FORRESTER RESEARCH, INC.
Form 10-K
March 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017

or

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

Commission File Number 000-21433

Forrester Research, Inc.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| Delaware | 04-2797789 |
| (State or other jurisdiction | (I.R.S. Employer |
| of incorporation or organization) | Identification Number) |
| 60 Acorn Park Drive | 02140 |
| Cambridge, Massachusetts | (Zip Code) |
| (Address of principal executive offices) | |

Registrant’s telephone number, including area code:

(617) 613-6000

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

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Common Stock, $.01 Par Value | Nasdaq Global Select Market |

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 requirement for the past 90 days. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

| | | |
|---|---|---|
| Large accelerated filer | | Accelerated filer |
| Non-accelerated filer | (Do not check if a smaller reporting company) | Smaller reporting company |
| Emerging growth company | | |

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

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

The aggregate market value of the registrant's common stock held by non-affiliates of the registrant as of June 30, 2017 (based on the closing price as quoted by the Nasdaq National Market as of such date) was approximately $377,000,000.

As of March 5, 2018, 18,040,000 shares of the registrant's common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement related to its 2018 Annual Stockholders' Meeting to be filed subsequently — Part III of this Form 10-K.

This Annual Report on Form 10-K 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 possible acquisitions, future dividends, future share repurchases, future growth rates and operating income, anticipated increases in, and productivity of, our sales force and headcount, changes to our customer engagement model, 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. Important factors that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements are discussed below under “Risk Factors.” We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

## PART I

### General

Forrester Research, Inc. is a global independent research, data, and advisory services firm. We work with business and technology leaders to help them develop customer-obsessed strategies that drive growth. Forrester’s unique insights are grounded in annual surveys of more than 675,000 consumers and business leaders worldwide, rigorous and objective research methodologies, and the shared wisdom of our clients. Through proprietary research and data, custom consulting, exclusive executive peer groups and events, Forrester challenges the thinking of its clients and positions them to lead change in their organizations in an era of powerful customers.

We were incorporated in Massachusetts on July 7, 1983 and reincorporated in Delaware on February 16, 1996.

Our Internet address is www.forrester.com. We make available free of charge, on or through the investor information section of our website, annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

### Industry Background

Enterprises and their employees struggle to remain both competitive and cost-efficient in an increasingly customer-centric, complex global business environment. Technology changes and innovations occur at an increasingly rapid pace. Developing comprehensive and coordinated business strategies is increasingly difficult as consumers and businesses adopt new methods of buying and selling, and markets grow increasingly dynamic.

Consequently, companies and the professionals in the roles we serve must rely on external sources of independent business advice spanning a variety of areas including but not limited to customer behavior, technology investments, and business strategy. We believe there is a need for objective research, data, advisory and related services that allow our clients to see, interpret, and act to respond to complex market dynamics and the extraordinary pace of technology change.

### Forrester’s® Strategy

Empowered customers are ushering in a new "Age of the Customer" that we believe will reshape the way organizations succeed and grow. Our differentiated strategy, products, and services are designed to help those enterprises satisfy their increasingly dynamic customer bases.

Driven by our strategy, we: 1) help our clients stay current with and understand their dynamic customers, 2) advise marketing and strategy executives such as Chief Marketing Officers as they seek to win those customers, and 3) work with technology management executives such as Chief Information Officers as they build systems to satisfy customers. Technology is moving from being a tool for managing and lowering operating costs to a means of generating market opportunities and revenue. Given this shift, today's technology management professionals have two agendas – a traditional back-office agenda of running internal systems, and a business technology (BT) agenda that provides the technology, systems, and processes to win, serve and retain customers. In today's market, we believe few companies will succeed that are unable to capitalize on the full value of business technologies and harness data to deliver differentiated experiences.

Importantly, the three areas where we work with our clients (understanding their customers, winning their customers, and building technology to serve their customers) are highly interrelated in the large organizations that we serve. This creates opportunities to sell add-on products and services to our existing clients. In addition, we believe our go to market strategy is unique, increasing our competitive differentiation.

Our core capabilities combine to deliver a comprehensive set of products and solutions to help our clients compete and win in the Age of the Customer. Our ability to customize our solutions to specific industries provides a powerful method to drive the success of our clients and creates significant opportunities to consistently enrich our relationships with our clients.

Forrester's Solution

We offer a broad set of products and services designed to help our clients win in the Age of the Customer. Our solutions help our clients to:

- Understand trends in consumer behavior and how to capitalize on those trends.
- Benchmark their customer experience.
- Plan strategies to improve their customer experience.
- Develop customer-obsessed cultures that drive growth.
- Assess potential new markets, competitors, products and services, and go-to-market strategies.
- Anticipate technology-driven business model shifts.
- Educate, inform, and align strategic decision-makers in their organizations.
- Navigate technology purchases and implementation challenges and optimize technology investments, particularly in the BT space.
- Capitalize on emerging technologies, especially in BT.

Our products and services focus on six market imperatives important to our clients and prospects in the Age of the Customer:

- Drive revenue with continuously improving customer experience – so that customer experience becomes a growth engine for our clients.
- Differentiate with digital – taking the critical step to enable our clients to become digital first companies.
- Accelerate growth with marketing innovation – enabling our clients to expand and excel at engaging and retaining customers.
- Use customer insights to gain a competitive advantage – enabling our clients to anticipate changing customer expectations.
- Transform IT to win, serve and retain customers – so that IT becomes a strategic point of differentiation for our clients.
- Secure customers and protect the brand – so that trust becomes an asset of our clients.

Products and Services

We offer our clients a selection of products, services, and engagement opportunities, which we have branded into five categories: Forrester Research (our core research), Forrester Connect (our peer offerings), Forrester Analytics (rebranded from Forrester Data in the first quarter of 2018), Forrester Consulting, and Forrester Events.

Forrester Research

Forrester's published research and decision tools enable clients to better anticipate and capitalize on the disruptive forces affecting their businesses and organizations.  We believe Forrester Research provides insights and frameworks to drive growth in a complex and dynamic market. Our primary syndicated research product, renamed Research in 2017 (formerly known as RoleView), provides clients with access to our core syndicated research designed to inform their strategic decision-making. Research includes our Playbooks, a set of integrated reports, tools, and guidance for critical business initiatives, and our Reports, designed to deepen clients' understanding of market, customer, and technology trends through data-driven reports, case studies, predictions, and strategic road maps.  Our syndicated research also includes The Forrester Wave,™ our primary mechanism for evaluating enterprise technologies.

The Forrester Wave provides a detailed analysis of vendors' technologies and services based on transparent, fully accessible criteria, and measurement of characteristics weighted by us. The Forrester Wave allows clients to compare products and develop a custom shortlist based on the client's unique requirements. In 2017, we also introduced our first Forrester Industry Waves, which evaluate the digital experiences of firms that serve end customers.

Our Age of the Customer Research offering, which combines our Business Technology (BT) and Marketing and Strategy (M&S) Research offerings, is closely aligned with our strategy of addressing our clients' and prospects' opportunities and challenges in the Age of the Customer. In addition to the Age of the Customer Research offering, our various Research offerings include standalone BT Research and M&S Research, as well as our TI (Technology Industry) Research offering designed specifically for technology vendors. Each of our Research offerings consists of a library of cross-linked documents that interconnect our playbooks, reports, data, product rankings, best practices, evaluation tools, and research archives. Research access is provided through role-based websites that facilitate client access to research and tools that are most relevant to their professional roles, including community tools that allow interaction between and among clients and our analysts.

We also offer clients the opportunity to license electronic "reprints" of designated Research for posting to a client's website(s) for a designated period of time to support a client's marketing or business objectives. Electronic reprints are hosted on an on-line platform that enables interactive content and provides us with improved tracking of distribution of our intellectual property.

Research Methodology

We employ a structured methodology in our research that enables us to identify and analyze business technology trends, markets, and audiences and ensures consistent research quality and recommendations across all coverage areas. We ascertain the issues important to our clients and prospects through thousands of interactions and surveys with technology vendors and business, marketing, and technology professionals, and accordingly, the majority of our research is focused on helping our clients increase their customer focus and grow their business. We use the following primary research inputs:

- Our own proprietary data from our CX Index™, Consumer Technographics®, Business Technographics, and ForecastView products.
- Confidential interviews with early adopters and mainstream users of new technologies across technology, marketing, and strategy roles at end-user companies.
- In-depth interviews with business technology vendors and suppliers of related services.
- Ongoing briefings with vendors to review current positions and future directions.
- Continuous dialogue with our clients to identify business and technology opportunities in the marketplace.

Collaboration among research, product, data and consulting professionals is an integral part of our process, leading to higher-quality research and a unified perspective. Our global research and product organization supports our client base by facilitating research and product collaboration and quality, promoting a uniform client experience and improved customer satisfaction, and encouraging innovation.

Clients subscribing to our Research offerings may choose between two membership levels:

- Member Licenses. Member Licenses include access to the written research, as well as Inquiry with analysts, and access to Forrester Webinars. Inquiry enables clients to contact our analysts for quick feedback on projects they may have underway, to discuss ideas and models in the research, or for answers to questions about unfolding industry events. Typically, Inquiry sessions are 30-minute phone calls, scheduled upon client request, or e-mail responses coordinated through our research specialists. Forrester Webinars are Web-based conferences on selected topics of interest to particular professional roles that typically are held several times a week.

- Reader Licenses. Reader Licenses provide access to our written research.

Both Member and Reader clients receive access to our Customer Success Specialists, who provide additional information about our research, methodologies, coverage areas, and sources. The Customer Success Specialists are available to help clients navigate our website, find relevant information, and put clients in contact with the appropriate analyst for inquiries. Clients that subscribe for one or more Member licenses receive one ticket per order to attend a Forrester Event.

We also offer Research Share licenses that allow clients to share a designated number of published pieces of research with a designated number of persons within their organizations.

3

Forrester Connect

The Forrester Connect offerings are designed to help clients connect with peers and Forrester's professionals, optimize use of our products and services, and to coach executives to lead far-reaching change within their organizations.

Leadership Boards

Our Leadership Boards are exclusive peer groups for executives and other senior leaders at large organizations worldwide. Clients may participate in one or more Leadership Boards. Memberships are available to the Chief Information Officer (CIO) Group, the Chief Marketing Officer (CMO) Group and several Councils for the technology and marketing roles we cover. In addition to a Member license to access the appropriate Research offering, members of our Leadership Boards receive access to the following:

- A private forum for members to test their thinking with peers through local and national meetings, one-to-one and group peer exchanges, and virtual community activities.
- Advisors to challenge members' thinking with insights drawn from peers, our Research, and our analyst community, all designed to help members drive business growth and lead change.
- Member-generated content that includes next and best practices as well as role-specific maturity benchmark data.
- An event ticket to attend one Forrester Event.

Executive Programs

Our Executive Programs provide CMOs and CIOs with personal coaches who help the executives and their teams establish and tackle their most important initiatives. In addition to a Member license for our research offering and one ticket to attend a Forrester Event, our Executive Programs provide on-site strategy workshops, personalized research and analysis, access to Forrester experts, and custom data analytics to help executives understand and anticipate customer behavior.

Forrester Analytics

Our Analytics products and services are designed to provide fact-based customer insights to our clients. Clients can leverage our Analytics products and services or choose to have us conduct custom data analysis on their behalf. Our Analytics products and services include:

- Forrester's Customer Experience (CX) Index. The CX Index, which uses Forrester's rigorous customer experience methodology, is a framework for assessing and measuring the quality of customer experience for nearly 700 brands worldwide. This unique framework provides useful and actionable analysis including a customer experience score, quantitative information about the score, and the most important drivers to improve the customer experience, along with a Business Impact Simulator tool that models out potential revenue uplift to help guide clients' investments in customer experience. We offer two Forrester CX Index packages, consisting of an industry package that provides a benchmark of a particular brand's CX Index scores against its competitors and an add-on best-in-class package that offers deep insights on what distinguishes leading brands. For brands not included in our standard offering, we offer a custom survey approach to build out a CX Index score and deliver our insight recommendations. We deliver the CX Index through an easy-to-use interactive platform that allows clients to customize their CX data based on business needs.
- Consumer Technographics. Consumer Technographics is an ongoing quantitative research program, based on surveys of over 400,000 individuals in North America, Europe, Asia Pacific, and Latin America. Marketing and strategy professionals rely on our Consumer Technographics data and analysis for unique insights into how technology impacts their customers' purchase journey, including the way consumers select, purchase, use, and communicate about products and services. We combine respondent data sets from our Consumer Technographics

surveys into multiple regional and industry offerings. In 2017, we began delivering Consumer Technographics through an interactive platform that provides access to the data, insights and analytic tools. Additionally, clients may have access to a Technographics data insights manager to help them use the data effectively to meet their specific business needs.

- Business Technographics. Business Technographics is an ongoing quantitative research program that provides comprehensive, in-depth assessments of what motivates businesses to choose certain technologies and vendors over others. The offering also measures and reports on the current information consumption patterns of key influencers for large technology purchases. We annually survey more than 70,000 business and technology executives as well as information workers at small, medium and large enterprises in North American, European, and other global markets. Our surveys reveal these firms' technology adoption, trends, budgets, business organization, decision processes, purchase plans, brand preferences, and primary influences in the purchasing process. In 2017, we began delivering Business

Technographics through an interactive platform that provides access to the data, insights and analytic tools. Business Technographics' clients may also have access to a dedicated data insights manager to assist in utilizing appropriate data to achieve desired outcomes.

- ForecastView. ForecastView is an ongoing data program that provides a detailed evaluation of market size, based on expert analysis and quantitative insights from our consumer and business surveys. We leverage Technographics demand-side data and supply-side metrics to help clients uncover new business opportunities. Each forecast consists of at least ten years of data: five historic, the current year and four years in the future. We offer global forecasts for e-commerce, digital marketing, mobile applications and platforms markets. ForecastView clients may also have access to ForecastView analysts to assist in utilizing appropriate data to support client business decisions.

Forrester Consulting

Our advisory and project consulting services leverage our Research, Technographics and CX Index data, as well as our proprietary consulting frameworks, to deliver focused insights and recommendations that assist clients with their challenges in developing and executing technology and business strategy, including customer experience and digital strategy, informing critical decisions and reducing business risk. Our consulting services help clients with challenges addressed in our published research, such as leading customer experience transformations, digital business transformation, and business technology transformations and modernization. We help business and technology professionals conduct maturity assessments, prioritize best practices, develop strategies, build business cases, select technology vendors, and structure organizations. We help marketing professionals at technology vendors develop content marketing strategies, create content marketing collateral, and develop sales tools. We have a dedicated consulting organization to provide professional project consulting services to our clients, utilizing our Forrester Solutions framework and best in class consulting techniques and content development tools, allowing our analysts to spend additional time on writing research and providing shorter-term advisory services.

Forrester Events

We host multiple events in various locations in North America, Europe and Asia throughout the year. Events bring together executives and other participants serving or interested in the particular subject matter or professional role(s) on which an event focuses. Event participants come together to network with their peers, meet with Forrester analysts, and hear business leaders discuss business and technology issues of interest or significance to the professionals in attendance. Forrester Events focus on business imperatives of significant interest to our clients, including succeeding in the Age of the Customer, customer experience, digital transformation, privacy and security, new technology and innovation, and marketing leadership, and provide immersive experiences to challenge clients' thinking and help clients to lead change.

Sales and Marketing

We sell our products and services through our direct sales force in various locations in North America, Europe, Asia, and Australia. Our sales organization is organized into five groups based on client size, geography and market potential. Our Premier Group focuses on our largest vendor and end user clients across the globe and our Core Group focuses on small to mid-sized vendor and end user clients. Our European and Asia Pacific Groups focus on both end user and vendor clients in their respective geographies. Our International Business Development Group sells our products and services through independent sales representatives in select international locations.

We intend to continue the work commenced in 2016 to evolve our Customer Engagement Model to better serve and engage our clients and prospects and drive profitable growth. Our sales process is moving towards a model where we provide different sales engagement and support levels for clients and prospects in our Premier and Core groups. In support of this initiative, in the first quarter of 2017, we opened an office in Nashville, Tennessee. We anticipate that Nashville will be a lower-cost location than our other principal U.S. locations and will be a center for our Core sales group. In 2017, we also substantially completed the roll-out of the new model in North America, and we plan to extend it to our European and Asia Pacific Groups in 2018. We believe that when fully implemented, our customer engagement model changes will improve client and dollar retention and enrichment, and accelerate growth.

We employed 539 sales personnel as of December 31, 2017 compared to 523 sales personnel employed as of December 31, 2016. We also sell select Research products directly online through our website.

For information on our operating segments and our international operations, see Note 10 of the Notes to Consolidated Financial Statements included herein.

Our marketing activities are designed to enhance the Forrester brand, differentiate and promote Forrester products and solutions, improve the client experience, and drive growth. We achieve these outcomes by combining the value of analytics, content, social media, public relations, and creative and field marketing, delivering multi-channel campaigns, Forrester Events, and high-quality digital journeys.

As of December 31, 2017, our products and services were delivered to more than 2,400 client companies. No single client company accounted for more than 2% of our 2017 revenues.

Pricing and Contracts

We report our revenue from client contracts in two categories of revenue: (1) research services and (2) advisory services and events. We classify revenue from subscriptions to our Research, Leadership Boards and Executive Programs, and Analytics products and services as research services revenue. We classify revenue from Forrester Consulting, custom Forrester Analytics projects, and Forrester Events as advisory services and events revenue.

Contract pricing for annual memberships for research and/or other subscription-based products is principally a function of the number of licensed users at the client. Pricing of contracts for advisory services generally is a fixed fee for the consulting project or shorter-term advisory service. We periodically review and increase the list prices for our products and services.

We track the agreement value of contracts to purchase research and advisory services as a significant business indicator. We calculate agreement value as the total revenues recognizable from all research and advisory service contracts in force at a given time (but not including advisory-only contracts), without regard to how much revenue has already been recognized. Agreement value increased 2% to $242.9 million at December 31, 2017 from $238.4 million at December 31, 2016.

Competition

We compete principally in the market for research, data, and advisory services, with an emphasis on customer behavior, customer experience, and the deployment of business technology to win, serve and retain customers. We believe that the principal competitive factors in the markets we participate in include:

- the ability to offer products and services that meet the changing needs of organizations and their executives for research, data, and advisory services;
- comprehensive global data and insights on customer behavior;
- independent analysis and opinions;
- the ability to render our services in digital forms;
- the pricing and packaging of our products and services; and
- customer service, including the quality of professional interactions with our clients.

We believe we compete favorably on these factors due to:

- our differentiated Age of the Customer strategy and portfolio of complementary Age of the Customer products and services;
- our research methodology and formats;
- our experience with and focus on emerging technologies;
- our history of providing research and executable advice on the impact of technology on business; and
- our growing ability to deploy digital products.

Our principal direct competitors include other independent providers of research and advisory services, such as Gartner, as well as marketing agencies, general business consulting firms, survey-based general market research firms, providers of peer networking services, and digital media measurement services. In addition, our indirect competitors include the internal planning and marketing staffs of our current and prospective clients, as well as other information providers such as electronic and print publishing companies. We also face competition from free sources of information available on the Internet, such as Google. Our indirect competitors could choose to compete directly against us in the future. In addition, there are relatively few barriers to entry into certain segments of our market, and new competitors could readily seek to compete against us in one or more of these market segments. Increased competition could adversely affect our operating results through pricing pressure and loss of market share. There can be no assurance that we will be able to continue to compete successfully against existing or new competitors.

Employees

As of December 31, 2017, we employed a total of 1,392 persons, including 515 Research, Connect, Analytics, Consulting and Events staff and 539 sales personnel.

Our culture emphasizes certain key values — including client service, courage, collaboration, integrity and quality — that we believe are critical to our future growth. We promote these values through training and frequent recognition for achievement. We encourage teamwork and promote and recognize individuals who foster these values. New employees participate in a three-day training process that focuses on our Age of the Customer strategy, our products and services, corporate culture, values and goals.

Item 1A. Risk Factors

We operate in a rapidly changing and competitive environment that involves risks and uncertainties, certain of which are beyond our control. These risks and uncertainties could have a material adverse effect on our business and our results of operations and financial condition. These risks and uncertainties include, but are not limited to:

A Decline in Renewals or Demand for Our Membership-Based Research, Connect and Analytics Services. Our success depends in large part upon retaining (on both a client company and dollar basis) and enriching existing memberships for our Research, Connect, and Analytics products and services. Future declines in client retention, dollar retention, and enrichment, or failure to generate demand for and new sales of our membership-based products and services due to competition or otherwise, could have an adverse effect on our results of operations and financial condition.

Demand for Our Advisory and Consulting Services. Advisory and consulting services revenues comprised 32% of our total revenues in 2017 and 31% in 2016. Consulting engagements generally are project-based and non-recurring. A decline in our ability to fulfill existing or generate new project consulting engagements could have an adverse effect on our results of operations and financial condition.

We Have Undergone Substantial Internal Reorganization. As part of our "Age of the Customer" strategy, we have implemented significant sales and other organizational change. Our customer engagement model is moving towards a model where we provide different sales engagement and support levels for clients and prospects in our Premier and Core Groups. These changes are designed to improve our retention and enrichment rates and accelerate growth. In 2017, we substantially completed the roll-out of the new model in North America, and we plan to extend it to our European and Asia Pacific Groups in 2018. We have incurred material expenses in connection with these actions. If the changes we are implementing do not have the desired outcomes, this could have an adverse effect on our results of operations and financial condition.

Our Business May be Adversely Affected by the Economic Environment. Our business is in part dependent on technology spending and is impacted by economic conditions. The economic environment may materially and adversely affect demand for our products and services. If conditions in the United States and the global economy were to lead to a decrease in technology spending, or in demand for our products and services, this could have an adverse effect on our results of operations and financial condition.

Our International Operations Expose Us to a Variety of Operational Risks which Could Negatively Impact Our Results of Operations. We have clients in approximately 60 countries and approximately 23% of our revenue comes from international sales. Our operating results are subject to the risks inherent in international business activities, including challenges in staffing and managing foreign operations, changes in regulatory requirements, compliance with numerous foreign laws and regulations, differences between U.S. and foreign tax rates and laws, fluctuations in currency exchange rates, difficulty of enforcing client agreements, collecting accounts receivable, and protecting intellectual property rights in international jurisdictions. Furthermore, we rely on local independent sales representatives in some international locations. If any of these arrangements are terminated by our representatives or us, we may not be able to replace the arrangement on beneficial terms or on a timely basis, or clients sourced by the local sales representative may not want to continue to do business with us or our new representative.

Ability to Develop and Offer New Products and Services. Our future success will depend in part on our ability to offer new products and services. These new products and services must successfully gain market acceptance by anticipating and identifying changes in client requirements and changes in the technology industry and by addressing specific industry and business organization sectors. The process of internally researching, developing, launching and gaining client acceptance of a new product or service, or assimilating and marketing an acquired product or service, is risky and costly. We may not be able to introduce new, or assimilate acquired, products or services successfully. Our failure to do so would adversely affect our ability to maintain a competitive position in our market and continue to grow our business.

Loss of Key Management. Our future success will depend in large part upon the continued services of a number of our key management employees. The loss of any one of them, in particular George F. Colony, our founder, Chairman of the Board and Chief Executive Officer, could adversely affect our business.

The Ability to Attract and Retain Qualified Professional Staff. Our future success will depend in large measure upon the continued contributions of our senior management team, research and data professionals, consultants, and experienced sales and marketing personnel. Thus, our future operating results will be largely dependent upon our ability to retain the services of these individuals and to attract additional professionals from a limited pool of qualified candidates. Our future success will also depend in part upon the effectiveness of our sales leadership in hiring and retaining sales personnel and in improving sales productivity. We experience competition in hiring and retaining professionals from developers of Internet and emerging-technology products, other research firms, management consulting firms, print and electronic publishing companies and financial services companies, many of which have substantially greater ability, either through cash or equity, to attract and compensate professionals. If we lose professionals or are unable to attract new talent, we will not be able to maintain our position in the market or grow our business.

Failure to Anticipate and Respond to Market Trends. Our success depends in part upon our ability to anticipate rapidly changing technologies and market trends and to adapt our research, data, advisory services, and other related products and services to meet the changing needs of our clients. The technology and commerce sectors that we analyze undergo frequent and often dramatic changes. The environment of rapid and continuous change presents significant challenges to our ability to provide our clients with current and timely analysis, strategies and advice on issues of importance to them. Meeting these challenges requires the commitment of substantial resources. Any failure to continue to provide insightful and timely analysis of developments, technologies, and trends in a manner that meets market needs could have an adverse effect on our market position and results of operations.

We May be Subject to Network Disruptions or Security Breaches that Could Damage Our Reputation and Harm Our Business and Operating Results. We may be subject to network disruptions or security breaches caused by computer viruses, illegal break-ins or hacking, sabotage, acts of vandalism by third parties or terrorism. Our security measures or those of our third party service providers may not detect or prevent such security breaches. Any such compromise of our information security could result in the unauthorized publication of our confidential business or proprietary information, cause an interruption in our operations, result in the unauthorized release of customer or employee data, result in a violation of privacy or other laws, expose us to a risk of litigation or damage our reputation, which could harm our business and operating results.

Competition. We compete principally in the market for research, data and advisory services, with an emphasis on customer behavior and customer experience, and the impact of business technology on our clients' business and service models. Our principal direct competitors include other independent providers of research and advisory services, such as Gartner, as well as marketing agencies, general business consulting firms, survey-based general market research firms, providers of peer networking services, and digital media measurement services. Some of our competitors have substantially greater financial and marketing resources than we do. In addition, our indirect competitors include the internal planning and marketing staffs of our current and prospective clients, as well as other information providers such as electronic and print publishing companies. We also face competition from free sources of information available on the Internet, such as Google. Our indirect competitors could choose to compete directly against us in the future. In addition, there are relatively few barriers to entry into certain segments of our market, and new competitors could readily seek to compete against us in one or more of these market segments. Increased competition could adversely affect our operating results through pricing pressure and loss of market share. There can be no assurance that we will be able to continue to compete successfully against existing or new competitors.

Failure to Enforce and Protect our Intellectual Property Rights. We rely on a combination of copyright, trademark, trade secret, confidentiality and other contractual provisions to protect our intellectual property. Unauthorized third parties may obtain or use our proprietary information despite our efforts to protect it. The laws of certain countries do not protect our intellectual property to the same extent as the laws of the United States and accordingly we may not be able to protect our intellectual property against unauthorized use or distribution, which could adversely affect our business.

Privacy Laws. Privacy laws and regulations, and the interpretation and application of these laws and regulations, in the U.S, Europe and other countries around the world where we conduct business are sometimes inconsistent and frequently changing. For example, the European Union General Data Protection Regulation (GDPR) has an enforcement commencement date of May 25, 2018. Compliance with these laws, or changing interpretations and application of these laws, could cause us to incur substantial costs or require us to take action in a manner that would be adverse to our business.

Fluctuations in Our Operating Results. Our revenues and earnings may fluctuate from quarter to quarter based on a variety of factors, many of which are beyond our control, and which may affect our stock price. These factors include, but are not limited to:

- Trends in technology and research, data and advisory services spending in the marketplace and general economic conditions.
- The timing and size of new and renewal memberships for our products and services from clients.
- The utilization of our advisory services by our clients.
- The timing of revenue-generating events sponsored by us.
- The introduction and marketing of new products and services by us and our competitors.
- The hiring and training of new research and data professionals, consultants, and sales personnel.
- Changes in demand for our research, data and advisory services.
- Fluctuations in currency exchange rates.

As a result, our operating results in future quarters may be below the expectations of securities analysts and investors, which could have an adverse effect on the market price for our common stock. Factors such as announcements of new products, services, offices, acquisitions or strategic alliances by us, our competitors, or in the research, data and professional services industries generally, may have a significant impact on the market price of our common stock. The market price for our common stock may also be affected by movements in prices of stocks in general.

Taxation Risks. We operate in numerous jurisdictions around the world. A portion of our income is generated outside of the United States and is taxed at lower rates than rates applicable to income generated in the U.S. or in other jurisdictions in which we do business. Our effective tax rate in the future, and accordingly our results of operations and financial position, could be adversely affected by changes in applicable tax law or if more of our income becomes taxable in jurisdictions with higher tax rates.

On December 22, 2017, the Tax Cuts and Jobs Act (the “Act”) was enacted in the United States. The changes included in the Act are broad and complex. The final transition impacts of the Act may differ from the estimates provided elsewhere in this report, possibly materially, due to, among other things, changes in interpretations of the Act, any legislative action to address questions that arise because of the Act, any changes in accounting standards for income taxes or related interpretations in response to the Act, or any updates or changes to estimates we have utilized to calculate the transition impacts, including impacts from changes to current year earnings estimates and foreign exchange rates of foreign subsidiaries. Our estimated impacts of the new law are based on our current knowledge and assumptions, and recognized impacts could be materially different from current estimates based on our actual results in future periods and our further analysis of the Act.

Concentration of Ownership. Our largest stockholder is our Chairman and CEO, George F. Colony, who owns approximately 43% of our outstanding stock. This concentration of ownership enables Mr. Colony to strongly influence or effectively control matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation, adoption or amendment of equity plans and approval of significant transactions such as mergers, acquisitions, consolidations and sales or purchases of assets. This concentration of ownership may also limit the liquidity of our stock. As a result, efforts by stockholders to change the direction, management or ownership of Forrester may be unsuccessful, and stockholders may not be able to freely purchase and sell shares of our stock.

Any Weakness Identified in Our System of Internal Controls by Us and Our Independent Registered Public Accounting Firm Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 Could Have an Adverse Effect on Our Business. Section 404 of the Sarbanes-Oxley Act of 2002 requires that companies evaluate and report on their systems of internal control over financial reporting. In addition, our independent registered public accounting firm must report on its evaluation of those controls. There can be no assurance that no weakness in our internal control over financial reporting will occur in future periods, or that any such weakness will not have a material adverse effect on our business or financial results, including our ability to report our financial results in a timely manner.

## Item 1B. Unresolved Staff Comments

We have not received written comments from the Securities and Exchange Commission that remain unresolved.

## Item 2. Properties

Our corporate headquarters building is comprised of approximately 190,000 square feet of office space in Cambridge, Massachusetts, substantially all of which is currently occupied by the Company. This facility accommodates research, data, marketing, sales, consulting, technology, and operations personnel. The lease term of this facility expires February 28, 2027.

We also rent office space in San Francisco, New York City, Dallas, McLean, Virginia, Nashville, Amsterdam, Frankfurt, London, Paris, New Delhi, and Singapore. Our San Francisco lease is for approximately 19,000 square feet, with a term that expires June 30, 2022. Our New York lease is for approximately 15,200 square feet, with an initial term until January 31, 2021. The London lease is for approximately 17,800 square feet, with a term that expires September 24, 2021. We also lease office space on a relatively short-term basis in various other locations in North America, Europe, Asia, and Australia.

We believe that our existing facilities are adequate for our current needs and that additional facilities are available for lease to meet future needs.

## Item 3. Legal Proceedings

We are not currently a party to any material legal proceedings.

## Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market For Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Our common stock is listed on the Nasdaq Global Select Market under the symbol “FORR”. During 2016, quarterly dividends of $0.18 per common share were declared and paid in each of the four quarters during the year. During 2017, quarterly dividends of $0.19 per common share were declared and paid in each of the four quarters during the year. In February 2018, our Board of Directors declared an increase in our regular quarterly dividend to $0.20 per share that is payable on March 21, 2018. We intend to continue paying regular quarterly cash dividends; however, the actual declaration of any such future dividends, and the establishment of the per share amount and payment dates for any such future dividends are subject to the discretion of the Board of Directors.

As of March 5, 2018 there were approximately 31 stockholders of record of our common stock. On March 5, 2018 the closing price of our common stock was $41.25 per share.

The following table represents the ranges of high and low sale prices of our common stock for the years ended December 31, 2017 and 2016:

| | 2017 | | 2016 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First Quarter | $44.35 | $34.95 | $34.00 | $27.05 |
| Second Quarter | $41.55 | $36.95 | $38.36 | $31.92 |
| Third Quarter | $43.18 | $38.00 | $42.01 | $36.02 |
| Fourth Quarter | $47.75 | $41.80 | $44.40 | $35.25 |

Through 2017, our Board of Directors authorized an aggregate $485.0 million to purchase common stock under our stock repurchase program including $25.0 million authorized in October 2016. As of December 31, 2017, we had repurchased approximately 16.1 million shares of common stock at an aggregate cost of $464.9 million. In February 2018, our Board of Directors authorized an additional $50.0 million to our stock repurchase program.

The following graph contains the cumulative stockholder return on our common stock during the period from December 31, 2012 through December 31, 2017 with the cumulative return during the same period for the Russell 2000 and the S&P 600 Small Cap Information Technology Index, and assumes that the dividends, if any, were reinvested.

Item 6. Selected Consolidated Financial Data

The selected financial data presented below is derived from our consolidated financial statements and should be read in connection with those statements.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| | (In thousands, except per share amounts) | | | | |
| Consolidated Statement of Income Data | | | | | |
| Research services | $216,471 | $215,216 | $210,268 | $207,517 | $202,843 |
| Advisory services and events | 121,202 | 110,879 | 103,458 | 104,545 | 94,807 |
| Total revenues | 337,673 | 326,095 | 313,726 | 312,062 | 297,650 |
| Income from operations | 27,549 | 30,774 | 18,827 | 18,213 | 21,833 |
| Other income and gains (losses) on investments, net | (178) | (65) | 493 | 176 | (1,841) |
| Net income | $15,140 | $17,651 | $11,996 | $10,865 | $13,024 |
| Basic income per common share | $0.84 | $0.98 | $0.67 | $0.58 | $0.62 |
| Diluted income per common share | $0.83 | $0.97 | $0.66 | $0.57 | $0.61 |
| Basic weighted average shares outstanding | 17,919 | 17,984 | 17,927 | 18,713 | 20,861 |
| Diluted weighted average shares outstanding | 18,240 | 18,269 | 18,143 | 19,007 | 21,353 |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| | (In thousands) | | | | |
| Consolidated Balance Sheet Data | | | | | |
| Cash, cash equivalents and marketable investments | $134,123 | $138,105 | $101,106 | $104,535 | $155,145 |
| Working capital | 41,766 | 45,962 | 15,274 | 26,298 | 78,991 |
| Total assets | 345,200 | 335,785 | 318,991 | 332,707 | 402,202 |
| Deferred revenue | 145,207 | 134,265 | 140,676 | 144,568 | 152,903 |
| Total liabilities | 204,011 | 185,749 | 191,689 | 191,105 | 197,540 |
| Cash dividends declared | 13,631 | 12,987 | 12,179 | 11,962 | 12,394 |

Cash dividends in 2017, 2016, 2015, 2014 and 2013 represent quarterly dividends of $0.19, $0.18, $0.17, $0.16 and $0.15 per common share declared and paid during 2017, 2016, 2015, 2014 and 2013, respectively.

The following items impact the comparability of our consolidated data:

- The 2013 other income and gains (losses) on investments, net amount includes a $1.9 million loss for the sale of the Company’s entire portfolio of auction rate securities.

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

### Overview

We derive revenues from memberships to, and sales of, our Research, Connect and Analytics (rebranded from Data) products and services, performing advisory services and consulting projects, and hosting Events. We offer contracts for our Research, Connect and Analytics 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 that 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 and Events contracts), without regard to how much revenue has already been recognized. No single client accounted for more than 3% of agreement value at December 31, 2017.
- 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 total dollar value of client membership contracts expiring during the most recent twelve-month period, which are renewed in whole or in part, as a percentage of the dollar value of all expiring client membership contracts during the same 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 aggregate the various divisions and subsidiaries of a corporate parent as a single client and we also aggregate separate instrumentalities of the federal, state, and provincial governments as single clients.

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 December 31, 2017 | 2016 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Deferred revenue | $145.2 | $134.3 | $ 10.9 | 8 % |
| Agreement value | $242.9 | $238.4 | $ 4.5 | 2 % |
| Client retention | 76 % | 75 % | 1 | 1 % |
| Dollar retention | 88 % | 87 % | 1 | 1 % |
| Enrichment | 96 % | 93 % | 3 | 3 % |
| Number of clients | 2,409 | 2,432 | (23 ) | (1 %) |

| | As of December 31, 2016 | 2015 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Deferred revenue | $134.3 | $140.7 | $ (6.4) | (5%) |
| Agreement value | $238.4 | $237.0 | $ 1.4 | 1% |
| Client retention | 75% | 77% | (2) | (3%) |
| Dollar retention | 87% | 89% | (2) | (2%) |
| Enrichment | 93% | 98% | (5) | (5%) |
| Number of clients | 2,432 | 2,471 | (39) | (2%) |

Deferred revenue at December 31, 2017 increased 8% compared to the prior year and increased 6% after adjusting for the effect of foreign currency fluctuations, due to growth in contract bookings exceeding revenue recognized for the year. Agreement value at December 31, 2017 increased 2% compared to the prior year and increased 3% after adjusting for the effect of foreign currency fluctuations, representing an increase in the related contract bookings for the year. Deferred revenue at December 31, 2016 decreased 5% compared to the prior year and decreased 4% after adjusting for the effect of foreign currency fluctuations, due to our revenue growth for the year exceeding contract bookings. Agreement value at December 31, 2016 increased 1% compared to the prior year and increased 3% after adjusting for the effect of foreign currency fluctuations, representing an increase in the related contract bookings for the year. Client retention and dollar retention rates declined from the fourth quarter of 2015 to lows in the first quarter of 2017 for client retention and the fourth quarter of 2016 for dollar retention. These retention rates have since improved or remained flat each sequential quarter since their lows, with client retention up 2 percentage points, and dollar retention up 1 percentage point, at December 31, 2017 from their respective low points. Our enrichment metric was at a low of 93% in the fourth quarter of 2016 and has since improved or remained flat in each sequential quarter since its low, and has increased 3 percentage points from its low point.

Critical Accounting Policies and Estimates

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, non-marketable investments, goodwill and intangible assets, and income taxes. Management bases its estimates on historical experience, data available at the time the estimates are made and various 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.

We consider the following accounting policies to be those that require the most subjective judgment or that involve uncertainty that could have a material impact on our financial statements. If actual results differ significantly from management's estimates and projections, there could be a material effect on our financial statements. This is not a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP, with no need for management's judgment in its application. For a discussion of our other accounting policies, see Note 1 of the Notes to Consolidated Financial Statements beginning on page F-8.

- Revenue Recognition. We generate revenues from licensing memberships to, and sales of, our Research, Connect and Analytics products and services, performing advisory services and consulting projects and hosting Events. We execute contracts that govern the terms and conditions of each arrangement. Revenues are recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, services have been provided to the customer, and collectability is reasonably assured. Our contracts may include either a single product or service or a combination of multiple products and services. Revenues from contracts that contain multiple products or services are allocated among the separate units of accounting based on their relative selling prices; however, the amount recognized is limited to the amount that is not contingent on future performance conditions. For example, when a discount off of list price is provided in a multiple element contract, the amount of revenue that is allocated to our Research, Connect and Analytics products that commence delivery on the first day of the contract is limited based on the contract price that would be refundable to the customer if the yet undelivered products were never delivered. We obtain the relative selling prices of our products and services based upon an analysis of standalone sales of these products and services during the year or upon an analysis of the estimated selling price of products for which there are insufficient standalone sales. The majority of our research services revenues, including our Research, Leadership Boards and Analytics subscription products, are recognized ratably over the term of the contract. Certain research services revenues, including revenues from sales of reprints, are recognized as revenue when delivered. Advisory services revenues, such as workshops, speeches and advisory days, are recognized when the customer receives the agreed upon deliverable and consulting project revenues are recognized as the services are provided. Event revenues are recognized upon completion of the Event. Reimbursed out-of-pocket expenses are recorded as advisory services and events revenues.

Annual subscriptions to Research include access to all or a designated portion of our research, and depending on the type of license, unlimited phone or email analyst inquiry, and unlimited participation in Forrester Webinars, all of which are delivered throughout the contract period and are accounted for as one unit of accounting. Annual subscriptions for Leadership Boards include access to the Research offering, access to a private forum with other Leadership Board member peers, access to a Forrester advisor, member-generated content, and one Event ticket. Leadership Boards are accounted for as two units of accounting: (1) the Event ticket and (2) the remaining services that are delivered throughout the contract period. Arrangement consideration is allocated to each element based upon their relative selling prices, which are determined based on standalone sales of Event tickets and the estimated selling price of the remaining services. Annual subscriptions to our Analytics subscription products include access to designated survey data products and access to a data advisor, which are delivered throughout the contract period, and are accounted for as one unit of accounting and recognized ratably as research services revenue over the contract period. Certain of our Analytics subscription products also include advisory services and these contracts are accounted for as two units of accounting: (1) the subscription and data advisor and (2) the advisory services. Arrangement consideration is allocated to each element based upon its relative selling price, which is determined based on standalone sales of the advisory services and the estimated selling price of the remaining Analytics services.

Our revenue recognition also determines the timing of commission expenses, as commissions are earned during the month a contract is booked and are deferred and recognized as expense as the related revenue is recognized. We evaluate the recoverability of deferred commissions at each balance sheet date.

- Non-Marketable Investments. We hold minority interests in technology-related investment funds with a book value of $1.9 million at December 31, 2017. These investment funds are not publicly traded, and, therefore, because no established market for these securities exists, the estimate of the fair value of our investments requires significant judgment. These investments are accounted for using the equity method, and as such we record our share of the investee's operating results each period. We review the fair value of our investments on a regular basis to evaluate whether an other-than-temporary impairment in the investment has occurred. We record impairment charges when we believe that an investment has experienced a decline in value that is other-than-temporary. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.
- Goodwill, Intangible Assets and Other Long-Lived Assets. As of December 31, 2017, we had $76.9 million of goodwill and intangible assets with finite lives recorded on our Consolidated Balance Sheet. Goodwill is required to be measured for impairment at least annually or whenever events indicate that there may be an impairment. In order to determine if an impairment exists, we compare each of our reporting unit's carrying value to the reporting unit's fair value. Determining the reporting unit's fair value requires us to make estimates of market conditions and operational performance. Absent an event that indicates a specific impairment may exist, we have selected November 30th as the date to perform the annual goodwill impairment test. The annual assessment of goodwill can be based on either a quantitative or qualitative assessment, or a combination of both. We completed the annual goodwill impairment testing as of November 30, 2017 based on a qualitative assessment. Our qualitative assessment included Company specific (financial performance and long-range plans), industry, and macroeconomic factors, and the consideration of the fair value of each reporting unit, which significantly exceeded their respective carrying values, at the last valuation date of November 30, 2016. Based on our qualitative assessment, we believe it is more likely than not that the fair values of our reporting units exceed their carrying values and no further impairment testing is required. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with our acquired businesses is impaired. Any resulting impairment loss could have a material adverse impact on our results of operations.

Intangible assets with finite lives as of December 31, 2017 consist of acquired customer relationships and were valued according to the future cash flows they are estimated to produce. These assigned values are amortized on a basis which best matches the periods in which the economic benefits are expected to be realized. Tangible assets with finite lives consist of property and equipment, which are depreciated over their estimated useful lives. We continually evaluate whether events or circumstances have occurred that indicate that the estimated remaining useful life of our intangible and long-lived tangible assets may warrant revision or that the carrying value of these assets may be impaired. No such events or circumstances occurred during 2017. To compute whether intangible assets have been impaired, the estimated undiscounted future cash flows for the estimated remaining useful life of the assets are compared to the carrying value. To the extent that the future cash flows are less than the carrying value, the assets are written down to their estimated fair value.

- Income Taxes. We recognize deferred tax assets and liabilities using enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities as well as operating loss carryforwards (from acquisitions). Such amounts are adjusted as appropriate to reflect changes in the tax rates expected to be in effect when the temporary differences reverse. We record a valuation allowance to reduce our deferred taxes to an amount we believe is more likely than not to be realized. We consider future taxable income and prudent and feasible tax planning strategies in assessing the need for a valuation allowance.

As a global company, we use significant judgment to calculate and provide for income taxes in each of the tax jurisdictions in which we operate. In the ordinary course of our business, there are transactions and calculations undertaken whose ultimate tax outcome cannot be certain. Some of these uncertainties arise as a consequence of transfer pricing for transactions with our subsidiaries and potential challenges to nexus and credit estimates. We estimate our exposure to unfavorable outcomes related to these uncertainties and record a liability based on the probability for such outcomes in accordance with current accounting guidelines.

Although we believe our estimates are reasonable, no assurance can be given that the final tax outcome will not be different from what is reflected in our historical income tax provisions, returns, and accruals. Such differences, or changes in estimates relating to potential differences, could have a material impact on our income tax provision and operating results in the period in which such a determination is made.

Results of Operations for the years ended December 31, 2017, 2016 and 2015

The following table sets forth our Consolidated Statements of Income as a percentage of total revenues for the years noted.

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2017 | 2016 | 2015 |
| Revenues: | | | |
| Research services | 64.1 % | 66.0 % | 67.0 % |
| Advisory services and events | 35.9 | 34.0 | 33.0 |
| Total revenues | 100.0 | 100.0 | 100.0 |
| Operating expenses: | | | |
| Cost of services and fulfillment | 40.5 | 39.3 | 40.2 |
| Selling and marketing | 36.7 | 35.9 | 37.0 |
| General and administrative | 12.4 | 12.4 | 12.5 |
| Depreciation | 2.0 | 2.4 | 2.6 |
| Amortization of intangible assets | 0.2 | 0.3 | 0.3 |
| Reorganization costs | — | 0.3 | 1.4 |
| Income from operations | 8.2 | 9.4 | 6.0 |
| Other income, net | — | 0.2 | 0.2 |
| Losses on investments, net | (0.1 ) | (0.2 ) | — |
| Income before income taxes | 8.1 | 9.4 | 6.2 |
| Income tax provision | 3.6 | 4.0 | 2.4 |
| Net income | 4.5 % | 5.4 % | 3.8 % |

2017 compared to 2016

Revenues

| | 2017 | 2016 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| | (dollars in millions) | | | |
| Revenues | $337.7 | $326.1 | $ 11.6 | 4 % |
| Revenues from research services | $216.5 | $215.2 | $ 1.3 | 1 % |
| Revenues from advisory services and events | $121.2 | $110.9 | $ 10.3 | 9 % |
| Revenues attributable to customers outside of the U.S. | $77.6 | $73.9 | $ 3.7 | 5 % |
| Percentage of revenue attributable to customers outside of the U.S. | 23 % | 23 % | — | — |
| Number of clients (at end of period) | 2,409 | 2,432 | (23 ) | (1 %) |
| Number of events | 14 | 14 | — | — |

17

Total revenues increased 4% during 2017 compared to 2016 and 3% after adjusting for the effect of foreign currency fluctuations. Revenues from customers outside of the U.S. increased 5% during 2017 compared to the prior year and remained at 5% after adjusting for the effect of foreign currency fluctuations, representing 23% of total revenues in 2017 and reflecting strong growth in the Asia Pacific region and low growth rates in Canada and Europe. We expect consolidated revenue growth to be in a range of growth at 4% to 7% in 2018, or growth of 3% to 6% after adjusting for the effect of estimated currency fluctuations. We expect the revenue growth rate for research services to accelerate slightly in 2018 compared to 2017 due to higher contract bookings in 2017 compared to the prior year, and we expect the revenue growth rate for advisory services and events to decrease slightly in 2018 compared to 2017 due in part to our delivery of an above-normal amount of advisory and consulting services in the fourth quarter of 2017.

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 1% during 2017 compared to the prior year and foreign currency fluctuations had an insignificant effect on revenue growth. The increase reflects growth in our Connect and Research products partially offset by a decline in revenue in our Analytics products.

Revenues from advisory services and events increased 9% during 2017 compared to the prior year and foreign currency fluctuations had an insignificant effect on revenue growth. The increase was due to 9% growth in our consulting and advisory products and our Events business.

Please refer to the “Segment Results” section below for a discussion of revenue and contribution margin results by segment.

Cost of Services and Fulfillment

| | 2017 | 2016 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Cost of services and fulfillment (dollars in millions) | $136.9 | $128.2 | $ 8.7 | 7 % |
| Cost of services and fulfillment as a percentage of total revenues | 40.5 % | 39.3 % | 1.2 | 3 % |
| Service and fulfillment employees (at end of period) | 602 | 602 | — | — |

Cost of services and fulfillment expenses increased 7% in 2017 compared to 2016 and foreign currency fluctuations had an insignificant effect on the growth rate. The increase in dollars was primarily due to (1) a $5.4 million increase in compensation and benefit costs, resulting from a 3% increase in the average number of employees, an increase in incentive bonus expense and annual merit increases compared to the prior year, (2) a $1.5 million increase in professional services costs due to an increase in outsourced fees related to consulting projects delivered, an increase in fees related to the delivery of reprints on our digital reprint platform, and an increase in costs for the digitization of our Analytics products, and (3) a $0.8 million increase in Event expenses.

Selling and Marketing

| | Absolute | Percentage |
|---|---|---|

| | 2017 | 2016 | Increase (Decrease) | Increase (Decrease) |
|---|---|---|---|---|
| Selling and marketing expenses (dollars in millions) | $123.9 | $116.9 | $ 7.0 | 6 % |
| Selling and marketing expenses as a percentage of total revenues | 36.7 % | 35.9 % | 0.8 | 2 % |
| Selling and marketing employees (at end of period) | 597 | 584 | 13 | 2 % |

Selling and marketing expenses increased 6% in 2017 compared to 2016 and foreign currency fluctuations had an insignificant effect on the growth rate. The increase in dollars was primarily due to a $6.7 million increase in compensation and benefit costs resulting from a 3% increase in the average number of employees, annual merit increases, an increase in incentive bonuses and an increase in severance costs compared to the prior year. We intend to increase our sales employees by approximately 1% to 3% during 2018 as compared to 2017.

General and Administrative

| | 2017 | 2016 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| General and administrative expenses (dollars in millions) | $41.9 | $40.6 | $ 1.3 | 3 % |
| General and administrative expenses as a percentage of total revenues | 12.4% | 12.4% | — | — |
| General and administrative employees (at end of period) | 193 | 192 | 1 | 1 % |

General and administrative expenses increased 3% in 2017 compared to 2016 and foreign currency fluctuations had an insignificant effect on the growth rate. The increase in dollars was primarily due to (1) a $1.1 million increase in salaries and benefits resulting from a 4% increase in the average number of employees, annual merit increases, and an increase in incentive bonuses and (2) a $0.7 million increase in stock compensation expense primarily due to the expansion of our Board of Directors in 2017. These increases were partially offset by a decrease in professional services primarily due to a decrease in legal and accounting expenses.

Depreciation

Depreciation expense decreased by $1.2 million to $6.6 million in 2017 as compared to $7.8 million in 2016 due to certain equipment and software assets becoming fully depreciated. We expect depreciation expense to increase to a range of $8.7 million to $9.2 million in 2018 due to capital expenditures in 2017 having a full year of depreciation expense in 2018.

Amortization of Intangible Assets

Amortization expense remained essentially consistent in 2017 as compared to 2016.

Reorganization Costs

During 2016, we incurred $1.0 million of severance and related benefits costs for a reduction in our workforce implemented and completed in the first quarter of 2016, of approximately 2% of employees across various geographies and functions. All costs under this plan were paid during 2016.

Income from Operations

Income from operations decreased $3.2 million or 10% during 2017 as compared to the prior year and decreased to 8.2% of total revenues in 2017 from 9.4% in the prior year. The contraction in income from operations as a percentage of total revenues in 2017 was due operating expenses increasing by 5% compared to revenue growth of only 4%. The primary cause of the operating expense increase was a 6% increase in compensation and benefits during 2017 as compared to 2016. Although our year-end headcount increased by only 1% compared to 2016, our average headcount for the year increased by 3%. In addition to the headcount increase, we incurred an increase in incentive compensation during 2017. We expect income from operations as a percentage of total revenues to remain essentially flat in a range of 7.5% to 8.5% for the year ended December 31, 2018.

### Other Income, Net

Other income, net primarily consists of interest income on our marketable investments as well as gains and losses on foreign currency. The decrease in other income, net during 2017 was due to foreign currency losses of approximately $0.6 million during the current year compared to foreign currency gains of approximately $0.1 million during the prior year. This decrease was slightly offset by an increase in interest income of $0.3 million as compared to 2016.

### Losses on Investments, Net

Losses on investments, net include our share of equity method investment gains or losses from our technology-related investment funds and gains or losses from the sale of marketable securities. The decrease in investment losses during 2017 was due to a decrease in investment losses incurred by the underlying funds as compared to the prior year.

Provision for Income Taxes

| | 2017 | 2016 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Provision for income taxes (dollars in millions) | $12.2 | $13.1 | $ (0.9 ) | (7 %) |
| Effective tax rate | 44.7% | 42.5% | 2.2 | 5 % |

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the “Act”) was signed into law making significant changes to the Internal Revenue Code. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S international taxation from a worldwide tax system to a modified territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017. We have calculated our best estimate of the impact of the Act in our year end income tax provision in accordance with our understanding of the Act and guidance available as of the date of this filing and as a result have recorded $1.6 million as additional income tax expense in the fourth quarter of 2017, the period in which the legislation was enacted. The provisional amount related to the remeasurement of federal deferred tax assets and liabilities was $1.2 million. The provisional amount related to the one-time transition tax on the mandatory deemed repatriation of foreign earnings was $0.4 million based on cumulative foreign earnings of $22.6 million. As we complete our analysis of the Act, collect and prepare necessary data, and interpret any additional guidance issued by the U.S. Treasury Department, the IRS, and other standard-setting bodies, we may make adjustments to the provisional amounts.

The increase in the effective tax rate during 2017 as compared to the prior year was primarily due to $1.6 million of tax expense in 2017 due to the Act (as described above) which was partially offset by a $1.3 million tax benefit in 2017 from the settlement of a tax audit. We expect our effective tax rate for the full year of 2018 to be approximately 31%, which includes legislative changes from the Act. Our future effective tax rate may fluctuate based upon numerous factors including the impact of excess tax benefits and tax deficiencies from stock option exercises and the vesting of restricted stock units, which are affected by the value of our common stock at the time of exercise or vesting.

2016 compared to 2015

Revenues

| | 2016 (dollars in millions) | 2015 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Revenues | $326.1 | $313.7 | $ 12.4 | 4 % |

| | | | | |
|---|---|---|---|---|
| Revenues from research services | $215.2 | $210.3 | $ 4.9 | 2 % |
| Revenues from advisory services and events | $110.9 | $103.5 | $ 7.4 | 7 % |
| Revenues attributable to customers outside of the U.S. | $73.9 | $72.7 | $ 1.2 | 2 % |
| Percentage of revenue attributable to customers outside of the U.S. | 23 % | 23 % | — | — |
| Number of clients (at end of period) | 2,432 | 2,471 | (39 ) | (2 %) |
| Number of events | 14 | 15 | (1 ) | (7 %) |

Total revenues increased 4% during 2016 compared to 2015 and 5% after adjusting for the effect of foreign currency fluctuations. Revenues from customers outside of the U.S. increased 2% during 2016 compared to the prior year and 6% after adjusting for the effect of foreign currency fluctuations, representing 23% of total revenues in 2016 and reflecting growth in the Asia Pacific region and in Europe while revenues in Canada declined slightly.

Research services revenues increased 2% during 2016 compared to the prior year and 3% after adjusting for the effect of foreign currency fluctuations, reflecting growth in our Research products partially offset by a decline in revenue in our Connect and Analytics products.

Revenues from advisory services and events increased 7% during 2016 compared to the prior year and 8% after adjusting for the effect of foreign currency fluctuations. The increase was led by growth in our consulting and advisory products of 7% while our Events business achieved growth of 4%.

Please refer to the “Segment Results” section below for a discussion of revenue and contribution margin results by segment.

Cost of Services and Fulfillment

| | 2016 | 2015 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Cost of services and fulfillment (dollars in millions) | $128.2 | $126.3 | $ 1.9 | 2 % |
| Cost of services and fulfillment as a percentage of total revenues | 39.3 % | 40.2 % | (0.9 ) | (2 %) |
| Service and fulfillment employees (at end of period) | 602 | 584 | 18 | 3 % |

Cost of services and fulfillment expenses increased 2% in 2016 compared to 2015 and 3% after adjusting for the effect of foreign currency fluctuations. The increase in dollars was primarily due to (1) a $1.2 million increase in compensation and benefit costs, resulting from an increase in the average number of employees and annual merit increases compared to the prior year and (2) a $2.3 million increase in professional services costs due to an increase in outsourced fees related to consulting projects delivered and an increase in fees related to the new digital reprint platform, which were partially offset by a decrease in survey costs. These increases were partially offset by a reduction in Event expenses of $0.9 million and a reduction in travel expenses of $0.7 million.

Selling and Marketing

| | 2016 | 2015 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Selling and marketing expenses (dollars in millions) | $116.9 | $116.1 | $ 0.8 | 1 % |
| Selling and marketing expenses as a percentage of total revenues | 35.9 % | 37.0 % | (1.1 ) | (3 %) |
| Selling and marketing employees (at end of period) | 584 | 576 | 8 | 1 % |

Selling and marketing expenses increased 1% in 2016 compared to 2015 and 2% after adjusting for the effect of foreign currency fluctuations. The increase in dollars was primarily due to a $1.5 million increase in compensation and benefit costs resulting from an increase in sales employees and annual merit increases compared to the prior year, which were partially offset by a $0.7 million decrease in professional services costs.

General and Administrative

| | 2016 | 2015 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| General and administrative expenses (dollars in millions) | $40.6 | $39.0 | $ 1.6 | 4 % |

| | | | | |
|---|---|---|---|---|
| General and administrative expenses as a percentage of total revenues | 12.4% | 12.5% | (0.1) | (1%) |
| General and administrative employees (at end of period) | 192 | 185 | 7 | 4% |

General and administrative expenses increased 4% in 2016 compared to 2015 and 5% after adjusting for the effect of foreign currency fluctuations. The increase in dollars was primarily due to a $1.6 million increase in professional services expense resulting primarily from an increase in consulting fees for technology projects and legal and accounting expenses.

Depreciation

Depreciation expense remained essentially consistent in 2016 as compared to 2015.

Amortization of Intangible Assets

Amortization expense remained essentially consistent in 2016 as compared to 2015

Reorganization Costs

During 2016, we incurred $1.0 million of severance and related benefits costs for a reduction in our workforce implemented and completed in the first quarter of 2016, of approximately 2% of employees across various geographies and functions. All costs under this plan were paid during 2016.

During 2015, we incurred $3.2 million 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. We incurred an additional $0.3 million charge in the second quarter of 2015 related to this action primarily for a non-cash charge for the liquidation of a small non-U.S. subsidiary.

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

Income from Operations

Income from operations increased $11.9 million or 63% during 2016 as compared to the prior year and increased to 9.4% of total revenues in 2016 from 6.0% in the prior year. The expansion in income from operations as a percentage of total revenues in 2016 was due to a small increase in headcount during the year, tight cost controls for travel and entertainment, and a $3.4 million decrease in reorganization costs in 2016 as compared to 2015. The focus on cost controls during 2016 along with the decrease in reorganization costs resulted in our operating expenses increasing by less than 1% compared to 2015, while revenues increased 4% compared to 2015.

Other Income, Net

Other income, net primarily consists of interest income on our marketable investments as well as gains and losses on foreign currency. The increase in other income, net during 2016 was due to (1) an increase in interest income of $0.1 million as compared to 2015 and (2) foreign currency gains of approximately $0.1 million during the current year versus insignificant foreign currency losses during the prior year.

Losses on Investments, Net

Losses on investments, net include our share of equity method investment gains or losses from our technology-related investment funds and gains or losses from the sale of marketable securities. The increase in investment losses during 2016 was due to an increase in investment losses incurred by the underlying funds as compared to the prior year.

Provision for Income Taxes

| | 2016 | 2015 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Provision for income taxes (dollars in millions) | $13.1 | $7.3 | $ 5.8 | 78 % |
| Effective tax rate | 42.5% | 37.9% | 4.6 | 12 % |

The increase in the effective tax rate during 2016 as compared to the prior year was primarily due to (1) $1.0 million of tax expense in 2016 due to a valuation allowance on capital losses generated from one of our non-marketable investments and (2) a one-time $0.6 million benefit in 2015, which did not recur in 2016, from a change in tax legislation related to the U.S. Tax Court opinion in the "Altera" case as described below. The effect of these items was partially offset by the inclusion in 2015 of a $0.3 million loss on the liquidation of a foreign subsidiary in 2015 for which a tax benefit could not be recognized and lower non-deductible stock compensation expense in 2016 compared to 2015.

In July 2015, the U.S. Tax Court issued an opinion in Altera Corp. v. Commissioner related to the treatment of stock-based compensation expense in an intercompany cost-sharing arrangement. The opinion invalidates part of a treasury regulation requiring stock-based compensation to be included in any qualified intercompany cost-sharing arrangement. We have reviewed this case and concluded that recording a tax benefit of $0.6 million during 2015, representing the benefit of adjusting our cost-sharing agreement for the years of 2012 through 2014, was appropriate based on the opinion in the case. There were no significant developments in this case during 2017 and we will continue to monitor ongoing developments and the potential effect to our consolidated financial statements.

Segment Results

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 Analytics, 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 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 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.

We evaluate reportable segment performance and allocate 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.

In the first quarter of 2017, we modified our internal reporting for the Research and Project Consulting segments to reflect the transfer of revenue and direct costs related to a small consulting team in Asia Pacific from Research to Project Consulting, and to remove from both Research and Project Consulting certain client support activities that are now included within selling, marketing, administrative and other expenses. Accordingly, the 2016 and 2015 amounts have been reclassified to conform to the current presentation.

| | Product | Research | Project Consulting | Consolidated |
|---|---|---|---|---|
| Year Ended December 31, 2017 | | | | |
| Research services revenues | $216,471 | $— | $— | $ 216,471 |
| Advisory services and events revenues | 21,887 | 45,054 | 54,261 | 121,202 |
| Total segment revenues | 238,358 | 45,054 | 54,261 | 337,673 |
| Segment expenses | 45,205 | 48,812 | 25,477 | 119,494 |
| Contribution margin (loss) | 193,153 | (3,758) | 28,784 | 218,179 |
| Year over year revenue change | 1% | 1% | 18% | 4% |
| Year over year expense change | 9% | 3% | 10% | 7% |

| | Product | Research | Project Consulting | Consolidated |
|---|---|---|---|---|
| Year Ended December 31, 2016 | | | | |
| Research services revenues | $215,216 | $— | $— | $ 215,216 |
| Advisory services and events revenues | 20,374 | 44,631 | 45,874 | 110,879 |
| Total segment revenues | 235,590 | | | |