expenses*

(In thousands)	Six Months Ended		Percent Change
	July 2, 2010	July 3, 2009	
Reimbursable expenses	\$ 9,516	\$ 13,298	(28.4)%
Percentage of total revenues	7.9%	11.0%	

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)	Six Months Ended		Percent Change
	July 2, 2010	July 3, 2009	
General and administrative expenses	\$ 5,600	\$ 5,859	(4.4)%
Percentage of total revenues	4.7%	4.9%	

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The decrease in general and administrative expenses during the first six months of 2010 was due to a decrease in bad debt of \$588,000, partially offset by an increase in travel and meals of \$258,000. The decrease in bad debt was primarily due to the bankruptcy filings of Chrysler and General Motors during the second quarter of 2009. The increase in travel and meals was primarily due to an increase in business development activities.

*Other Income (Expense), Net*

(In thousands)	Six Months Ended		Percent Change
	July 2, 2010	July 3, 2009	
Other income (expense), net	\$ 529	\$ 1,490	(64.5)%
Percentage of total revenues	0.4%	1.2%	

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 decrease in other income, net, was due to a change in value of assets associated with our deferred compensation plan and a decrease in interest income. The change in value of assets associated with our deferred compensation plan caused a \$768,000 decrease in other income, net with a corresponding decrease to compensation expense. This decrease consisted of a decrease in the value of plan assets of \$313,000 during the first six months of 2010 and an increase in the value of plan assets of \$455,000 during the first six months of 2009. The decrease in interest income of \$305,000 was due to a decrease in the average balance of our short-term investments and lower interest rates.

*Income Taxes*

(In thousands)	Six Months Ended		Percent Change
	July 2, 2010	July 3, 2009	
Income taxes	\$ 9,292	\$ 7,822	18.8%
Percentage of total revenues	7.8%	6.5%	
Effective tax rate	40.7%	39.9%	

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.

**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.



**Table of Contents****LIQUIDITY AND CAPITAL RESOURCES**

As of July 2, 2010, our cash, cash equivalents and short-term investments were \$76.4 million compared to \$75.4 million at January 1, 2010.

(In thousands)	Six Months Ended	
	July 2, 2010	July 3, 2009
Net cash provided by (used in) operating activities	\$ 6,562	\$ (856)
Net cash provided by investing activities	3,745	11,614
Net cash used in financing activities	(3,914)	(4,326)

The increase in net cash provided by operating activities during the first six months of 2010 was due to an increase in net income, a larger increase in accounts payable and accrued liabilities and a smaller increase in accounts receivable, partially offset by a larger increase in prepaid expenses and other assets. Accounts payable and accrued liabilities increased by \$4.5 million during the first six months of 2010 as compared to an increase of \$487,000 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 the timing of payments to vendors. Accounts receivable increased \$9.9 million during the first six months of 2010, as compared to an increase of \$13.4 million during the same period last year. The smaller increase during the first six months of 2010 as compared to the same period last year was due to improved collections. Days sales outstanding decreased to 95 days during the first six months of 2010 as compared to 101 days during the same period last year. Prepaid expenses and other current assets increased by \$7.5 million during the first six months of 2010 as compared to an increase of \$2.3 million during the same period last year. The larger increase during the first six months of 2010 was due to an increase in inventory associated with sales of surveillance systems to the United States government.

The decrease in net cash provided by investing activities was due to a decrease of \$7,692,000 in sales and maturities of short-term investments as compared to the same period last year.

The decrease in net cash used in financing activities was primarily due to an increase in exercises of share-based payment awards of \$1,024,000, partially offset by the increase in treasury repurchases of \$831,000.

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 July 2, 2010 (in thousands):

Fiscal year	Operating	Capital	Purchase	Total
	lease commitments	leases	obligations	
2010	\$3,098	\$3	\$3,081	\$6,182
2011	5,769	6		5,775
2012	5,209	3		5,212
2013	2,906	2		2,908
2014	2,465			2,465
Thereafter	3,140			3,140
	\$22,587	\$14	\$3,081	\$25,682

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 \$12.3 million were recorded as a long-term liability on our condensed consolidated balance sheet at July 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 July 2, 2010 invested amounts under the plan of \$12.3 million were recorded as a long-term asset on our condensed consolidated balance sheet.



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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 and six months ended July 2, 2010 and July 3, 2009:

	Three Months Ended		Six Months Ended	
	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
(in thousands, except percentages)				
Revenues before reimbursements	\$ 55,128	\$ 52,429	\$ 110,329	\$ 107,360
EBITDA	\$ 13,293	\$ 10,938	\$ 24,833	\$ 21,350
EBITDA as a % of revenues before reimbursements	24.1%	20.9%	22.5%	19.9%

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 were down slightly as compared to the first six months of 2009.

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

(in thousands)	Three Months Ended		Six Months Ended	
	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
Net income	\$ 7,280	\$ 6,025	\$ 13,519	\$ 11,783
Add back (subtract):				
Income taxes	5,001	4,012	9,292	7,822
Interest income, net	(66)	(200)	(129)	(434)
Depreciation and amortization	1,078	1,101	2,151	2,179
EBITDA	13,293	10,938	24,833	21,350
Stock-based compensation	2,001	1,649	5,093	4,744
EBITDAS	\$ 15,294	\$ 12,587	\$ 29,926	\$ 26,094

**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.

**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.

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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 six month period ended July 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.

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### ***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 July 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 July 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.

### ***Our business is dependent on our professional reputation.***

The professional reputation of Exponent and its consultants is critical to our ability to successfully compete for new client engagements and attract or retain professionals. Proven or unproven allegations against us may damage our professional reputation. Any factors that damage our professional reputation could have a material adverse effect on our business.

### ***Our business can be adversely impacted by deregulation or reduced regulatory enforcement.***

Public concern over health, safety and preservation of the environment has resulted in the enactment of a broad range of environmental and/or other laws and regulations by local, state and federal lawmakers and agencies. These laws and the 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.

**Table of Contents*****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.

***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 July 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 <sup>(1)</sup>
April 3 to April 30		\$		\$ 18,074
May 1 to May 28				\$ 18,074
May 29 to July 2	80	28.94	80	\$ 18,074
Total	80	\$ 28.94	80	\$ 15,769

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- <sup>(1)</sup> 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.



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**Item 6. Exhibits**

(a) Exhibit Index

- 10.37 Amended and restated 2008 Equity Incentive Plan.
- 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: August 6, 2010

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

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