

EXPONENT INC
Form 10-Q
November 04, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from _____ to _____

Commission File Number 0-18655

EXPONENT, INC.
(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

Yes 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

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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 Smaller reporting company
(Do not check if a 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 October 28, 2011, the latest practicable date, the registrant had 13,243,065 shares of Common Stock, \$0.001 par value per share, outstanding.

EXPONENT, INC.
FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

EXPONENT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

September 30, 2011 and December 31, 2010
(in thousands, except par value)
(unaudited)

	September 30, 2011	December 31, 2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 65,245	\$ 106,549
Short-term investments	25,403	-
Accounts receivable, net of allowance for doubtful accounts of \$2,242 and \$2,126 at September 30, 2011 and December 31, 2010, respectively	72,571	72,034
Prepaid expenses and other assets	8,638	10,585
Deferred income taxes	6,947	5,426
Total current assets	178,804	194,594
Property, equipment and leasehold improvements, net	27,030	27,267
Goodwill	8,607	8,607
Deferred income taxes	14,964	12,940
Deferred compensation plan assets	17,878	15,068
Other assets	483	416
Total assets	\$ 247,766	\$ 258,892
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,427	\$ 9,715
Accrued payroll and employee benefits	37,230	41,888
Deferred revenues	4,784	6,131
Total current liabilities	49,441	57,734
Other liabilities	585	413
Deferred compensation	17,711	15,068
Deferred rent	1,867	1,877
Total liabilities	69,604	75,092
Stockholders' equity:		
Common stock, \$0.001 par value; 100,000 shares authorized; 16,427 shares issued at September 30, 2011 and December 31, 2010	16	16
Additional paid-in capital	107,074	96,089
Accumulated other comprehensive loss	(314)	(451)

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Retained earnings	172,460	156,086
Treasury stock, at cost; 3,160 and 2,431 shares held at September 30, 2011 and December 31, 2010, respectively	(101,074)	(67,940)
Total stockholders' equity	178,162	183,800
Total liabilities and stockholders' equity	\$ 247,766	\$ 258,892

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

EXPONENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Three and Nine Months Ended September 30, 2011 and October 1, 2010
(in thousands, except per share data)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Revenues:				
Revenues before reimbursements	\$61,387	\$56,906	\$186,143	\$167,235
Reimbursements	4,564	9,400	18,387	18,916
Revenues	65,951	66,306	204,530	186,151
Operating expenses:				
Compensation and related expenses	36,051	36,960	117,259	108,800
Other operating expenses	5,858	5,365	17,344	15,972
Reimbursable expenses	4,564	9,400	18,387	18,916
General and administrative expenses	2,954	3,011	9,273	8,611
Total operating expenses	49,427	54,736	162,263	152,299
Operating income	16,524	11,570	42,267	33,852
Other income (expense), net:				
Interest income, net	79	36	141	165
Miscellaneous income (expense), net	(2,203)	1,597	(669)	1,997
Total other income (expense), net	(2,124)	1,633	(528)	2,162
Income before income taxes	14,400	13,203	41,739	36,014
Income taxes	5,656	5,383	16,775	14,675
Net income	\$8,744	\$7,820	\$24,964	\$21,339
Net income per share:				
Basic	\$0.63	\$0.54	\$1.74	\$1.49
Diluted	\$0.60	\$0.52	\$1.67	\$1.42
Shares used in per share computations:				
Basic	13,975	14,385	14,313	14,325
Diluted	14,554	15,053	14,904	15,036

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

EXPONENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Three and Nine Months Ended September 30, 2011 and October 1, 2010
(in thousands)
(unaudited)

	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Net income	\$8,744	\$7,820	\$24,964	\$21,339
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	(206)	395	87	44
Unrealized gain (loss) on investments, net of tax	23	(3)	50	(31)
Comprehensive income	\$8,561	\$8,212	\$25,101	\$21,352

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

EXPONENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three and Nine Months Ended September 30, 2011 and October 1, 2010
(in thousands)
(unaudited)

	Nine Months Ended	
	September 30,	October 1,
	2011	2010
Cash flows from operating activities:		
Net income	\$24,964	\$21,339
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and leasehold improvements	3,257	3,235
Amortization of premiums and accretion of discounts on short-term investments	199	35
Deferred rent	(392)	587
Provision for doubtful accounts	1,224	1,611
Stock-based compensation	8,208	7,332
Deferred income tax provision	(3,614)	(2,551)
Tax benefit for stock plans	(2,216)	(2,373)
Changes in operating assets and liabilities:		
Accounts receivable	(1,761)	(9,964)
Prepaid expenses and other assets	(2,017)	(1,588)
Accounts payable and accrued liabilities	(1,220)	4,675
Accrued payroll and employee benefits	130	275
Deferred revenues	(1,347)	440
Net cash provided by operating activities	25,415	23,053
Cash flows from investing activities:		
Capital expenditures	(2,638)	(1,930)
Purchase of short-term investments	(26,599)	-
Maturity of short-term investments	-	7,405
Sale of short-term investments	1,080	-
Net cash (used in) provided by investing activities	(28,157)	5,475
Cash flows from financing activities:		
Tax benefit for stock plans	2,216	2,373
Payroll taxes for restricted stock units	(3,473)	(1,918)
Repurchase of common stock	(38,551)	(7,129)
Exercise of share-based payment awards	1,148	2,331
Net cash used in financing activities	(38,660)	(4,343)
Effect of foreign currency exchange rates on cash and cash equivalents	98	(9)
Net (decrease) increase in cash and cash equivalents	(41,304)	24,176
Cash and cash equivalents at beginning of period	106,549	67,895
Cash and cash equivalents at end of period	\$65,245	\$92,071

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

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EXPONENT, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 30, 2011 and October 1, 2010

Note 1: Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not contain all the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments which are necessary for the fair presentation of the condensed consolidated financial statements have been included and all such adjustments are of a normal and recurring nature. The operating results for the three and nine months ended September 30, 2011 are not necessarily representative of the results of future quarterly or annual periods. The following information should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 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. In a letter dated May 23, 2006, the Company committed to stockholders to limit its use of authorized capital stock to 40 million common shares, and 2 million preferred shares, unless the approval of the Company’s stockholders is subsequently obtained, such as through a further amendment to the Company’s authorized capital stock.

Use of Estimates. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Recently Adopted 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. Effective January 1, 2011, the Company adopted these standards. The adoption of these standards did not have a material impact on the Company’s consolidated financial position, results of operations or cash flows.

Note 2: Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including available-for-sale fixed income securities, trading fixed income and equity securities held in its deferred compensation plan and the liability associated with its deferred compensation plan. The fair value of these certain financial assets and liabilities was determined using the following inputs at September 30, 2011 (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market securities (1)	\$44,377	\$ 44,377	\$ -	\$ -
Fixed income				
available-for-sale securities (2)	25,403	-	25,403	-
Fixed income trading				
securities held in deferred compensation plan (3)	7,372	7,372	-	-
Equity trading securities				
held in deferred compensation plan (3)	11,154	11,154	-	-
Total	\$88,306	\$ 62,903	\$ 25,403	\$ -
Liabilities				
Deferred compensation plan (4)	18,359	18,359	-	-
Total	\$18,359	\$ 18,359	\$ -	\$ -

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

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

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

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

The fair value of these certain financial assets and liabilities was determined using the following inputs at December 31, 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				
Money market securities (1)	\$64,767	\$ 64,767	\$ -	\$ -
Fixed income trading securities held in deferred compensation plan (2)	4,956	4,956	-	-
Equity trading securities held in deferred compensation plan (2)	10,423	10,423	-	-
Total	\$80,146	\$ 80,146	\$ -	\$ -
Liabilities				
Deferred compensation plan (3)	15,379	15,379	-	-
Total	\$15,379	\$ 15,379	\$ -	\$ -

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

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

As of September 30, 2011, the Company held state and municipal bonds with a fair value of \$25,403,000 and an amortized cost of \$25,319,000. The unrealized gain recorded in accumulated other comprehensive income for the three months and nine months ended September 30, 2011 was \$42,000 and \$100,000, respectively. The unrealized loss recorded in accumulated other comprehensive income for the three months and nine months ended September 30, 2011 was \$4,000 and \$16,000, respectively. There were no securities in a continuous unrealized loss position for more than twelve months. Contractual maturities for these bonds range from 0.67 to 2.01 years. There were no available-for-sale investments as of December 31, 2010.

At September 30, 2011 and December 31, 2010, the Company did not have any assets valued using significant unobservable inputs.

The carrying amount of the Company's accounts receivable, other assets and accounts payable approximates their fair values. There were no other-than-temporary impairments or credit losses related to available-for-sale securities during the first nine months of fiscal years 2011 and 2010.

Note 3: Net Income Per Share

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

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Shares used in basic per share computation	13,975	14,385	14,313	14,325
Effect of dilutive common stock options outstanding	201	266	203	299
Effect of dilutive restricted stock units outstanding	378	402	388	412
Shares used in diluted per share computation	14,554	15,053	14,904	15,036

There were no options excluded from the diluted per share calculation for the three and nine months ended September 30, 2011. There were no options excluded from the diluted per share calculation for the three months ended October 1, 2010. Common stock options to purchase 60,000 shares were excluded from the diluted per share calculation for the nine months ended October 1, 2010 due to their antidilutive effect. The weighted-average exercise price for the antidilutive shares was \$31.01 for the nine months ended October 1, 2010.

Note 4: Stock-Based Compensation

Restricted Stock Units

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

The value of these restricted stock unit awards is determined based on the market price of the Company's common stock on the date of grant. The value of fully vested restricted stock unit awards issued is recorded as a reduction to accrued bonuses. The portion of bonus expense that the Company expects to settle with fully vested restricted stock unit awards is recorded as stock-based compensation during the period the bonus is earned. The Company recorded stock-based compensation expense associated with accrued bonus awards of \$1,329,000 and \$1,259,000 during the three months ended September 30, 2011 and October 1, 2010, respectively. For the nine months ended September 30,

2011 and October 1, 2010, the Company recorded stock-based compensation expense associated with accrued bonus awards of \$4,043,000 and \$3,495,000, respectively. The value of the unvested restricted stock unit awards granted is recognized on a straight-line basis over the shorter of the four-year vesting period or the period between the grant date and the date the award recipient turns 59½. If the award recipient is 59½ years or older on the date of grant, the value of the entire award is expensed upon grant. The Company recorded stock-based compensation expense associated with the unvested restricted stock unit awards of \$805,000 and \$818,000 during the three months ended September 30, 2011 and October 1, 2010, respectively. The Company recorded stock-based compensation expense associated with the unvested restricted stock unit awards of \$3,728,000 and \$3,356,000 during the nine months ended September 30, 2011 and October 1, 2010, 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 \$140,000 and \$162,000 during the three months ended September 30, 2011 and October 1, 2010, respectively, associated with stock option grants. The Company recorded stock-based compensation expense of \$437,000 and \$481,000 during the nine months ended September 30, 2011 and October 1, 2010, respectively, associated with stock option grants.

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

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

Note 5: Treasury Stock

On 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. On May 25, 2011, the Company's Board of Directors authorized an additional \$35 million for the repurchase of the Company's common stock.

The Company repurchased 971,615 shares of its common stock for \$39,333,000 during the nine months ended September 30, 2011. The Company repurchased 243,802 shares of its common stock for \$6,900,000 during the nine months ended October 1, 2010. As of September 30, 2011, the Company had remaining authorization under its stock repurchase plans of \$10,646,000 to repurchase shares of common stock.

The Company reissued 242,838 shares of its treasury stock with a cost of approximately \$6,199,000 to settle restricted stock unit awards, stock options and purchases under the Employee Stock Purchase Plan during the nine months ended September 30, 2011. The Company reissued 365,042 shares of its treasury stock with a cost of \$8,300,000 to settle restricted stock unit awards, stock options and purchases under the Employee Stock Purchase Plan during the nine months ended October 1, 2010.

Note 6: Deferred Compensation Plan

The Company maintains a nonqualified deferred compensation plan for the benefit of a select group of highly compensated employees. Under this plan participants may elect to defer up to 100% of their compensation. Company assets that are earmarked to pay benefits under the plan are held in a rabbi trust and are subject to the claims of the Company's creditors. As of September 30, 2011 and December 31, 2010, the invested amounts under the plan totaled \$18,526,000 and \$15,379,000, respectively. These assets are classified as trading securities and are recorded at fair market value with changes recorded as adjustments to other income and expense.

As of September 30, 2011 and December 31, 2010, vested amounts due under the plan totaled \$18,359,000 and \$15,379,000, respectively. Changes in the liability are recorded as adjustments to compensation expense. During the three and nine months ended September 30, 2011 the Company recognized a decrease to compensation expense of \$2,511,000 and \$1,656,000, respectively, as a result of changes in the market value of the trust assets, with the same amount being recorded as other income, net. During the three and nine months ended October 1, 2010, the Company recognized an increase to compensation expense of \$1,206,000 and \$894,000, respectively, as a result of changes in the market value of the trust assets, with the same amount being recorded as other income, net.

Note 7: Supplemental Cash Flow Information

The following is supplemental disclosure of cash flow information:

(In thousands)	Nine Months Ended	
	September 30, 2011	October 1, 2010
Cash paid during period:		
Income taxes	\$ 14,147	\$ 12,566
Non-cash investing and financing activities:		
Unrealized gain (loss) on short-term investments	\$ 50	\$(31)
Vested stock unit awards issued to settle accrued bonuses	\$ 4,538	\$ 3,566
Stock repurchases payable to broker	\$ 782	\$ -

Note 8: Accounts Receivable, Net

At September 30, 2011 and December 31, 2010, accounts receivable, net, was comprised of the following:

(In thousands)	September 30, 2011	December 31, 2010
Billed accounts receivable	\$ 46,891	\$ 47,198
Unbilled accounts receivable	27,922	26,962
Allowance for doubtful accounts	(2,242)	(2,126)
Total accounts receivable, net	\$ 72,571	\$ 72,034

Note 9: Inventory

At September 30, 2011, the Company had \$3,436,000 of raw materials inventory included in prepaid expenses and other current assets on its condensed consolidated balance sheet. At December 31, 2010, the Company had \$1,630,000 and \$1,225,000 of finished goods and raw materials inventory, respectively, included in prepaid expenses and other current assets on its condensed consolidated balance sheet.

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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 engineering and technology development. The Company's other operating segment provides services in the area of environmental, epidemiology and health risk analysis. This operating segment provides a wide range of consulting services relating to environmental hazards and risks and the impact on both human health and the environment.

Segment information for the three and nine months ended September 30, 2011 and October 1, 2010 follows:

Revenues

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Engineering and other scientific	\$47,785	\$49,315	\$151,233	\$138,023
Environmental and health	18,166	16,991	53,297	48,128
Total revenues	\$65,951	\$66,306	\$204,530	\$186,151

Operating Income

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Engineering and other scientific	\$14,708	\$12,944	\$45,212	\$38,090
Environmental and health	5,691	5,881	15,794	15,528
Total segment operating income	20,399	18,825	61,006	53,618
Corporate operating expense	(3,875)	(7,255)	(18,739)	(19,766)
Total operating income	\$16,524	\$11,570	\$42,267	\$33,852

Capital Expenditures

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Engineering and other scientific	\$723	\$372	\$1,684	\$1,420
Environmental and health	86	37	287	119
Total segment capital expenditures	809	409	1,971	1,539
Corporate capital expenditures	162	186	667	391
Total capital expenditures	\$971	\$595	\$2,638	\$1,930

Depreciation and Amortization

(In thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Engineering and other scientific	\$686	\$700	\$1,986	\$2,095
Environmental and health	64	50	168	144
Total segment depreciation and amortization	750	750	2,154	2,239
Corporate depreciation and amortization	375	334	1,103	996
Total depreciation and amortization	\$1,125	\$1,084	\$3,257	\$3,235

No single customer comprised more than 10% of the Company's revenues during the three and nine months ended September 30, 2011. The Company derived 12% of revenues from agencies of the federal government for the three months ended October 1, 2010. No single customer comprised more than 10% of the Company's revenues for the nine months ended October 1, 2010. No single customer comprised more than 10% of the Company's accounts receivable at September 30, 2011 or at December 31, 2010.

Note 11: Goodwill

Below is a breakdown of goodwill reported by segment as of September 30, 2011:

(In thousands)	Environmental and health	Engineering and other scientific	Total
Goodwill	\$ 8,099	\$ 508	\$8,607

There were no changes in the carrying amount of goodwill for the three and nine months ended September 30, 2011. There were no goodwill impairments or gains or losses on disposals for any portion of the Company's reporting units during the three and nine months ended September 30, 2011.

Note 12: Contingencies

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

In March of 2010, a lawsuit was filed against the Company which alleges, among other things, that the Company failed to provide rest and meal periods, failed to furnish accurate itemized wage statements, failed to keep accurate payroll records, incurred waiting time penalties, conducted unfair business practices and failed to comply with certain other California Labor Code requirements. In March of 2011, the Company entered into a preliminary agreement to settle these claims. The financial impact of the preliminary settlement did not have a material effect on the Company's financial condition, results of operations or liquidity.

In addition to the above matters, the Company is a party to various other legal actions from time to time and may be contingently liable in connection with claims and contracts arising in the normal course of business, the outcome of which the Company believes, after consultation with legal counsel, will not have a material adverse effect, individually or in the aggregate, on its financial condition, results of operations or liquidity. All legal costs associated with litigation are expensed as incurred.

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included herein and with our audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2010, which are contained in our fiscal 2010 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 the words "anticipate," "believe," "estimate," "expect" and similar expressions, as they relate to the Company or its management, identify such forward-looking statements. Such statements reflect the current views of the Company or its management with respect to future events and are subject to certain risks, uncertainties and assumptions. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, the Company's actual results, performance, or achievements could differ materially from those expressed in, or implied by, any such forward-looking statements. Factors that could cause or contribute to such material differences include the possibility that the demand for our services may decline as a result of changes in general and industry specific economic conditions, the timing of engagements for our services, the effects of competitive services and pricing, the absence of backlog related to our business, our ability to attract and retain key employees, the effect of tort reform and government regulation on our business and liabilities resulting from claims made against us. Additional risks and uncertainties are discussed in our fiscal 2010 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 2010 Annual Report on Form 10-K under “Critical Accounting Estimates”.

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RESULTS OF CONSOLIDATED OPERATIONS

Executive Summary

Revenues for the third quarter of 2011 decreased 1% and revenues before reimbursements increased 8% as compared to the same period last year. The decrease in revenues was due to a decrease in product sales in defense technology development as compared to the prior year when product sales were unusually strong and a decrease in reimbursable project related costs. These decreases were offset by strong growth in revenues before reimbursements driven by an increase in consulting revenues. We experienced strong demand for our consulting services from a diverse set of clients for both reactive and proactive projects and continued to see elevated levels of activity on a few major assignments. Our utilization was 72% for the third quarter which was exceptionally strong for the summer quarter. We made progress during the quarter in several of our strategic growth areas. In energy consulting we continued to work on projects for several utilities and oil and gas clients to assist them with understanding why certain pipeline failures have occurred as well as the evaluation of their pipeline risk management programs. In design consulting, we experienced an increase in battery consulting activity from a broad set of industries including consumer electronics, medical devices, automotive, aerospace and battery suppliers. In health sciences the integration of the atmospheric sciences consultants we hired during the second quarter has gone well and we are pleased with the number of opportunities that have been created by cross-selling their capabilities.

During the quarter, we continued to see elevated levels of activity on a number of major assignments and are assisting clients with several high-profile investigations that engage consultants across many of our practices. The growth in consulting revenues and the increase in utilization resulted in a 12% increase in net income during the third quarter of 2011 as compared to the same period last year. Diluted earnings per share increased to \$0.60 per share as compared to \$0.52 in the same period last year. This increase in profitability was due to increased leverage of our cost structure.

We remain focused on selectively adding top talent and developing the skills necessary to expand upon our market position, providing clients with in-depth scientific research and analysis to determine what happened and how to prevent failures or exposures in the future, capitalizing on opportunities in defense technology development and emerging growth areas, managing other operating expenses, generating cash from operations, maintaining a strong balance sheet and undertaking activities such as share repurchases to enhance shareholder value. We expect some of our major assignments to step down from their elevated levels of activity as they move through their project life cycle.

Overview of the Three Months Ended September 30, 2011

During the third quarter of 2011 billable hours increased 11% to 250,000 as compared to 226,000 during the same period last year. Technical full-time equivalent employees increased 8% to 664 during the third quarter of 2011 as compared to 614 during the same period last year due to our recruiting and retention efforts which resulted in the addition of several experienced consultants in biomechanics and atmospheric sciences during the current year. We continue to selectively hire key talent to expand our capabilities and have experienced an increase in utilization due to elevated levels of activity on several major assignments and our management of headcount to align resources with anticipated demand. Product sales in defense technology development decreased to \$627,000 for the third quarter of 2011 as compared to \$7,300,000 during the same period last year due to lower sales of surveillance systems to the United States Army. Product sales will vary from quarter to quarter due to the timing of new contracts and delivery dates.

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Three Months Ended September 30, 2011 compared to Three Months Ended October 1, 2010

Revenues

(In thousands)	Three Months Ended		Percent Change
	September 30, 2011	October 1, 2010	
Engineering and other scientific	\$47,785	\$49,315	(3.1)%
Percentage of total revenues	72.5%	74.4%	
Environmental and health	18,166	16,991	6.9%
Percentage of total revenues	27.5%	25.6%	
Total revenues	\$65,951	\$66,306	(0.5)%

The decrease in revenues for our engineering and other scientific segment was due a decrease in product sales in defense technology development and a decrease in reimbursable project related costs for consulting projects in defense technology development, partially offset by an increase in billable hours and higher billing rates. Product sales in defense technology development decreased to \$627,000 for the third quarter of 2011 as compared to \$7,300,000 during the same period last year due to lower sales of surveillance systems to the United States Army. Product sales will vary from quarter to quarter due to the timing of new contracts and delivery dates. Reimbursable project related costs for consulting projects in defense technology development decreased to \$1,586,000 during the third quarter of 2011 as compared to \$3,014,000 during the same period last year due to the timing of reimbursable expenses on these projects. During the third quarter of 2011, billable hours for this segment increased by 11.3% to 177,000 as compared to 159,000 during the same period last year. The increase in billable hours was due to strong demand for our services in our mechanics and materials, electrical, thermal sciences, biomechanics, human factors and engineering management practices. Technical full-time equivalents increased 5.1% to 457 from 435 for the same period last year due to our recruiting and retention efforts. Utilization increased to 74% for the third quarter of 2011 as compared to 70% for the same period last year due in part to elevated levels of activity on a number of major assignments that engaged consultants across many practices and 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 partially offset by a decrease in reimbursable project related costs. During the third quarter of 2011, billable hours for this segment increased by 9.0% to 73,000 as compared to 67,000 during the same period last year. The increase in billable hours was primarily due to an increase in demand for our services. Utilization decreased to 68% for the third quarter of 2011 as compared to 72% during the same period. The decrease in utilization and operating income for our environmental and health segment was due in part to our investment in hiring experienced consultants. Technical full-time equivalents increased by 15.6% to 207 from 179 for the same period last year.

Compensation and Related Expenses

(In thousands)	Three Months Ended		Percent Change
	September 30, 2011	October 1, 2010	
Compensation and related expenses	\$36,051	\$36,960	(2.5)%
Percentage of total revenues	54.7%	55.7%	

The decrease in compensation and related expenses during the third quarter of 2011 was due to a change in the value of assets associated with our deferred compensation plan, partially offset by an increase in payroll, fringe benefits and bonuses. During the third quarter of 2011, deferred compensation expense decreased \$3,717,000 with a corresponding decrease to other income, net, as compared to the third quarter of 2010 due to a change in value of assets associated with our deferred compensation plan. This decrease consisted of a decrease in the value of plan assets of \$2,511,000 during the third quarter of 2011 and an increase in the value of plan assets of \$1,206,000 during the third quarter of 2010. Payroll increased by \$2,001,000 and fringe benefits increased by \$560,000 due to an increase in full-time equivalent employees and the impact of our annual salary increase on April 2, 2011. Bonuses increased by \$387,000 due to a corresponding increase in profitability. We expect our compensation expenses to increase as we selectively add new talent.

Other Operating Expenses

(In thousands)	Three Months Ended		Percent Change
	September 30, 2011	October 1, 2010	
Other operating expenses	\$5,858	\$5,365	9.2 %
Percentage of total revenues	8.9 %	8.1 %	

Other operating expenses include facilities-related costs, technical materials, computer-related expenses and depreciation and amortization of property, equipment and leasehold improvements. The increase in other operating expenses was primarily due to an increase in occupancy expenses of \$228,000 and an increase in computer expenses of \$128,000. The increase in occupancy expenses was due to planned maintenance activities for our owned facilities and costs associated with the increase in technical full-time equivalent employees. The increase in computer expenses was associated with the increase in technical full-time equivalent employees and investments in our corporate infrastructure. We expect other operating expenses to increase as we continue to increase headcount and invest in our corporate infrastructure.

Reimbursable Expenses

(In thousands)	Three Months Ended		Percent Change
	September 30, 2011	October 1, 2010	
Reimbursable expenses	\$4,564	\$9,400	(51.4) %
Percentage of total revenues	6.9 %	14.2 %	

The decrease in reimbursable expenses was primarily due to a decrease in project related costs in defense technology development. 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		Percent Change
	September 30, 2011	October 1, 2010	
General and administrative expenses	\$2,954	\$3,011	(1.9) %
Percentage of total revenues	4.5 %	4.5 %	

General and administrative expenses remained relatively consistent with the same period last year due to our continuing efforts to manage our cost structure by reducing discretionary spending and negotiating favorable agreements with our vendors. We expect general and administrative expenses to increase as we continue to expand our business and employee development activities.

Other Income (Expense), Net

(In thousands)	Three Months Ended		Percent Change
	September 30, 2011	October 1, 2010	
Other (expense) income, net	\$(2,124)	\$1,633	(230.1) %
Percentage of total revenues	(3.2) %	2.5 %	

Other income (expense), net, consists primarily of interest income earned on available cash, cash equivalents and short-term investments, changes in the value of assets associated with our deferred compensation plan and rental income from leasing space in our Silicon Valley facility. During the third quarter of 2011, other income, net, decreased \$3,717,000, with a corresponding decrease to deferred compensation expenses, as compared to the third quarter of 2010 due to a change in value of assets associated with our deferred compensation plan. This decrease consisted of a decrease in the value of plan assets of \$2,511,000 during the third quarter of 2011 and an increase in the value of plan assets of \$1,206,000 during the third quarter of 2010.

Income Taxes

(In thousands)	Three Months Ended		Percent Change
	September 30, 2011	October 1, 2010	
Income taxes	\$5,656	\$5,383	5.1 %
Percentage of total revenues	8.6 %	8.1 %	
Effective tax rate	39.3 %	40.8 %	

The increase in income taxes was due to a corresponding increase in pre-tax income. The decrease in the effective tax rate was due to a decrease in state taxes as a result of the mix of income earned in various state jurisdictions.

Nine Months Ended September 30, 2011 compared to Nine Months Ended October 1, 2010

Revenues

(In thousands)	Nine Months Ended		Percent Change
	September 30, 2011	October 1, 2010	
Engineering and other scientific	\$151,233	\$138,023	9.6 %
Percentage of total revenues	73.9 %	74.1 %	
Environmental and health	53,297	48,128	10.7 %
Percentage of total revenues	26.1 %	25.9 %	
Total revenues	\$204,530	\$186,151	9.9 %

The increase in revenues for our engineering and other scientific segment was due to an increase in billable hours and higher billing rates, partially offset by a decrease in product sales in defense technology development. During the first nine months of 2011, billable hours for this segment increased by 8.0% to 527,000 as compared to 488,000 during the same period last year. The increase was due to strong demand for our services. Technical full-time equivalents increased 3.9% to 456 from 439 for the same period last year due to our recruiting and retention efforts. Utilization increased to 74% for the first nine months of 2011 as compared to 71% for the same period last year due in part to elevated levels of activity on a number of major assignments and our management of headcount to align resources with anticipated demand. Product sales in defense technology development decreased to \$6,999,000 for the first nine months of 2011 as compared to \$9,718,000 during the same period last year due to lower sales of surveillance systems to the United States Army.

The increase in revenues for our environmental and health segment was due to an increase in billable hours and higher billing rates. The increase in billable hours was due to strong demand for our services. During the first nine months of 2011, billable hours for this segment increased by 9.3% to 211,000 as compared to 193,000 during the same period last year. Utilization decreased to 68% for the first nine months of 2011 as compared to 70% for the same period last year.

year. The decrease was due in part to our investment in hiring experienced consultants during the current year. Technical full-time equivalents increased by 13.6% to 200 during the first nine months of 2011 as compared to 176 for the same period last year.

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Compensation and Related Expenses

(In thousands)	Nine Months Ended		Percent Change
	September 30, 2011	October 1, 2010	
Compensation and related expenses	\$ 117,259	\$ 108,800	7.8 %
Percentage of total revenues	57.3 %	58.4 %	

The increase in compensation and related expenses during the first nine months of 2011 was due to an increase in payroll, fringe benefits and bonuses, partially offset by the change in value of assets associated with our deferred compensation plan. Payroll increased by \$6,036,000 and fringe benefits increased by \$1,607,000 due to an increase in technical full-time equivalent employees and the impact of our annual salary increase on April 2, 2011. Bonuses increased by \$3,203,000 due to a corresponding increase in profitability. During the first nine months of 2011, deferred compensation expense decreased \$2,550,000 with a corresponding decrease to other income, net, as compared to the same period last year due to a change in value of assets associated with our deferred compensation plan. This decrease consisted of a decrease in the value of plan assets of \$1,656,000 during the first nine months of 2011 and an increase in the value of plan assets of \$894,000 during the same period last year.

Other Operating Expenses

(In thousands)	Nine Months Ended		Percent Change
	September 30, 2011	October 1, 2010	
Other operating expenses	\$ 17,344	\$ 15,972	8.6 %
Percentage of total revenues	8.5 %	8.6 %	

Other operating expenses include facilities-related costs, technical materials, computer-related expenses and depreciation and amortization of property, equipment and leasehold improvements. The increase in other operating expenses was primarily due to an increase in occupancy expenses of \$652,000, an increase in computer expenses of \$290,000 and an increase in technical materials of \$259,000. The increase in occupancy expenses was due to some planned maintenance activities for our owned facilities and costs associated with the increase in technical full-time equivalent employees. The increase in computer expenses was associated with the increase in technical full-time equivalent employees and investments in our corporate infrastructure. The increase in technical materials was due to development activities in defense technology development.

Reimbursable Expenses

(In thousands)	Nine Months Ended		Percent Change
	September 30, 2011	October 1, 2010	
Reimbursable expenses	\$ 18,387	\$ 18,916	(2.8) %
Percentage of total revenues	9.0 %	10.2 %	

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

General and Administrative Expenses

(In thousands)	Nine Months Ended		Percent
	September 30,	October 1,	

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	2011		2010	Change
General and administrative expenses	\$9,273		\$8,611	7.7 %
Percentage of total revenues	4.5	%	4.6	%

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The increase in general and administrative expenses during the first nine months of 2011 was due to an increase in charitable contributions of \$219,000, an increase in professional development of \$169,000, and an increase in marketing expense of \$131,000. The increases in professional development and marketing were due to our continuing investment in employee and business development activities.

Other (Expense) Income, Net

(In thousands)	Nine Months Ended		Percent Change
	September 30, 2011	October 1, 2010	
Other (expense) income, net	\$(528)	\$2,162	(124.4)%
Percentage of total revenues	(0.3)%	1.2 %	

Other (expense) 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. During the first nine months of 2011, other income, net, decreased \$2,550,000 with a corresponding decrease to deferred compensation expenses as compared to the same period last year due to a change in value of assets associated with our deferred compensation plan. This decrease consisted of a decrease in the value of plan assets of \$1,656,000 during the first nine months of 2011 and an increase in the value of plan assets of \$894,000 during the same period last year.

Income Taxes

(In thousands)	Nine Months Ended		Percent Change
	September 30, 2011	October 1, 2010	
Income taxes	\$16,775	\$14,675	14.3 %
Percentage of total revenues	8.2 %	7.9 %	
Effective tax rate	40.2 %	40.7 %	

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

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2011, the Financial Accounting Standards Board (“FASB”) issued updated guidance on goodwill impairment that gives companies the option to perform a qualitative assessment of whether goodwill is more likely than not impaired rather than comparing the estimated fair value with the book value of each reporting unit. The updated accounting guidance is effective for fiscal years beginning after December 15, 2011. Early application is permitted. We do not expect the adoption to have an impact on our consolidated financial statements.

In June 2011, the FASB issued updated guidance that allows companies the option of how to present the components of, and a total, for net income, the components of, and a total, for other comprehensive income, and a total for comprehensive income as either one continuous statement of comprehensive income or in two separate but consecutive statements. There will no longer be the option to present items of other comprehensive income in the statement of stockholders' equity. The updated accounting guidance is effective for public entities for fiscal years, and interim periods within those years, beginning after December 15, 2011 on a retrospective basis. Early application is permitted. We do not expect the adoption to have an impact on our consolidated financial statements.

LIQUIDITY AND CAPITAL RESOURCES

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As of September 30, 2011, our cash, cash equivalents and short-term investments were \$90.6 million compared to \$106.5 million at December 31, 2010. The following table sets forth certain cash flow information for the nine months ended September 30, 2011 and October 1, 2010.

(In thousands)	Nine Months Ended	
	September 30, 2011	October 1, 2010
Net cash provided by operating activities	\$25,415	\$ 23,053
Net cash (used in) provided by investing activities	(28,157)	5,475
Net cash used in financing activities	(38,660)	(4,343)

The increase in net cash provided by operating activities during the first nine months of 2011 as compared to the same period last year was due to an increase in net income and a smaller increase in accounts receivable, partially offset by an decrease in accounts payable and accrued liabilities, a decrease in deferred revenues and an increase in deferred income taxes. Accounts receivable increased \$1.8 million during the first nine months of 2011 as compared to an increase of \$10.0 million during the same period last year. The smaller increase in accounts receivable during the first nine months of 2011 was due to a smaller increase in revenues. Days sales outstanding were 94 days for the first nine months of 2011 and 2010. Accounts payable and accrued liabilities decreased \$1.2 million during the first nine months of 2011 as compared to an increase of \$4.7 million during the same period last year. The decrease in accounts payable and accrued liabilities during the first nine months of 2011 was due to the timing of payments to vendors and a decrease in product sales in our defense technology development business. Deferred revenues decreased \$1.3 million during the first nine months of 2011 as compared to an increase of \$440,000 during the same period last year. The decrease in deferred revenues during the first nine months of 2011 was due to fewer pre-billed projects. Deferred income taxes increased by \$3.6 million during the first nine months of 2011 as compared to an increase of \$2.6 million during the same period last year. The larger increase in deferred income taxes was primarily due to an increase in contributions to our deferred compensation plan.

The change in net cash (used in) provided by investing activities was due to an increase in purchases of short-term investments of \$26.6 million during the first nine months of 2011 as compared to the same period last year and a decrease in sales/maturities of short-term investments of \$6.3 million during the first nine months of 2011 as compared to the same period last year.

The increase in net cash used in financing activities during the first nine months of 2011 as compared to the same period last year was due an increase in repurchases of common stock of \$31.4 million.

For the remainder of 2011, 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 September 30, 2011 (in thousands):

Fiscal year	Operating lease commitments	Capital leases	Purchase obligations	Total
2011 (remaining portion)	\$ 1,520	\$ 1	\$3,366	\$4,887
2012	6,232	3	-	6,235
2013	3,969	2	-	3,971
2014	3,459	-	-	3,459
2015	2,344	-	-	2,344
Thereafter	3,085	-	-	3,085
	\$ 20,609	\$ 6	\$3,366	\$23,981

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 \$17,711,000 were recorded as a long-term liability on our condensed consolidated balance sheet at September 30, 2011. Company assets that are earmarked to pay benefits under the plan are held in a rabbi trust and are subject to the claims of our creditors. As of September 30, 2011 invested amounts under the plan of \$17,878,000 were recorded as a long-term asset on our condensed consolidated balance sheet.

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

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

Non-GAAP Financial Measures

Regulation G, conditions for use of Non-Generally Accepted Accounting Principles ("Non-GAAP") financial measures, and other SEC 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 nine months ended September 30, 2011 and October 1, 2010:

(in thousands, except percentages)	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Revenues before reimbursements	\$61,387	\$56,906	\$186,143	\$167,235
EBITDA	\$15,446	\$14,251	\$44,855	\$39,084
EBITDA as a % of revenues before reimbursements	25.2	% 25.0	% 24.1	% 23.4

The increase in EBITDA as a percentage of revenues before reimbursements was primarily due to improved operating leverage.

The following table is a reconciliation of EBITDA and EBITDAS to the most comparable GAAP measure, net income, for the three and nine months ended September 30, 2011 and October 1, 2010:

(in thousands)	Three Months Ended		Nine Months Ended	
	September 30, 2011	October 1, 2010	September 30, 2011	October 1, 2010
Net income	\$8,744	\$7,820	\$24,964	\$21,339
Add back (subtract):				
Income taxes	5,656	5,383	16,775	14,675
Interest income, net	(79)	(36)	(141)	(165)
Depreciation and amortization	1,125	1,084	3,257	3,235

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EBITDA	15,446	14,251	44,855	39,084
Stock-based compensation	2,274	2,239	8,208	7,332
EBITDAS	\$17,720	\$16,490	\$53,063	\$46,416

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

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

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

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

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

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the nine month period ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes from risk factors as previously discussed under the heading "Risk Factors" in the Company's Annual Report on Form 10-K for the year ended December 31, 2010.

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

The following table provides information on the Company's repurchases of the Company's common stock for the three months ended September 30, 2011:

(In thousands, except price per share)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Programs (1)
July 2 to July 29	15	\$42.45	15	\$ 26,274
July 30 to August 26	238	39.43	238	\$ 16,899
August 27 to September 30	152	41.02	152	\$ 10,646
Total	405	\$40.14	405	\$ 10,646

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

Item 6. Exhibits

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|------|--|
| (a) | Exhibit Index |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a – 14(a) under the Securities Exchange Act of 1934. |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a – 14(a) under the Securities Exchange Act of 1934. |
| 32.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350. |
| 32.2 | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350. |

SIGNATURES

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

EXPONENT, INC.
(Registrant)

Date: November 4, 2011

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

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