

EXPONENT INC
Form 10-Q
November 07, 2007
Table of Contents

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 28, 2007

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)

77-0218904
(I.R.S. Employer Identification Number)

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

Edgar Filing: EXPONENT INC - Form 10-Q

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Act).

Large accelerated filer Accelerated filer Non-accelerated filer

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 November 2, 2007, the latest practicable date, the registrant had 14,533,848 shares of Common Stock, \$0.001 par value per share, outstanding.

Table of Contents

EXPONENT, INC.

FORM 10-Q

TABLE OF CONTENTS

	Page
PART I FINANCIAL INFORMATION	
Item 1. <u>Condensed Consolidated Financial Statements (unaudited):</u>	
<u>Condensed Consolidated Balance Sheets</u> <u>September 28, 2007 and December 29, 2006</u>	3
<u>Condensed Consolidated Statements of Income</u> <u>Three and Nine Months Ended September 28, 2007 and September 29, 2006</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income</u> <u>Three and Nine Months Ended September 28, 2007 and September 29, 2006</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u> <u>Nine Months Ended September 28, 2007 and September 29, 2006</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	22
Item 4. <u>Controls and Procedures</u>	22
PART II OTHER INFORMATION	
Item 1A. <u>Risk Factors</u>	23
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
Item 6. <u>Exhibits</u>	25
<u>Signatures</u>	26

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements
EXPONENT, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS****September 28, 2007 and December 29, 2006****(in thousands, except share data)****(unaudited)**

	September 28, 2007	December 29, 2006
Assets		
Current assets:		
Cash and cash equivalents	\$ 8,689	\$ 5,238
Short-term investments	43,857	52,844
Accounts receivable, net of allowance for doubtful accounts of \$2,719 and \$1,793 at September 28, 2007 and December 29, 2006, respectively	62,824	48,208
Inventory	1,812	884
Prepaid expenses and other assets	4,477	2,600
Deferred income taxes	3,571	2,232
Total current assets	125,230	112,006
Property, equipment and leasehold improvements, net	28,984	29,577
Goodwill	8,607	8,607
Other assets	11,285	11,026
Total assets	\$ 174,106	\$ 161,216
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 7,315	\$ 4,887
Accrued payroll and employee benefits	26,087	21,773
Deferred revenues	4,230	4,066
Total current liabilities	37,632	30,726
Other liabilities	65	142
Deferred compensation	4,335	4,946
Deferred rent	1,853	1,097
Total liabilities	43,885	36,911
Stockholders equity:		
Common stock, \$0.001 par value; 100,000,000 shares authorized; 16,426,664 shares issued at September 28, 2007 and December 29, 2006, respectively	16	16
Additional paid-in capital	58,584	50,799
Accumulated other comprehensive income	267	93
Retained earnings	108,579	101,226

Edgar Filing: EXPONENT INC - Form 10-Q

Treasury stock, at cost; 1,956,446 and 1,713,580 shares held at September 28, 2007 and December 29, 2006, respectively	(37,225)	(27,829)
Total stockholders' equity	130,221	124,305
Total liabilities and stockholders' equity	\$ 174,106	\$ 161,216

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 Nine Months Ended September 28, 2007 and September 29, 2006

(in thousands, except per share data)

(unaudited)

	Three Months Ended September 29,		Nine Months Ended September 29,	
	September 28, 2007	2006	September 28, 2007	2006
Revenues:				
Revenues before reimbursements	\$ 44,916	\$ 40,049	\$ 136,165	\$ 118,721
Reimbursements	3,988	3,284	12,249	8,293
Total revenues	48,904	43,333	148,414	127,014
Operating expenses:				
Compensation and related expenses	29,268	26,881	89,497	79,671
Other operating expenses	5,484	4,870	15,926	14,602
Reimbursable expenses	3,988	3,284	12,249	8,293
General and administrative expenses	2,701	2,695	8,760	8,127
Total operating expenses	41,441	37,730	126,432	110,693
Operating income	7,463	5,603	21,982	16,321
Other income, net:				
Interest income, net	407	430	1,351	1,461
Miscellaneous income, net	433	378	1,636	879
Total other income, net	840	808	2,987	2,340
Income before income taxes	8,303	6,411	24,969	18,661
Income taxes	3,266	2,668	9,875	7,446
Net income	\$ 5,037	\$ 3,743	\$ 15,094	\$ 11,215
Net income per share:				
Basic	\$ 0.34	\$ 0.24	\$ 1.00	\$ 0.69
Diluted	\$ 0.31	\$ 0.22	\$ 0.92	\$ 0.64
Shares used in per share computations:				
Basic	14,902	15,570	15,048	16,141
Diluted	16,163	16,837	16,372	17,428

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 Nine Months Ended September 28, 2007 and September 29, 2006****(in thousands)****(unaudited)**

	Three Months Ended		Nine Months Ended	
	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Net income	\$ 5,037	\$ 3,743	\$ 15,094	\$ 11,215
Other comprehensive income (loss):				
Foreign currency translation adjustments, net of tax	79	55	136	139
Unrealized gain on investments, net of tax	63	74	38	55
Comprehensive income	\$ 5,179	\$ 3,872	\$ 15,268	\$ 11,409

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 Nine Months Ended September 28, 2007 and September 29, 2006****(in thousands)****(unaudited)**

	Nine Months Ended	
	September 28, 2007	September 29, 2006
Cash flows from operating activities:		
Net income	\$ 15,094	\$ 11,215
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and leasehold improvements	2,888	2,700
Amortization of premiums and accretion of discounts of short-term investments	224	439
Contribution to deferred compensation plan		(1,000)
Amortization of contribution to deferred compensation plan	489	169
Deferred rent expense	756	(34)
Allowance for doubtful accounts	1,654	1,125
Stock-based compensation	4,666	2,991
Deferred income tax provision	(2,563)	(1,906)
Tax benefit for stock option plans	(3,332)	(727)
Changes in operating assets and liabilities:		
Accounts receivable	(16,270)	(6,295)
Prepaid expenses and other assets	(1,768)	(883)
Accounts payable and accrued liabilities	4,219	1,789
Accrued payroll and employee benefits	3,205	298
Deferred revenues	164	(251)
Net cash provided by operating activities	9,426	9,630
Cash flows from investing activities:		
Capital expenditures	(2,295)	(2,471)
Other assets	10	65
Purchase of short-term investments	(69,940)	(101,082)
Sale/maturity of short-term investments	79,920	109,137
Net cash provided by investing activities	7,695	5,649
Cash flows from financing activities:		
Repayments of borrowings and long-term obligations	(45)	(35)
Tax benefit for stock option plans	3,332	727
Purchases of treasury stock	(19,733)	(24,584)
Issuance of treasury stock	2,650	623
Issuance of common stock		1,313
Net cash used in financing activities	(13,796)	(21,956)
Effect of foreign currency exchange rates on cash and cash equivalents	126	183

Edgar Filing: EXPONENT INC - Form 10-Q

Net increase (decrease) in cash and cash equivalents	3,451	(6,494)
Cash and cash equivalents at beginning of period	5,238	13,216
Cash and cash equivalents at end of period	\$ 8,689	\$ 6,722

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

- 6 -

Table of Contents

EXPONENT, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the Three and Nine Months Ended September 28, 2007 and September 29, 2006

Note 1: Basis of Presentation

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

The accompanying unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information, the instructions to Form 10-Q and Article 10 of Regulation S-X of the Securities and Exchange Commission. Accordingly, they do not contain all the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments which are necessary for the fair presentation of the condensed consolidated financial statements have been included and all such adjustments are of a normal and recurring nature. The operating results for the three and nine months ended September 28, 2007 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 29, 2006.

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

Stock Split. On May 24, 2006, the Company s stockholders approved an amendment to the Company s certificate of incorporation to (i) increase the number of authorized shares of common stock to 100,000,000, (ii) increase the number of authorized shares of preferred stock to 5,000,000, and (iii) effect a two-for-one stock split. As a result of the stock split, each shareholder of record at the close of business on May 24, 2006, received one additional share of common stock for each share held. For periods prior to the stock split, all share and per share data in the Company s condensed consolidated financial statements and related notes have been retroactively adjusted to reflect the stock split.

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

Recently Adopted Accounting Pronouncements. The Company adopted the Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes An Interpretation of FASB Statement No. 109 (FIN 48) on December 30, 2006. FIN 48 clarifies the accounting for uncertainty in tax positions and requires that companies recognize in their financial statements the benefit of a tax position, if that position is more likely than not of being sustained on audit, based on the technical merits of the position. The adoption of FIN 48 did not have an impact on the Company s consolidated financial position, results of operations or cash flows. However, the tax disclosures in the condensed consolidated financial statements have been updated to comply with the adopted standard. At December 30, 2006, the Company had unrecognized tax benefits of \$258,000, which primarily related to uncertainty regarding the sustainability of certain deductions taken on the Company s

Table of Contents

federal and state income tax returns. There have been no significant changes to this amount during the three or nine-month period ended September 28, 2007. To the extent these unrecognized tax benefits are ultimately recognized, they will impact the effective tax rate in a future period.

The Company and its subsidiaries file income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The Company is no longer subject to U.S. federal income tax examination for years prior to 2004. With few exceptions, the Company is no longer subject to state and local or non-U.S. income tax examination by tax authorities for years prior to 2003. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits as income tax expense. Accrued interest and penalties are insignificant at September 28, 2007.

Note 2: Revenue Recognition

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

Exponent reports revenues net of subcontractor fees. The Company has determined that it is not the primary obligor with respect to its subcontractors because:

its clients are directly involved in the subcontractor selection process;

the subcontractor is responsible for fulfilling the scope of work; and

the Company passes through the costs of subcontractor agreements with only a minimal fixed percentage mark-up to compensate it for processing the transactions.

Reimbursements, including those related to travel and other out-of-pocket expenses, and other similar third-party costs such as the cost of materials, are included in revenues, and an equivalent amount of reimbursable expenses are included in operating expenses. Any mark-up on reimbursable expenses is included in revenues.

Substantially all of the Company's engagements are performed under time and material or fixed-price billing arrangements. On time and material and fixed-price projects, revenue is generally recognized as the services are performed. For substantially all of the Company's fixed-price engagements, it recognizes revenue based on the relationship of incurred labor hours at standard rates and expenses to its estimate of the total labor hours at standard rates and expenses it expects to incur over the term of the contract. The Company believes this methodology achieves a reliable measure of the revenue from the consulting services it provides to its customers under fixed-price contracts given the nature of the consulting services the Company provides and the following additional considerations:

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

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

the Company does not believe that there are reliable milestones 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;

Edgar Filing: EXPONENT INC - Form 10-Q

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.

- 8 -

Table of Contents

Gross revenues and reimbursements for the three and nine months ended September 28, 2007 and September 29, 2006 are as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Gross revenues	\$ 50,337	\$ 44,489	\$ 152,287	\$ 130,651
Less: Subcontractor fees	1,433	1,156	3,873	3,637
Revenues	48,904	43,333	148,414	127,014
Reimbursements:				
Out-of-pocket travel reimbursements	1,154	1,064	3,230	3,265
Other outside direct expenses	2,834	2,220	9,019	5,028
	3,988	3,284	12,249	8,293
Revenues before reimbursements	\$ 44,916	\$ 40,049	\$ 136,165	\$ 118,721

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 collectibility 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 collectibility 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 collectibility 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 3: Net Income Per Share

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

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

(In thousands)	Three Months Ended		Nine Months Ended	
	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Shares used in basic per share computation	14,902	15,570	15,048	16,141
Effect of dilutive common stock options outstanding	970	1,075	1,055	1,123
Effect of dilutive restricted stock units outstanding	291	192	269	164
Shares used in diluted per share computation	16,163	16,837	16,372	17,428

Table of Contents

There were no options excluded from the diluted per share calculation for the three months ended September 28, 2007 and September 29, 2006. Common stock options to purchase 9,524 and 64,011 shares were excluded from the diluted per share calculation for the nine months ended September 28, 2007 and September 29, 2006, respectively, due to their antidilutive effect. Weighted-average exercise prices for the antidilutive shares were \$22.02 and \$15.65 for the nine months ended September 28, 2007 and September 29, 2006, respectively.

Note 4: Stock-Based Compensation

Restricted Stock Units

The Company grants restricted stock units to employees and outside directors under the 1999 Restricted Stock Plan. These 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 received a fully vested restricted stock unit award is also granted a matching number of unvested restricted stock unit awards. These unvested restricted stock unit awards 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 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 \$871,000 and \$422,000 during the three months ended September 28, 2007 and September 29, 2006, respectively. For the nine months ended September 28, 2007 and September 29, 2006, the Company recorded stock-based compensation expense associated with accrued bonus awards of \$2,555,000 and \$1,247,000, respectively. The value of the unvested restricted stock unit awards issued is recognized on a straight-line basis over the shorter of the four-year vesting period or the period between the grant date and the date the award recipient turns 59^{1/2}. If the award recipient is 59^{1/2} years or older on the date of grant, the value of the entire award is expensed upon grant. The Company recorded stock-based compensation expense associated with the unvested restricted stock unit awards of \$326,000 and \$208,000 during the three months ended September 28, 2007 and September 29, 2006, respectively. The Company recorded stock-based compensation expense associated with the unvested restricted stock unit awards of \$1,544,000 and \$1,003,000 during the nine months ended September 28, 2007 and September 29, 2006, respectively.

Stock Options

The Company currently grants stock options under the 1999 Stock Option Plan and the 1998 Stock Option Plan. 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 \$177,000 and \$235,000 during the three months ended September 28, 2007 and September 29, 2006, respectively, associated with stock option grants. The Company recorded stock-based compensation expense of \$567,000 and \$741,000 during the nine months ended September 28, 2007 and September 29, 2006, 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 payment 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.

Table of Contents

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 U.S. 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: Repurchase of Common Stock

On April 4, 2006, the Company's Board of Directors authorized \$35 million for stock repurchases. On May 22, 2007, the Company's Board of Directors authorized an additional \$35 million for stock repurchases.

The Company repurchased 853,271 shares of its common stock for \$19.0 million during the nine months ended September 28, 2007. The Company repurchased 1,573,492 shares of its common stock for \$25.2 million during the nine months ended September 29, 2006. As of September 28, 2007, the Company had remaining authorization under its stock repurchase plans of \$21.4 million to repurchase shares of common stock.

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. Employee deferrals were \$392,000 and \$1,283,000 during the three and nine months ended September 28, 2007, respectively. Employee deferrals were \$272,000 and \$817,000 during the three and nine months ended September 29, 2006, respectively. Employee distributions were \$524,000 and \$1,674,000 during the three and nine months ended September 28, 2007, respectively. Employee distributions were \$75,000 and \$415,000 during the three and nine months ended September 29, 2006, respectively.

Company assets that are earmarked to pay benefits under the plan are held in a rabbi trust and are subject to the claims of the Company's creditors. As of September 28, 2007 and December 29, 2006, the invested amounts under the plan totaled \$5.9 million and \$5.7 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 September 28, 2007 and December 29, 2006, vested amounts due under the plan totaled \$5.5 million and \$4.9 million, respectively. Changes in the liability are recorded as adjustments to compensation expense. During the three months ended September 28, 2007 and September 29, 2006, the Company recognized compensation expense of \$78,000 and \$169,000, respectively, as a result of changes in the market value of the trust assets, with the same amount being recorded as other income or expense. During the nine months ended September 28, 2007 and September 29, 2006, the Company recognized compensation expense of \$550,000 and \$283,000, respectively, as a result of an increase in the market value of the trust assets, with a corresponding amount being recorded as other income.

Table of Contents**Note 7: Supplemental Cash Flow Information**

The following is supplemental disclosure of cash flow information:

(In thousands)	Nine Months Ended	
	September 28, 2007	September 29, 2006
Cash paid during period:		
Income taxes	\$ 10,103	\$ 6,756
Non-cash investing and financing activities:		
Capital lease for equipment	\$	\$ 134
Unrealized gain on short-term investments	\$ 38	\$ 55
Vested stock unit awards issued to settle accrued bonuses	\$ 2,288	\$ 1,450
Stock repurchases payable to broker	\$	\$ 570

Note 8: Accounts Receivable, Net

At September 28, 2007 and December 29, 2006, accounts receivable, net was comprised of the following:

(In thousands)	September 28,	December 29,
	2007	2006
Billed accounts receivable	\$ 43,355	\$ 32,527
Unbilled accounts receivable	22,188	17,474
Allowance for doubtful accounts	(2,719)	(1,793)
Total accounts receivable, net	\$ 62,824	\$ 48,208

Note 9: Inventory

At September 28, 2007, the Company had \$1,812,000 of raw materials inventory. At December 29, 2006, the Company had \$520,000 and \$364,000 of finished goods and work-in-process inventory, respectively.

Note 10: Segment Reporting

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

Table of Contents

Segment information for the three and nine months ended September 28, 2007 and September 29, 2006 follows:

Revenues

(In thousands)	Three Months Ended		Nine Months Ended	
	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Other scientific and engineering	\$ 37,038	\$ 34,009	\$ 113,306	\$ 98,809
Environmental and health	11,866	9,324	35,108	28,205
Total revenues	\$ 48,904	\$ 43,333	\$ 148,414	\$ 127,014

Operating income

(In thousands)	Three Months Ended		Nine Months Ended	
	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Other scientific and engineering	\$ 8,952	\$ 8,921	\$ 28,951	\$ 25,998
Environmental and health	3,202	1,499	9,000	5,103
Total segment operating income	12,154	10,420	37,951	31,101
Corporate operating expense	(4,691)	(4,817)	(15,969)	(14,780)
Total operating income	\$ 7,463	\$ 5,603	\$ 21,982	\$ 16,321

Capital Expenditures

(In thousands)	Three Months Ended		Nine Months Ended	
	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Other scientific and engineering	\$ 451	\$ 430	\$ 1,689	\$ 1,503
Environmental and health	45	126	93	311
Total segment capital expenditures	496	556	1,782	1,814
Corporate capital expenditures	197	185	513	657
Total capital expenditures	\$ 693	\$ 741	\$ 2,295	\$ 2,471

Table of Contents**Depreciation and Amortization**

(In thousands)	Three Months Ended		Nine Months Ended	
	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Other scientific and engineering	\$ 687	\$ 618	\$ 2,005	\$ 1,828
Environmental and health	45	46	135	116
Total segment depreciation and amortization	732	664	2,140	1,944
Corporate depreciation and amortization	270	256	748	756
Total depreciation and Amortization	\$ 1,002	\$ 920	\$ 2,888	\$ 2,700

No single customer comprised more than 10% of the Company's revenues for the three and nine months ended September 28, 2007. The Company derived 12% of revenues from agencies of the federal government for the three months ended September 29, 2006. No single customer comprised more than 10% of the Company's revenues for the nine months ended September 29, 2006.

Note 11: Goodwill

Below is a breakdown of goodwill reported by segment as of September 28, 2007:

(In thousands)	Environmental and health	Other scientific and engineering	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 28, 2007.

Note 12: Mortgage Note

The Company has a revolving reducing mortgage note (the Mortgage Note) secured by its Silicon Valley headquarters building. The Mortgage Note had an initial borrowing amount up to \$30.0 million and is subject to automatic annual reductions in the amount available to be borrowed of between \$1.3 million to \$2.1 million per year until January 31, 2008. Any outstanding amounts on the Mortgage Note are due and payable in full on January 31, 2009. As of September 28, 2007, the Company had \$0 outstanding and available borrowings of \$17.4 million. The Mortgage Note is subject to two interest rate options of either prime less 1.5% or the fixed LIBOR plus 1.25% with a term of one month, two months, three months, nine months, or twelve months.

Table of Contents

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 29, 2006, which are contained in our fiscal 2006 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 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, 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 revenue recognition, estimating the allowance for doubtful accounts, accounting for income taxes, valuing goodwill and accounting for stock-based compensation 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, estimating the allowance for doubtful accounts, accounting for income taxes, valuing goodwill and accounting for stock-based compensation are described in our 2006 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.

Table of Contents**RESULTS OF CONSOLIDATED OPERATIONS****Overview of the Three Months Ended September 28, 2007**

During the third quarter of 2007 we had a 12.9% increase in revenues and a 12.2% increase in revenues before reimbursements as compared to the same period last year. This growth was driven primarily by our mechanics and materials, health sciences, thermal sciences, electrical and semiconductors, and ecological sciences practices. Our consolidated revenue growth was primarily driven by an increase in billable hours and higher billing rates. Billable hours for the third quarter of 2007 increased 6.3% to 203,000 as compared to 191,000 during the same period last year. Technical full-time equivalents increased 1.6% to 585 during the third quarter of 2007 as compared to 576 during the same period last year. This increase in technical full-time equivalents was due to our continuing recruiting and retention efforts. Utilization increased to 67% for the third quarter of 2007 as compared to 64% during the same period last year. Due to the increase in utilization and the management of our operating expenses we were able to leverage this revenue growth to improve operating income by 33.2% and net income by 34.6%.

Three Months Ended September 28, 2007 compared to Three Months Ended September 29, 2006**Revenues**

(In thousands)	Three Months Ended		Percent Change
	September 28, 2007	September 29, 2006	
Engineering and other scientific	\$ 37,038	\$ 34,009	8.9%
Percentage of total revenues	75.7%	78.5%	
Environmental and health	11,866	9,324	27.3%
Percentage of total revenues	24.3%	21.5%	
Total revenues	\$ 48,904	\$ 43,333	12.9%

The increase in revenues for our engineering and other scientific segment was driven by higher billing rates and an increase in billable hours. The increase in billable hours was primarily due to an increase in activity in our mechanics and materials, electrical and semiconductors, and thermal sciences practices. During the third quarter of 2007 billable hours for this segment increased by 3.4% to 153,000 as compared to 148,000 during the same period last year. Technical full-time equivalents increased 2.6% to 438 from 427 for the same period last year due to our recruiting efforts. Utilization was 67% for both periods.

The increase in revenues for our environmental and health segment was the result of higher billing rates and an increase in billable hours. The increase in billable hours was due to an increase in activity in our health sciences, ecological sciences and food & chemical practices. During the third quarter of 2007 billable hours for this segment increased by 16.3% to 50,000 as compared to 43,000 during the same period last year. Technical full-time equivalents decreased 1.3% to 147 from 149 for the same period last year. Utilization increased to 66% for the third quarter of 2007 as compared to 56% during the same period last year.

Compensation and Related Expenses

(In thousands)	Three Months Ended		Percent Change
	September 28, 2007	September 29, 2006	
Compensation and related expenses	\$ 29,268	\$ 26,881	8.9%
Percentage of total revenues	59.8%	62.0%	

Table of Contents

The increase in compensation and related expenses was due to an increase in payroll expense and an increase in bonus expense. Payroll expense increased by \$1.1 million due to an increase in technical full-time equivalent employees and the impact of our annual salary increase. Bonus expense increased by \$1.0 million due to a corresponding increase in profitability.

Other Operating Expenses

(In thousands)	Three Months Ended		Percent Change
	September 28, 2007	September 29, 2006	
Other operating expenses	\$ 5,484	\$ 4,870	12.6%
Percentage of total revenues	11.2%	11.2%	

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 of \$229,000 in occupancy expense, an increase of \$99,000 in technical materials and an increase of \$98,000 in computer expenses. This increase in occupancy expense was due to maintenance costs associated with our Silicon Valley facility and expansion in certain offices to support our increase in technical full-time equivalent employees. The increases in technical materials and computer related expenses were also due to an increase in technical full-time equivalent employees and consulting costs associated with a new accounting and project reporting system.

Reimbursable Expenses

(In thousands)	Three Months Ended		Percent Change
	September 28, 2007	September 29, 2006	
Reimbursable expenses	\$ 3,988	\$ 3,284	21.4%
Percentage of total revenues	8.2%	7.6%	

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

General and Administrative Expenses

(In thousands)	Three Months Ended		Percent Change
	September 28, 2007	September 29, 2006	
General and administrative expenses	\$ 2,701	\$ 2,695	0.2%
Percentage of total revenues	5.5%	6.2%	

General and administrative expenses during the third quarter of 2007 were consistent with the same period last year.

Other Income, Net

(In thousands)	Three Months Ended		Percent Change
	September 28, 2007	September 29, 2006	
Other income, net	\$ 840	\$ 808	4.0%

Edgar Filing: EXPONENT INC - Form 10-Q

Percentage of total revenues

1.7%

1.9%

- 17 -

Table of Contents

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. Other income, net, during the third quarter of 2007 was consistent with the same period last year.

Income Taxes

(In thousands)	Three Months Ended		Percent Change
	September 28, 2007	September 29, 2006	
Income taxes	\$ 3,266	\$ 2,668	22.4%
Percentage of total revenues	6.7%	6.2%	
Effective tax rate	39.3%	41.6%	

The increase in income tax expense was due to a corresponding increase in pre-tax income. The decrease in our effective tax rate was due to \$150,000 in additional income tax expense during the third quarter of fiscal 2006 related to a change in estimated federal and state income taxes for 2005.

Nine Months Ended September 28, 2007 compared to Nine Months Ended September 29, 2006**Revenues**

(In thousands)	Nine Months Ended		Percent Change
	September 28, 2007	September 29, 2006	
Engineering and other scientific	\$ 113,306	\$ 98,809	14.7%
Percentage of total revenues	76.3%	77.8%	
Environmental and health	35,108	28,205	24.5%
Percentage of total revenues	23.7%	22.2%	
Total revenues	\$ 148,414	\$ 127,014	16.8%

The increase in revenues for our engineering and other scientific segment was driven by higher billing rates, an increase in billable hours and an increase in reimbursable expenses. The increase in billable hours was primarily due to an increase in activity in our mechanics and materials, electrical and semiconductors, and thermal sciences practices. During the first nine months of 2007, billable hours for this segment increased by 4.7% to 464,000 as compared to 443,000 during the same period last year. Technical full-time equivalents increased 2.9% to 428 from 416 for the same period last year due to our recruiting efforts. Utilization increased to 70% for the first nine months of 2007 as compared to 68% during the same period last year. The increase in reimbursable expenses was due to an increase in project related costs in our technology development practice.

The increase in revenues for our environmental and health segment was the result of higher billing rates and an increase in billable hours. The increase in billable hours was due to an increase in activity in our health sciences, ecological sciences, and food & chemical practices. During the first nine months of 2007 billable hours for this segment increased by 16.4% to 156,000 as compared to 134,000 during the same period last year. Technical full-time equivalents decreased 0.7% to 147 from 148 for the same period last year. Utilization increased to 68% for the first nine months of 2007 as compared to 58% during the same period last year.

Table of Contents**Compensation and Related Expenses**

(In thousands)	Nine Months Ended		Percent Change
	September 28, 2007	September 29, 2006	
Compensation and related expenses	\$ 89,497	\$ 79,671	12.3%
Percentage of total revenues	60.3%	62.7%	

The increase in compensation and related expenses was due to an increase in payroll expense and an increase in bonus expense. Payroll expense increased by \$5.1 million due to an increase in technical full-time equivalent employees and the impact of our annual salary increase. Bonus expense increased by \$4.0 million due to a corresponding increase in profitability.

Other Operating Expenses

(In thousands)	Nine Months Ended		Percent Change
	September 28, 2007	September 29, 2006	
Other operating expenses	\$ 15,926	\$ 14,602	9.1%
Percentage of total revenues	10.7%	11.5%	

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 of \$743,000 in occupancy expense and an increase of \$204,000 in depreciation and amortization. This increase in occupancy expense was due to maintenance costs associated with our Silicon Valley facility and expansion in certain offices to support our increase in technical full-time equivalent employees. The increase in depreciation and amortization was due to an increase in capital expenditures during 2006 associated with a new accounting and project reporting system and our growth in technical full-time equivalent employees.

Reimbursable Expenses

(In thousands)	Nine Months Ended		Percent Change
	September 28, 2007	September 29, 2006	
Reimbursable expenses	\$ 12,249	\$ 8,293	47.7%
Percentage of total revenues	8.3%	6.5%	

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

General and Administrative Expenses

(In thousands)	Nine Months Ended		Percent Change
	September 28, 2007	September 29, 2006	
General and administrative expenses	\$ 8,760	\$ 8,127	7.8%
Percentage of total revenues	5.9%	6.4%	

Edgar Filing: EXPONENT INC - Form 10-Q

The increase in general and administrative expenses was primarily due to an increase in travel and meals expense of \$325,000 and an increase in bad debt expense of \$184,000. The increase in travel and meals expense was due primarily to the costs associated with a manager's meeting held during the second quarter of 2007. The increase in bad debt expense was due to an increase in our allowance for doubtful accounts.

- 19 -

Table of Contents**Other Income, Net**

(In thousands)	Nine Months Ended September 29,		Percent Change
	September 28, 2007	2006	
Other income, net	\$ 2,987	\$ 2,340	27.6%
Percentage of total revenues	2.0%	1.8%	

Other income, net, consists primarily of interest income earned on available cash, cash equivalents and short-term investments, changes in the value of assets associated with our deferred compensation plan and rental income from leasing space in our Silicon Valley facility. The increase in other income was due to a \$287,000 increase in rental income, an increase of \$266,000 associated with the change in fair value of deferred compensation plan assets and a \$165,000 gain on the sale of a tenant's common stock originally issued to us in connection with a lease of space in our Silicon Valley facility.

Income Taxes

(In thousands)	Nine Months Ended September 29,		Percent Change
	September 28, 2007	2006	
Income taxes	\$ 9,875	\$ 7,446	32.6%
Percentage of total revenues	6.7%	5.9%	
Effective tax rate	39.5%	39.9%	

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

RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements, which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. Earlier adoption is permitted, provided the company has not yet issued financial statements, including for interim periods, for that fiscal year. We are currently evaluating SFAS 157, but do not expect the adoption of SFAS 157 to have a material impact on our consolidated financial position, results of operations or cash flows.

In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 allows entities to measure financial instruments and certain other items at fair value that are not currently required to be measured at fair value. Unrealized gains and losses on items for which the fair value option has been elected must be reported in earnings at each subsequent reporting date. The fair value option can be applied instrument by instrument, however the election is irrevocable. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating SFAS 159, but do not expect the adoption of SFAS 159 to have a material impact on our consolidated financial position, results of operations or cash flows.

Table of Contents**LIQUIDITY AND CAPITAL RESOURCES**

As of September 28, 2007, our cash, cash equivalents and short-term investments were \$52.5 million compared to \$58.1 million at December 29, 2006. We financed our business for the current period principally through operating cash.

(In thousands)	Nine Months Ended	
	September 28, 2007	September 29, 2006
Net cash provided by operating activities	\$ 9,426	\$ 9,630
Net cash provided by investing activities	7,695	5,649
Net cash used in financing activities	(13,796)	(21,956)

The decrease in net cash provided by operating activities during the first nine months of 2007 was primarily due to a larger increase in accounts receivable as compared to the same period last year, partially offset by an increase in net income, a larger increase in accrued payroll and employee benefits, an increase in stock-based compensation and a decrease in contributions to our deferred compensation plan. The larger increase in accounts receivable was due to a corresponding increase in revenues and an increase in days sales outstanding. Days sales outstanding increased to 108 days during the third quarter of 2007 as compared to 103 days during the third quarter of 2006. The larger increase in accrued payroll and employee benefits was due to an increase in accrued bonuses driven by a corresponding increase in profitability. The increase in stock-based compensation was due to additional restricted stock unit grants during the first nine months of 2007 and an increase in the accrued bonus that we expect to settle with fully vested restricted stock units.

The increase in net cash provided by investing activities was primarily due to the sale and purchase of short-term investments. During the first nine months of 2007, net sales of short-term investments were \$10.0 million as compared to net sales of short-term investments of \$8.1 million during the same period in 2006. The net sales of short-term investments during the first nine months of 2007 and 2006 were to partially fund our share repurchases.

The decrease in net cash used in financing activities was primarily due to a \$4.9 million decrease in treasury repurchases and a \$2.6 million increase in the tax benefit for stock option plans during the first nine months of 2007 as compared to 2006.

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 28, 2007 (in thousands):

Fiscal year	Operating lease commitments	Capital leases	Purchase obligations	Total
2007	\$ 1,421	\$ 15	\$ 4,658	\$ 6,094
2008	4,912	60		4,972
2009	4,496	30		4,526
2010	3,217	3		3,220
2011	2,545	2		2,547
Thereafter	5,770			5,770
	\$ 22,361	\$ 110	\$ 4,658	\$ 27,129

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 \$4.3 million were recorded as a long-term liability on our condensed consolidated balance sheet at September 28, 2007.

Company assets that are earmarked to pay benefits under the plan are held in a rabbi trust and are subject to the claims of our creditors. As of September 28, 2007 invested amounts under the plan of \$4.7 million were recorded as a long-term asset on our condensed consolidated balance sheet.

Table of Contents

We have a revolving reducing mortgage note with a total available borrowing amount of \$17.4 million and an outstanding balance of \$0 as of September 28, 2007. We believe that our existing revolving note, together with funds generated from operations, will provide adequate cash to fund our anticipated operating cash needs through at least the next twelve-month period.

In addition, we believe that the funds available under the revolving reducing mortgage note, together with funds generated from operations, will provide adequate cash to fund our anticipated long-term cash needs beyond the next twelve-month period; however, we intend to grow our business by pursuing potential acquisitions, which could increase the need for additional sources of funds over the long term.

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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Exponent is 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 (auction rate maturity set at date of next auction) 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. We do not use derivative financial instruments in our short-term investment portfolio. 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

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.

Table of Contents

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three month period ended September 28, 2007, 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. There are no material changes to the risk factors set forth below relative to those included in our Annual Report on Form 10-K for the fiscal year ended December 29, 2006.

Absence of Backlog

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.

Attraction and Retention of Key Employees

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

Competition

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.

Customer Concentration

We currently derive, and believe that we will continue to derive, a significant portion of our revenues from organizations related to the transportation industry and the government sector. The loss of any large client could have a material adverse effect on our business, financial condition or results of operations.

Economic Uncertainty

The markets that we serve are cyclical and subject to general economic conditions, particularly in light of the labor-intensive nature of our business and our relatively high compensation expenses. If the economy in which we operate, which is predominantly in the U.S., were to experience a prolonged slowdown, demand for our services could be reduced considerably.

Table of Contents**Professional Reputation**

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

Regulation

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 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

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.

Variability of Quarterly Financial Results

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, are relatively fixed in advance of any particular quarter, a variation in the timing of the initiation or the completion of our client assignments can cause significant variations in operating results from quarter to quarter.

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

The following table provides information on the Company's share repurchases for the three months ended September 28, 2007:

(In thousands, except price per share)	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Program ⁽¹⁾
June 30 to July 27	141	\$ 22.71	141	\$ 25,831
July 28 to August 24	144	\$ 23.79	144	\$ 22,403
August 25 to September 28	42	\$ 24.46	42	\$ 21,366
Total	327	\$ 23.41	327	

⁽¹⁾ In April 2006, the Company's Board of Directors approved up to \$35 million for repurchases of the Company's common stock. On May 22, 2007, the Company's Board of Directors authorized an additional \$35 million for stock repurchases. These plans have no expiration date.

Table of Contents

Item 6. Exhibits

(a) Exhibits

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

Table of Contents

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 7, 2007

/s/ Michael R. Gaulke

Michael R. Gaulke, Chief Executive Officer

/s/ Richard L. Schlenker

Richard L. Schlenker, Chief Financial Officer

- 26 -