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 April 1, 2022

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)	(I.R.S. Employer Identification No.)
149 COMMONWEALTH DRIVE, MENLO PARK, CALIFORNIA	**94025**
(Address of principal executive office)	(Zip Code)

(650) 326-9400

(Registrant's telephone number, including area code)

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

Yes ☒ No ___

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐	Non-accelerated filer	☐	Smaller reporting company	☐
Emerging growth company	☐						

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. [ ]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ___ No ☒

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value $0.001 per share	EXPO	Nasdaq Global Select Market

As of April 29, 2022, the latest practicable date, the registrant had 51,821,607 shares of common stock outstanding.

EXPONENT, INC.
FORM 10-Q

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

EXPONENT, INC.

Condensed Consolidated Balance Sheets
April 1, 2022 and December 31, 2021
(in thousands, except par value)
(unaudited)

	April 1, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 215,050	$ 297,687
Accounts receivable, net of allowance for contract losses and doubtful accounts of $4,899 and $4,423 at April 1, 2022 and December 31, 2021, respectively	147,508	139,861
Prepaid expenses and other current assets	14,133	15,214
Total current assets	376,691	452,762
Property, equipment and leasehold improvements, net	61,077	59,971
Operating lease right-of-use assets	16,898	14,370
Goodwill	8,607	8,607
Deferred income taxes	46,501	46,546
Deferred compensation plan assets	106,255	99,962
Other assets	1,519	1,521
Total assets	$ 617,548	$ 683,739
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 30,840	$ 24,504
Accrued payroll and employee benefits	57,291	103,552
Deferred revenues	15,669	19,762
Operating lease liabilities	5,310	5,164
Total current liabilities	109,110	152,982
Other liabilities	2,659	2,886
Deferred compensation plan liabilities	107,561	100,999
Operating lease liabilities	11,654	9,807
Total liabilities	230,984	266,674
Stockholders' equity:		
Common stock, $0.001 par value; 120,000 shares authorized; 65,707 shares issued at April 1, 2021 and December 31, 2021	66	66
Additional paid-in capital	293,889	281,419
Accumulated other comprehensive loss		
Foreign currency translation adjustments	(2,293)	(1,983)
Retained earnings	493,387	478,370
Treasury stock, at cost; 13,885 and 13,591 shares held at April 1, 2021 and December 31, 2021, respectively	(398,485)	(340,807)
Total stockholders' equity	386,564	417,065
Total liabilities and stockholders' equity	$ 617,548	$ 683,739

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

EXPONENT, INC.

Condensed Consolidated Statements of Income
For the Three Months Ended April 1, 2022 and April 2, 2021
(in thousands, except per share data)
(unaudited)

	Three Months Ended	
	April 1, 2022	April 2, 2021
Revenues:		
Revenues before reimbursements	$ 117,870	$ 109,579
Reimbursements	10,608	6,902
Revenues	128,478	116,481
Operating expenses:		
Compensation and related expenses	68,757	74,538
Other operating expenses	8,165	7,710
Reimbursable expenses	10,608	6,902
General and administrative expenses	4,231	3,273
Total operating expenses	91,761	92,423
Operating income	36,717	24,058
Other income, net:		
Interest income, net	21	29
Miscellaneous income (loss), net	(3,931)	6,039
Total other income (loss), net	(3,910)	6,068
Income before income taxes	32,807	30,126
Income taxes	3,198	(722)
Net income	$ 29,609	$ 30,848
Net income per share:		
Basic	$ 0.56	$ 0.59
Diluted	$ 0.56	$ 0.58
Shares used in per share computations:		
Basic	52,419	52,536
Diluted	53,039	53,333
Cash dividends declared per common share	$ 0.24	$ 0.20

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

EXPONENT, INC.

Condensed Consolidated Statements of Comprehensive Income
For the Three Months Ended April 1, 2022 and April 2, 2021
(in thousands)
(unaudited)

	Three Months Ended	
	April 1, 2022	April 2, 2021
Net income	$ 29,609	$ 30,848
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of tax	(310)	243
Unrealized gains on available-for-sale investment securities arising during the period, net of tax	-	(4)
Comprehensive income	$ 29,299	$ 31,087

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

EXPONENT, INC

Condensed Consolidated Statements of Stockholders' Equity
(in thousands)
(unaudited)

	Three Months Ended April 1, 2022							
	Common Stock		Additional paid-in	Accumulated other comprehensive	Retained	Treasury Stock		
	Shares	Amount	capital	loss	earnings	Shares	Amount	Total
Balance at December 31, 2021	65,707	$ 66	$ 281,419	$ (1,983)	$ 478,370	13,591	$ (340,807)	$ 417,065
Employee stock purchase plan	-	-	511	-	-	(6)	53	564
Amortization of unrecognized stock-based compensation	-	-	4,094	-	-	-	-	4,094
Purchase of treasury stock	-	-	-	-	-	553	(48,554)	(48,554)
Foreign currency translation adjustments	-	-	-	(310)	-	-	-	(310)
Grant of restricted stock units to settle accrued bonus	-	-	10,200	-	-	-	-	10,200
Settlement of restricted stock units	-	-	(2,335)	-	(1,392)	(253)	(9,177)	(12,904)
Dividends and dividend equivalent rights	-	-	-	-	(13,200)	-	-	(13,200)
Net income	-	-	-	-	29,609	-	-	29,609
Balance at April 1, 2022	65,707	$ 66	$ 293,889	$ (2,293)	$ 493,387	13,885	$ (398,485)	$ 386,564

	Three Months Ended April 2, 2021							
	Common Stock		Additional paid-in	Accumulated other comprehensive	Retained	Treasury Stock		
(In thousands)	Shares	Amount	capital	income (loss)	earnings	Shares	Amount	Total
Balance at January 1, 2021	65,707	$ 66	$ 265,328	$ (1,932)	$ 421,809	13,903	$ (323,773)	$ 361,498
Employee stock purchase plan	-	-	485	-	-	(6)	58	543
Amortization of unrecognized stock-based compensation	-	-	3,738	-	-	-	-	3,738
Foreign currency translation adjustments	-	-	-	243	-	-	-	243
Grant of restricted stock units to settle accrued bonus	-	-	7,637	-	-	-	-	7,637
Settlement of restricted stock units	-	-	(3,176)	-	(1,679)	(313)	(10,779)	(15,634)
Unrealized gain on investments	-	-	-	(4)	-	-	-	(4)
Dividends and dividend equivalent rights	-	-	-	-	(11,261)	-	-	(11,261)
Net income	-	-	-	-	30,848	-	-	30,848
Balance at April 2, 2021	65,707	$ 66	$ 274,012	$ (1,693)	$ 439,717	13,584	$ (334,494)	$ 377,608

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

EXPONENT, INC.

Condensed Consolidated Statements of Cash Flows
For the Three Months Ended April 1, 2022 and April 2, 2021
(in thousands)
(unaudited)

	Three Months Ended	
	April 1, 2022	April 2, 2021
Cash flows from operating activities:		
Net income	$ 29,609	$ 30,848
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization of property, equipment and leasehold improvements	1,689	1,656
Amortization of premiums and accretion of discounts on short-term investments	-	(7)
Provision for contract losses and doubtful accounts	686	645
Stock-based compensation	6,870	6,282
Deferred income tax provision	45	1,226
Changes in operating assets and liabilities:		
Accounts receivable	(8,333)	(13,291)
Prepaid expenses and other current assets	(9,948)	(8,142)
Change in operating leases	(535)	(627)
Accounts payable and accrued liabilities	5,234	3,451
Accrued payroll and employee benefits	(27,576)	(17,862)
Deferred revenues	(4,093)	(2,894)
Net cash provided by (used in) operating activities	(6,352)	1,285
Cash flows from investing activities:		
Capital expenditures	(2,606)	(2,515)
Purchase of short-term investments	-	(9,997)
Maturity of short-term investments	-	25,000
Net cash provided by (used in) investing activities	(2,606)	12,488
Cash flows from financing activities:		
Payroll taxes for restricted stock units	(12,904)	(15,634)
Repurchase of common stock	(48,554)	-
Exercise of stock-based payment awards	564	543
Dividends and dividend equivalents rights	(12,514)	(11,935)
Net cash used in financing activities	(73,408)	(27,026)
Effect of foreign currency exchange rates on cash and cash equivalents	(271)	249
Net decrease in cash and cash equivalents	(82,637)	(13,004)
Cash and cash equivalents at beginning of period	297,687	197,525
Cash and cash equivalents at end of period	$ 215,050	$ 184,521

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

EXPONENT, INC.
NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 promulgated by the U.S. 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 months ended April 1, 2022 are not necessarily representative of the results of future quarterly or annual periods. The following information should be read in conjunction with the audited consolidated financial statements and accompanying notes thereto included in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021, which was filed with the U.S. Securities and Exchange Commission on February 25, 2022.

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

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. Items subject to such estimates and assumptions include accounting for revenue recognition and estimating the allowance for contract losses and doubtful accounts. Actual results could differ from those estimates.

Note 2: Revenue Recognition

Substantially all of the Company’s engagements are performed under time and materials or fixed-price arrangements. For time and materials contracts, the Company utilizes the practical expedient under Accounting Standards Codification 606 – *Revenue from Contracts with Customers*, which states that if an entity has a right to consideration from a customer in an amount that corresponds directly with the value of the entity’s performance completed to date (for example, a service contract in which an entity bills a fixed amount for each hour of service provided) then the entity may recognize revenue in the amount to which the entity has a right to invoice.

The following table discloses the percentage of the Company’s revenue generated from time and materials contracts:

	Three Months Ended	
	April 1, 2022	April 2, 2021
Engineering & other scientific	62%	61%
Environmental and health	17%	18%
Total time and materials revenues	79%	79%

For fixed-price contracts, the Company recognizes revenue over time because of the continuous transfer of control to the customer. The customer typically controls the work in process as evidenced either by contractual termination clauses or by the Company’s rights to payment for work performed to date to deliver services that do not have an alternative use to the Company. Revenue for fixed-price contracts is recognized based on the relationship of incurred labor hours at standard rates to the Company’s 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.

The following table discloses the percentage of the Company’s revenue generated from fixed price contracts:

	Three Months Ended	
	April 1, 2022	April 2, 2021
Engineering & other scientific	20%	20%
Environmental and health	1%	1%
Total fixed price revenues	21%	21%

Deferred revenues represent amounts billed to clients in advance of services provided. During the first quarter of 2022, $9,644,000 of revenues were recognized that were included in the deferred revenue balance at December 31, 2021. During the first quarter of 2021, $6,015,000 of revenues were recognized that were included in the deferred revenue balance at January 1, 2021.

Reimbursements, including those related to travel and other out-of-pocket expenses, and other similar third- party costs such as the cost of materials and certain subcontracts, 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 before reimbursements. The Company reports revenues net of subcontractor fees for certain subcontracts where the Company has determined that it is acting as an agent because its performance obligation is to arrange for the provision of goods or services by another party. The total amount of subcontractor fees not included in revenues because the Company was acting as an agent were $3,660,000 and $3,644,000 during the first quarter of 2022 and 2021, respectively.

Note 3: Fair Value Measurements

The Company measures certain financial assets and liabilities at fair value on a recurring basis, including money market securities, trading fixed income and equity securities held in its deferred compensation plan and the liability associated with its deferred compensation plan. There were no transfers between fair value measurement levels during the three months ended April 1, 2022 and April 2, 2021. Any transfers between fair value measurement levels would be recorded on the actual date of the event or change in circumstances that caused the transfer. The fair value of these certain financial assets and liabilities was determined using the following inputs at April 1, 2022 (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market securities (1)	$ 51,582	$ 51,582	$ -	$ -
Fixed income trading securities held in deferred compensation plan (2)	32,910	32,910	-	-
Equity trading securities held in deferred compensation plan (2)	82,043	82,043	-	-
Total	$ 166,535	$ 166,535	$ -	$ -
Liabilities				
Deferred compensation plan (3)	116,260	116,260	-	-
Total	$ 116,260	$ 116,260	$ -	$ -

(1) Included in cash and cash equivalents on the Company’s unaudited condensed consolidated balance sheet.
(2) Included in prepaid expenses and other current assets and deferred compensation plan assets on the Company’s unaudited condensed consolidated balance sheet.
(3) Included in accrued payroll and employee benefits and deferred compensation plan liabilities on the Company’s unaudited condensed consolidated balance sheet.

The fair value of these certain financial assets and liabilities was determined using the following inputs at December 31, 2021 (in thousands):

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Money market securities (1)	$ 101,581	$ 101,581	$ -	$ -
Fixed income trading securities held in deferred compensation plan (2)	25,275	25,275	-	-
Equity trading securities held in deferred compensation plan (2)	84,067	84,067	-	-
Total	$ 210,923	$ 210,923	$ -	$ -
Liabilities				
Deferred compensation plan (3)	110,379	110,379	-	-
Total	$ 110,379	$ 110,379	$ -	$ -

(1) Included in cash and cash equivalents on the Company's unaudited condensed consolidated balance sheet.
(2) Included in prepaid expenses and other current assets and deferred compensation plan assets on the Company's unaudited condensed consolidated balance sheet.
(3) Included in accrued payroll and employee benefits and deferred compensation plan liabilities on the Company's unaudited condensed consolidated balance sheet.

Money market securities as of April 1, 2022 and December 31, 2021 represent obligations of the United States Treasury. Fixed income and equity trading securities represent mutual funds held in the Company's deferred compensation plan. See Note 6 for additional information about the Company's deferred compensation plan.

Cash and cash equivalents consisted of the following as of April 1, 2022 (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Classified as current assets:				
Cash	$ 163,468	$ -	$ -	$ 163,468
Cash equivalents:				
Money market securities	51,582	-	-	51,582
Total cash equivalents	51,582	-	-	51,582
Total cash and cash equivalents	$ 215,050	$ -	$ -	$ 215,050

Cash and cash equivalents consisted of the following as of December 31, 2021 (in thousands):

	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value
Classified as current assets:				
Cash	$ 196,106	$ -	$ -	$ 196,106
Cash equivalents:				
Money market securities	101,581	-	-	101,581
Total cash equivalents	101,581	-	-	101,581
Total cash and cash equivalents	$ 297,687	$ -	$ -	$ 297,687

At April 1, 2022 and December 31, 2021, the Company did not have any assets or liabilities valued using significant unobservable inputs.

The following financial instruments are not measured at fair value on the Company's unaudited condensed consolidated balance sheet at April 1, 2022 and December 31, 2021, but require disclosure of their fair values: accounts receivable, other assets and accounts payable. The estimated fair value of such instruments at April 1, 2022 and December 31, 2021 approximates their carrying value as reported on the Company’s unaudited condensed consolidated balance sheet.

Note 4: Net Income Per Share

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

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

	Three Months Ended	
(In thousands)	April 1, 2022	April 2, 2021
Shares used in basic per share computation	52,419	52,536
Effect of dilutive common stock options outstanding	205	236
Effect of dilutive restricted stock units outstanding	415	561
Shares used in diluted per share computation	53,039	53,333

There were no equity awards excluded from the diluted per share calculation for the three months ended April 1, 2022. Common stock options to purchase 18,742 shares were excluded from the diluted per share calculation for the three months April 2, 2021 due to their anti-dilutive effect.

Note 5: Stock-Based Compensation

Restricted Stock Units

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

The value of these restricted stock unit awards is determined based on the market price of the Company’s common stock on the date of grant. The value of fully vested restricted stock unit awards issued is recorded as a reduction to accrued bonuses. The portion of bonus expense that the Company expects to settle with fully vested restricted stock unit awards is recorded as stock-based compensation during the period the bonus is earned. The Company recorded stock-based compensation expense associated with accrued bonus awards of $2,776,000 and $2,544,000 during the three months ended April 1, 2022 and April 2, 2021, respectively. The value of the unvested restricted stock unit awards granted is recognized on a straight-line basis over the shorter of the four-year vesting period or the period between the grant date and the date the award recipient turns 59½. If the award recipient is 59½ years or older on the date of grant, the value of the entire award is expensed upon grant. The Company recorded stock-based compensation expense associated with the unvested restricted stock unit awards of $3,895,000 and $3,562,000 during the three months ended April 1, 2022 and April 2, 2021, respectively.

Stock Options

Stock options are granted for terms of ten years and generally vest 25% per year over a four-year period from the grant date. Unvested stock option awards will continue to vest in the case of retirement at 59½ years or older, provided that the holder of each award does all consulting work through the Company and does not become an employee for a past or present client, beneficial party or competitor of the Company. The value of the unvested stock option awards granted is recognized on a straight-line basis over the shorter of the four-year vesting period or the period between the grant date and the date the award recipient turns 59½. If the award recipient is 59½ years or older on the date of grant, the value of the entire award is expensed upon grant. The Company recorded stock-based compensation expense associated with stock option grants of $199,000 and $176,000 during the three months ended April 1, 2022 and April 2, 2021, respectively.

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 option awards on the date of grant using an option-pricing model is affected by the Company’s stock price as well as assumptions regarding a number of complex and subjective variables. These variables include expected stock price volatility over the term of the award, actual and projected employee stock option exercise behaviors, the risk-free interest rate and expected dividends.

The Company used historical exercise, forfeiture, and post-vesting expiration data to estimate the expected term of options granted. The historical volatility of the Company’s common stock over a period of time equal to the expected term of the options granted was used to estimate expected volatility. The risk-free interest rate used in the option-pricing model was based on United States Treasury zero-coupon issues with remaining terms similar to the expected term of the options. The dividend yield assumption considers the expectation of continued declaration of dividends, offset by option holders’ dividend equivalent rights.

The Company accounts for forfeitures of stock-based awards when they occur. All stock-based payment awards are recognized on a straight-line basis over the requisite service periods of the awards.

Note 6: Deferred Compensation Plans

The Company maintains nonqualified deferred compensation plans for the benefit of a select group of highly compensated employees. Under these plans, participants may elect to defer up to 100% of their compensation. Company assets that are earmarked to pay benefits under the plans are held in a rabbi trust and are subject to the claims of the Company's creditors. As of April 1, 2022, and December 31, 2021 the invested amounts under the plans totaled $114,953,000 and $109,342,000, respectively, and are recorded in prepaid expenses and other current assets and deferred compensation plan assets on the Company's unaudited condensed consolidated balance sheet. These assets are classified as trading securities and are recorded at fair value with changes recorded as adjustments to miscellaneous income (loss), net.

As of April 1, 2022, and December 31, 2021 vested amounts due under the plans totaled $116,260,000 and $110,379,000, respectively, and are recorded within accrued payroll and employee benefits and deferred compensation plan liabilities on the Company's unaudited condensed consolidated balance sheets. Changes in the liability are recorded as adjustments to compensation expense. During the three months ended April 1, 2022, the Company recognized a reduction to compensation expense of $(4,699,000) as a result of changes in the market value of the trust assets with the same amount being recorded as a loss in miscellaneous income (loss), net. During the three months ended April 2, 2021, the Company recognized additional compensation expense of $5,579,000 as a result of changes in the market value of the trust assets with the same amount being recorded as income in miscellaneous income (loss), net.

Note 7: Supplemental Cash Flow Information

The following is supplemental disclosure of cash flow information:

	Three Months Ended	
(In thousands)	April 1, 2022	April 2, 2021
Cash paid during period:		
Income taxes	$ 852	$ 381
Non-cash investing and financing activities:		
Unrealized loss on short-term investments	$ -	$ (4)
Vested stock unit awards issued to settle accrued bonuses	$ 10,200	$ 7,637
Accrual for capital expenditures	$ 602	$ 393
Right-of-use asset obtained in exchange for operating lease obligations	$ 4,011	$ 573

Note 8: Accounts Receivable, Net

At April 1, 2022 and December 31, 2021, accounts receivable, net, was comprised of the following:

(In thousands)	April 1, 2022	December 31, 2021
Billed accounts receivable	$ 95,881	$ 102,028
Unbilled accounts receivable	56,526	42,256
Allowance for contract losses and doubtful accounts	(4,899)	(4,423)
Total accounts receivable, net	$ 147,508	$ 139,861

The Company maintains allowances for estimated losses over the remaining contractual life of its receivables resulting from the inability of customers to meet their financial obligations or for disputes that affect the Company's ability to fully collect amounts due. In circumstances where the Company is aware of a specific customer's inability to meet its financial obligations or aware of a dispute with a specific customer, a specific allowance is recorded to reduce the net recognized receivable to the amount the Company reasonably believes will be collected. For all other customers the Company recognizes allowances for doubtful accounts based upon historical write-offs, customer concentration, customer creditworthiness, current economic conditions, aging of amounts due and future expectations.

A reconciliation of the beginning and ending amount of the allowance for contract losses and doubtful accounts is as follows (in thousands):

Balance at December 31, 2021	$	4,423
Provision for contract losses and doubtful accounts		686
Write-offs		(210)
Balance at April 1, 2022	$	4,899

Note 9: Segment Reporting

The Company has two reportable operating segments based on two primary areas of service. The Engineering and Other Scientific segment is a broad service group providing technical consulting in different practices primarily in engineering. The Environmental and Health segment provides services in the areas of environmental, epidemiology and health risk analysis. This segment provides a wide range of consulting services relating to environmental hazards and risks and the impact on both human health and the environment. Our Chief Executive Officer, the chief operating decision maker, reviews revenues and operating income for each of our reportable segments, but does not review total assets in evaluating segment performance and capital allocation.

Segment information for the three months ended April 1, 2022 and April 2, 2021 follows:

<u>Revenues</u>

	Three Months Ended	
(In thousands)	April 1, 2022	April 2, 2021
Engineering and Other Scientific	$ 104,615	$ 93,609
Environmental and Health	23,863	22,872
Total revenues	$ 128,478	$ 116,481

<u>Operating Income</u>

	Three Months Ended	
(In thousands)	April 1, 2022	April 2, 2021
Engineering and Other Scientific	$ 38,490	$ 34,057
Environmental and Health	7,835	7,918
Total segment operating income	46,325	41,975
Corporate operating expense	(9,608)	(17,917)
Total operating income	$ 36,717	$ 24,058

Certain operating expenses are excluded from the Company's measure of segment operating income. These expenses include costs associated with its human resources, finance, information technology, and business development groups; the deferred compensation expense/benefit due to the change in value of assets associated with its deferred compensation plan; stock-based compensation associated with restricted stock unit and stock option awards; and the change in its allowance for contract losses and doubtful accounts.

Capital Expenditures

	Three Months Ended	
(In thousands)	April 1, 2022	April 2, 2021
Engineering and Other Scientific	$ 564	$ 604
Environmental and Health	50	49
Total segment capital expenditures	614	653
Corporate capital expenditures	2,181	1,653
Total capital expenditures	$ 2,795	$ 2,306

Certain capital expenditures associated with the Company's corporate cost centers and the related depreciation are excluded from the Company's segment information.

Depreciation and Amortization

	Three Months Ended	
(In thousands)	April 1, 2022	April 2, 2021
Engineering and Other Scientific	$ 1,039	$ 1,010
Environmental and Health	42	46
Total segment depreciation and amortization	1,081	1,056
Corporate depreciation and amortization	608	600
Total depreciation and amortization	$ 1,689	$ 1,656

One client comprised 13% of the Company's revenues during the three months ended April 1, 2022. One client comprised 10% of the Company's revenues during the three months ended April 2, 2021. No other single client comprised more than 10% of the Company's revenues during the three months ended April 1, 2022 or April 2, 2021.

Note 10: Leases

The Company determines if an arrangement is a lease at the inception of the arrangement. Operating leases are included in operating lease right-of-use ("ROU") assets, current operating lease liabilities, and long-term operating lease liabilities in the Company's condensed consolidated balance sheet. The Company does not have any finance leases as of April 1, 2022.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the Company's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As the Company's leases do not provide an implicit rate, the Company uses its incremental borrowing rate, based on the information available at commencement date, in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Company will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term. The amortization of operating lease ROU assets and the change in operating lease liabilities is disclosed as a single line item in the condensed consolidated statements of cash flows.

The Company leases office, laboratory, and storage space in 13 states and the District of Columbia, as well as in China, Hong Kong, Singapore, Switzerland, and the United Kingdom. Leases for these office, laboratory, and storage facilities have terms generally ranging between one and ten years. Some of these leases include options to extend or terminate the lease, none of which are currently included in the lease term as the Company has determined that exercise of these options is not reasonably certain.

The Company has a Test and Engineering Center on 147 acres of land in Phoenix, Arizona. The Company leases this land from the state of Arizona under a 30-year lease agreement that expires in January of 2028 and has options to renew for two fifteen-year periods. As of April 1, 2022, the Company has determined that exercise of the renewal options is not reasonably certain and thus the extension is not included in the lease term.

The Company's equipment leases are included in the ROU asset and liability balances, but are not material.

The Company leases excess space in its Silicon Valley and Natick facilities. Rental income of $644,000 and $791,000 was included in other income for the three months ended April 1, 2022 and April 2, 2021, respectively.

The components of lease expense included in other operating expenses on the condensed consolidated statements of income were as follows:

(In thousands)	Three Months Ended April 1, 2022	Three Months Ended April 2, 2021
Operating lease cost	$ 1,767	$ 1,638
Variable lease cost	312	292
Short-term lease cost	129	146

Supplemental cash flow information related to operating leases was as follows:

(In thousands)	Three Months Ended April 1, 2022	Three Months Ended April 2, 2021
Cash paid for amounts included in the measurement of operating lease liabilities	$ 2,201	$ 2,279

Supplemental balance sheet information related to operating leases was as follows:

	April 1, 2022	April 2, 2021
Weighted Average Remaining Lease Term	4.3 years	4.2 years
Weighted Average Discount Rate	3.9%	4.1%

Maturities of operating lease liabilities as of April 1, 2022:

(In thousands)	Operating Leases
2022 (excluding the three months ended April 1, 2022)	4,010
2023	4,904
2024	3,217
2025	2,427
2026	2,446
2027	1,937
Total lease payments	$ 18,941
Less imputed interest	(1,977)
Total lease liability	$ 16,964

Note 11: Contingencies

The Company is a party to various legal actions from time to time and may be contingently liable in connection with claims and contracts arising in the normal course of business, the outcome of which the Company believes, after consultation with legal counsel, will not have a material adverse effect on its financial condition, results of operations or liquidity. However, due to the risks and uncertainties inherent in legal proceedings, actual results could differ from current expected results. All legal costs associated with litigation are expensed as incurred.

Note 12: Subsequent Events

On April 28, 2022, the Company's Board of Directors announced a cash dividend of $0.24 per share of the Company's common stock, payable June 24, 2022, to stockholders of record as of June 10, 2022.

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

The following discussion should be read in conjunction with the unaudited condensed consolidated financial statements and notes thereto included herein and with our audited consolidated financial statements and notes thereto for the fiscal year ended December 31, 2021, which are contained in our fiscal 2021 Annual Report on Form 10-K, which was filed with the U.S. Securities and Exchange Commission on February 25, 2022 (our "2021 Annual Report").

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) that are based on the beliefs of our management, as well as assumptions made by and information currently available to our management. Such forward-looking statements are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. When used in this document, the words "intend," "anticipate," "believe," "estimate," "expect" and similar expressions, as they relate to us or our management, identify such forward-looking statements. Such statements reflect the current views of us or our 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, our 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 COVID-19 pandemic (including factors relating to measures implemented by governmental authorities or by us to promote the safety of our employees, vendors and clients; other direct and indirect impacts on our business and the businesses of our clients, vendors and other partners; impacts which may, among other things, adversely affect our clients' ability to utilize our services at the levels they have previously; disruptions of access to our facilities or those of our clients or third parties; and increased and potentially significant economic uncertainty and volatility, including credit and collectability risks and potential disruptions of capital and credit markets), 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 this Quarterly Report under the heading "Risk Factors" and elsewhere in this report. The inclusion of such forward-looking information should not be regarded as a representation by the us or any other person that the future events, plans, or expectations we contemplated 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. We do 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, engineers and business consultants brings together more than 90 different technical disciplines to solve complicated issues facing industry and business today. Our services include analysis of product development, product recall, regulatory compliance, and the discovery of potential problems related to products, people, property and impending litigation.

CRITICAL ACCOUNTING ESTIMATES

There have been no significant changes in our critical accounting estimates during the three months ended April 1, 2022, as compared to the critical accounting estimates disclosed in Management's Discussion and Analysis of Financial Condition and Results of Operations included in our 2021 Annual Report.

RESULTS OF CONSOLIDATED OPERATIONS

Executive Summary

Revenues for the first quarter of 2022 increased 10% to $128,478,000 as compared to $116,481,000 during the same period last year. Revenues before reimbursements for the first quarter of 2022 increased 8% to $117,870,000 as compared to $109,579,000 during the same period last year.

During the first quarter of 2022, our results were bolstered by an influx of work from clients in the consumer electronics, utilities, chemicals and life sciences sectors. Among our proactive services, we continued to empower our customers with unique insights to drive optimization of product design and performance, while also combining our engineering and scientific expertise with data analytics to improve safety and mitigate risk. On the reactive side, rebounding litigation-related work and increased demand for our services related to product recalls supported our results.

Net income decreased 4% to $29,609,000 during the first quarter of 2022 as compared to $30,848,000 during the same period last year. Diluted earnings per share decreased to $0.56 per share as compared to $0.58 in the same period last year. The decreases in net income and diluted earnings per share were due to a decrease in the excess tax benefit associated with stock-based awards partially offset by the increase in revenues before reimbursements. The excess tax benefit associated with stock-based awards decreased to $6,040,000 during the first quarter of 2022 as compared to $8,782,000 during the first quarter of 2021. The decrease in the excess tax benefit was due to a smaller increase in the value of our common stock between the grant date and the release date for the restricted stock units released during the first quarter of 2022 as compared to the first quarter of 2021.

We remain focused on selectively adding top talent and developing the skills necessary to expand our market position and providing clients with in-depth scientific research and analysis to determine what happened and how to prevent failures or exposures in the future. We also remain focused on capitalizing on emerging growth areas, managing other operating expenses, generating cash from operations, maintaining a strong balance sheet and undertaking activities such as share repurchases and dividends to enhance shareholder value.

Overview of the Three Months Ended April 1, 2022

During the first quarter of 2022, billable hours increased 5% to 374,000 as compared to 356,000 during the same period last year. Our utilization increased to 77% during the first quarter of 2022 as compared to 76% during the same period last year. Technical full-time equivalent employees increased 4% to 939 during the first quarter of 2022 as compared to 906 during the same period last year. We continue to selectively hire key talent to expand our capabilities.

Three Months Ended April 1, 2022 compared to Three Months Ended April 2, 2021

Revenues

	Three Months Ended		
(in thousands, except percentages)	April 1, 2022	April 2, 2021	Percent Change
Engineering and Other Scientific	$ 104,615	$ 93,609	11.8%
Percentage of total revenues	81.4%	80.4%	
Environmental and Health	23,863	22,872	4.3%
Percentage of total revenues	18.6%	19.6%	
Total revenues	$ 128,478	$ 116,481	10.3%

The increase in revenues for our Engineering and Other Scientific segment was due to an increase in billable hours and an increase in billing rates. During the first quarter of 2022, billable hours for this segment increased by 5% to 290,000 as compared to 276,000 during the same period last year. Utilization for this segment increased to 78% during the first quarter of 2022 as compared to 77% during the same period last year. The increase in billable hours and utilization was driven by broad-based growth, with continued strong demand for our services from clients in the utilities, consumer electronics, and life sciences sectors. Technical full-time equivalent employees in this segment increased 4% to 718 during the first quarter of 2022 as compared to 692 for the same period last year due to our recruiting and retention efforts.

The increase in revenues for our Environmental and Health segment was due to an increase in billable hours. During the first quarter of 2022, billable hours for this segment increased by 5% to 84,000 as compared to 80,000 during the same period last year. Utilization in this segment was 73% during the first quarter of both 2022 and 2021. The increase in billable hours was driven by our work evaluating the impacts of chemicals on the environment. Technical full-time equivalent employees in this segment increased 3% to 221 during the first quarter of 2022 as compared to 214 during the same period last year due to our recruiting and retention efforts.

Compensation and Related Expenses

	Three Months Ended		
(in thousands, except percentages)	April 1, 2022	April 2, 2021	Percent Change
Compensation and related expenses	$ 68,757	$ 74,538	-7.8%
Percentage of total revenues	53.5%	64.0%	

The decrease in compensation and related expenses during the first quarter of 2022 was due to a change in the value of assets associated with our deferred compensation plan, an increase in payroll expense, an increase in fringe benefits, and an increase in bonus expense. During the first quarter of 2022, deferred compensation expense decreased by $10,278,000 with a corresponding decrease to other income, net, as compared to the same period last year, due to the change in value of assets associated with our deferred compensation plan. This decrease consisted of a decrease in the value of plan assets of $4,699,000 during the first quarter of 2022 as compared to an increase in the value of plan assets of $5,579,000 during the same period last year. Payroll expense increased by $2,240,000 and fringe benefits increased by $783,000 during the first quarter of 2022 due to the impact of our annual salary adjustments and an increase in technical full-time equivalent employees. During the first quarter of 2022, bonus expense increased by $1,120,000 due to a corresponding increase in income before income taxes, before bonus expense and before stock-based compensation. We expect our compensation expense, excluding the change in value of deferred compensation plan assets, to increase as we selectively add new talent and adjust compensation to market conditions.

Other Operating Expenses

	Three Months Ended		
(in thousands, except percentages)	April 1, 2022	April 2, 2021	Percent Change
Other operating expenses	$ 8,165	$ 7,710	5.9%
Percentage of total revenues	6.4%	6.6%	

Other operating expenses include facilities-related costs, technical materials, computer-related expenses and depreciation and amortization of property, equipment and leasehold improvements. The increase in other operating expenses during the first quarter of 2022 was primarily due to an increase in information technology related expenses of $156,000, an increase in office expenses of $113,000, and an increase in occupancy expense of $81,000. The increase in information technology expenses was due to continued investment in our corporate infrastructure. The increases in office expenses and occupancy expenses were due to growth in technical full-time equivalent employees and the start of our transition back to our offices from a remote work environment. We expect other operating expenses to grow as we selectively add new talent, make investments in our corporate infrastructure, and transition our workforce back to our offices as COVID-19 pandemic related business restrictions are lifted.

Reimbursable Expenses

	Three Months Ended		
(in thousands, except percentages)	April 1, 2022	April 2, 2021	Percent Change
Reimbursable expenses	$ 10,608	$ 6,902	53.7%
Percentage of total revenues	8.3%	5.9%	

The amount of reimbursable expenses will vary from quarter to quarter depending on the nature of our projects. The increase in reimbursable expenses during the first quarter of 2022 was primarily due to an increase in project-related travel and other project-related expenses as COVID-19 pandemic-related business and travel restrictions eased.

General and Administrative Expenses

	Three Months Ended		
(in thousands, except percentages)	April 1, 2022	April 2, 2021	Percent Change
General and administrative expenses	$ 4,231	$ 3,273	29.3%
Percentage of total revenues	3.3%	2.8%	

The increase in general and administrative expenses was primarily due to an increase in travel and meals of $459,000, an increase in employee relocation expenses of $119,000, an increase in recruiting expenses of $91,000, and an increase in insurance premiums of $89,000. The increase in travel and meals was due to the easing of COVID-19 pandemic-related business and travel restrictions. The increases in employee relocation and recruiting expenses were due to the increase in technical full-time equivalent employees. The increase in liability insurance premiums was due to pricing increase associated with our annual insurance renewal. We expect general and administrative expenses to increase as we selectively add new talent, expand our business development and staff development initiatives, and increase travel and meal expenses as COVID-19 pandemic related business restrictions are eased.

Operating Income

	Three Months Ended		
(In thousands)	April 1, 2022	April 2, 2021	Percent Change
Engineering and Other Scientific	$ 38,490	$ 34,057	13.0%
Environmental and Health	7,835	7,918	-1.0%
Total segment operating income	46,325	41,975	10.4%
Corporate operating expense	(9,608)	(17,917)	46.4%
Total operating income	$ 36,717	$ 24,058	52.6%

The increase in operating income for our Engineering and Other Scientific segment during the first quarter of 2022 as compared to the same period last year was due to an increase in revenues. The increase in revenues was driven by an influx of work from clients in the consumer electronics, utilities, chemicals and life sciences sectors. Among our proactive services, we continued to empower our customers with unique insights to drive optimization of product design and performance, while also combining our engineering and scientific expertise with data analytics to improve safety and mitigate risk. On the reactive side, rebounding litigation-related work and increased demand for our services related to product recalls supported our results.

Certain operating expenses are excluded from the Company's measure of segment operating income. These expenses include the costs associated with our human resources, finance, information technology, and business development groups; the deferred compensation expense/benefit due to the change in value of assets associated with our deferred compensation plan; stock-based compensation associated with restricted stock unit and stock option awards; and the change in our allowance for contract losses and doubtful accounts.

The decrease in corporate operating expenses during the first quarter of 2022 as compared to the same period last year was primarily due to a decrease in deferred compensation expense partially offset by an increase in the costs associated with our human resources, finance, information technology and business development groups. During the first quarter of 2022, deferred compensation expense decreased $10,278,000, with a corresponding decrease to other income, net, as compared to the same period last year, due to the change in value of assets associated with our deferred compensation plan. This decrease consisted of a decrease in the value of plan assets of $4,699,000 during the first quarter of 2022 as compared to an increase in the value of plan assets of $5,579,000 during the same period last year.

Other Income, Net

	Three Months Ended		
(in thousands, except percentages)	April 1, 2022	April 2, 2021	Percent Change
Other income / (loss), net	$ (3,910)	$ 6,068	-164.4%
Percentage of total revenues	-3.0%	5.2%	

Other income, net, consists primarily of changes in the value of assets associated with our deferred compensation plan, interest income earned on available cash, cash equivalents and short-term investments, and rental income from leasing space in our Silicon Valley and Natick facilities. The decrease in other income, net, was primarily due to a change in the value of assets associated with our deferred compensation plan. During the first quarter of 2022, other income, net, decreased by $10,278,000 with a corresponding decrease to deferred compensation expense, as compared to the same period last year, due to a change in the value of assets associated with our deferred compensation plan. This decrease consisted of a decrease in the value of the plan assets of $4,699,000 during the first quarter of 2022 as compared to an increase in the value of the plan assets of $5,579,000 during the same period last year.

Income Taxes

	Three Months Ended		
(in thousands, except percentages)	April 1, 2022	April 2, 2021	Percent Change
Income taxes	$ 3,198	$ (722)	-542.9%
Percentage of total revenues	2.5%	-0.6%	
Effective tax rate	9.7%	-2.4%	

The excess tax benefit associated with stock-based awards was $6,040,000 during the first quarter of 2022 as compared to $8,782,000 during the same period last year. The decrease in the excess tax benefit was due to a smaller increase in the value of our common stock between the grant date and the release date for the restricted stock units released during the first quarter of 2022 as compared to the first quarter of 2021. Excluding the impact of the excess tax benefit, the effective tax rate would have been 28.2% during the first quarter of 2022 as compared to 26.8% during the same period last year. The increase in the adjusted effective tax rate was due primarily to an increase in non-deductible officer compensation.

LIQUIDITY AND CAPITAL RESOURCES

We believe our existing balances of cash, cash equivalents, short-term investments and cash generated from operations will be sufficient to satisfy our working capital needs, capital expenditures, outstanding commitments, stock repurchases, dividends and other liquidity requirements over at least the next twelve months. However, we continue to monitor the impact of the COVID-19 pandemic on our cash flows and on the credit and financial markets.

	Three Months Ended	
(in thousands)	April 1, 2022	April 2, 2021
Net cash provided by (used in) operating activities	$ (6,352)	$ 1,285
Net cash provided by (used in) investing activities	(2,606)	12,488
Net cash used in financing activities	(73,408)	(27,026)

We financed our business during the first three months of 2022 through available cash. As of April 1, 2022, our cash and cash equivalents were $215,050,000 as compared to $297,687,000 at December 31, 2021.

Generally, our net cash provided by operating activities is used to fund our day to day operating activities. First quarter operating cash requirements are generally higher due to payment in the first quarter of our annual bonuses accrued during the prior year. Our largest source of operating cash flows is collections from our clients. Our primary uses of cash from operating activities are for employee related expenditures, leased facilities, taxes, and general operating expenses including marketing and travel.

The increase in net cash used in investing activities during the first three months of 2022, as compared to the net cash provided by investing activities during the same period last year, was due to a decrease in the maturity of short-term investments partially offset by a decrease in the purchase of short-term investments.

The increase in net cash used in financing activities during the first three months of 2022, as compared to the same period last year, was due to an increase in repurchases of our common stock partially offset by a reduction in payroll taxes for restricted stock units.

We expect to continue our investing activities, including capital expenditures. Furthermore, cash reserves may be used to repurchase shares of common stock under our stock repurchase programs, pay dividends, or strategically acquire professional service firms that are complementary to our business.

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 $107,561,000 were recorded as a long-term liability on our unaudited condensed consolidated balance sheet at April 1, 2022. Vested amounts due under the plan of $8,698,000 were recorded as a current liability on our unaudited condensed consolidated balance sheet at April 1, 2022. Our 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 April 1, 2022, invested amounts under the plan of $106,255,000 were recorded as a long-term asset on our unaudited condensed consolidated balance sheet. As of April 1, 2022, invested amounts under the plan of $8,698,000 were recorded as a current asset on our unaudited condensed consolidated balance sheet.

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

Non-GAAP Financial Measures

Regulation G, Conditions for Use of Non-Generally Accepted Accounting Principles ("Non-GAAP") Financial Measures, and other U.S. Securities and Exchange Commission (“SEC”) rules and regulations define and prescribe the conditions for use of Non-GAAP financial information. Generally, a Non-GAAP financial measure is a numerical measure of a company's performance, financial position or cash flow that either excludes or includes amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with GAAP. We closely monitor two financial measures, EBITDA and EBITDAS, which meet the definition of Non-GAAP financial measures. We define EBITDA as net income before income taxes, net interest income, depreciation and amortization. We define EBITDAS as EBITDA before stock-based compensation. The Company regards EBITDA and EBITDAS as useful measures of operating performance to complement operating income, net income and other GAAP financial performance measures. Additionally, management believes that EBITDA and EBITDAS provide meaningful comparisons of past, present and future operating results. These measures are used to evaluate our financial results, develop budgets and determine employee compensation. These measures, however, should be considered in addition to, and not as a substitute for or superior to, operating income, cash flows, or other measures of financial performance prepared in accordance with GAAP. A reconciliation of the Non-GAAP measures to the nearest comparable GAAP measure is set forth below.

The following table shows EBITDA (determined as shown in the reconciliation table below) as a percentage of revenues before reimbursements for the three months ended April 1, 2022 and April 2, 2021:

	Three Months Ended	
(in thousands, except percentages)	April 1, 2022	April 2, 2021
Revenues before reimbursements	$ 117,870	$ 109,579
EBITDA	$ 34,475	$ 31,753
EBITDA as a % of revenues before reimbursements	29.2%	29.0%

The increase in EBITDA as a percentage of revenues before reimbursements during the first quarter of 2022 as compared to the same period last year was primarily due to 8% growth in revenues before reimbursements. The growth in revenue before reimbursements was due to an influx of work from clients in the consumer electronics, utilities, chemicals and life sciences sectors. Among our proactive services, we continued to empower our customers with unique insights to drive optimization of product design and performance, while also combining our engineering and scientific expertise with data analytics to improve safety and mitigate risk. On the reactive side, rebounding litigation-related work and increased demand for our services related to product recalls supported our results. The increase in revenues was due to increased activity in human participant studies and litigation projects.

The following table is a reconciliation of EBITDA and EBITDAS to the most comparable GAAP measure, net income, for the three months ended April 1, 2022:

	Three Months Ended	
(in thousands)	April 1, 2022	April 2, 2021
Net income	$ 29,609	$ 30,848
Add back (subtract):		
Income taxes	3,198	(722)
Interest income, net	(21)	(29)
Depreciation and amortization	1,689	1,656
EBITDA	34,475	31,753
Stock-based compensation	6,870	6,282
EBITDAS	$ 41,345	$ 38,035

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

We have foreign currency risk related to our revenues and expenses denominated in currencies other than the U.S. dollar, primarily the British Pound, the Euro, the Chinese Yuan, and the Hong Kong Dollar. Accordingly, changes in exchange rates may negatively affect the revenues and net income of our foreign subsidiaries as expressed in U.S. dollars.

At April 1, 2022, we had net assets of approximately $12.0 million with a functional currency of the British Pound, net assets of approximately $5.9 million with a functional currency of the Chinese Yuan, and net assets of approximately $6.8 million with a functional currency of the Hong Kong Dollar associated with our operations in the United Kingdom, China, and Hong Kong, respectively.

We also have foreign currency risk related to foreign currency transactions and monetary assets and liabilities denominated in currencies that are not the functional currency. We have experienced and will continue to experience fluctuations in our net income as a result of gains (losses) on these foreign currency transactions and the remeasurement of monetary assets and liabilities. At April 1, 2022, we had net assets denominated in the non-functional currency of approximately $6.3 million.

We do not use foreign exchange contracts to hedge any foreign currency exposures. To date, the impacts of foreign currency exchange rate changes on our consolidated revenues and consolidated net income have not been significant. However, our continued international growth increases our exposure to exchange rate fluctuations and as a result such fluctuations could have a significant impact on our future results of operations.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) or 15d-15(e) of the Securities 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, as of April 1, 2022, the Company's disclosure controls and procedures were effective.

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

(b) Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the three-month period ended April 1, 2022 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Exponent is not engaged in any material legal proceedings.

Item 1A. Risk Factors

There have been no material changes from risk factors as previously discussed under the heading "Risk Factors" in the Company's 2021 Annual Report.

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

The following table provides information on the Company's repurchases of the Company's common stock for the three months ended April 1, 2022 (in thousands, except price per share):

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Programs (1)
January 1 to January 28	-	$ -	-	$ 68,455
January 29 to February 25	481,833	87.01	481,833	176,529
February 26 to April 1	70,765	93.67	70,765	169,901
Total	552,598	$ 87.87	552,598	$ 169,901

(1) On January 31, 2019, the Company's Board of Directors announced $75,000,000 for the repurchase of the Company's common stock. On May 29, 2020, the Company's Board of Directors announced an additional $45,000,000 for repurchase of the Company's common stock. On February 22, 2022, the Company's Board of Directors announced an additional $150,000,000 for repurchase of the Company's common stock. These repurchase programs have no expiration dates.

Repurchases of the Company's common stock were affected pursuant to a repurchase program authorized by the Company's Board of Directors.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

(a) Exhibit Index

31.1	Certification of Chief Executive Officer pursuant to Rule 13a – 14(a) under the Securities Exchange Act of 1934.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a – 14(a) under the Securities Exchange Act of 1934.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350.
101.INS	Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	Inline XBRL Taxonomy Extension Schema Document
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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: May 6, 2022

/s/ Catherine Ford Corrigan
Catherine Ford Corrigan, Ph.D., Chief Executive Officer

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