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EXPONENT INC
Form 10-K405
March 29, 2001

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

Annual Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended December 29, 2000.

OR

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission File Number 0-18655

EXPONENT, INC.

(Exact name of registrant as specified in its charter)

Delaware

77-0218904

(State or other jurisdiction of incorporation or organization)

(IRS employer identification no.)

149 Commonwealth Drive, Menlo Park, California 94025

(Address of principal executive offices, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.001 par value

(Title of Class)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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The aggregate market value of the voting stock held by non-affiliates of the registrant based on the closing sale price of the Common Stock as reported on the NASDAQ National Market on March 16, 2001, was approximately \$57,548,798. For purposes of this determination, shares of Common Stock held by each officer and director and by each person who owns 10% or more of the outstanding Common Stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the issuer's Common Stock outstanding as of March 16, 2001 was 6,463,045.

DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of the Registrant's Annual Report to Stockholders for its fiscal year ended December 29, 2000, are incorporated by reference in Parts II and IV of this Form 10-K to the extent stated herein.
- (2) Portions of the Registrant's definitive Proxy Statement for the Registrant's 2001 Annual Meeting of Stockholders to be held on May 24, 2001, are incorporated by reference into Part III of this Form 10-K.

FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains, and incorporates by reference, 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 under) 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, are intended to 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 those discussed elsewhere in this Report and in the documents incorporated herein by reference. 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. The Company undertakes no obligation to release publicly any updates or revisions to any such forward-looking statements that may reflect events or circumstances occurring after the date of this Report.

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PART I

Item 1. Business

GENERAL

Exponent, Inc., incorporated in Delaware in 1989 ("Exponent", and, together

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with its operating groups, the "Company"), is a science and engineering consulting firm that provides solutions to complex problems. Our multidisciplinary team of scientists, physicians, engineers, and business consultants brings together more than 70 different disciplines to solve complicated issues facing industry and business today.

The Exponent Failure Analysis Associates group ("FaAA") services clients in a variety of areas including litigation support and technology development. FaAA provides services in areas such as vehicle evaluation and testing, materials science and mechanical design analysis, civil engineering and thermal sciences. It also assists military organizations in utilizing existing commercial technologies and developing new technologies.

The company provides services in the epidemiology arena with Exponent Health Group ("EHG"). EHG provides epidemiology services on a wide variety of topics, including occupational and environmental health concerns, pharmaceutical and medical device issues, and health-related consumer product safety.

The Company's Exponent Environmental Group ("EEG") is a scientific and engineering consulting group that specializes in providing scientific solutions for complex environmental problems.

The Company's BCS Wireless group ("BCS") specializes in the installation and maintenance of wireless communication networks. During 1999, a decision was made to divest BCS and the Company sold certain assets of BCS in May of 2000.

In September 2000, the Company acquired all of the outstanding capital stock of Lockwood-Singh & Associates, Inc., a Los Angeles based geotechnical engineering and geologic consulting firm. Following the acquisition, the net assets and staff of Lockwood-Singh & Associates, Inc. became part of Exponent's Civil Engineering practice.

In December 2000, the Company merged FaAA, EEG, EHG and the remaining assets of BCS, which previously had been wholly owned subsidiaries, into Exponent, Inc., the parent company. This change will have no effect on the reporting of the Company's operating segments.

CLIENTS

General

The Company serves clients in manufacturing, transportation, technology, utilities, energy, insurance, government, health, environmental and other sectors of the economy. During 2000, 1999 and 1998 approximately 21%, 20% and 29%, respectively, of the Company's gross revenues from continuing operations were derived from professional services provided to clients, organizations and insurers related to the transportation industry. Additionally, during 2000 and 1999 the Company derived approximately 24% and 12%, respectively, of gross revenues from continuing operations from professional services provided to government agencies and contractors.

Many of the Company's engagements are initiated by lawyers or insurance companies whose

clients anticipate or are engaged in litigation over an alleged failure of their products, equipment or services. The Company has seen its services in failure prevention and technology evaluation grow as the technological complexity of products has increased over the years.

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Pricing and Terms of Engagements

The Company provides its services on either a fixed-price basis or on a "time and expenses" basis, charging hourly rates for each staff member involved in a project based on his or her skill and experience. The Company's standard rates for professionals range from \$30 to \$750 per hour. The Company's engagement agreements typically provide for monthly billing, require payment of the Company's invoices within 30 days of receipt and permit clients to terminate an engagement at any time. Clients normally agree to indemnify Exponent's work and its personnel against liabilities arising out of the use or application of the results of the Company's work or recommendations.

SERVICES

The Company provides services in the following areas:

- | | |
|-----------------|--|
| . Biomechanics | . Industrial Structures |
| . Civil | . Information Management |
| . Data Analysis | . Marine and Aviation |
| . Electrical | . Materials Science and Mechanical Design Analysis |
| . Environmental | . Technology Development |
| . Health | . Thermal Sciences |
| . Health Risk | . Vehicle Evaluation and Testing |
| . Human Factors | . Visual Communications |
| . Hydrology | |

Biomechanics

Biomechanics uses engineering and science to determine how people become injured and to determine what injuries can be expected when people are exposed to a certain incident or environment. The analyses encompasses: claimed injury, injury mechanisms and injury prevention; effectiveness of restraint systems; ergonomic design evaluation; low-speed and high-speed automotive collisions, cardiovascular devices; helmet effectiveness; occupational injuries; recreational sports injuries; evaluation of implant designs; cardiovascular medicine and failure; and human body dynamics.

Civil

Civil engineering investigates all types of structural, geotechnical, geological, geomechanical, construction and building problems, from major catastrophes to simple performance failures. The scientific investigation of these events provides a thorough assessment of damage, as well as expert analysis of causation to be used for purposes of retrofit, repair, claims adjustment or litigation. The analysis provides a comprehensive evaluation of structural failures that include site condition and assessment surveys, advanced theoretical and numerical modeling techniques, dynamic testing and analysis, reliability and risk analysis, material testing, and repair solutions.

Earthquake engineering encompasses safety and damage assessment, seismic analysis and design, post-earthquake reconnaissance and field inspection of all types of structures, analysis of earthquake ground motion, investigation of structural failures, development of remedial repairs and mitigation measures, investigation protocol development and disaster management services.

Geotechnical, geological, geomechanical engineering and groundwater hydrology encompasses problems with soil, rock and fluids as they related to the structures that they support. Applied earth sciences analysis encompasses

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problems associated with landslides, earthwork construction, foundations, retaining walls, oil-well distress, tunnels and pipelines.

Structural engineering encompasses comprehensive evaluations, including state-of-the-art structural analyses, site condition and assessment surveys, dynamic testing and vibration measurement, computer animated reconstruction, reliability and risk analyses, advanced theoretical and numeric modeling, due diligence consulting and component or material testing. Once the root cause of the failure is known, and when the extent and severity of the distress is fully assessed, optimal repair options are recommended.

Data Analysis

Data analysis quantifies how machines, vehicles, consumer products and components behave in the real world to directly measure risk. Most of the risk analysis is based on information from in-house databases of over 350 million computerized records, one of the world's largest collections of accident and incident records. The analysis encompasses: accident data analysis; automotive safety design and evaluations; database development; epidemiological research and analysis; fire risk, property loss and insurability; health risk assessment and epidemiology; safety assessment; statistical modeling and analysis; survey design and analysis; system reliability and failure probability; work injury; and consumer product safety.

Electrical

Electrical encompasses accident reconstruction, component and printed circuit board failure analysis, electrical system design analysis, equipment failure investigation, and patent evaluation and infringement review. Typical investigations include: automotive electronics; printed circuit boards; telecommunication electronics; semiconductor devices; power supplies and batteries; prototypes; transportation systems; electric power systems; electric equipment and energy conservation equipment and interruptible power systems.

Environmental

Environmental includes ecological and human health risk assessment; air quality evaluation; site investigation and liability management; natural resource damage assessment; and water resources and quality management.

Air quality evaluation encompasses accident reconstruction; air quality management; chemical release analyses; combustion calculations and modeling; computer modeling of plume dynamics; statistical analyses; visualization, animation, and geographic information systems; indoor air quality assessment; risk analyses; uncertainty evaluation; expert testimony and litigation support.

Site investigation and liability management encompasses site assessments; remedial investigations/feasibility studies; Resource Conservation and Recovery Act facility investigation/corrective measure studies; natural attenuation studies; groundwater and surface water modeling; bench scale testing; transport and fate analysis; air quality monitoring; bio availability studies; sediment investigations; remedial alternatives analysis; remediation/redevelopment oversight; and economic analysis.

Water resources and water quality management encompasses groundwater, surface water, and vadose-zone analyses; environmental transport and fate analyses; natural attenuation and degradation

studies; river and reservoir water quality analyses; groundwater remedial

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investigations; watershed and basin-scale hydrological modeling and management; site-specific hydrology and geochemical evaluations; flood and stormwater planning and management; sediment transport analyses; dam failure analyses; and water supply reliability and resource planning and management.

Health

Health services provide solutions to complex health problems from client consultation to clinical trials, health care evaluations, literature reviews and epidemiological studies. Health research includes reproductive effects, cancer, injuries and health effects from workplace exposures, pharmacoepidemiology and infectious disease control. Epidemiology, exposure assessment and occupational medicine expertise is used to evaluate occupational and environmental health issues. Decision analysis, cost-benefit, risk-benefit and outcome analysis is applied to assist health care companies in evaluating health care and with strategic planning and technology assessment.

Epidemiology is the science of studying disease within a population. Through the principles of epidemiology, analyses are performed on the interaction of host, agent and environment to reach conclusions about the causes and occurrence of disease in human populations. Epidemiology services encompass designing and conducting occupational and environmental studies to evaluate the health effects of community and workplace exposures, work-related disease and injury; conducting decision analysis for alternative forms of medical treatments; designing, conducting and interpreting clinical trials; consulting on product safety; and evaluating quality of health care.

Healthcare evaluation provides various approaches to accreditation, program evaluation and cost-effectiveness analyses. These approaches encompass statistical analysis; survey design and analysis; accreditation applications; cost-effectiveness analysis; performance indicators; accreditation requirements; outcome measurements; disease management; quality improvement; clinical practice guidelines; and program evaluation.

Medical technology assessments provide a comprehensive and independent assessment of medical devices and technologies. These assessments encompass clinical indications; materials selection; technology (engineering) review; FDA and other regulatory hurdles; target condition epidemiology; pricing and reimbursement issues; cost effectiveness; complications and/or failure modes (liability); marketing strategy; and competing technologies.

Health Risk

Health risk assessments and related analyses are a critical component of many environmental regulatory decisions. The results of such analyses help determine the need for and nature of remedial actions at hazardous waste sites, support the derivation of cleanup levels, and assist in permitting new facilities and developing closure plans for solid waste management units and facilities that are going out of service. Human health toxicology services encompass comprehensive multi-pathway risk assessments; screening-level risk evaluations; derivation of risk-based cleanup levels; deterministic and probabilistic exposure assessments; toxicity assessments and data evaluation; risk assessment strategy development and review; research and development to address sources of uncertainty; bio availability studies; fish consumption surveys and studies; and toxic tort, class action and general litigation support.

Human Factors

Analysis of human behavior and the limitations and capabilities of people as they use a product or participate in an activity can provide a better understanding of how accidents occur. The impact of warning labels, other safety

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information and training on changing human behavior and reducing accidents

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is an active area of ongoing research. Human factors services encompasses the development of warnings and safety information for consumer, medical and work-related products; analysis of the role of warnings in particular accidents; use of injury/illness data to identify human behavior associated with accidents; use of risk analysis to quantify the safety of a product or activity; measurement of illuminance, luminance and noise levels in work environments; measurement of human motor performance such as jumping ability, variation in gait, finger pinch strength and visual-motor control; testing of people's knowledge of hazards and comprehension of safety information; and analysis of user reaction to complex information and control systems.

Hydrology

Hydrology is the science of water, its properties, phenomena and distribution over the earth's surface. Exponent's hydrology services include the analysis of flood retention facilities (levees, dams, etc.) and the evaluation of the effects of flood water inundation on different types of structures. The services also extend to investigating the cause of hillside movement, slope erosion and other soil movement that may be associated with flooding which may include distinguishing between damage due to catastrophe and damage that has been caused by or is related to long-term deterioration, foundation settlement, slope movement, initial construction defects, or normal expected behavior of a structure over time. In addition the hydrology practice provides property damage assessment, geotechnical services, as well as helps develop remedial repairs to address flood related distress. The hydrology services further include the development of master plans of drainage to enable cities to coordinate all aspects of their flood control and surface water needs. This master drainage plan considers all types of storms and their attendant runoff and provides for safe transport of the waters off site.

Industrial Structures

The Company has developed an expertise in power plant and industrial chimneys, not only as a designer, but also as a consultant for maintenance and repair issues. The industrial structures practice has developed "close to reality" computer programs, which are frequently used for design of chimneys and other concrete towers that combine a high degree of safety with superior economics.

Information Management

Information management covers information systems technology, technical consulting and application. Services encompass access to one of the largest private collections of computerized accident and incident data bases in the world; providing design and installation of customized reports and automated queries; design and execution of complex queries and technical information in a particular field, including suggestions for primary research. These services help to simplify preliminary research and risk analyses by offering access over the Internet in a streamlined approach to help organizations react quickly to new circumstances and unanticipated demands.

Marine and Aviation

Aviation analysis includes engineering analyses and design reviews, accident reconstruction and testing for aircraft, aircraft structures, systems and auxiliary equipment, as well as spacecraft, satellites and rockets. Services encompass accident reconstruction; fire cause and origin analysis and

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prevention; aerodynamics analysis; materials and corrosion evaluation; aircraft system testing and evaluation; performance and control calculations; computer simulation; regulatory analysis; design evaluation; risk analysis and service life assessment; and wind tunnel testing.

Marine services perform independent engineering analysis and design review, accident reconstruction and testing for ships, marine structures, offshore platforms and auxiliary marine equipment.

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Other services encompass marine materials and corrosion evaluation; sea-states and weather characterization; regulatory compliance review; structural design and fabrication process review; risk analysis and service life assessment; shipyard management and operations review; fire cause and origin analysis and prevention; structural assessment; management and oversight of vessel construction; and evaluation of the environmental impact of marine industrial operations and incidents.

Materials Science and Mechanical Design Analysis

Materials science and engineering is the science of understanding how and why materials fail in medical, automotive, construction, recreational and other environments. Areas of expertise include metallurgists, polymer scientists, and ceramists. Services encompass accident reconstruction; fatigue and fracture mechanics analysis; fractography; adhesion and coating evaluation; joining and welding evaluation; bulk and surface chemical analysis; laboratory testing of metals, plastics, ceramics and glasses; composites (fiberglass, sheet molding compound and carbon) evaluation; life assessment; corrosion assessment; defect detection and effect investigation; material characterization, selection and compatibility assessment; environmental effect assessment; microscopy; experimental stress analysis; non-destructive evaluation; and fabrication and material processing.

Mechanical design analysis covers a broad range of services, from engineering mechanics, energy, risk management and reliability to safety and process risk management.

Engineering mechanics involves the evaluation of loads on a system or product, from medical devices to commercial aircraft. Projects range from modeling fluid flow characteristics in a system to predicting the remaining lifetime of structures and components and to establishing design and operating envelopes for processes and technologies. Services encompass component/structure lifetime prediction; material constitutive modeling, testing and evaluation; damage assessment; non-destructive evaluation; stress analysis; design review; finite element analysis; blast and explosion; failure modes and effects analysis; structural, thermal, and fluid dynamics analysis; vibration evaluation and rotating equipment; fracture mechanics; medical device assessment; and impact and penetration.

Energy services encompass creation of innovative maintenance management of existing electric power plant equipment and systems; assisting power plant owners and investors in modernization/expansion programs and new plant development; component and plant condition assessments; and reliability analyses and economic optimization.

Risk management and reliability focuses on the areas of industrial hazard assessment, mitigation and prevention, operational reliability, safety hazards, product quality, and economic risks and benefits. Risk assessments and accident analysis are performed for the construction, operation, and servicing of manufacturing plants, processing and storage facilities, and transportation

systems. Techniques used encompass fault-tree and event-tree analysis; failure modes and effects analysis; operational performance evaluation; statistical analysis; and probabilistic risk assessments.

Safety and process risk management is the effective way to address safety issues in chemical and petrochemical industries that store, handle, or process toxic or flammable materials in quantities that, if released, could have a major impact on workers, nearby communities, or facilities. These events can have significant life-safety, environmental, legal, regulatory, and financial consequences. Services encompass process hazards analysis; mechanical integrity assessment; determination of blast overpressures and structural assessments; failure/accident investigation; offshore platform hazards analysis; consequence modeling; and quantitative risk assessment.

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Technology Development

Technology Development draws on our multidisciplinary engineering, testing, failure analysis and prevention expertise, to help military organizations identify commercial off-the-shelf technologies which reduce development time and cost without sacrificing reliability. The group also develops integrated prototypes, qualifies production processes and initiates upgraded modules as new technologies emerge.

Thermal Sciences

Fires, explosions and toxic chemical services encompass fire cause, origin and propagation analysis; combustion and explosion investigations; arson investigations; chemical reactions and kinetics assessment; chemical processes review; fire protection evaluation; site investigation and documentation; smoke and plume propagation modeling; heat transfer and thermodynamics analysis; fluid mechanics evaluation; heating and cooling equipment design reviews; and full-scale fire and explosion testing. The information gained from these analyses provides clients with a means of assessing preventative measures related to the design of their products as well as evaluating failures when they occur.

Vehicle Evaluation and Testing

Vehicle evaluation and testing covers design analysis, component testing and accident reconstruction. Projects have included automobiles, buses, trucks, vans, bicycles, trailers, motorcycles, trains, forklifts, tractors, cranes, mining and construction equipment, all terrain vehicles and golf carts. Services encompass accident reconstruction; product validation testing; crash testing; component testing and evaluation; design analysis; occupant kinematics and injury analysis; vehicle handling analysis and testing; human performance assessment; instrumentation and data analysis; risk analysis; fire causation analysis; and product development.

Visual Communication

Visual communication means the generation, development and production of visual concepts. Pictures are relied upon - whether printed, displayed on a computer, projected onto a screen or presented as virtual reality - to reveal and explain what words alone cannot. The products include animation, graphics, multimedia, photography and video. Services encompass charts, graphs and tables; electronic imaging and enhancement; computer animation; photogrammetry; concept generation and development; site and studio photography; court boards, laser disks, and CD-ROMs; slides, prints and overhead transparencies; custom photographic processing; stereo and high-speed photography; video and post-production; and interactive presentations.

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COMPETITION

The marketplace for the Company's services is fragmented and the Company faces different sources of competition in providing its various services. In addition, the services the Company provides to some of its clients can be performed in-house by those clients. However, because of liability and independence concerns, clients who have the capability to perform such services themselves often retain the Company or other independent consultants.

In each of the foregoing areas, the Company believes that the principal competitive factors are technical capability and breadth of services, ability to deliver services on a timely basis, professional reputation, knowledge of the litigation process and the ability to offer fixed fee pricing. Although the Company believes it generally competes favorably in each of these areas, some of the Company's competitors may be able to provide services acceptable to the clients at significantly lower prices.

The Company generally believes that the barriers to entry in particular areas of engineering

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expertise are low and that for many of its technical disciplines, competition is increasing. In addition, the Company expects that as a result of these low barriers, competition may become more intense in other aspects of its business. In response to competitive forces in the marketplace, the Company continues to explore new markets for its various technical disciplines.

EMPLOYEES

As of December 29, 2000, the Company's continuing operations employed approximately 686 full-time and part time employees, including approximately 402 engineering and scientific staff, 142 technical support staff, and 142 administrative and support staff.

The Company's future success depends on its continuing ability to attract and retain highly qualified technical and managerial personnel. Competition for such personnel is intense, and there can be no assurance that the Company will be able to retain its key managerial and technical employees or that it will be able to attract, assimilate or retain other highly qualified technical and managerial personnel in the future.

EXECUTIVE OFFICERS

The executive officers of the Company and their ages as of March 29, 2001 are as follows:

| Name ---- | Age --- | Position ----- |
|----------------------------|------------|--|
| Michael R. Gaulke | 55 | President, Chief Executive Officer and Director |
| Subbaiah V. Malladi, Ph.D. | 54 | Chief Technical Officer and Director |
| Roger L. McCarthy, Ph.D. | 52 | Chairman Exponent Failure Analysis Associates and Director |
| Richard L. Schlenker, Jr. | 35 | Chief Financial Officer and Corporate Secretary |

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Executive officers of the Company are appointed by the Board of Directors and serve at the discretion of the Board or until the appointment of their successors. There is no family relationship between any of the directors and officers of the Company.

Mr. Gaulke joined the Company in September 1992, as Executive Vice President and Chief Financial Officer. He was named President in March 1993, and he was appointed as a member of the Board of Directors of the Company in January 1994. He assumed his current role of President and Chief Executive Officer in June of 1996. From November 1988 to September 1992, Mr. Gaulke served as Executive Vice President and Chief Financial Officer at Raynet Corporation, a subsidiary of Raychem Corporation. Prior to joining Raynet, Mr. Gaulke was Executive Vice President and Chief Financial Officer of Spectra Physics, Inc., where he was employed from 1979 to 1988. From 1972 to 1979, Mr. Gaulke served as a consultant with McKinsey & Company. Mr. Gaulke is a member of the Board of Directors of Cymer, Inc. and RockShox, Inc.; serves on the Board of Trustees of the Palo Alto Medical Foundation; and the Board of Advisors of the Whitehead Institute. Mr. Gaulke received a MBA (1972) in Marketing and Operations from Stanford University Graduate School of Business and a B.S. (1968) in Electrical Engineering from Oregon State University.

Subbaiah V. Malladi, Ph.D., joined Exponent Failure Analysis Associates, Inc. in 1982 as a Senior Engineer, becoming a Senior Vice President in January 1988 and a Corporate Vice President of FaAA in September 1993. In October 1998, Dr. Malladi was appointed Chief Technical Officer of the Company. Dr. Malladi has also served as a director of the Company from March 1991 through September 1993. He

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was re-appointed as a director in April of 1996 and has remained on the Board since this date. He received a Ph.D. (1980) in Mechanical Engineering from the California Institute of Technology, M.Tech (1972) in Mechanical Engineering from the Indian Institute of Technology, B.E. (1970) in Mechanical Engineering from SRI Venkateswara University, India and B.S. (1966) in Physics, Chemistry and Mathematics from Osmania University, India. Dr. Malladi is a Registered Professional Mechanical Engineer in the State of California, and a member of the following professional organizations: American Institute of Aeronautics and Astronautics; American Association for the Advancement of Science; Combustion Institute; and National Fire Protection Association.

Roger L. McCarthy, Ph.D., joined the Company in August 1978. Currently, Dr. McCarthy is Chairman Exponent Failure Analysis Associates and a director of the Company. From June 1996 to October 1998, he served as Chief Technical Officer of the Company, director of the Company and Chairman of Exponent Failure Analysis Associates, Inc. He has been a director of the Company since 1989 and a director of FaAA since 1980. He was Chief Executive Officer of the Company and FaAA from 1982 to June 1996. He also served as Chairman and President of the Company from 1986 to March 1993. Dr. McCarthy received his Ph.D. (1977), Mech.E. (1975) and S.M. (1973) from Massachusetts Institute of Technology, and his B.S.E. (1972) in Mechanical Engineering and A.B. (1972) in Philosophy from the University of Michigan. Dr. McCarthy is a Registered Professional Engineer in the states of California and Arizona and a member of the following professional organizations: American Society of Metals; American Society of Mechanical Engineers (ASME); Safety Engineering and Risk Analysis Division of ASME; Society of Automotive Engineers; American Society for Testing and Materials; Human Factors and Ergonomics Society; National Society of Professional Engineers; American Society of Heating, Refrigeration and Air-Conditioning Engineers; National Fire Protection Association; American Welding Society; National Safety Council; Society for Risk Analysis; and American Statistical Association.

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Richard L. Schlenker, Jr. joined the Company in October 1990. Mr. Schlenker is the Chief Financial Officer and Corporate Secretary for the Company. He was appointed Chief Financial Officer in July 1999 and was appointed Secretary of the Company in November 1997. Mr. Schlenker was the Director of Corporate Development from 1998 until his appointment as CFO. He was the Manager of Corporate Development from 1996 until 1998. From 1993 to 1996, Mr. Schlenker was a Business Manager at Exponent Failure Analysis Associates, Inc. where he managed the business activities for multiple consulting practices within FaAA. Prior to 1993 he held several different positions in finance and accounting within the Company. Mr. Schlenker holds a B.S. in Finance from the University of Southern California.

Item 2. Properties

The Company's Silicon Valley office facilities consist of a 153,738 square foot building, with office and laboratory space located on a 6.3 acre tract of land owned by the Company in Menlo Park, California, and an adjacent 27,000 square feet of leased warehouse storage space. The Company's primary facility is subject to a revolving reducing mortgage note. The note is subject to two interest rate options of either prime less 1.5% or the fixed LIBOR plus 1.25% with a term option of one month, two months, three months, six months, nine months, or twelve months. At December 29, 2000, the principal amount outstanding on the mortgage note was zero.

The Company's Test and Engineering Center ("TEC") occupies 147 acres in Maricopa County, Arizona. The Company leases this land from the state of Arizona under a 30-year lease agreement that expires in January 2028 and has an option to renew for two fifteen-year periods. In September 1999, the Company completed construction of a new indoor test facility at the TEC. In October 2000, the Company completed construction of an engineering and test preparation building at the TEC. In addition, the Company leases office, warehouse and laboratory space in 23 other locations in 17 states as well as in Germany. During fiscal 1999, the Company closed down its

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offices in Moscow and Poland.

Leases for these offices, warehouse and laboratory facilities have terms generally ranging between one to ten years. Aggregate lease payments in fiscal 2000 for all leased properties were approximately \$3,425,000.

Item 3. Legal Proceedings.

From time to time, the Company has been named as a defendant in actions arising out of its business. The Company is not currently engaged in any such litigation that management believes would have a material adverse impact on the Company if resolved adversely to the Company.

Item 4. Submission of Matters to a Vote of Security Holders

Not applicable.

PART II -----

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters

The information required by this item is incorporated by reference to the

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section entitled "Quarterly Stock Data" in the Company's Annual Report to Stockholders for the year ended December 29, 2000 (the "2000 Annual Report"). An excerpt from the 2000 Annual Report containing this information has been filed as Exhibit 13.1 to this Annual Report on Form 10-K.

Item 6. Selected Financial Data

The information required by this item is incorporated by reference to the section entitled "Financial Summary" in the 2000 Annual Report. An excerpt from the 2000 Annual Report containing this information has been filed as Exhibit 13.1 to this Annual Report on Form 10-K.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

With the exception of the discussion below regarding factors affecting operating results and the market price of stock, the information required by this item is incorporated by reference to the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" in the 2000 Annual Report. An excerpt from the 2000 Annual Report containing this information has been filed as Exhibit 13.1 to this Annual Report on Form 10-K.

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 the Company's control. These uncertainties include, but are not limited to, those mentioned elsewhere in this report, and the following:

Attraction and Retention of Key Employees

The Company's business involves the delivery of professional services and is labor-intensive. The Company's success depends in large part upon its 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. There can be no assurance that the Company 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 the Company's employees could have a material adverse

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impact on the Company, including its ability to secure and complete engagements.

Customer Concentration

The Company currently derives, and believes that it will continue to derive, a significant portion of its revenues from clients, organizations and insurers related to the transportation industry. Transportation industry related engagements accounted for approximately 21% of the Company's gross revenues for the fiscal year ended December 29, 2000. In addition, the Company performed engagements for the government sector, which accounted for approximately 24% of the Company's gross revenues for the fiscal year ended December 29, 2000. The loss of any large client, organization or insurer related to either the transportation industry or government sector could have a material adverse effect on the Company's business, financial condition and results of operations.

Regulation

Public concern over health, safety and preservation of the environment has

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resulted in the enactment of a broad range of environmental laws and regulations by local, state and federal lawmakers and agencies. These laws and the implementing 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 environmental services may be significantly reduced.

Competition

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

Absence of Backlog

Revenues are primarily derived from services provided in response to client request or events that occur without notice, and engagements, generally billed on a "time and expenses" basis, are terminable at any time by clients. As a result, backlog at any particular time is small in relation to the Company's 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.

Other Income

The Company currently subleases excess facilities, primarily in its Silicon Valley headquarters in Menlo Park, California, which have lease terms that expire within the 2001 - 2003 time periods. In fiscal 2000 and 1999, miscellaneous rental income associated with these facilities amounted to approximately 12% and 16%, respectively of income from continuing operations before income taxes. In early 2001, one sub-lease in the Silicon Valley headquarters expired and was not renewed. If the Company is not able to rent the available space in a timely manner, the loss of rental income could have a material effect on the Company's income from continuing operations. Should the remaining sub-leases also not be extended, renewed or have their term options exercised, the loss of additional miscellaneous rental income could also have a material adverse effect on the Company's operating results.

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Variability of Quarterly Financial Results

Variations in the Company's 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 number of working days in a quarter, employee hiring and utilization rates, and integration of companies acquired. Because a high percentage of the Company's 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 client assignments, at or near the end of any quarter, can cause significant variations in operating results from quarter to quarter.

Item 7(A) Quantitative and Qualitative Disclosure About Market Risk

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The Company is exposed to some interest rate risk associated with the Company's long-term debt obligation on the Company's headquarters building. Effective February 1, 1999, the Company refinanced its headquarters building under a new financing agreement. The new mortgage note consists of a revolving reducing note, secured by the Company's headquarters building, with a borrowing amount up to \$30.0 million. The \$30.0 million revolving reducing note is subject to automatic annual reductions in the amount available to be borrowed of approximately \$1.3 million to \$2.1 million per year until January 31, 2008. As of December 29, 2000, \$28.7 million was available to be borrowed. Any outstanding amounts on the revolving reducing note are due and payable in full on January 31, 2009. The Company may from time to time during the term of the note borrow, partially or wholly repay its outstanding borrowings and re-borrow up to the maximum principal amounts, subject to the reductions in availability contained in the note. The note is also subject to two interest rate options of either prime less 1.5% or the fixed LIBOR plus 1.25% with a term option of one month, two months, three months, six months, nine months, or twelve months. Interest will be paid on a monthly basis. Principal amounts subject to the prime interest rate may be repaid at any time without penalty. Principal amounts subject to the fixed LIBOR rate may also be repaid at any time but are subject to a prepayment penalty if paid before the fixed rate term or additional interest if paid after the fixed rate term.

The Company's general policy for selecting among the interest rate options and related terms will be to minimize interest expense. However, given the risk of interest rate fluctuations, the Company cannot be certain that the lowest rate option will always be obtained, therefore, consistently minimizing the Company's interest expense. No sensitivity analysis was performed on the Company's exposure to interest rate fluctuations, however, given the historical low volatility of both the prime and LIBOR interest rates, the Company believes any exposure would be minimal.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements of the Company are incorporated by reference to the 2000 Annual Report, where such information appears under the captions "Consolidated Balance Sheets," "Consolidated Statements of Operations," "Consolidated Statements of Comprehensive Income," "Consolidated Statements of Stockholders' Equity," "Consolidated Statements of Cash Flows," "Notes to Consolidated Financial Statements," and "Independent Auditors' Report" on pages 14 through 29 of such report. An excerpt from the 2000 Annual Report containing this information has been filed as Exhibit 13.1 to this Annual Report on Form 10-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

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PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this item with respect to directors is incorporated by reference to the Company's definitive Proxy Statement for its 2001 Annual Meeting of Stockholders (the "Proxy Statement") relating to the section entitled "Proposal No. 1: Election of Directors" and "Other Information Compliance with Section 16(a) of the Exchange Act." See Item 1 for information regarding the executive officers of the Company.

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Item 11. Executive Compensation

The information required by this item is incorporated by reference to the section entitled "Executive Officer Compensation" of the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The information required by this item is incorporated by reference to the section entitled "Stock Ownership" of the Proxy Statement.

Item 13. Certain Relationships and Related Transactions

Not applicable.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

(a) The following documents are filed as part of this Annual Report on Form 10-K.

1. Financial Statements

The following consolidated financial statements of Exponent, Inc. and subsidiaries and the Independent Auditors' Report are incorporated by reference to the 2000 Annual Report:

Consolidated Statements of Operations for the years ended December 29, 2000, December 31, 1999 and January 1, 1999;

Consolidated Statements of Comprehensive Income for the years ended December 29, 2000, December 31, 1999 and January 1, 1999;

Consolidated Balance Sheets as of December 29, 2000 and December 31, 1999;

Consolidated Statements of Stockholders' Equity for the years ended December 29, 2000, December 31, 1999 and January 1, 1999;

Consolidated Statements of Cash Flows for the years ended December 29, 2000, December 31, 1999 and January 1, 1999; and

Notes to consolidated financial statements.

2. Financial Statement Schedules

The following financial statement schedule of Exponent, Inc. for the years ended

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December 29, 2000, December 31, 1999 and January 1, 1999 is filed as part of this Report on Form 10-K and should be read in conjunction with the Consolidated Financial Statements of Exponent, Inc.

Description

| | |
|-------------|-----------------------------------|
| Schedule II | Valuation and qualifying accounts |
|-------------|-----------------------------------|

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Schedules other than those listed above have been omitted since they are either not required, not applicable, or the information is otherwise included.

3. Exhibits

- (a) The following exhibits are filed as part of, or incorporated by reference into (as indicated parenthetically), this Annual Report on Form 10-K:

| Exhibit Number | Description |
|----------------|--|
| ----- | ----- |
| 3.1 | Restated Certificate of Incorporation of the Company (incorporated by reference to the Company's Registration Statement on Form S-1 as filed on June 25, 1990, registration number 33-35562). |
| 3.2 | Amended and Restated Bylaws of the Company (incorporated by reference to the Company's Registration statement on Form S-1 as filed on June 25, 1990, registration number 33-35562). |
| 4.1 | Specimen copy of Common Stock Certificate of the Company (incorporated by reference to the Company's Registration Statement on Forms S-1 as filed on June 25, 1990, registration number 33-35562). |
| *10.1 | 1989 Stock Option Plan for Subbaiah. V. Malladi (incorporated by reference to the Company's Registration Statement on Form S-1 as filed on June 25, 1990, registration number 33-35562). |
| *10.2 | Stock Option Agreement, dated May 30, 1989, between the Company and Subbaiah V. Malladi (incorporated by reference to the Company's Registration Statement on Form S-1 as filed on June 25, 1990, registration number 33-35562). |
| *10.3 | Stock Option Agreement dated June 22, 1990, between the Company and Subbaiah V. Malladi (incorporated by reference to the Company's Registration Statement on Form S-1 as filed on June 25, 1990, registration number 33-35562). |
| *10.4 | 1990 Stock Option and Rights Plan, as amended through March 31, 1993 (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended May 28, 1993). |
| *10.5 | Form of Incentive Stock Option Agreement under the 1990 Stock Option and Rights Plan (incorporated by reference to the Company's Registration Statement on Form S-1 as filed on June 25, 1990, registration number 33-35562). |
| *10.6 | Form of Nonqualified Stock Option Agreement under the 1990 Stock Option and Rights Plan (incorporated by reference to the Company's Registration |

Statement on Form S-1 as filed on June 25, 1990, registration number 33-35562).

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- *10.7 Form of Indemnification Agreement entered into or proposed to be entered into between the Company and its officers and directors (incorporated by reference to the Company's Registration Statement on Form S-1 as filed on June 25, 1990, registration number 33-35562).
- *10.8 Form of Agreement between the Company and non-employee members of the Board of Directors, dated March 25, 1991, regarding exchange of rights to receive shares for nonqualified stock options (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1991).
- *10.9 Form of Nonqualified Stock Option Agreement between the Registrant and non-employee members of the Board of Directors dated March 25, 1991 (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1991).
- *10.10 1991 Restricted Stock Plan (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1991).
- *10.11 Amendment to Incentive Stock Option Agreement between the Company and Subbaiah V. Malladi, dated June 27, 1991 (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1991).
- *10.12 Form of Incentive Stock Option Agreement, between the Registrant and optionees under the 1990 Stock Option and Rights Plan, relative to replacement of outstanding options (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1991).
- *10.13 Form of Nonqualified Stock Option Agreement, between the Registrant and non-employee members of the Board of Directors, relative to replacement of outstanding options (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1991).
- *10.14 Amendment to Stock Option Agreement, between the Registrant and Subbaiah V. Malladi, relative to repricing outstanding option under 1989 Stock Option Plan for Malladi V. Subbaiah (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1991).
- *10.15 Form of Stock Option Agreement between the Company and Subbaiah V. Malladi, relative to replacement of outstanding option under 1990 Stock Option and Rights Plan (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1991).
- 10.16 Zarnowicka Elektrownia Gazowa, joint venture, dated September 8, 1994 (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 30, 1994).
- 10.17 Acquisition agreement between Exponent Environmental Group, Inc. (formerly

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named Performance Technologies, Incorporated) and Exponent, Inc. (formerly the Failure Group, Inc.) dated May 16, 1997 (incorporated by reference to the Company's Form 8-K/A filed on July 30, 1997 which was amendment number 1 to the Company's Report on Form 8-K filed on May 30, 1997)

- *10.18 Exponent, Inc. 1998 Non Statutory Stock Option Plan dated October 24, 1998 (incorporated by reference to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1999).
- 10.19 Revolving reducing note with Wells Fargo Bank dated January 27, 1999.
- 10.20 Line of credit note with Wells Fargo Bank dated January 27, 1999.
- 10.21 Exponent, Inc. 401(k) Savings Plan dated March 1, 1998 and restated effective January 2, 1999.
- 10.22 Exponent, Inc. Employee Stock Purchase Plan, as amended and restated March 23, 1999.
- 10.23 Exponent, Inc. 1999 Stock Option Plan.
- *10.24 Exponent, Inc. 1999 Restricted Stock Plan.
- 13.1 Registrant's Annual Report to Stockholders for the fiscal year ended December 29, 2000.
- 21.1 List of subsidiaries.
- 23.1 Report on financial statement schedule and consent of KPMG LLP, independent auditors.
- 24.1 Power of attorney (see page 19).

* Indicates management compensatory plan, contract or arrangement.

(b) Reports on Form 8-K

None

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

Date: March 29, 2001

EXPONENT, INC.
(Registrant)

/s/ Richard L. Schlenker, Jr.

Richard L. Schlenker, Jr., Chief Financial

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Officer and Corporate Secretary

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Michael R. Gaulke as his attorney-in-fact, with full power of substitution for him in any and all capacities, to sign any and all amendments to this report on form 10-K, and to file the same, with the exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

| Signature ----- | Title ----- | |
|---|---|-------|
| /s/ Michael R. Gaulke ----- Michael R. Gaulke | Chief Executive Officer, President and Director | March |
| /s/ Richard L. Schlenker, Jr. ----- Richard L. Schlenker, Jr. | Chief Financial Officer and Corporate Secretary (Principal Financial and Accounting Officer) | March |
| /s/ Roger L. McCarthy ----- Roger L. McCarthy | Chairman Exponent Failure Analysis Associates and Director | March |
| /s/ Subbaiah V. Malladi ----- Subbaiah V. Malladi | Chief Technical Officer and Director | March |
| /s/ Edward J. Keith ----- Edward J. Keith | Chairman of the Board | March |
| /s/ Samuel H. Armacost ----- Samuel H. Armacost | Director | March |
| /s/ Barbara M. Barrett ----- Barbara M. Barrett | Director | March |
| /s/ Jon R. Katzenbach ----- Jon R. Katzenbach | Director | March |

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| | Balance at Beginning of Year | Provision Charged to Expenses | Increase in Provision | Accounts Charged off Net of Recoveries |
|---------------------------------------|------------------------------------|-------------------------------------|-----------------------------|---|
| Year Ended December 29, 2000 | | | | |
| Allowance for Doubtful Accounts | \$1,527 | \$2,217 | \$13 | (\$1,595) |
| Year Ended December 31, 1999 | | | | |
| Allowance for Doubtful Accounts..... | \$1,000 | \$2,727 | \$ - | (\$2,197) |
| Year Ended January 1, 1999 | | | | |
| Allowance for Doubtful Accounts..... | \$1,000 | \$2,167 | \$ - | (\$2,167) |

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EXHIBIT INDEX

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June 25, 1990, registration number 33-35562).

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1991).

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