

Edgar Filing: FORRESTER RESEARCH INC - Form 8-K

FORRESTER RESEARCH INC  
Form 8-K  
January 28, 2004

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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FORM 8-K

CURRENT REPORT  
PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): January 28, 2004

FORRESTER RESEARCH, INC.  
(Exact Name of Registrant Specified in Charter)

|   |  |   |
|---|--|---|
| Delaware<br>(State or Other Jurisdiction<br>of Incorporation) | 000-21433<br>(Commission<br>File Number) | 04-2797789<br>(I.R.S. Employer<br>Identification No.) |
|---|--|---|

|   |                     |
|---|---------------------|
| 400 Technology Square, Cambridge, Massachusetts<br>(Address of Principal Executive Offices) | 02139<br>(Zip Code) |
|---|---------------------|

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

N/A

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(Former Name or Former Address, if Changed Since Last Report)

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Exhibit Index appears on Page 4

ITEM 7. Financial Statements and Exhibits.

(c) Exhibits

99.1 Press Release dated January 28, 2004.

ITEM 12. RESULTS OF OPERATIONS AND FINANCIAL CONDITION.

The information contained in this current report on Form 8-K is furnished pursuant to Item 12 of Form 8-K "Results of Operations and Financial Condition". This information and the exhibits hereto are being furnished and shall not be deemed to be "filed" for the purposes of Section 18 of, or otherwise regarded as filed under, the Securities Exchange Act of 1934, as amended. The information contained in this report shall not be incorporated by reference into any filing of Forrester Research, Inc. with the SEC, whether made before or after the date hereof, regardless of any general incorporation language in such filings.

On January 28, 2004, Forrester Research, Inc. issued a press release

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announcing its financial results for the quarter and fiscal year ended December 31, 2003, the full text of which is attached hereto as Exhibit 99.1.

Forrester believes that pro forma financial results provide investors with consistent and comparable information to aid in the understanding of Forrester's ongoing business. Our pro forma presentation excludes the following:

Amortization of acquisition-related intangibles - we exclude the non-cash effect of the amortization of acquisition-related intangibles from our pro forma results in order to more consistently present our ongoing results of operations.

Integration costs - we exclude the costs related to our acquisition of Giga Information Group, Inc., which are primarily related to orientation events and data migration, in order to present a consistent basis for quarterly comparisons.

Impairments of non-marketable securities - we have consistently excluded both one-time gains and one-time write-offs related to our investments in non-marketable securities from our pro forma results in order to keep quarter over quarter comparisons consistent.

Reorganization costs - we exclude reorganization costs in order to present a consistent basis for quarterly and annual comparisons and to more consistently present our results of operations [CONFIRM].

However, these measures should be considered in addition to, not as a substitute for, or superior to, operating income or other measures of financial performance prepared in accordance with generally accepted accounting principles as more fully discussed in the Forrester's financial statements and filings with the Securities and Exchange Commission.

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### SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

FORRESTER RESEARCH, INC.

By: /s/ WARREN HADLEY

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Name: Warren Hadley  
Title: Treasurer and Chief Financial Officer

Dated: January 28, 2004

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Exhibit Index

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| Exhibit<br>----- | Description<br>-----                  | Page<br>----- |
|------------------|---------------------------------------|---------------|
| 99.1             | Press Release dated January 28, 2004. | 5             |

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Exhibit 99.1

Forrester Research Announces Fourth-Quarter And Full-Year 2003 Financial Results

CAMBRIDGE, Mass.--(BUSINESS WIRE)--Jan. 28, 2004--Forrester Research, Inc. (Nasdaq: FORR) today announced its fourth-quarter and year-end 2003 financial results, in line with its previous financial guidance.

Fourth-Quarter Financial Performance

- Total revenues were \$35.3 million, compared with \$23.5 million for the fourth quarter of 2002.
- On a GAAP-reported basis, which reflects an effective tax rate of 31 percent, Forrester reported fourth-quarter net income of \$87,000, or \$0.00 per diluted share, compared with net income of \$3.5 million, or \$0.15 per diluted share, for the same period in 2002.
- On a pro forma basis, which excludes amortization of \$2.6 million of acquisition-related intangible assets, costs of \$117,000 related to the integration of Giga Information Group, Inc. ("Giga"), reorganization costs of \$1.4 million, and impairments to certain non-marketable securities of \$1.8 million, and which reflects a pro forma effective tax rate of 35 percent, net income was \$3.9 million, or \$0.17 per diluted share, for the fourth quarter of 2003. This compares with pro forma net income of \$2.8 million, or \$0.12 per diluted share, for the same period in 2002, which excludes amortization of acquisition-related intangible assets of \$82,000 and impairments to certain non-marketable securities of \$525,000.

Full-Year 2003 Financial Performance

- Total revenues were \$126.0 million, compared with \$96.9 million for 2002.
- On a GAAP-reported basis, which reflects an effective tax rate of 31 percent, Forrester reported net income of \$2.2 million, or \$0.10 per diluted share for 2003, compared with net income of \$589,000, or \$0.02 per diluted share, for 2002.
- On a pro forma basis, which excludes amortization of \$8.8 million of acquisition-related intangible assets, costs of

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\$1.1 million related to the integration of Giga, reorganization costs of \$2.6 million, impairments to certain non-marketable securities of \$2.4 million, and which reflects a pro forma effective tax rate of 35 percent, net income was \$11.7 million, or \$0.51 per diluted share, for 2003. This compares with pro forma net income of \$11.8 million, or \$0.50 per diluted share, for 2002, which excludes the amortization of acquisition-related assets of \$328,000, reorganization charges of \$12.2 million, and impairments to certain non-marketable securities of \$4.1 million.

A reconciliation of GAAP results to pro forma results may be found in the attached financial tables.

"Forrester's fourth-quarter financial results continued to show signs of improvement and stabilization, including increases in deferred revenue and client retention rates," said George F. Colony, chairman of the board and chief executive officer. "We were particularly pleased with the progress we made during the quarter because approximately 40 percent of our contracts were up for renewal at the same time we began selling WholeView 2(TM), our unified Forrester-Giga research product. The initial response to WholeView 2 has been favorable from both clients and prospects.

"Overall, 2003 was a very busy year for Forrester," continued Colony. "After announcing and closing the acquisition of Giga early in the year, we moved quickly to integrate the research, sales, and operational groups. Based on significant client input, we developed WholeView 2 during the second half of the year, and rolled it out as technology budgets began to relax toward the end of 2003. The integration is now complete, and we believe we are well-positioned for 2004."

In connection with the integration of the December 2003 acquisition of certain assets of European distributor, GigaGroup, S.A., Forrester has reduced its European headcount by 12 employees, or approximately 2 percent of its work force. For the first quarter of 2004, Forrester expects to record a charge in the range of \$1.5 million to \$2.5 million related to this reduction in force and the consolidation of European office space. On an annualized basis, associated savings are estimated to be approximately \$2.5 million to \$3.5 million.

Forrester is providing financial guidance as follows:

First-Quarter 2004 (GAAP):

- Total revenues of approximately \$29.0 million to \$31.0 million.
- Operating margin of approximately (2) percent to (6) percent.
- Other income of approximately \$650,000 to \$750,000.
- An effective tax rate of 33.5 percent.
- Diluted earnings per share of approximately (\$0.01) to (\$0.05).

First-Quarter 2004 (Pro Forma):

Pro forma financial guidance for the first quarter of 2004 excludes amortization of acquisition-related intangible assets of approximately \$2.3 million, a reorganization charge of approximately \$1.5 million to \$2.5 million, and any impairment charges related to

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non-marketable investments.

- Pro forma operating margin of approximately 9 percent to 11 percent.
- Pro forma effective tax rate of 35 percent, which varies from our actual effective tax rate of 33.5 percent because of our tax-free interest income decreasing as a percentage of our pro forma pre-tax income.
- Pro forma diluted earnings per share of approximately \$0.09 to \$0.11.

Full-Year 2004 (GAAP):

- Total revenues of approximately \$133.0 million to \$138.0 million.
- Operating margin of approximately 4 percent to 8 percent, which assumes that no charges related to the San Francisco office lease are incurred during 2004.
- Other income of approximately \$2.7 million to \$2.9 million.
- An effective tax rate of 33.5 percent.
- Diluted earnings per share of approximately \$0.24 to \$0.29, which assumes that no charges related to the San Francisco office lease are incurred during 2004.

Full-Year 2004 (Pro Forma):

Pro forma financial guidance for full-year 2004 excludes amortization of acquisition-related intangible assets of approximately \$6.4 million, any impairment charges related to non-marketable investments, and a reorganization charge of approximately \$1.5 million to \$2.5 million.

- Pro forma operating margin of approximately 11 percent to 13 percent.
- Pro forma effective tax rate of 35 percent, which varies from our actual effective tax rate of 33.5 percent because of our tax-free interest income decreasing as a percentage of our pro forma pre-tax income.
- Pro forma diluted earnings per share of approximately \$0.52 to \$0.57, which assumes that no charges related to the San Francisco office lease are incurred during 2004.

Separately, Forrester has hired Gail Mann as its new chief legal counsel. Mann brings 25 years of legal experience to Forrester and earned her J.D., magna cum laude, from Georgetown University Law Center.

Forrester is an independent technology research company that provides pragmatic and forward-thinking advice about technology's impact on business. Business, marketing, and IT professionals worldwide collaborate with Forrester to align their technology investments with their business goals. Forrester offers products and services in four major areas: Research, Data, Consulting, and Community. In February 2003, Forrester acquired Giga Information Group. Established in 1983, Forrester is headquartered in Cambridge,

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Mass. For additional information, visit [www.forrester.com](http://www.forrester.com).

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, but are not limited to, Forrester's financial and operating targets for the first quarter of and full-year 2004, statements about the potential success of WholeView 2 and other product offerings, the amount of the charge and any cost savings related to the reduction in force, and the ability of Forrester to achieve success as the economy improves. These statements are based on Forrester's current plans and expectations and involve risks and uncertainties that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual future activities and results to differ include, among others, Forrester's ability to anticipate business and economic conditions, market trends, competition, the ability to attract and retain professional staff, possible variations in Forrester's quarterly operating results, risks associated with Forrester's ability to offer new products and services, the actual amount of the charge and any cost savings related to the reduction in force, and Forrester's dependence on renewals of its membership-based research services and on key personnel. Forrester undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. For further information, please refer to Forrester's reports and filings with the Securities and Exchange Commission.

The consolidated statements of income, consolidated balance sheets, and consolidated statements of cash flows are attached.

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Forrester Research, Inc.  
Consolidated Statements Of Income  
(In thousands, except per share data)

|                                      | Three months ended |               | Year ended     |               |
|--------------------------------------|--------------------|---------------|----------------|---------------|
|                                      | December 31,       |               | December 31,   |               |
|                                      | 2003               | 2002          | 2003           | 2002          |
|                                      | (Unaudited)        |               |                |               |
| <b>Revenues:</b>                     |                    |               |                |               |
| Research services                    | \$24,120           | \$16,153      | \$92,289       | \$70,955      |
| Advisory services and<br>other       | 11,211             | 7,356         | 33,710         | 25,981        |
| <b>Total revenues</b>                | <b>35,331</b>      | <b>23,509</b> | <b>125,999</b> | <b>96,936</b> |
| <b>Operating expenses:</b>           |                    |               |                |               |
| Cost of services and<br>fulfillment  | 13,667             | 8,632         | 50,047         | 34,026        |
| Selling and marketing                | 11,494             | 6,925         | 41,017         | 30,745        |
| General and administrative           | 3,689              | 3,142         | 14,674         | 12,732        |
| Depreciation and<br>amortization     | 1,204              | 2,077         | 6,256          | 8,078         |
| Amortization of intangible<br>assets | 2,638              | 82            | 8,778          | 328           |
| Integration costs                    | 117                | -             | 1,055          | -             |
| Reorganization costs                 | 1,364              | -             | 2,594          | 12,170        |

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|  |         |         |          |          |
|--|---------|---------|----------|----------|
| Total operating expenses                       | 34,173  | 20,858  | 124,421  | 98,079   |
| Income (loss) from operations                  | 1,158   | 2,651   | 1,578    | (1,143)  |
| Other income, net                              | 751     | 1,277   | 3,952    | 5,539    |
| Impairments of non-marketable investments, net | (1,782) | (525)   | (2,354)  | (4,118)  |
| Income before income tax provision (benefit)   | 127     | 3,403   | 3,176    | 278      |
| Income tax provision (benefit)                 | 40      | (61)    | 985      | (311)    |
| Net income                                     | \$87    | \$3,464 | \$2,191  | \$589    |
| Diluted earnings per share                     | \$0.00  | \$0.15  | \$0.10   | \$0.02   |
| Diluted weighted average shares outstanding    | 22,970  | 23,202  | 22,837   | 23,653   |
| Basic earnings per share                       | \$0.00  | \$0.15  | \$0.10   | \$0.03   |
| Basic weighted average shares outstanding      | 22,505  | 22,992  | 22,555   | 23,189   |
| Pro forma data (1):                            |         |         |          |          |
| Income (loss) from operations                  | 1,158   | 2,651   | 1,578    | (1,143)  |
| Amortization of intangible assets              | 2,638   | 82      | 8,778    | 328      |
| Integration costs                              | 117     | -       | 1,055    | -        |
| Reorganization costs                           | 1,364   | -       | 2,594    | 12,170   |
| Pro forma income from operations               | 5,277   | 2,733   | 14,005   | 11,355   |
| Other income, net                              | 751     | 1,277   | 3,952    | 5,539    |
| Pro forma income before income taxes           | 6,028   | 4,010   | 17,957   | 16,894   |
| Pro forma income tax provision                 | 2,110   | 1,203   | 6,285    | 5,068    |
| Pro forma net income                           | \$3,918 | \$2,807 | \$11,672 | \$11,826 |
| Pro forma diluted earnings per share           | \$0.17  | \$0.12  | \$0.51   | \$0.50   |
| Diluted weighted average shares outstanding    | 22,970  | 23,202  | 22,837   | 23,653   |

- (1) Forrester believes that pro forma financial results provide investors with consistent and comparable information to aid in the understanding of Forrester's ongoing business. Our pro forma presentation excludes amortization of intangibles and other integration costs related to acquisitions, reorganization costs, and impairments of non-marketable investments, as well as their related tax effects. This does not purport to be prepared in accordance with Generally Accepted Accounting Principles.

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Forrester Research, Inc.  
Consolidated Balance Sheets  
(In thousands)

|   | December 31,     |                  |
|---|------------------|------------------|
|   | 2003             | 2002             |
| <b>Assets:</b>                                    |                  |                  |
| Cash and cash equivalents                         | \$22,385         | \$11,479         |
| Marketable securities                             | 104,348          | 183,152          |
| Accounts receivable, net                          | 40,013           | 17,791           |
| Deferred commissions                              | 5,999            | 3,524            |
| Prepaid expenses and other current assets         | 7,079            | 5,902            |
| <b>Total current assets</b>                       | <b>179,824</b>   | <b>221,848</b>   |
| Property and equipment, net                       | 8,266            | 10,674           |
| Goodwill, net                                     | 57,006           | 13,244           |
| Intangibles assets, net                           | 13,456           | 760              |
| Deferred income taxes                             | 40,159           | 21,630           |
| Non-marketable investments and other assets       | 12,264           | 10,117           |
| <b>Total assets</b>                               | <b>\$310,975</b> | <b>\$278,273</b> |
| <b>Liabilities and stockholders' equity:</b>      |                  |                  |
| Accounts payable                                  | \$2,566          | \$1,601          |
| Accrued expenses                                  | 31,457           | 20,681           |
| Deferred revenue                                  | 68,630           | 42,123           |
| <b>Total liabilities</b>                          | <b>102,653</b>   | <b>64,405</b>    |
| Preferred stock                                   | -                | -                |
| Common stock                                      | 243              | 240              |
| Additional paid-in capital                        | 172,523          | 167,935          |
| Retained earnings                                 | 66,945           | 64,754           |
| Treasury stock, at cost                           | (30,300)         | (20,085)         |
| Accumulated other comprehensive (loss) income     | (1,089)          | 1,024            |
| <b>Total stockholders' equity</b>                 | <b>208,322</b>   | <b>213,868</b>   |
| <b>Total liabilities and stockholders' equity</b> | <b>\$310,975</b> | <b>\$278,273</b> |

Forrester Research, Inc.  
Consolidated Statements Of Cash Flows  
(In thousands)

|  | Year ended December 31, |         |
|--|-------------------------|---------|
|  | 2003                    | 2002    |
| <b>Cash flows from operations:</b>   |                         |         |
| Net income   | 2,191                   | 589     |
| Adjustments to reconcile net income to net cash provided by operating activities - |                         |         |
| Depreciation and amortization  | 6,256                   | 8,078   |
| Amortization of intangible assets  | 8,778                   | 328     |
| Impairments of non-marketable investments  | 2,354                   | 4,118   |
| Realized gain on sales of marketable securities                                    | (509)                   | -       |
| Tax benefit from exercises of employee stock options                               | 527                     | 2,618   |
| Deferred income taxes  | (128)                   | (2,243) |
| Non-cash reorganization costs  | -                       | 3,629   |
| Increase in provision for doubtful accounts  | -                       | 246     |
| Loss on disposals of property and equipment  | -                       | 92      |
| Amortization of premiums on marketable   |                         |         |



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|   |           |           |
|---|-----------|-----------|
| securities  | 832       | 1,053     |
| Changes in assets and liabilities, net of acquisitions -          |           |           |
| Accounts receivable   | (11,044)  | 6,608     |
| Deferred commissions  | (2,426)   | 920       |
| Prepaid expenses and other current assets                         | 559       | (70)      |
| Accounts payable  | (530)     | (1,194)   |
| Accrued expenses  | (1,741)   | (1,476)   |
| Deferred revenue  | (1,004)   | (17,735)  |
| Net cash provided by operating activities                         | 4,115     | 5,561     |
| Cash flows from investing activities:                             |           |           |
| Acquisition of Giga Information Group, Inc., net of cash acquired | (57,027)  | -         |
| Acquisition of GigaGroup, S.A., net of cash acquired              | (2,937)   | -         |
| Purchases of property and equipment                               | (1,441)   | (1,031)   |
| Purchases of non-marketable investments                           | (3,250)   | (4,775)   |
| Net (increase) decrease in other assets                           | (1,315)   | 61        |
| Purchases of marketable securities                                | (184,151) | (261,530) |
| Proceeds from sales and maturities of marketable securities       | 263,093   | 266,324   |
| Net cash provided by (used in) investing activities               | 12,972    | (951)     |
| Cash flows from financing activities:                             |           |           |
| Proceeds from issuance of common stock                            | 3,772     | 11,284    |
| Acquisition of treasury stock                                     | (8,215)   | (20,085)  |
| Structured stock repurchases                                      | (1,708)   | (2,000)   |
| Net cash used in financing activities                             | (6,151)   | (10,801)  |
| Effect of exchange rate changes on cash and cash equivalents      | (30)      | (77)      |
| Net increase (decrease) in cash and cash equivalents              | 10,906    | (6,268)   |
| Cash and cash equivalents, beginning of year                      | 11,479    | 17,747    |
| Cash and cash equivalents, end of year                            | 22,385    | 11,479    |

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