FORM 10-Q

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2006

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission File Number 0-18655

EXPONENT, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	**77-0218904**
(State or other jurisdiction of incorporation)	**(I.R.S. Employer Identification Number)**
149 COMMONWEALTH DRIVE, MENLO PARK, CALIFORNIA	**94025**
(Address of principal executive office)	**(Zip Code)**

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

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

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

Large accelerated filer ¨ Accelerated filer x 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 x

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

Class	Outstanding at May 5, 2006
Common Stock $.001 par value	**8,015,312 shares**

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PART I FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

EXPONENT, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

March 31, 2006 and December 30, 2005

(in thousands, except share data)

(unaudited)

	March 31, 2006	December 30, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 10,196	$ 13,216
Short-term investments	60,467	55,682
Accounts receivable, net of allowance for doubtful accounts of $1,433 and $1,222 at March 31, 2006 and December 30, 2005, respectively	48,037	46,211
Prepaid expenses and other assets	2,632	2,900
Deferred income taxes	2,471	2,156
Total current assets	123,803	120,165
Property, equipment and leasehold improvements, net	29,826	29,839
Goodwill	8,607	8,607
Other assets	6,436	5,630
	$ 168,672	$ 164,241
Liabilities and Stockholders Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 4,799	$ 4,136
Accrued payroll and employee benefits	15,753	19,910
Deferred revenues	2,425	2,364
Total current liabilities	22,977	26,410
Other liabilities	3,774	3,487
Deferred rent	1,137	1,144
Total liabilities	27,888	31,041
Stockholders equity:		
Common stock, $0.001 par value; 20,000,000 shares authorized; 8,194,721 and 8,095,913 shares issued at March 31, 2006 and December 30, 2005, respectively	8	8
Additional paid-in capital	48,718	44,963
Accumulated other comprehensive loss	(86)	(93)
Retained earnings	92,144	88,322
Total stockholders equity	140,784	133,200

	$ 168,672	$ 164,241

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

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EXPONENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

For the Quarters Ended March 31, 2006 and April 1, 2005

(in thousands, except per share data)

(unaudited)

	Quarters Ended	
	March 31, 2006	April 1, 2005
Revenues:		
Revenues before reimbursements	$ 39,619	$ 36,929
Reimbursements	2,408	2,267
Revenues	42,027	39,196
Operating expenses:		
Compensation and related expenses (including stock-based compensation expense of $1,250 and $508, respectively)	26,746	23,881
Other operating expenses	4,765	4,664
Reimbursable expenses	2,408	2,267
General and administrative expenses (including stock-based compensation expense of $21 and $13, respectively)	2,718	2,329
	36,637	33,141
Operating income	5,390	6,055
Other income:		
Interest income, net	498	234
Miscellaneous income, net	378	114
	876	348
Income before income taxes	6,266	6,403
Income taxes	2,444	2,536
Net income	$ 3,822	$ 3,867
Net income per share:		
Basic	$ 0.46	$ 0.48
Diluted	$ 0.43	$ 0.45
Shares used in per share computations:		
Basic	8,248	8,023
Diluted	8,894	8,673

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

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EXPONENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Quarters Ended March 31, 2006 and April 1, 2005

(in thousands)

(unaudited)

	Quarters Ended	
	March 31, 2006	April 1, 2005
Net income	$ 3,822	$ 3,867
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of tax	14	(41)
Unrealized loss on short-term investments, net of tax	(7)	(37)
Comprehensive income, net of taxes	$ 3,829	$ 3,789

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

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EXPONENT, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Quarters Ended March 31, 2006 and April 1, 2005

(in thousands)

(unaudited)

	Quarters Ended	
	March 31, 2006	April 1, 2005
Cash flows from operating activities:		
Net income	$ 3,822	$ 3,867
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property, equipment and leasehold improvements	882	818
Amortization of premiums and accretion of discounts of short-term investments	173	308
Deferred rent expense	(7)	28
Provision for doubtful accounts	354	640
Stock-based compensation	1,271	521
Deferred income tax provision	(854)	(1,087)
Tax benefit for stock option plans	(424)	266
Changes in operating assets and liabilities:		
Accounts receivable	(2,180)	(6,124)
Prepaid expenses and other assets	268	(11)
Accounts payable and accrued liabilities	1,087	2,380
Accrued payroll and employee benefits	(3,141)	(2,764)
Deferred revenues	61	(384)
Net cash provided by (used in) operating activities	1,312	(1,542)
Cash flows from investing activities:		
Capital expenditures	(860)	(1,096)
Other assets	45	8
Purchase of short-term investments	(48,814)	(19,398)
Sale/maturity of short-term investments	43,841	22,382
Net cash (used in) provided by investing activities	(5,788)	1,896
Cash flows from financing activities:		
Repayments of borrowings and long-term obligations	(11)	(21)
Tax benefit for stock option plans	424	
Repurchase of common stock		(3,064)
Issuance of common stock	1,044	1,058
Net cash provided by (used in) financing activities	1,457	(2,027)
Effect of foreign currency exchange rates on cash and cash equivalents	(1)	(17)
Net decrease in cash and cash equivalents	(3,020)	(1,690)
Cash and cash equivalents at beginning of period	13,216	4,680

Cash and cash equivalents at end of period	$ 10,196	$ 2,990

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 Fiscal Quarters Ended March 31, 2006 and April 1, 2005

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 condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America. All significant intercompany transactions and balances have been eliminated in consolidation. 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 quarter ended March 31, 2006 are not necessarily representative of the results of future quarterly or annual periods.

Stock-Based Compensation. During the first quarter of fiscal 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payments (SFAS 123(R)), which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors including employee stock options and restricted stock unit grants based on estimated fair values. SFAS 123(R) supersedes the Company s previous accounting under Accounting Principles Board Option No. 25, Accounting for Stock Issued to Employees and amends Statement of Financial Accounting Standards No. 95, Statement of Cash Flows . In March 2005, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 107 (SAB 107) relating to SFAS 123(R). The Company has applied the provisions of SAB 107 in its adoption of SFAS 123(R).

Stock-based compensation is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period. The Company elected the modified-prospective method, under which prior periods are not revised for comparative purposes. Under this transition method, stock-based compensation expense for the first quarter of fiscal 2006 includes compensation expense for all stock-based compensation awards granted prior to, but not yet vested as of December 30, 2005, based on the grant-date fair value estimated in accordance with the original provision of SFAS 123. Stock-based compensation expense for all stock-based compensation awards granted after December 30, 2005 is based on the grant-date fair value estimated in accordance with the provisions of SFAS 123(R).

SFAS 123(R) requires that the benefits of tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow. As a result, the adoption of SFAS 123(R) will reduce net operating cash flows and increase net financing cash flows in the periods after the effective date. Total cash flow will remain unchanged from what would have been reported. SFAS 123(R) also requires that the Company estimate the number of awards that are expected to vest and to revise the estimate as actual forfeitures differ from that estimate. Previously, the Company accounted for forfeitures under the provisions of SFAS 123, wherein the Company recognized forfeitures as they occurred. The Company estimated the forfeiture rate for the first quarter of fiscal 2006 based on its historical experience.

As a result of adopting SFAS 123(R), the Company s income before income taxes and net income for the quarter ended March 31, 2006, were $642,000 and $433,000 lower, respectively, than if the Company had continued to account for stock-based compensation under APB 25. Income taxes were $209,000 lower due to the adoption of SFAS 123(R). The impact on both basic and diluted earnings per share for the quarter ended March 31, 2006 was a decrease of $0.05 per share. See Note 4 for further information regarding the Company s stock-based compensation assumptions and expenses, including pro-forma disclosures for prior periods as if the Company had recorded stock-based compensation expense.

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Reclassifications. Certain prior period balances have been reclassified to conform to the current period presentation. In connection with the adoption of SFAS 123(R) the prior period balances for deferred stock-based compensation and stock-based compensation expense were reclassified.

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

- the Company considers labor hours at standard rates and expenses to be incurred when pricing its contracts;
- the Company generally does not incur set-up costs on its contracts;
- the Company does not believe that there are reliable milestones to measure progress toward completion;
- if either party terminates the contract early, the customer is required to pay the Company for time at standard rates plus materials incurred to date;
- the Company does not recognize revenue for award fees or bonuses until specific contractual criteria are met;
- the Company does not include revenue for unpriced change orders until the customer agrees with the changes;

historically the Company has not had significant accounts receivable write-offs or cost overruns; and

its contracts are typically progress billed on a monthly basis.

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Gross revenues and reimbursements for the quarters ended March 31, 2006 and April 1, 2005 are as follows:

(In thousands)	Quarters Ended March 31, 2006	April 1, 2005
Gross revenues	$ 42,954	$ 41,670
Less: Subcontractor fees	927	2,474
Revenues	42,027	39,196
Reimbursements:		
Out-of-pocket travel reimbursements	992	815
Other outside direct expenses	1,416	1,452
	2,408	2,267
Revenues before reimbursements	$ 39,619	$ 36,929

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)	Quarters Ended March 31, 2006