

FORRESTER RESEARCH, INC.  
Form 10-Q  
November 08, 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 September 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 incorporation or organization)	04-2797789 (I.R.S. Employer Identification Number)
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60 Acorn Park Drive

CAMBRIDGE, MASSACHUSETTS (Address of principal executive offices)	02140 (Zip Code)
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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 November 3, 2016 18,218,000 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)

	September 30, 2016	December 31, 2015
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 70,136	\$53,331
Marketable investments (Note 3)	63,104	47,775
Accounts receivable, net	36,024	67,355
Deferred commissions	9,639	13,529
Prepaid expenses and other current assets	12,590	15,737
Total current assets	191,493	197,727
Property and equipment, net	24,846	27,569
Goodwill	74,607	74,071
Intangible assets, net	1,705	2,334
Other assets	16,988	17,290
Total assets	\$ 309,639	\$318,991
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 634	\$525
Accrued expenses and other current liabilities	29,654	41,252
Deferred revenue	126,178	140,676
Total current liabilities	156,466	182,453
Non-current liabilities	10,254	9,236
Total liabilities	166,720	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 - 21,517 and 21,063 shares as of September 30, 2016 and December 31, 2015, respectively		
Outstanding - 18,207 and 17,752 shares as of September 30, 2016 and December 31, 2015, respectively	215	211
Additional paid-in capital	148,411	134,967
Retained earnings	119,300	117,135

Treasury stock - 3,311 shares as of September 30, 2016 and December 31, 2015,

at cost	(120,185 )	(120,185)
Accumulated other comprehensive loss	(4,822 )	(4,826 )
Total stockholders' equity	142,919	127,302
Total liabilities and stockholders' equity	\$ 309,639	\$ 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		Nine Months Ended	
	Ended September 30, 2016	2015	September 30, 2016	2015
<b>Revenues:</b>				
Research services	\$52,727	\$52,205	\$160,998	\$156,667
Advisory services and events	24,700	22,548	81,651	76,084
Total revenues	77,427	74,753	242,649	232,751
<b>Operating expenses:</b>				
Cost of services and fulfillment	29,889	29,222	95,429	92,543
Selling and marketing	27,751	27,460	87,490	85,572
General and administrative	10,086	9,530	30,359	28,564
Depreciation	1,941	2,048	5,982	6,251
Amortization of intangible assets	208	224	627	669
Reorganization costs	—	928	1,026	4,433
Total operating expenses	69,875	69,412	220,913	218,032
Income from operations	7,552	5,341	21,736	14,719
Other income, net	229	159	374	342
Gains (losses) on investments, net	(1,085 )	245	(1,139 )	236
Income before income taxes	6,696	5,745	20,971	15,297
Income tax provision	3,584	1,295	9,110	5,321
Net income	\$3,112	\$4,450	\$11,861	\$9,976
<b>Basic income per common share</b>				
	\$0.17	\$0.25	\$0.66	\$0.55
<b>Diluted income per common share</b>				
	\$0.17	\$0.25	\$0.65	\$0.55
<b>Basic weighted average common shares outstanding</b>				
	18,062	17,892	17,896	17,986
<b>Diluted weighted average common shares outstanding</b>				
	18,435	18,065	18,168	18,231
<b>Cash dividends declared per common share</b>				
	\$0.18	\$0.17	\$0.54	\$0.51

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 September 30, 2016		Nine Months Ended September 30, 2015	
Net income	\$3,112	\$4,450	\$11,861	\$9,976
Other comprehensive income (loss), net of taxes:				
Foreign currency translation	(120 )	(129 )	(68 )	(2,062)
Net change in market value of investments	(48 )	—	72	47
Other comprehensive income (loss)	(168 )	(129 )	4	(2,015)
Comprehensive income	\$2,944	\$4,321	\$11,865	\$7,961

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



## FORRESTER RESEARCH, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

	Nine Months Ended September 30, 2016	2015
Cash flows from operating activities:		
Net income	\$ 11,861	\$ 9,976
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and asset write offs	5,982	6,408
Amortization of intangible assets	627	669
Net (gains) losses from investments	1,139	(236 )
Deferred income taxes	(413 )	(2,463 )
Stock-based compensation	5,731	5,885
Amortization of premium on investments	267	556
Foreign currency losses	98	64
Changes in assets and liabilities		
Accounts receivable	31,078	29,511
Deferred commissions	3,890	4,422
Prepaid expenses and other current assets	1,977	(148 )
Accounts payable	133	(284 )
Accrued expenses and other liabilities	(12,170 )	(7,115 )
Deferred revenue	(14,309 )	(19,027 )
Net cash provided by operating activities	35,891	28,218

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Cash flows from investing activities:		
Purchases of property and equipment	(3,334 )	(2,316 )
Purchases of marketable investments	(35,555 )	(20,587 )
Proceeds from sales and maturities of marketable investments	20,086	16,428
Other investing activity	(49 )	275
Net cash used in investing activities	(18,852 )	(6,200 )
Cash flows from financing activities:		
Dividends paid on common stock	(9,696 )	(9,163 )
Repurchases of common stock	—	(18,639 )
Proceeds from issuance of common stock under employee equity incentive plans	9,987	2,899
Excess tax benefits from stock-based compensation	345	32
Net cash provided by (used in) financing activities	636	(24,871 )
Effect of exchange rate changes on cash and cash equivalents	(870 )	(1,211 )
Net increase (decrease) in cash and cash equivalents	16,805	(4,064 )
Cash and cash equivalents, beginning of period	53,331	49,650
Cash and cash equivalents, end of period	\$ 70,136	\$ 45,586

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 nine months ended September 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	—	(68 )	(68 )
Unrealized gain on investments, net of tax of \$46	72	—	72

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Balance at September 30, 2016 \$ (28 ) \$ (4,794 ) \$ (4,822 )

	Net Unrealized Gain (Loss) on Marketable Investments	Cumulative Translation Adjustment	Total Accumulated Other Comprehensive Income (Loss)
Balance at July 1, 2016	\$ 20	\$ (4,674 )	\$ (4,654 )
Foreign currency translation	—	(120 )	(120 )
Unrealized loss on investments, net of tax of (\$33)	(48 )	—	(48 )
Balance at September 30, 2016	\$ (28 )	\$ (4,794 )	\$ (4,822 )

	Net Unrealized Gain (Loss) on Marketable Investments	Cumulative Translation Adjustment	Total Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2015	\$ (74 )	\$ (1,539 )	\$ (1,613 )
Foreign currency translation before reclassification	—	(2,380 )	(2,380 )
Reclassification adjustment for write-off of foreign currency translation loss	—	318	318
Unrealized gain on investments, net of tax of \$29	47	—	47
Balance at September 30, 2015	\$ (27 )	\$ (3,601 )	\$ (3,628 )

	Net Unrealized Gain (Loss) on Marketable Investments	Cumulative Translation Adjustment	Total Accumulated Other Comprehensive Income (Loss)
Balance at July 1, 2015	\$ (27 )	\$ (3,472 )	\$ (3,499 )
Foreign currency translation	—	(129 )	(129 )
Balance at September 30, 2015	\$ (27 )	\$ (3,601 )	\$ (3,628 )

Note 3 — Marketable Investments

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

	As of September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
Federal agency obligations	\$1,801	\$ —	\$ (1 )	\$1,800
Corporate obligations	61,350	20	(66 )	61,304
Total	\$63,151	\$ 20	\$ (67 )	\$63,104

	As of December 31, 2015			
	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 nine months ended September 30, 2016 or 2015.

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

	FY 2016	FY 2017	FY 2018	Total
Federal agency obligations	\$—	\$—	\$1,800	\$1,800

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Corporate obligations	3,000	37,220	21,084	61,304
<b>Total</b>	<b>\$3,000</b>	<b>\$37,220</b>	<b>\$22,884</b>	<b>\$63,104</b>

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 September 30, 2016			
	Less Than 12 Months		12 Months or Greater	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses
Federal agency obligations	\$1,800	\$ 1	\$ —	\$ —
Corporate obligations	45,562	66	—	—
<b>Total</b>	<b>\$47,362</b>	<b>\$ 67</b>	<b>\$ —</b>	<b>\$ —</b>

	As of December 31, 2015			
	Less Than 12 Months		12 Months or Greater	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses
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 September 30, 2016			
	Level	Level	Level	Total
	1	2	3	
Money market funds (1)	\$528	\$—	\$—	\$528
Federal agency obligations	—	1,800	—	1,800
Corporate obligations	—	61,304	—	61,304
Total	\$528	\$63,104	\$—	\$63,632

	As of December 31, 2015			
	Level	Level	Level	Total
	1	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 marketable investments. 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 September 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 \$2.5 million and \$3.6 million, respectively, 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 September 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. Losses from non-marketable investments were \$1.1 million and \$1.2 million during the three and nine months ended September 30, 2016 and gains were insignificant during the three and nine months ended September 30, 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 nine months ended September 30, 2016. During the nine months ended September 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.

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 \$3.2 million of severance and related costs for this action during the nine months ended September 30, 2015. In addition, the Company incurred \$0.3 million during the nine months ended September 30, 2015 primarily for a non-cash charge for the liquidation of a small non-U.S. subsidiary.

In the third quarter of 2015 the Company incurred \$0.7 million of severance and related benefits for the reorganization of its Products Group, consisting of the elimination of the chief product officer position and its administrative staff, and the termination of a senior product leader with the intent to relocate this position to the U.S. In addition, as a result of the change in leadership in the Products Group, the Company incurred \$0.2 million of expense to write off a software development project that was no longer deemed probable to be completed.

The following table rolls forward the activity in the reorganization accrual for the nine months ended September 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	(1,063 )	(7 )	(437 )	(1,507)
Accrual at September 30, 2016	\$ —	\$ —	\$ —	\$—

## 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Basic weighted average common shares outstanding	18,062	17,892	17,896	17,986
Weighted average common equivalent shares	373	173	272	245
Diluted weighted average common shares outstanding	18,435	18,065	18,168	18,231
Options excluded from diluted weighted average share calculation as effect would have been anti-dilutive	82	1,503	910	1,069

## Note 7 — Stockholders' Equity

## Equity Plans

In May 2016, the stockholders of the Company approved an amendment and restatement of the Company's 2006 Equity Incentive Plan. The amendment and restatement resulted in (1) extending the term of the plan for 10 years until May 2026, (2) increasing the number of shares issuable under the plan by 2,000,000 shares, (3) establishing a maximum amount of awards issuable under the plan to the Company's non-employee directors, and (4) changing the name of the plan to the Forrester Research, Inc. Amended and Restated Equity Incentive Plan.

Stock option activity for the nine months ended September 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	83	35.61		
Exercised	(294 )	32.52		
Forfeited	(198 )	35.76		
Outstanding at September 30, 2016	1,762	\$ 33.93	6.30	\$ 8,811
Exercisable at September 30, 2016	1,073	\$ 33.00	5.03	\$ 6,331
Vested and expected to vest at September 30, 2016	1,683	\$ 33.87	6.20	\$ 8,514

Restricted stock unit activity for the nine months ended September 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	256	37.88
Vested	(171 )	34.05
Forfeited	(45 )	34.33
Unvested at September 30, 2016	544	\$ 35.48

## Stock-Based Compensation

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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 September 30, 2016		Nine Months Ended September 30, 2015	
Cost of services and fulfillment	\$1,077	\$1,183	\$3,141	\$3,218
Selling and marketing	272	331	695	754
General and administrative	622	710	1,895	1,913
Total	\$1,971	\$2,224	\$5,731	\$5,885

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 September 30, 2016		Three Months Ended September 30, 2015	
	Equity Incentive Plans	Employee Stock Purchase Plan	Equity Incentive Plans	Employee Stock Purchase Plan
Average risk-free interest rate	1.07 %	0.47 %	1.63 %	0.14 %
Expected dividend yield	1.8 %	2.0 %	2.1 %	2.1 %
Expected life	4.8 Years	0.5 Years	5.0 Years	0.5 Years
Expected volatility	24 %	26 %	24 %	21 %
Weighted average fair value	\$ 7.04	\$ 7.52	\$ 6.00	\$ 6.43

	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	Equity Incentive Plans	Employee Stock Purchase Plan	Equity Incentive Plans	Employee Stock Purchase Plan
Average risk-free interest rate	1.30 %	0.47 %	1.60 %	0.14 %
Expected dividend yield	2.2 %	2.0 %	2.1 %	2.1 %
Expected life	5.0 Years	0.5 Years	5.0 Years	0.5 Years
Expected volatility	24 %	25 %	24 %	21 %
Weighted average fair value	\$ 6.16	\$ 7.75	\$ 6.16	\$ 6.43

#### Dividends

In the nine months ended September 30, 2016, the Company declared and paid dividends of \$9.7 million consisting of a \$0.18 per share dividend in each of the first three quarters of 2016. In the nine months ended September 30, 2015, the Company declared and paid dividends of \$9.2 million consisting of a \$0.17 per share dividend in each of the first three quarters of 2015. In October 2016, the Company declared a dividend of \$0.18 per share payable on December 21, 2016 to shareholders of record as of December 7, 2016.

#### Treasury Stock

As of September 30, 2016, Forrester's Board of Directors had authorized an aggregate \$460.0 million to purchase common stock under its stock repurchase program. In October 2016, the Board of Directors authorized an additional \$25.0 million to be repurchased under the Company's 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 nine months ended September 30, 2016. In the three and nine months ended September 30, 2015, the Company repurchased approximately 0.2 million and 0.5 million shares, respectively, of common stock at an aggregate cost of approximately \$6.9 million and \$18.6 million, respectively. From the inception of the program through September 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 nine months ended September 30, 2016 was \$9.1 million resulting in an effective tax rate of 43.4% for the period. Income tax expense for the nine months ended September 30, 2015 was \$5.3 million resulting in an effective tax rate of 34.8% for the period. The increase in the effective tax rate for the nine months ended September 30, 2016 compared to the prior year period was primarily due to the 2016 period including \$0.6 million of tax expense due to a valuation allowance on a capital loss generated from one of the Company's investments. In addition, in 2015 the Company realized a tax benefit of \$0.7 million related to the 2015 ruling of the United States Tax Court in *Altera Corp. et al. v. Commissioner* which invalidated the 2003 final Treasury rule that had required participants in qualified cost-sharing arrangements to share stock-based compensation costs.

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, 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 September 30, 2016</b>				
Research services revenues	\$52,727	\$—	\$—	\$ 52,727
Advisory services and events revenues	2,333	10,643	11,724	24,700
Total segment revenues	55,060	10,643	11,724	77,427
Segment expenses	8,884	12,548	6,237	27,669
Contribution margin (loss)	46,176	(1,905 )	5,487	49,758
Selling, marketing, administrative and other expenses				(41,998 )
Amortization of intangible assets				(208 )
Reorganization costs				—
Other income (expense) and gains (losses) on investments				(856 )
Income before income taxes				\$ 6,696

	Products	Research	Project Consulting	Consolidated
<b>Three Months Ended September 30, 2015</b>				
Research services revenues	\$52,205	\$—	\$—	\$ 52,205
Advisory services and events revenues	2,041	9,804	10,703	22,548
Total segment revenues	54,246	9,804	10,703	74,753
Segment expenses	7,918	12,711	6,811	27,440
Contribution margin (loss)	46,328	(2,907 )	3,892	47,313
Selling, marketing, administrative and other expenses				(40,820 )
Amortization of intangible assets				(224 )
Reorganization costs				(928 )
Other income (expense) and gains (losses) on investments				404



Income before income taxes	\$ 5,745
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	Products	Research	Project Consulting	Consolidated
Nine Months Ended September 30, 2016				
Research services revenues	\$160,998	\$—	\$—	\$160,998
Advisory services and events revenues	14,191	33,905	33,555	