

FORRESTER RESEARCH, INC.

Form 10-Q

August 09, 2016

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 June 30, 2016

OR

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

COMMISSION FILE NUMBER: 000-21433

FORRESTER RESEARCH, INC.

(Exact name of registrant as specified in its charter)

DELAWARE  
(State or other jurisdiction of

04-2797789  
(I.R.S. Employer

incorporation or organization)

Identification Number)

60 Acorn Park Drive

CAMBRIDGE, MASSACHUSETTS 02140  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (617) 613-6000

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

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of August 4, 2016 18,060,000 shares of the registrant's common stock were outstanding.

FORRESTER RESEARCH, INC.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## FORRESTER RESEARCH, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data, unaudited)

	June 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$68,856	\$53,331
Marketable investments (Note 3)	57,673	47,775
Accounts receivable, net	42,714	67,355
Deferred commissions	11,576	13,529
Prepaid expenses and other current assets	14,208	15,737
Total current assets	195,027	197,727
Property and equipment, net	25,833	27,569
Goodwill	74,444	74,071
Intangible assets, net	1,933	2,334
Other assets	18,837	17,290
Total assets	\$316,074	\$318,991
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$694	\$525
Accrued expenses and other current liabilities	30,648	41,252
Deferred revenue	138,597	140,676
Total current liabilities	169,939	182,453
Non-current liabilities	9,436	9,236
Total liabilities	179,375	191,689
Stockholders' Equity (Note 7):		
Preferred stock, \$0.01 par value		
Authorized - 500 shares; issued and outstanding - none	—	—
Common stock, \$0.01 par value		
Authorized - 125,000 shares		
Issued - 21,258 and 21,063 shares as of June 30, 2016 and December 31, 2015, respectively		
Outstanding - 17,947 and 17,752 shares as of June 30, 2016 and December 31, 2015, respectively	213	211
Additional paid-in capital	141,869	134,967

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Retained earnings	119,456	117,135
Treasury stock - 3,311 shares as of June 30, 2016 and December 31, 2015, at cost	(120,185)	(120,185)
Accumulated other comprehensive loss	(4,654 )	(4,826 )
Total stockholders' equity	136,699	127,302
Total liabilities and stockholders' equity	\$316,074	\$318,991

The accompanying notes are an integral part of these consolidated financial statements.

## FORRESTER RESEARCH, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data, unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2016	2015	June 30, 2016	2015
<b>Revenues:</b>				
Research services	\$55,023	\$52,604	\$108,271	\$104,462
Advisory services and events	32,798	30,207	56,951	53,536
Total revenues	87,821	82,811	165,222	157,998
<b>Operating expenses:</b>				
Cost of services and fulfillment	34,417	32,560	65,540	63,321
Selling and marketing	29,335	28,481	59,739	58,112
General and administrative	10,300	9,276	20,273	19,034
Depreciation	2,076	2,096	4,041	4,203
Amortization of intangible assets	210	224	419	445
Reorganization costs	11	81	1,026	3,505
Total operating expenses	76,349	72,718	151,038	148,620
Income from operations	11,472	10,093	14,184	9,378
Other income (expense), net	473	(99 )	145	183
Gains (losses) on investments, net	(54 )	10	(54 )	(9 )
Income before income taxes	11,891	10,004	14,275	9,552
Income tax provision	4,431	4,254	5,526	4,026
Net income	\$7,460	\$5,750	\$8,749	\$5,526
Basic income per common share	\$0.42	\$0.32	\$0.49	\$0.31
Diluted income per common share	\$0.41	\$0.31	\$0.49	\$0.30
Basic weighted average common shares outstanding	17,863	18,007	17,812	18,033
Diluted weighted average common shares outstanding	18,145	18,268	18,035	18,314
Cash dividends declared per common share	\$0.18	\$0.17	\$0.36	\$0.34

The accompanying notes are an integral part of these consolidated financial statements.



FORRESTER RESEARCH, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	\$7,460	\$5,750	\$8,749	\$5,526
Other comprehensive income (loss), net of taxes:				
Foreign currency translation	(1,429)	1,067	52	(1,933)
Net change in market value of investments	3	(51 )	120	47
Other comprehensive income (loss)	(1,426)	1,016	172	(1,886)
Comprehensive income	\$6,034	\$6,766	\$8,921	\$3,640

The accompanying notes are an integral part of these consolidated financial statements.



## FORRESTER RESEARCH, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

	Six Months Ended June 30, 2016	2015
Cash flows from operating activities:		
Net income	\$ 8,749	\$ 5,526
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,041	4,203
Amortization of intangible assets	419	445
Net losses from investments	54	9
Deferred income taxes	(1,409 )	(1,514 )
Stock-based compensation	3,761	3,661
Amortization of premium on investments	187	381
Foreign currency losses	147	70
Changes in assets and liabilities		
Accounts receivable	24,445	24,353
Deferred commissions	1,953	2,769
Prepaid expenses and other current assets	892	(511 )
Accounts payable	189	(195 )
Accrued expenses and other liabilities	(10,891 )	(7,268 )
Deferred revenue	(1,915 )	(7,168 )
Net cash provided by operating activities	30,622	24,761

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Cash flows from investing activities:		
Purchases of property and equipment	(2,318 )	(1,678 )
Purchases of marketable investments	(23,902 )	(18,575 )
Proceeds from sales and maturities of marketable investments	14,025	12,478
Other investing activity	(35 )	266
Net cash used in investing activities	(12,230 )	(7,509 )
Cash flows from financing activities:		
Dividends paid on common stock	(6,428 )	(6,126 )
Repurchases of common stock	—	(11,786 )
Proceeds from issuance of common stock under employee equity incentive plans	4,147	1,906
Excess tax benefits from stock-based compensation	70	31
Net cash used in financing activities	(2,211 )	(15,975 )
Effect of exchange rate changes on cash and cash equivalents	(656 )	(764 )
Net increase in cash and cash equivalents	15,525	513
Cash and cash equivalents, beginning of period	53,331	49,650
Cash and cash equivalents, end of period	\$ 68,856	\$ 50,163

The accompanying notes are an integral part of these consolidated financial statements.



## FORRESTER RESEARCH, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

## Note 1 — Interim Consolidated Financial Statements

## Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”) for reporting on Form 10-Q. Accordingly, certain information and footnote disclosures required for complete financial statements are not included herein. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. It is recommended that these financial statements be read in conjunction with the consolidated financial statements and related notes that appear in the Forrester Research, Inc. (“Forrester”) Annual Report on Form 10-K for the year ended December 31, 2015. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair statement of the financial position, results of operations, comprehensive income and cash flows as of the dates and for the periods presented have been included. The results of operations for the three and six months ended June 30, 2016 may not be indicative of the results for the year ending December 31, 2016, or any other period.

## Fair Value Measurements

The carrying amounts reflected in the Consolidated Balance Sheets for cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value due to their short-term maturities. See Note 3 – Marketable Investments - for the fair value of the Company’s marketable investments.

## Note 2 — Accumulated Other Comprehensive Income (Loss)

The components of accumulated other comprehensive income (loss) are as follows (in thousands):

	Net Unrealized Gain (Loss) on Marketable Investments	Cumulative Translation Adjustment	Total Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2016	\$ (100 )	\$ (4,726 )	\$ (4,826 )
Foreign currency translation	—	52	52
Unrealized gain on investments, net of tax of \$79	120	—	120



	Net Unrealized Gain (Loss) on Marketable Investments	Cumulative Translation Adjustment	Total Accumulated Other Comprehensive Income (Loss)
Balance at April 1, 2015	\$ 24	\$ (4,539 )	\$ (4,515 )
Foreign currency translation before reclassification	—	749	749
Reclassification adjustment for write-off of foreign currency translation loss	—	318	318
Unrealized loss on investments, net of tax of \$33	(51 )	—	(51 )
Balance at June 30, 2015	\$ (27 )	\$ (3,472 )	\$ (3,499 )

### Note 3 — Marketable Investments

The following table summarizes the Company's marketable investments (in thousands):

	As of June 30, 2016			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Corporate obligations	\$57,639	\$ 50	\$ (16 )	\$57,673

  

	As of December 31, 2015			
	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Corporate obligations	\$47,939	\$ —	\$ (164 )	\$47,775

Realized gains and losses on securities are included in earnings and are determined using the specific identification method. Realized gains or losses on the sale of the Company's corporate obligations were not material in the three and six months ended June 30, 2016 or 2015.

The following table summarizes the maturity periods of the marketable securities in the Company's portfolio as of June 30, 2016 (in thousands).

Total

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	FY 2016	FY 2017	FY 2018	
Corporate obligations	\$9,071	\$34,789	\$13,813	\$57,673

The following table shows the gross unrealized losses and market value of Forrester's available-for-sale securities with unrealized losses that are not deemed to be other-than-temporary, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position (in thousands):

As of June 30, 2016				
	Less Than 12 Months	Unrealized Losses	12 Months or Greater	Unrealized Losses
	Market Value		Market Value	
Corporate obligations	\$20,531	\$ 16	\$ —	\$ —

As of December 31, 2015				
	Less Than 12 Months	Unrealized Losses	12 Months or Greater	Unrealized Losses
	Market Value		Market Value	
Corporate obligations	\$45,748	\$ 158	\$2,027	\$ 6

## Fair Value

The Company measures certain financial assets at fair value on a recurring basis, including cash equivalents and available-for-sale securities. The fair values of these financial assets have been classified as Level 1, 2 or 3 within the fair value hierarchy as described in the accounting standards for fair value measurements.

Level 1 — Fair value based on quoted prices in active markets for identical assets or liabilities.

Level 2 — Fair value based on inputs other than Level 1 inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 — Fair value based on unobservable inputs that are supported by little or no market activity and such inputs are significant to the fair value of the assets or liabilities.

The following table represents the Company's fair value hierarchy for its financial assets (cash equivalents and investments) measured at fair value on a recurring basis (in thousands):

	As of June 30, 2016			
	Level	Level		Total
	1	Level 2	3	
Money market funds (1)	\$866	\$—	\$	—\$866
Corporate obligations	—	57,673	—	57,673
Total	\$866	\$57,673	\$	—\$58,539

	As of December 31, 2015			
	Level	Level		Total
	1	Level 2	3	
Money market funds (1)	\$325	\$—	\$	—\$325
Corporate obligations	—	47,775	—	47,775
Total	\$325	\$47,775	\$	—\$48,100

(1)Included in cash and cash equivalents.

Level 2 assets consist of the Company's entire portfolio of corporate obligations. Level 2 assets have been initially valued at the transaction price and subsequently valued, at the end of each reporting period, typically utilizing third party pricing services or other market observable data. The pricing services utilize industry standard valuation methods, including both income and market based approaches and observable market inputs to determine value. These observable market inputs include reportable trades, benchmark yields, credit spreads, broker/dealer quotes, bids, offers, current spot rates and other industry and economic events.

## Note 4 — Non-Marketable Investments



At June 30, 2016 and December 31, 2015, the carrying value of the Company's non-marketable investments, which were composed primarily of interests in technology-related private equity funds, was \$3.6 million and is included in other assets in the Consolidated Balance Sheets.

One of the Company's investments, with a book value of \$0.4 million at June 30, 2016 and December 31, 2015, is being accounted for using the cost method and, accordingly, is valued at cost unless an other-than-temporary impairment in its value occurs. The other investments are being accounted for using the equity method as the investments are limited partnerships and the Company has an ownership interest in excess of 5% and, accordingly, the Company records its share of the investee's operating results each period. Gains and losses from non-marketable investments were insignificant during the three and six months ended June 30, 2016 and 2015, and are included in gains (losses) on investments, net in the Consolidated Statements of Income. No distributions were received from the funds during the six months ended June 30, 2016. During the six months ended June 30, 2015, distributions of \$0.1 million were received from the funds.

## Note 5 — Reorganization

In the first quarter of 2016, the Company implemented a reduction in its workforce of approximately 2% of its employees across various geographies and functions. The Company recorded \$1.0 million of severance and related costs for this action during the three months ended March 31, 2016. All costs under this plan are expected to be paid during 2016.

In the first quarter of 2015, the Company implemented a reduction in its workforce of approximately 4% of its employees across various geographies and functions, in order to reallocate investment in 2015 to planned sales expansion and to delivery areas seeing the greatest client demand. The Company incurred \$(0.2) million and \$3.2 million of severance and related costs for this action during the three and six months ended June 30, 2015. In addition, the Company incurred \$0.3 million during the three months ended June 30, 2015 primarily for a non-cash charge for the liquidation of a small non-U.S. subsidiary.

The following table rolls forward the activity in the reorganization accrual for the six months ended June 30, 2016 (in thousands):

	Workforce Reduction	Subsidiary Liquidation	Products Group Reorganization	Total
Accrual at December 31, 2015	\$ 41	\$ 7	\$ 433	\$481
Additions	1,022	—	4	1,026
Cash payments	(924 )	(7 )	(436 )	(1,367)
Accrual at June 30, 2016	\$ 139	\$ —	\$ 1	\$140

## Note 6 — Net Income Per Common Share

Basic net income per common share is computed by dividing net income by the basic weighted average number of common shares outstanding during the period. Diluted net income per common share is computed by dividing net income by the diluted weighted average number of common shares and common equivalent shares outstanding during the period. The weighted average number of common equivalent shares outstanding has been determined in accordance with the treasury-stock method. Common equivalent shares consist of common stock issuable on the exercise of outstanding options and vesting of restricted stock units when dilutive.

Basic and diluted weighted average common shares are as follows (in thousands):

Three Months Ended June 30,	Six Months Ended June 30,
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	2016	2015	2016	2015
Basic weighted average common shares outstanding	17,863	18,007	17,812	18,033
Weighted average common equivalent shares	282	261	223	281
Diluted weighted average common shares outstanding	18,145	18,268	18,035	18,314
Options excluded from diluted weighted average share calculation as effect would have been anti-dilutive	911	1,012	1,324	852

## Note 7 — Stockholders' Equity

## Equity Plans

Stock option activity for the six months ended June 30, 2016 is presented below (in thousands, except per share data and contractual term):

	Number of Shares	Weighted - Average Exercise Price Per Share	Weighted - Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2015	2,171	\$ 33.84		
Granted	61	34.00		
Exercised	(122 )	30.57		
Forfeited	(174 )	35.80		
Outstanding at June 30, 2016	1,936	\$ 33.88	6.51	\$ 6,554
Exercisable at June 30, 2016	1,066	\$ 32.69	4.91	\$ 4,729
Vested and expected to vest at June 30, 2016	1,845	\$ 33.82	6.40	\$ 6,345

Restricted stock unit activity for the six months ended June 30, 2016 is presented below (in thousands, except per share data):

	Number of Shares	Weighted- Average Grant Date Fair Value
Unvested at December 31, 2015	504	\$ 33.67
Granted	36	33.38
Vested	(75 )	34.41
Forfeited	(29 )	34.15
Unvested at June 30, 2016	436	\$ 33.49

## Stock-Based Compensation

Forrester recognizes the fair value of stock-based compensation in net income over the requisite service period of the individual grantee, which generally equals the vesting period. Stock-based compensation was recorded in the following expense categories (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Cost of services and fulfillment	\$870	\$798	\$2,064	\$2,035
Selling and marketing	109	89	423	423
General and administrative	647	588	1,274	1,203
Total	\$1,626	\$1,475	\$3,761	\$3,661

Forrester utilizes the Black-Scholes valuation model for estimating the fair value of stock options. Options granted under the equity incentive plans and shares subject to purchase under the employee stock purchase plan were valued using the following assumptions:

	Three Months Ended		Three Months Ended	
	June 30, 2016		June 30, 2015	
	Equity Incentive Plans	Employee Stock Purchase Plan	Equity Incentive Plans	Employee Stock Purchase Plan
Average risk-free interest rate	1.26 %	0.47 %	1.35 %	0.11 %
Expected dividend yield	2.3 %	2.3 %	1.8 %	1.8 %
Expected life	5.0 Years	0.5 Years	5.1 Years	0.5 Years
Expected volatility	24 %	27 %	25 %	22 %
Weighted average fair value	\$ 6.15	\$ 7.06	\$ 6.80	\$ 7.93

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015		
	Equity Incentive Plans	Employee Stock Purchase Plan		Equity Incentive Plans	Employee Stock Purchase Plan	
Average risk-free interest rate	1.39 %	0.47 %		1.37 %	0.11 %	
Expected dividend yield	2.3 %	2.3 %		1.8 %	1.8 %	
Expected life	5.0 Years	0.5 Years		5.1 Years	0.5 Years	
Expected volatility	24 %	27 %		25 %	22 %	
Weighted average fair value	\$ 5.84	\$ 7.06		\$ 7.38	\$ 7.93	

#### Dividends

In the six months ended June 30, 2016, the Company declared and paid dividends of \$6.4 million consisting of a \$0.18 per share dividend in each of the first two quarters of 2016. In the six months ended June 30, 2015, the Company declared and paid dividends of \$6.1 million consisting of a \$0.17 per share dividend in each of the first two quarters of 2015. In July 2016, the Company declared a dividend of \$0.18 per share payable on September 21, 2016 to shareholders of record as of September 7, 2016.

#### Treasury Stock

As of June 30, 2016, Forrester's Board of Directors had authorized an aggregate \$460.0 million to purchase common stock under its stock repurchase program. The shares repurchased may be used, among other things, in connection with Forrester's employee and director equity incentive and purchase plans. The Company did not repurchase shares of common stock in the six months ended June 30, 2016. In the three and six months ended June 30, 2015, the Company repurchased approximately 0.2 million and 0.3 million shares, respectively, of common stock at an aggregate cost of approximately \$6.1 million and \$11.8 million, respectively. From the inception of the program through June 30, 2016, Forrester repurchased 15.0 million shares of common stock at an aggregate cost of \$423.1 million.

#### Note 8 — Income Taxes

Forrester provides for income taxes on an interim basis according to management's estimate of the effective tax rate expected to be applicable for the full fiscal year. Certain items such as changes in tax rates and tax benefits related to disqualifying dispositions of incentive stock options are treated as discrete items and are recorded in the period in which they arise.

Income tax expense for the six months ended June 30, 2016 was \$5.5 million resulting in an effective tax rate of 38.7% for the period. Income tax expense for the six months ended June 30, 2015 was \$4.0 million resulting in an effective tax rate of 42.1% for the period. The decrease in the effective tax rate for the six months ended June 30, 2016 compared to the prior year period was primarily due to a decrease in non-deductible stock compensation during 2016 as compared to 2015 and the inclusion of a \$0.3 million non-deductible loss on the liquidation of a foreign subsidiary in the 2015 period that did not recur in 2016.

Note 9 — Operating Segments

The Research segment includes the costs of the Company's research personnel who are responsible for writing the research and performing the webinars and inquiries for the Company's Research and Connect products. In addition, the research personnel deliver advisory services (such as workshops, speeches and advisory days) and a portion of the Company's project consulting services. Revenue in this segment includes only revenue from advisory services and project consulting services that are delivered by the research personnel in this segment.

The Product segment includes the costs of the product management organization that is responsible for product pricing and packaging and the launch of new products. In addition, this segment includes the costs of the Company's Data, Connect and Events organizations. Revenue in this segment includes all revenue for the Company (including Research and Connect) except for revenue from advisory services and project consulting services that are delivered by personnel in the Research and Project Consulting segments.

The Project Consulting segment includes the costs of the consultants that deliver the majority of the Company's project consulting services. Revenue in this segment includes the project consulting revenue delivered by the consultants in this segment.

The Company evaluates reportable segment performance and allocates resources based on segment revenues and expenses. Segment expenses include the direct expenses of each segment organization and exclude selling and marketing expenses, general and administrative expenses, stock-based compensation expense, depreciation expense, adjustments to incentive bonus compensation from

target amounts, amortization of intangible assets, reorganization costs, other income (expense), and gains (losses) on investments. The accounting policies used by the segments are the same as those used in the consolidated financial statements.

	Products	Research	Project Consulting	Consolidated
<b>Three Months Ended June 30, 2016</b>				
Research services revenues	\$ 55,023	\$ —	\$ —	\$ 55,023
Advisory services and events revenues	9,157	12,676	10,965	32,798
Total segment revenues	64,180	12,676	10,965	87,821
Segment expenses	12,544	12,822	7,022	32,388
Contribution margin (loss)	51,636	(146 )	3,943	55,433
Selling, marketing, administrative and other expenses				(43,740 )
Amortization of intangible assets				(210 )
Reorganization costs				(11 )
Other income (expense) and gains (losses) on investments				419
Income before income taxes				\$ 11,891

	Products	Research	Project Consulting	Consolidated
<b>Three Months Ended June 30, 2015</b>				
Research services revenues	\$ 52,604	\$ —	\$ —	\$ 52,604
Advisory services and events revenues	8,255	11,323	10,629	30,207
Total segment revenues	60,859	11,323	10,629	82,811
Segment expenses	11,532	12,808	6,773	31,113
Contribution margin (loss)	49,327	(1,485 )	3,856	51,698
Selling, marketing, administrative and other expenses				(41,300 )
Amortization of intangible assets				(224 )
Reorganization costs				(81 )
Other income (expense) and gains (losses) on investments				(89 )
Income before income taxes				\$ 10,004

	Products	Research	Project Consulting	Consolidated
<b>Six Months Ended June 30, 2016</b>				
Research services revenues	\$ 108,271	\$ —	\$ —	\$ 108,271
Advisory services and events revenues	11,858	23,262	21,831	56,951
Total segment revenues	120,129	23,262	21,831	165,222
Segment expenses	21,422	26,159	13,802	61,383
Contribution margin (loss)	98,707	(2,897 )	8,029	103,839
Selling, marketing, administrative and other expenses				(88,210 )
Amortization of intangible assets				(419 )
Reorganization costs				(1,026 )



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Other income (expense) and gains (losses) on investments	91
Income before income taxes	\$ 14,275

	Products	Research	Project Consulting	Consolidated
<b>Six Months Ended June 30, 2015</b>				
Research services revenues	\$104,462	\$—	\$—	\$ 104,462
Advisory services and events revenues	10,722	21,650	21,164	53,536
Total segment revenues	115,184	21,650	21,164	157,998
Segment expenses	19,881	25,756	13,733	59,370
Contribution margin (loss)	95,303	(4,106 )	7,431	98,628
Selling, marketing, administrative and other expenses				(85,300 )
Amortization of intangible assets				(445 )
Reorganization costs				(3,505 )
Other income (expense) and gains (losses) on investments				174
Income before income taxes				\$ 9,552

#### Note 10 — Recent Accounting Pronouncements

In May 2014 the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. The new standard will be effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, with early adoption permitted for the first interim period within annual reporting periods beginning after December 15, 2016. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. The Company has not yet selected a transition method; however it has determined that it will not elect to adopt the standard early. The Company is currently evaluating the potential changes from this standard to its future financial reporting and disclosures.

In February 2016 the FASB issued ASU No. 2016-02, Leases. The new standard requires that all lessees recognize the assets and liabilities that arise from leases on the balance sheet and disclose qualitative and quantitative information about its leasing arrangements. The new standard will be effective for the Company on January 1, 2019. The adoption of this standard is expected to have a material impact on the Company's financial position. The Company is currently evaluating the potential impact that this standard may have on its results of operations.

In March 2016 the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting. The new standard involves several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows. The new standard will be effective for the Company on January 1, 2017. The Company is currently evaluating the potential impact that this standard may have on its financial reporting and disclosures.



## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### Overview

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as “expects,” “believes,” “anticipates,” “intends,” “plans,” “estimates,” or similar expressions are intended to identify these forward-looking statements. Reference is made in particular to our statements about our plans for anticipated increases in, and productivity of, our sales force and headcount, future growth rates, future dividends, future share repurchases and the adequacy of our cash, marketable investments and cash flows to satisfy our working capital and capital expenditures. These statements are based on our current plans and expectations and involve risks and uncertainties that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual future activities and results to differ include, among others, our ability to retain and enrich memberships for our research, data and leadership board products and services, our ability to fulfill existing or generate new project consulting engagements, technology spending, the risks and challenges inherent in international business activities, our ability to offer new products and services, our dependence on key personnel, our ability to realize anticipated benefits from internal reorganizations, the ability to attract and retain qualified professional staff, our ability to respond to business and economic conditions and market trends, the possibility of network disruptions and security breaches, competition and industry consolidation, our ability to enforce and protect our intellectual property rights, compliance with privacy laws, and possible variations in our quarterly operating results. These risks are described more completely in our Annual Report on Form 10-K for the year ended December 31, 2015. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

We derive revenues from licensing memberships to, and sales of, our Research, Connect and Data products and services, performing advisory services and consulting projects, and hosting events. We offer contracts for our Research, Connect and Data products that are typically renewable annually and payable in advance. Membership revenues are recognized as revenue ratably over the term of the contract. Accordingly, a substantial portion of our billings are initially recorded as deferred revenue. Clients purchase advisory services independently and/or to supplement their memberships to our subscription-based products. Billings attributable to advisory services and consulting projects are initially recorded as deferred revenue. Advisory service revenues, such as workshops, speeches and advisory days, are recognized when the customer receives the agreed upon deliverable. Consulting project revenues, which generally are short-term in nature and based upon fixed-fee agreements, are recognized as the services are provided. Event billings are also initially recorded as deferred revenue and are recognized as revenue upon completion of each event.

Our primary operating expenses consist of cost of services and fulfillment, selling and marketing expenses and general and administrative expenses. Cost of services and fulfillment represents the costs associated with the production and delivery of our products and services, including salaries, bonuses, employee benefits and stock-based compensation expense for all personnel that produce and deliver our products and services including all associated editorial, travel, and support services. Selling and marketing expenses include salaries, sales commissions, bonuses, employee benefits, stock-based compensation expense, travel expenses, promotional costs and other costs incurred in marketing and selling our products and services. General and administrative expenses include the costs of the technology, operations, finance, and human resources groups and our other administrative functions, including salaries, bonuses, employee benefits, and stock-based compensation expense. Overhead costs such as facilities and annual fees for cloud-based information technology systems are allocated to these categories according to the number of employees in each group.

Deferred revenue, agreement value, client retention, dollar retention, enrichment and number of clients are metrics we believe are important to understanding our business. We believe that the amount of deferred revenue, along with the agreement value of contracts to purchase research and advisory services, provide a significant measure of our business activity. We define these metrics as follows:

• **Deferred revenue** — billings in advance of revenue recognition as of the measurement date.

• **Agreement value** — the total revenues recognizable from all contracts in force at a given time (but not including advisory-only contracts), without regard to how much revenue has already been recognized.

• **Client retention** — the percentage of client companies with memberships expiring during the most recent twelve-month period that renewed one or more of those memberships during that same period.

• **Dollar retention** — the percentage of the dollar value of all client membership contracts renewed during the most recent twelve-month period to the total dollar value of all client membership contracts that expired during the period.

• **Enrichment** — the percentage of the dollar value of client membership contracts renewed during the most recent twelve-month period to the dollar value of the corresponding expiring contracts.

• **Clients** — we count as a single client the various divisions and subsidiaries of a corporate parent and we also aggregate separate instrumentalities of the federal, state, and provincial governments as a single client.

Client retention, dollar retention, and enrichment are not necessarily indicative of the rate of future retention of our revenue base. A summary of our key metrics is as follows (dollars in millions):

	As of June 30,		Absolute Increase		Percentage Increase	
	2016	2015	(Decrease)	(Decrease)	(Decrease)	(Decrease)
Deferred revenue	\$138.6	\$136.2	\$ 2.4	2	%	
Agreement value	\$241.8	\$233.4	\$ 8.4	4	%	
Client retention	76 %	80 %	(4 )	(5	%)	
Dollar retention	88 %	90 %	(2 )	(2	%)	
Enrichment	96 %	97 %	(1 )	(1	%)	
Number of clients	2,481	2,482	(1 )	—		

Deferred revenue at June 30, 2016 increased 2% compared to the prior year and 3% after adjusting for the effect of foreign currency fluctuations. The increase in deferred revenue is reflective of the fact that contract bookings have exceeded revenue growth on a trailing twelve month basis using constant currency rates. Agreement value increased 4% at June 30, 2016 compared to the prior year and 5% after adjusting for the effect of foreign currency fluctuations. The increase in agreement value is due to increased demand for our products and services. Client retention and dollar retention rates have declined during the first half of 2016 from their recent highs achieved during 2015. Enrichment rates have remained essentially consistent during the past two years.

Management's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our policies and estimates, including but not limited to, those related to our revenue recognition, stock-based compensation, non-marketable investments, goodwill and other intangible assets, and income taxes. Management bases its estimates on historical experience, data available at the time the estimates are made and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our other critical accounting policies and estimates are described in our Annual Report on Form 10-K for the year ended December 31, 2015.

### Results of Operations

The following table sets forth our statement of income as a percentage of total revenues for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
<b>Revenues:</b>				
Research services	62.7 %	63.5 %	65.5 %	66.1 %

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Advisory services and events	37.3	36.5	34.5	33.9
Total revenues	100.0	100.0	100.0	100.0
Operating expenses:				
Cost of services and fulfillment	39.2	39.3	39.6	40.1
Selling and marketing	33.4	34.4	36.2	36.8
General and administrative	11.7	11.2	12.3	12.0
Depreciation	2.4	2.5	2.4	2.7
Amortization of intangible assets	0.2	0.3	0.3	0.3
Reorganization costs	—	0.1	0.6	2.2
Income from operations	13.1	12.2	8.6	5.9
Other income (expense), net	0.4	(0.1 )	—	0.1
Gains (losses) on investments, net	—	—	—	—
Income before income taxes	13.5	12.1	8.6	6.0
Income tax provision	5.0	5.2	3.3	2.5
Net income	8.5	% 6.9	% 5.3	% 3.5

## Three and Six Months Ended June 30, 2016 and 2015

## Revenues

	Three Months Ended June 30,		Absolute Increase (Decrease)	Percentage Increase (Decrease)	
	2016	2015		(Decrease)	(Decrease)
	(dollars in millions)				
Revenues	\$87.8	\$82.8	\$ 5.0	6	%
Revenues from research services	\$55.0	\$52.6	\$ 2.4	5	%
Revenues from advisory services and events	\$32.8	\$30.2	\$ 2.6	9	%
Revenues attributable to customers outside of the U.S.	\$20.1	\$19.3	\$ 0.8	4	%
Percentage of revenue attributable to customers outside of the U.S.					
	23	%	23	%	—
Number of clients (at end of period)	2,481	2,482	(1	)	—
Number of events	7	5	2	40	%

	Six Months Ended June 30,		Absolute Increase (Decrease)	Percentage Increase (Decrease)	
	2016	2015		(Decrease)	(Decrease)
	(dollars in millions)				
Revenues	\$165.2	\$158.0	\$ 7.2	5	%
Revenues from research services	\$108.3	\$104.5	\$ 3.8	4	%
Revenues from advisory services and events	\$57.0	\$53.5	\$ 3.5	6	%
Revenues attributable to customers outside of the U.S.	\$38.0	\$36.5	\$ 1.5	4	%
Percentage of revenue attributable to customers outside of the U.S.					
	23	%	23	%	—
Number of events	7	7	—	—	

Total revenues increased 6% and 5% during the three and six months ended June 30, 2016, respectively, compared to the prior year periods. The effect of foreign currency fluctuations had an insignificant effect on total revenue growth during these periods. Revenues from customers outside of the U.S. increased 4% during both the three and six months ended June 30, 2016, compared to the prior year periods, and increased 6% and 7%, respectively, after adjusting for the effect of foreign currency fluctuations. Revenues from customers outside of the U.S. represented 23% of total revenues for the six months ended June 30, 2016 and represented 24% of revenues after adjusting for the effect of foreign currency fluctuations. Revenue growth attributable to customers outside of the U.S. for the six months ended June 30, 2016 was led by growth in the Asia Pacific region, Europe and to a lesser extent in Canada.



Research services revenues are recognized as revenue primarily on a ratable basis over the term of the contracts, which are generally twelve-month periods. Research services revenues increased 5% and 4% during the three and six months ended June 30, 2016, respectively, compared to the prior year periods, reflecting growth in our Research and Data products that was partially offset by a decline in our Connect products.

Revenues from advisory services and events increased 9% and 6% during the three and six months ended June 30, 2016, respectively, compared to the prior year periods. Both periods during 2016 included strong growth in both advisory and consulting revenues while Events revenues increased 4% during the three months ended June 30, 2016 and declined by 9% during the six months ended June 30, 2016. The increase in Events revenues during the three months ended June 30, 2016 was due to having two more events held in the current quarter compared to the prior year quarter, while the decrease in Events revenues during the six months ended June 30, 2016 was due primarily to lower sponsorship revenues for the events.

Please refer to the “Segments Results” section below for a discussion of revenues and expenses by segment.

## Cost of Services and Fulfillment

	Three Months		Absolute Increase (Decrease)	Percentage Increase (Decrease)	
	Ended June 30, 2016	2015			
Cost of services and fulfillment (dollars in millions)	\$34.4	\$32.6	\$ 1.8	6	%
Cost of services and fulfillment as a percentage of					
total revenues	39.2%	39.3%	(0.1 )	—	
Service and fulfillment employees					
(at end of period)	582	567	15	3	%
	Six Months		Absolute Increase (Decrease)	Percentage Increase (Decrease)	
	Ended June 30, 2016	2015			
Cost of services and fulfillment (dollars in millions)	\$65.5	\$63.3	\$ 2.2	4	%
Cost of services and fulfillment as a percentage of total					
revenues	39.6%	40.1%	(0.5 )	(1	%)

Cost of services and fulfillment expenses increased 6% during the three months ended June 30, 2016 compared to the prior year period. The increase in dollars was primarily due to (1) a \$1.3 million increase in compensation and benefit costs, resulting from an increase in employees and annual merit increases compared to the prior year period and (2) a \$0.9 million increase in professional services costs comprised of fees related to the new digital reprint product and an increase in outsourced fees compared to the prior year period. These increases were partially offset by a reduction in event expenses of \$0.5 million.

Cost of services and fulfillment expenses increased 4% during the six months ended June 30, 2016 compared to the prior year period. The increase in dollars was primarily due to (1) a \$1.6 million increase in compensation and benefit costs, resulting from an increase in employees and annual merit increases compared to the prior year period and (2) a \$1.6 million increase in professional services costs comprised of fees related to the new digital reprint product and an increase in outsourced fees compared to the prior year period. These increases were partially offset by a reduction in event expenses of \$0.9 million.

## Selling and Marketing

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	Three Months		Absolute Increase (Decrease)	Percentage Increase (Decrease)	
	Ended June 30, 2016	2015			
Selling and marketing expenses (dollars in millions)	\$29.3	\$28.5	\$ 0.8	3	%
Selling and marketing expenses as a percentage of					
total revenues	33.4%	34.4%	(1.0 )	(3	%)
Selling and marketing employees (at end of period)	575	557	18	3	%

  

	Six Months		Absolute Increase (Decrease)	Percentage Increase (Decrease)	
	Ended June 30, 2016	2015			
Selling and marketing expenses (dollars in millions)	\$59.7	\$58.1	\$ 1.6	3	%
Selling and marketing expenses as a percentage of total					
revenues	36.2%	36.8%	(0.6 )	(2	%)

Selling and marketing expenses increased 3% during both the three and six months ended June 30, 2016 compared to the prior year periods. The increase in dollars was primarily due to (1) a \$0.6 million and \$1.2 million increase in compensation and benefit costs during the three and six months ended June 30, 2016, respectively, resulting from an increase in sales employees and annual merit increases compared to the prior year periods and (2) an increase in software services costs.

Subject to the business environment, we intend to expand our quota carrying sales force by approximately 1% to 3% in 2016 as compared to 2015 as we anticipate productivity improvements in 2016.

## General and Administrative

	Three Months Ended June 30, 2016		2015	Absolute Increase (Decrease)	Percentage Increase (Decrease)	
General and administrative expenses (dollars in millions)	\$10.3	\$9.3		\$ 1.0	11	%
General and administrative expenses as a percentage of						
total revenues	11.7%	11.2%		0.5	4	%
General and administrative employees (at end of period)	179	181		(2 )	(1	%)
	Six Months Ended June 30, 2016		2015	Absolute Increase (Decrease)	Percentage Increase (Decrease)	
General and administrative expenses (dollars in millions)	\$20.3	\$19.0		\$ 1.3	7	%
General and administrative expenses as a percentage of						
total revenues	12.3%	12.0%		0.3	3	%

General and administrative expenses increased 11% during the three months ended June 30, 2016 compared to the prior year period. The increase in dollars was primarily due to an increase in professional services fees of \$0.7 million and an increase in compensation and benefits costs of \$0.3 million due to higher incentive bonus expense.

General and administrative expenses increased 7% during the six months ended June 30, 2016 compared to the prior year period. The increase in dollars was due to an increase in professional services fees of \$1.2 million primarily related to consulting fees for technology projects and legal expenses.

## Depreciation

Depreciation expense remained essentially consistent during the three and six months ended June 30, 2016 compared to the prior year periods.

## Amortization of Intangible Assets

Amortization expense remained essentially consistent during the three and six months ended June 30, 2016 compared to the prior year periods.

## Reorganization Costs

During the six months ended June 30, 2016, we incurred \$1.0 million of severance and related benefits costs for a reduction in our workforce of approximately 2% of employees across various geographies and functions. All costs

under this plan are expected to be paid during 2016.

During the three and six months ended June 30, 2015, we incurred \$(0.2) million and \$3.2 million, respectively, of severance and related costs from our reorganization in the first quarter of 2015 that included the termination of 50 employees, or approximately 4% of our workforce across various geographies and functions, in order to reallocate investment in 2015 to planned sales expansion and to delivery areas seeing the greatest client demand. In addition, during the three months ended June 30, 2015 we incurred an additional \$0.3 million primarily for a non-cash charge for the liquidation of a small non-U.S. subsidiary.

#### Other Income (Expense), Net

Other income (expense), net primarily consists of interest income on our investments as well as gains and losses on foreign currency. The increase in other income (expense), net during the three months ended June 30, 2016 is due to foreign currency gains of approximately \$0.3 million during the current year quarter versus foreign currency losses of \$0.2 million during the prior year quarter.

Other income (expense) was essentially consistent during the six months ended June 30, 2016 and 2015.

#### Gains (Losses) on Investments, Net

Gains (losses) on investments, net primarily represents our share of equity method investment gains and losses from our technology-related investment funds. Activity within the funds was insignificant during the 2016 and 2015 periods.

## Provision for Income Taxes

	Three Months		Absolute Increase (Decrease)	Percentage Increase (Decrease)	
	Ended June 30, 2016	2015			
Provision for income taxes (dollars in millions)	\$4.4	\$4.3	\$ 0.1	4	%
Effective tax rate	37.3%	42.5%	(5.2 )	(12	%)

	Six Months		Absolute Increase (Decrease)	Percentage Increase (Decrease)	
	Ended June 30, 2016	2015			
Provision for income taxes (dollars in millions)	\$5.5	\$4.0	\$ 1.5	37	%
Effective tax rate	38.7%	42.1%	(3.4 )	(8	%)

The decrease in the effective tax rate for the six months ended June 30, 2016 as compared to the prior year period is primarily due to a decrease in non-deductible stock compensation during 2016 as compared to 2015 and the inclusion of a \$0.3 million non-deductible loss on the liquidation of a foreign subsidiary in the 2015 period that did not recur in 2016.

## Segment Results

The Research segment includes the costs of our research personnel who are responsible for writing the research and performing the webinars and inquiries for our Research and Connect products. In addition, the research personnel deliver advisory services (such as workshops, speeches and advisory days) and a portion of our project consulting services. Revenue in this segment includes only revenue from advisory services and project consulting services that are delivered by the research personnel in this segment.

The Product segment includes the costs of the product management organization that is responsible for pricing, packaging and the launch of new products. In addition, this segment includes the costs of our Data, Connect and Events organizations. Revenue in this segment includes all of our revenue (including Research and Connect) except for revenue from advisory services and project consulting services that are delivered by personnel in the Research and Project Consulting segments.

The Project Consulting segment includes the costs of the consultants that deliver the majority of our project consulting services. Revenue in this segment includes the project consulting revenue delivered by the consultants in this segment.

The Company evaluates reportable segment performance and allocates resources based on segment revenues and expenses. Segment expenses include the direct expenses of each segment organization and exclude selling and marketing expenses, general and administrative expenses, stock-based compensation expense, depreciation expense, adjustments to incentive bonus compensation from target amounts, amortization of intangible assets, reorganization costs, other income (expense), and gains (losses) on investments. The accounting policies used by the segments are

the same as those used in the consolidated financial statements.

	Products	Research	Project Consulting	Consolidated
<b>Three Months Ended June 30, 2016</b>				
Research services revenues	\$ 55,023	\$ —	\$ —	\$ 55,023
Advisory services and events revenues	9,157	12,676	10,965	32,798
Total segment revenues	64,180	12,676	10,965	87,821
Segment expenses	12,544	12,822	7,022	32,388
Contribution margin (loss)	51,636	(146 )	3,943	55,433
Year over year revenue change	5 %	12 %	3 %	6 %
Year over year expense change	9 %	—	4 %	4 %

	Products	Research	Project Consulting	Consolidated
<b>Three Months Ended June 30, 2015</b>				
Research services revenues	\$ 52,604	\$ —	\$ —	\$ 52,604
Advisory services and events revenues	8,255	11,323	10,629	30,207
Total segment revenues	60,859	11,323	10,629	82,811
Segment expenses	11,532	12,808	6,773	31,113
Contribution margin (loss)	49,327	(1,485 )	3,856	51,698

	Products	Research	Project Consulting	Consolidated
<b>Six Months Ended June 30, 2016</b>				
Research services revenues	\$ 108,271	\$ —	\$ —	\$ 108,271
Advisory services and events revenues	11,858	23,262	21,831	56,951
Total segment revenues	120,129	23,262	21,831	165,222
Segment expenses	21,422	26,159	13,802	61,383
Contribution margin (loss)	98,707	(2,897 )	8,029	103,839
Year over year revenue change	4 %	7 %	3 %	5 %
Year over year expense change	8 %	2 %	1 %	3 %

	Products	Research	Project Consulting	Consolidated
<b>Six Months Ended June 30, 2015</b>				
Research services revenues	\$ 104,462	\$ —	\$ —	\$ 104,462
Advisory services and events revenues	10,722	21,650	21,164	53,536
Total segment revenues	115,184	21,650	21,164	157,998
Segment expenses	19,881	25,756	13,733	59,370
Contribution margin (loss)	95,303	(4,106 )	7,431	98,628

Product segment revenues increased 5% and 4% during the three and six months ended June 30, 2016, respectively, compared to the prior year periods. Research services revenues increased 5% and 4% during the three and six months ended June 30, 2016, respectively, compared to the prior year periods, reflecting growth in our Research and Data products that was partially offset by a decline in our Connect products. Advisory services and events revenues increased 11% during both the three and six months ended June 30, 2016 compared to the prior year periods. The increase in advisory services and events revenue during the three months ended June 30, 2016 was due to a 26% increase in data advisory revenues due to strong demand and a 4% increase in Events revenues due to having two more events held in the current quarter compared to the prior year quarter. The increase in advisory services and events revenue during the six months ended June 30, 2016 was due to a 56% increase in data advisory revenues due to strong demand and a 9% decrease in Events revenues due primarily to lower sponsorship revenues. Product segment expenses increased 9% and 8% during the three and six months ended June 30, 2016, respectively, compared to the prior year periods due to an increase in compensation and benefit costs due to an increase in employees for the data, events and connect products, which were partially offset by lower event expenses.

Research segment revenues increased 12% and 7% during the three and six months ended June 30, 2016, respectively, compared to the prior year periods, reflecting an increase in both advisory and consulting revenues. Research segment expenses were flat during the three months ended June 30, 2016 and increased 2% during the six months ended June 30, 2016 compared to the prior year periods. For the three months ended June 30, 2016, a \$0.3 million increase in compensation and benefits was offset by a decrease in travel and entertainment expenses. For the six months ended June 30, 2016, a \$0.6 million increase in compensation and benefit costs was only partially offset by a decrease in travel and entertainment expenses.

Project Consulting segment revenues increased 3% during both the three and six months ended June 30, 2016 compared to the prior year periods. Project Consulting expenses increased 4% and 1% during the three and six months ended June 30, 2016, respectively, compared to the prior year periods due to higher outsourced costs related to the consulting projects delivered, which were partially offset by lower compensation and benefit costs due to fewer consulting employees during the 2016 periods.



## Liquidity and Capital Resources

We have historically financed our operations primarily through funds generated from operations. Memberships for research services, which constituted approximately 66% of our revenues during the six months ended June 30, 2016, are generally renewable annually and are typically payable in advance. We generated cash from operating activities of \$30.6 million and \$24.8 million during the six months ended June 30, 2016 and 2015, respectively. The \$5.9 million increase in cash provided from operations for the six months ended June 30, 2016 was primarily attributable to a \$3.2 million increase in net income and a \$2.7 million increase in cash generated from working capital. The increase in cash from working capital was due primarily to an increase in cash generated by accounts receivable and deferred revenue due to an increase in contract billings that was partially offset by an increase in the use of cash for accrued expenses due primarily to increased payments of accrued incentive bonuses during the six months ended June 30, 2016.

During the six months ended June 30, 2016 we used \$12.2 million of cash from investing activities, consisting primarily of \$9.9 million in net purchases of marketable investments and \$2.3 million of purchases of property and equipment. Property and equipment

purchases during 2016 consisted primarily of computer equipment and software. During the six months ended June 30, 2015, we used \$7.5 million of cash from investing activities, consisting primarily of \$6.1 million in net purchases of marketable investments and \$1.7 million of purchases of property and equipment. Property and equipment purchases during 2015 consisted primarily of computer equipment and software. We regularly invest excess cash in short and intermediate-term interest-bearing obligations of investment grade.

We used \$2.2 million of cash from financing activities during the six months ended June 30, 2016 primarily for payment of dividends totaling \$6.4 million, at \$0.18 per share in each of the first two quarters of 2016, which was partially offset by \$4.1 million of proceeds from the exercise of stock options and our employee stock purchase plan. We used \$16.0 million of cash from financing activities during the six months ended June 30, 2015 primarily for \$11.8 million of purchases of our common stock. In addition, we paid quarterly dividends totaling \$6.1 million, at \$0.17 per share in each of the first two quarters of 2015, and we received \$1.9 million of proceeds from the exercise of stock options and our employee stock purchase plan. As of June 30, 2016 our remaining stock repurchase authorization was approximately \$36.9 million.

As of June 30, 2016, we had cash and cash equivalents of \$68.9 million and marketable investments of \$57.7 million. These balances include \$47 million held outside of the U.S. If these funds outside of the U.S. are needed for operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate these funds for our U.S. operations. We do not currently have a line of credit and do not presently anticipate the need to access a line of credit in the foreseeable future except in the case of a significant acquisition. We believe that our current cash balance, marketable investments, and cash flows from operations will satisfy working capital, financing activities, and capital expenditure requirements for the next twelve months.

#### Contractual Obligations

There have been no material changes to the contractual obligations table as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2015.

#### Off-Balance Sheet Arrangements

We do not maintain any off-balance sheet financing arrangements.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in our assessment of our sensitivity to market risk since our presentation set forth in Item 7A, “Quantitative and Qualitative Disclosures About Market Risk,” in our Annual Report on Form 10-K for the year ended December 31, 2015.

### ITEM 4. CONTROLS AND PROCEDURES

#### Evaluation of Disclosure Controls and Procedures

We maintain “disclosure controls and procedures,” as such term is defined under Securities Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of June 30, 2016. Based upon their evaluation and subject to the foregoing, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance as of that date.

#### Changes in Internal Control Over Financial Reporting

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2016 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, “Item 1A: Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015, which could materially affect our business, financial condition or future results. The risk factors described in our Annual Report on Form 10-K remain applicable to our business. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

ITEM 6. EXHIBITS

- 10.1 Forrester Research, Inc. Amended and Restated Equity Plan (filed as Exhibit A to Forrester's Proxy Statement on Schedule 14A filed April 4, 2016 (File No. 000-21433) and incorporated herein by reference)
- 31.1 Certification of the Principal Executive Officer. (filed herewith)
- 31.2 Certification of the Principal Financial Officer. (filed herewith)
- 32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)
- 32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)
- 101.INS XBRL Instance Document. (filed herewith)
- 101.SCH XBRL Taxonomy Extension Schema. (filed herewith)
- 101.CAL XBRL Taxonomy Extension Calculation Linkbase. (filed herewith)
- 101.DEF XBRL Taxonomy Extension Definition Linkbase. (filed herewith)
- 101.LAB XBRL Taxonomy Extension Label Linkbase. (filed herewith)
- 101.PRE XBRL Taxonomy Extension Presentation Linkbase. (filed herewith)

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.

FORRESTER RESEARCH,  
INC.

By: /s/ Michael A. Doyle  
Michael A. Doyle  
Chief Financial Officer

(Principal financial officer)

Date: August 9, 2016

Exhibit Index

Exhibit

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