

FORRESTER RESEARCH, INC.

Form 10-Q

May 10, 2013

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## FORM 10-Q

(MARK ONE)

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

**FOR THE QUARTERLY PERIOD ENDED March 31, 2013**

**OR**

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

**COMMISSION FILE NUMBER: 000-21433**

## FORRESTER RESEARCH, INC.

(Exact name of registrant as specified in its charter)

**DELAWARE**  
(State or other jurisdiction of  
incorporation or organization)

**04-2797789**  
(I.R.S. Employer  
Identification Number)

**60 Acorn Park Drive**

**CAMBRIDGE, MASSACHUSETTS**

**02140**

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(Address of principal executive offices)

(Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

Large accelerated filer  Accelerated filer

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

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

As of May 7, 2013, 20,528,000 shares of the registrant's common stock were outstanding.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## FORRESTER RESEARCH, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data, unaudited)

|  | March 31,<br>2013 | December 31,<br>2012 |
|--|-------------------|----------------------|
| <b>ASSETS</b>  |                   |                      |
| Current Assets:  |                   |                      |
| Cash and cash equivalents  | \$ 143,944        | \$ 98,810            |
| Marketable investments (Note 2)  | 120,608           | 134,876              |
| Accounts receivable, net   | 49,160            | 74,623               |
| Deferred commissions   | 9,616             | 9,410                |
| Prepaid expenses and other current assets  | 18,036            | 18,846               |
| Total current assets   | 341,364           | 336,565              |
| Long-term marketable investments (Note 2)  | 8,926             | 8,970                |
| Property and equipment, net  | 44,554            | 46,300               |
| Goodwill   | 78,152            | 78,954               |
| Intangible assets, net   | 7,291             | 7,920                |
| Other assets   | 9,815             | 9,123                |
| Total assets   | \$ 490,102        | \$ 487,832           |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                   |                      |
| Current Liabilities:   |                   |                      |
| Accounts payable   | \$ 922            | \$ 772               |
| Accrued expenses and other current liabilities   | 29,586            | 30,078               |
| Deferred revenue   | 152,188           | 150,479              |
| Total current liabilities  | 182,696           | 181,329              |
| Non-current liabilities  | 9,318             | 9,433                |
| Total liabilities  | 192,014           | 190,762              |
| Commitments  |                   |                      |
| Stockholders' Equity (Note 6):   |                   |                      |
| Preferred stock, \$.01 par value   |                   |                      |
| Authorized - 500 shares, issued and outstanding - none                                   |                   |                      |
| Common stock, \$.01 par value  |                   |                      |
| Authorized - 125,000 shares  |                   |                      |
| Issued - 31,522 and 31,451 as of March 31, 2013 and December 31, 2012, respectively      |                   |                      |
| Outstanding - 22,364 and 22,293 as of March 31, 2013 and December 31, 2012, respectively | 315               | 315                  |
| Additional paid-in capital   | 392,790           | 389,362              |
| Retained earnings  | 116,639           | 117,648              |
| Treasury stock - 9,158 as of March 31, 2013 and December 31, 2012, at cost               | (210,843)         | (210,843)            |
| Accumulated other comprehensive income (loss)  | (813)             | 588                  |

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|  |            |            |
|--|------------|------------|
| Total stockholders' equity                 | 298,088    | 297,070    |
| Total liabilities and stockholders' equity | \$ 490,102 | \$ 487,832 |

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

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## FORRESTER RESEARCH, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data, unaudited)

|   | <b>Three Months Ended<br/>March 31,</b> |                 |
|---|---|-----------------|
|   | <b>2013</b>                             | <b>2012</b>     |
| <b>Revenues:</b>  |   |                 |
| Research services   | \$ 50,378                               | \$ 49,760       |
| Advisory services and other                               | 21,121                                  | 20,500          |
| <b>Total revenues</b>                                     | <b>71,499</b>                           | <b>70,260</b>   |
| <b>Operating expenses:</b>                                |   |                 |
| Cost of services and fulfillment                          | 27,027                                  | 26,938          |
| Selling and marketing                                     | 27,057                                  | 25,133          |
| General and administrative                                | 9,487                                   | 9,611           |
| Depreciation  | 2,360                                   | 1,993           |
| Amortization of intangible assets                         | 559                                     | 614             |
| Reorganization costs                                      | 1,591                                   | 1,343           |
| <b>Total operating expenses</b>                           | <b>68,081</b>                           | <b>65,632</b>   |
| <b>Income from operations</b>                             | <b>3,418</b>                            | <b>4,628</b>    |
| Other income, net   | 376                                     | 409             |
| Gains (losses) on investments, net                        | (51)                                    | 59              |
| <b>Income before income taxes</b>                         | <b>3,743</b>                            | <b>5,096</b>    |
| <b>Income tax provision</b>                               | <b>1,402</b>                            | <b>1,915</b>    |
| <b>Net income</b>   | <b>\$ 2,341</b>                         | <b>\$ 3,181</b> |
| <b>Basic income per common share</b>                      | <b>\$ 0.10</b>                          | <b>\$ 0.14</b>  |
| <b>Diluted income per common share</b>                    | <b>\$ 0.10</b>                          | <b>\$ 0.14</b>  |
| <b>Basic weighted average common shares outstanding</b>   | <b>22,306</b>                           | <b>22,738</b>   |
| <b>Diluted weighted average common shares outstanding</b> | <b>22,658</b>                           | <b>23,173</b>   |
| <b>Cash dividends declared per common share</b>           | <b>\$ 0.15</b>                          | <b>\$ 0.14</b>  |

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



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FORRESTER RESEARCH, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, unaudited)

|   | <b>Three Months Ended<br/>March 31,</b> |             |
|---|---|-------------|
|   | <b>2013</b>                             | <b>2012</b> |
| Net income  | \$ 2,341                                | \$ 3,181    |
| Other comprehensive income, net of taxes:   |   |             |
| Cumulative translation adjustments  | (1,355)                                 | 681         |
| Changes in market value of investments:   |   |             |
| Unrealized gain (loss), net of taxes (benefits) of \$(3) and \$140                                  | (46)                                    | 316         |
| Less: reclassification adjustment for net gains realized in net income, net of taxes of \$0 and \$8 |   | (13)        |
| Net change in market value of investments   | (46)                                    | 303         |
| Other comprehensive income (loss)   | (1,401)                                 | 984         |
| Comprehensive income  | \$ 940                                  | \$ 4,165    |

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

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## FORRESTER RESEARCH, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

|  | <b>Three Months Ended<br/>March 31,</b> |                   |
|--|---|-------------------|
|  | <b>2013</b>                             | <b>2012</b>       |
| <b>Cash flows from operating activities:</b>   |   |                   |
| Net income   | \$ 2,341                                | \$ 3,181          |
| <b>Adjustments to reconcile net income to net cash provided by operating activities:</b> |   |                   |
| Depreciation   | 2,360                                   | 1,993             |
| Amortization of intangible assets  | 559                                     | 614               |
| Net (gains) losses from investments  | 51                                      | (59)              |
| Deferred income taxes  | (1,519)                                 | (549)             |
| Stock-based compensation   | 1,860                                   | 1,323             |
| Amortization of premium on investments   | 636                                     | 759               |
| Foreign currency gains   | (72)                                    | (8)               |
| <b>Changes in assets and liabilities, net of acquisitions</b>                            |   |                   |
| Accounts receivable  | 25,186                                  | 29,518            |
| Deferred commissions   | (206)                                   | 1,743             |
| Prepaid expenses and other current assets  | 1,271                                   | (5,317)           |
| Accounts payable   | 111                                     | (544)             |
| Accrued expenses and other liabilities   | 166                                     | (669)             |
| Deferred revenue   | 2,709                                   | 2,901             |
| <b>Net cash provided by operating activities</b>   | <b>35,453</b>                           | <b>34,886</b>     |
| <b>Cash flows from investing activities:</b>   |   |                   |
| Purchases of property and equipment  | (939)                                   | (2,418)           |
| Purchases of marketable investments  | (4,125)                                 | (40,301)          |
| Proceeds from sales and maturities of marketable investments                             | 17,750                                  | 34,090            |
| Change in restricted cash  |   | 946               |
| Other investing activity   | 75                                      | 33                |
| <b>Net cash provided by (used in) investing activities</b>                               | <b>12,761</b>                           | <b>(7,650)</b>    |
| <b>Cash flows from financing activities:</b>   |   |                   |
| Dividend paid on common stock  | (3,350)                                 | (3,195)           |
| Repurchases of common stock  |   | (7,700)           |
| Proceeds from issuance of common stock under employee equity incentive plans             | 1,447                                   | 1,997             |
| Excess tax benefits from stock-based compensation  | 109                                     | 183               |
| Payment of deferred acquisition consideration  |   | (139)             |
| <b>Net cash used in financing activities</b>   | <b>(1,794)</b>                          | <b>(8,854)</b>    |
| <b>Effect of exchange rate changes on cash and cash equivalents</b>                      | <b>(1,286)</b>                          | <b>978</b>        |
| <b>Net increase in cash and cash equivalents</b>   | <b>45,134</b>                           | <b>19,360</b>     |
| <b>Cash and cash equivalents, beginning of period</b>                                    | <b>98,810</b>                           | <b>81,047</b>     |
| <b>Cash and cash equivalents, end of period</b>  | <b>\$ 143,944</b>                       | <b>\$ 100,407</b> |

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

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The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ) for reporting on Form 10-Q. Accordingly, certain information and footnote disclosures required for complete financial statements are not included herein. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. It is recommended that these financial statements be read in conjunction with the consolidated financial statements and related notes that appear in the Forrester Research, Inc. ( Forrester ) Annual Report on Form 10-K for the year ended December 31, 2012. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations, and cash flows as of the dates and for the periods presented have been included. The results of operations for the three months ended March 31, 2013 may not be indicative of the results for the year ending December 31, 2013, or any other period.

*Fair Value Measurements*

The carrying amounts reflected in the Consolidated Balance Sheets for cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value due to their short-term maturities. See Note 2 Marketable Investments for the fair value of the Company's marketable investments.

**Note 2 Marketable Investments**

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

|   | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Market<br>Value   |
|---|-------------------|------------------------------|-------------------------------|-------------------|
| <b>March 31, 2013</b>                                 |                   |                              |                               |                   |
| <i>Available-for-sale securities</i>                  |                   |                              |                               |                   |
| State and municipal obligations                       | \$ 18,669         | \$ 36                        | \$                            | \$ 18,705         |
| Federal agency and corporate obligations              | 101,580           | 338                          | (15)                          | 101,903           |
| <b>Total short-term available-for-sale securities</b> | <b>120,249</b>    | <b>374</b>                   | <b>(15)</b>                   | <b>120,608</b>    |
| ARS, long-term  | 11,000            |                              | (2,074)                       | 8,926             |
| <b>Total available-for-sale securities</b>            | <b>\$ 131,249</b> | <b>\$ 374</b>                | <b>\$ (2,089)</b>             | <b>\$ 129,534</b> |

|  | Amortized<br>Cost | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Market<br>Value |
|--|-------------------|------------------------------|-------------------------------|-----------------|
| <b>December 31, 2012</b>                 |                   |                              |                               |                 |
| <i>Available-for-sale securities</i>     |                   |                              |                               |                 |
| State and municipal obligations          | \$ 18,859         | \$ 27                        | \$ (14)                       | \$ 18,872       |
| Federal agency and corporate obligations | 115,653           | 380                          | (29)                          | 116,004         |

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|  |                   |               |                   |                   |
|--|-------------------|---------------|-------------------|-------------------|
| Total short-term available-for-sale securities | 134,512           | 407           | (43)              | 134,876           |
| ARS, long-term                                 | 11,000            |               | (2,030)           | 8,970             |
| <b>Total available-for-sale securities</b>     | <b>\$ 145,512</b> | <b>\$ 407</b> | <b>\$ (2,073)</b> | <b>\$ 143,846</b> |

Realized gains and losses on securities are included in earnings and are determined using the specific identification method. Realized gains or losses on the sale of the Company's federal agency, state, municipal and corporate obligations were not material in the three months ended March 31, 2013 or 2012.

The following table summarizes the maturity periods of the marketable securities in the Company's portfolio as of March 31, 2013. In February 2008, certain auction rate securities (ARS) that Forrester held experienced failed auctions that limited the liquidity of these securities. These auction failures have continued and based on current market conditions, it is likely that auction failures will continue. The following table reflects the ARS at their contractual maturity dates of between 2024 and 2034 (in thousands).

|  | <b>FY 2013</b>   | <b>FY2014</b>    | <b>FY2015</b>    | <b>Thereafter</b> | <b>Total</b>      |
|--|------------------|------------------|------------------|-------------------|-------------------|
| State and municipal obligations          | \$ 6,366         | \$ 10,224        | \$ 2,115         | \$                | \$ 18,705         |
| Federal agency and corporate obligations | 33,193           | 47,892           | 20,818           |                   | 101,903           |
| ARS                                      |                  |                  |                  | 8,926             | 8,926             |
| <b>Total</b>                             | <b>\$ 39,559</b> | <b>\$ 58,116</b> | <b>\$ 22,933</b> | <b>\$ 8,926</b>   | <b>\$ 129,534</b> |

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

|  | As of March 31, 2013                   |                      |   |                      |
|--|--|----------------------|---|----------------------|
|  | Less Than 12 Months<br>Market<br>Value | Unrealized<br>Losses | 12 Months or Greater<br>Market<br>Value | Unrealized<br>Losses |
| State and municipal bonds                | \$                                     | \$                   | \$                                      | \$                   |
| Federal agency and corporate obligations | 8,976                                  | 15                   |   |                      |
| ARS                                      |  |                      | 8,926                                   | 2,074                |
| Total                                    | \$ 8,976                               | \$ 15                | \$ 8,926                                | \$ 2,074             |

|  | As of December 31, 2012                |                      |   |                      |
|--|--|----------------------|---|----------------------|
|  | Less Than 12 Months<br>Market<br>Value | Unrealized<br>Losses | 12 Months or Greater<br>Market<br>Value | Unrealized<br>Losses |
| State and municipal bonds                | \$ 9,430                               | \$ 14                | \$                                      | \$                   |
| Federal agency and corporate obligations | 17,716                                 | 29                   |   |                      |
| ARS                                      |  |                      | 8,970                                   | 2,030                |
| Total                                    | \$ 27,146                              | \$ 43                | \$ 8,970                                | \$ 2,030             |

**Fair Value**

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

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

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

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

The following table represents the Company's fair value hierarchy for its financial assets (cash equivalents and investments) measured at fair value on a recurring basis as of March 31, 2013 and December 31, 2012 (in thousands):

|  | As of March 31, 2013 |         |         |           |
|--|----------------------|---------|---------|-----------|
|  | Level 1              | Level 2 | Level 3 | Total     |
| Money market funds (1)                       | \$ 15,314            | \$      | \$      | \$ 15,314 |
| State and municipal obligations              |                      | 18,705  |         | 18,705    |
| Federal agency and corporate obligations (2) |                      | 151,903 |         | 151,903   |

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|              |                  |                   |                 |                   |
|--------------|------------------|-------------------|-----------------|-------------------|
| ARS          |                  |                   | 8,926           | 8,926             |
| <b>Total</b> | <b>\$ 15,314</b> | <b>\$ 170,608</b> | <b>\$ 8,926</b> | <b>\$ 194,848</b> |

|  | As of December 31, 2012 |                   |                 |                   |
|--|-------------------------|-------------------|-----------------|-------------------|
|  | Level 1                 | Level 2           | Level 3         | Total             |
| Money market funds (1)                       | \$ 815                  | \$                | \$              | \$ 815            |
| State and municipal obligations              |                         | 18,872            |                 | 18,872            |
| Federal agency and corporate obligations (2) |                         | 148,117           |                 | 148,117           |
| ARS  |                         |                   | 8,970           | 8,970             |
| <b>Total</b>                                 | <b>\$ 815</b>           | <b>\$ 166,989</b> | <b>\$ 8,970</b> | <b>\$ 176,774</b> |

(1) Included in cash and cash equivalents.

(2) \$50.0 million and \$32.1 million included in cash and cash equivalents at March 31, 2013 and December 31, 2012, respectively, as original maturities at the time of purchase were 90 days or less.

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

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Level 3 assets at March 31, 2013 and December 31, 2012 consist entirely of municipal bonds with an auction reset feature (ARS). Prior to 2008, the fair value of the ARS investments approximated par value due to the frequent resets through the auction process. While the Company continues to receive interest income on its ARS investments at each interest reset date (which occurs at either seven or 35 day intervals for each security), these investments trade infrequently and therefore do not have a readily determinable market value. Interest rates on the securities ranged from 0.1% to 0.4% and 0.1% to 0.4% during the three months ended March 31, 2013 and 2012, respectively. The Company values the ARS using a discounted cash flow model that includes unobservable inputs including estimates of interest rates, discount rates and expected holding periods of the securities, which is considered a Level 3 valuation. Unobservable inputs included in the valuation as of March 31, 2013 include a weighted average interest rate of 1.1%, a weighted average discount rate of 4.3%, and a weighted average holding period of 8.7 years. The valuation resulted in an unrealized loss recorded in other comprehensive income (loss) in the Consolidated Balance Sheets of \$2.1 million at March 31, 2013 and \$2.0 million at December 31, 2012. The Company believes that the loss is temporary due to the strong underlying credit rating of the securities and the fact that the Company does not intend to sell the securities and is not likely to be required to sell the securities. The assumptions used in valuing the ARS are volatile and subject to change as the underlying sources of these assumptions and market conditions change. Significant increases or decreases in any of the valuation assumptions in isolation would result in a significant change in the fair value.

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets for the three months ended March 31, 2013 and 2012 (in thousands):

|   |                 |
|---|-----------------|
|   | <b>ARS</b>      |
| Balance at December 31, 2012                  | \$ 8,970        |
| Sales   |                 |
| Total gains (losses):                         |                 |
| Included in other comprehensive income (loss) | (44)            |
| <b>Balance at March 31, 2013</b>              | <b>\$ 8,926</b> |
|   | <b>ARS</b>      |
| Balance at December 31, 2011                  | \$ 9,565        |
| Sales   |                 |
| Total gains (losses):                         |                 |
| Included in other comprehensive income (loss) | 16              |
| <b>Balance at March 31, 2012</b>              | <b>\$ 9,581</b> |

**Note 3 Non-Marketable Investments**

At March 31, 2013 and December 31, 2012, the carrying value of the Company's non-marketable investments, which were composed primarily of interests in technology-related private equity funds, were \$6.8 million and \$6.9 million, respectively, and are included in other assets in the Consolidated Balance Sheets.

One of the Company's investments, with a book value of \$1.1 million and \$1.2 million at March 31, 2013 and December 31, 2012, respectively, is being accounted for using the cost method and, accordingly, is valued at cost unless an other-than-temporary impairment in its value occurs. The other investments are being accounted for using the equity method as the investments are limited partnerships and the Company has an ownership interest in excess of 5% and, accordingly, the Company records its share of the investee's operating results each period. The Company recorded a gain (loss) from its non-marketable investments of \$(0.1) million and \$0.1 million during the three months ended March 31, 2013 and 2012, respectively, which are included in gains (losses) on investments, net in the Consolidated Statements of Income.

**Note 4 Reorganization**

The following table rolls forward the activity in the reorganization accrual for the three months ended March 31, 2013 (in thousands):

|                              | <b>Workforce<br/>Reduction</b> |
|------------------------------|--------------------------------|
| Accrual at December 31, 2012 | \$ 14                          |
| Additions                    | 1,591                          |
| Cash payments                | (459)                          |
| Accrual at March 31, 2013    | \$ 1,146                       |

In the first quarter of 2013 the Company incurred \$1.6 million of severance and related costs for the elimination of 31 jobs or approximately 2.5% of its workforce worldwide to streamline its operations. The Company anticipates incurring an additional \$0.3 million of severance and related costs in the second quarter of 2013 related to this reduction. The accrual at March 31, 2013 and any additional costs in the second quarter are expected to be paid by the end of 2013.

#### **Note 5 Net Income Per Common Share**

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

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

|  | Three Months Ended<br>March 31, |        |
|--|---------------------------------|--------|
|  | 2013                            | 2012   |
| Basic weighted average common shares outstanding   | 22,306                          | 22,738 |
| Weighted average common equivalent shares  | 352                             | 435    |
| Diluted weighted average common shares outstanding   | 22,658                          | 23,173 |
| Options excluded from diluted weight average share calculation as effect would have been anti-dilutive | 1,198                           | 406    |

**Note 6 Stockholders Equity***Equity Plans*

Stock option activity for the three months ended March 31, 2013 is presented below (in thousands, except per share data):

|                                  | Number<br>of Shares | Weighted -<br>Average<br>Exercise<br>Price Per<br>Share | Weighted -<br>Average<br>Remaining<br>Contractual<br>Term (in years) | Aggregate<br>Intrinsic<br>Value |
|----------------------------------|---------------------|---|--|---------------------------------|
| Outstanding at December 31, 2012 | 1,936               | \$ 29.03  |  |                                 |
| Granted                          | 62                  | 27.68   |  |                                 |
| Exercised                        | (45)                | 18.61   |  |                                 |
| Forfeited                        | (32)                | 30.75   |  |                                 |
| Outstanding at March 31, 2013    | 1,921               | \$ 29.20  | 6.35   | \$ 6,332                        |
| Exercisable at March 31, 2013    | 1,071               | \$ 26.88  | 4.69   | \$ 5,346                        |

Restricted stock unit activity for the three months ended March 31, 2013 is presented below (in thousands, except per share data):

|                               | Number of<br>Shares | Weighted -<br>Average<br>Grant Date<br>Fair Value |
|-------------------------------|---------------------|---|
| Unvested at December 31, 2012 | 301                 | \$ 32.98  |
| Granted                       | 7                   | 27.55   |
| Vested or settled             |                     |   |
| Forfeited                     | (44)                | 30.30   |
| Unvested at March 31, 2013    | 264                 | \$ 33.29  |

*Stock-Based Compensation*

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

|                                  | Three Months Ended |          |
|----------------------------------|--------------------|----------|
|                                  | March 31,          |          |
|                                  | 2013               | 2012     |
| Cost of services and fulfillment | \$ 904             | \$ 653   |
| Selling and marketing            | 422                | 224      |
| General and administrative       | 534                | 446      |
| Total                            | \$ 1,860           | \$ 1,323 |

In 2009, the Company issued to its employees 95,496 performance-based RSUs. The vesting of the RSUs was subject to performance criteria and would vest at 100% or 40% on April 1, 2012, or the RSUs could be forfeited, depending on whether specified revenue growth and certain operating margin targets related to full year 2011 performance were achieved. Based on 2011 financial performance, 40% of the then outstanding RSUs vested on April 1, 2012. Compensation expense in 2010 and 2009 was recognized based on an estimate of 100% vesting of the RSUs and in the second quarter of 2011 the Company modified its assessment of vesting to the 40% level.

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In 2010, the Company issued to its employees approximately 63,000 performance-based RSUs. The vesting of the RSUs was subject to performance criteria and would vest at 100% or 40% on April 1, 2013, or the RSUs could be forfeited, depending on whether specified revenue growth and certain operating margin targets related to full year 2012 performance were achieved. Based on 2012 financial performance these RSUs were forfeited. Compensation expense through the third quarter of 2011 was recognized based on an estimate of 100% vesting of the RSUs and in the fourth quarter of 2011 the Company modified its assessment of vesting to a zero percent level. The Company continued to utilize a zero percent vesting estimate through the first quarter of 2013.

In 2011, the Company issued to its employees approximately 71,000 performance-based RSUs. The vesting of the RSUs is subject to performance criteria and will vest at 100% or 40% on April 1, 2014, or the RSUs could be forfeited, depending on whether specified revenue growth and certain operating margin targets related to full year 2013 performance are achieved. Compensation expense through the third quarter of 2011 was recognized based on an estimate of 100% vesting of the RSUs and in the fourth quarter of 2011 the Company modified its assessment of vesting to a zero percent level. The Company continued to utilize a zero percent vesting estimate through the first quarter of 2013.

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

|                                 | Three Months Ended<br>March 31, 2013 |                                    | Three Months Ended<br>March 31, 2012 |                                    |
|---------------------------------|--------------------------------------|------------------------------------|--------------------------------------|------------------------------------|
|                                 | Equity Incentive<br>Plans            | Employee Stock<br>Purchase<br>Plan | Equity Incentive<br>Plans            | Employee Stock<br>Purchase<br>Plan |
| Average risk-free interest rate | 0.81%                                | 0.11%                              | 0.84%                                | 0.14%                              |
| Expected dividend yield         | 2.1%                                 | 2.1%                               | 1.7%                                 | 1.7%                               |
| Expected life                   | 4.5 Years                            | 0.5 Years                          | 4.5 Years                            | 0.5 Years                          |
| Expected volatility             | 40%                                  | 25%                                | 40%                                  | 31%                                |
| Weighted average fair value     | \$ 7.72                              | \$ 5.97                            | \$ 10.05                             | \$ 7.54                            |

*Dividends*

In the first quarter of 2013, the Company declared and paid a dividend of \$0.15 per share or \$3.4 million in the aggregate. In the first quarter of 2012, the Company declared and paid a dividend of \$0.14 per share or \$3.2 million in the aggregate. In April 2013, the Company declared a dividend of \$0.15 per share payable on June 19, 2013 to shareholders of record as of June 5, 2013.

*Treasury Stock*

Forrester's Board of Directors has authorized an aggregate \$360.0 million, including \$50 million authorized in February 2013, to purchase common stock under the stock repurchase program. The shares repurchased may be used, among other things, in connection with Forrester's employee and director equity incentive and purchase plans. As of March 31, 2013, Forrester had repurchased approximately 9.2 million shares of common stock at an aggregate cost of approximately \$210.8 million.

**Note 7 Income Taxes**

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

**Note 8 Operating Segments**

Forrester is organized into two client groups with each client group responsible for writing relevant research for the roles within the client organization on a worldwide basis. The two client groups, which are considered operating segments, are: Business Technology ( BT ) and Marketing and Strategy ( M&S ). In addition, the Company's Events segment supports both client groups. Each client group generates revenues through sales of research, advisory and other service offerings targeted at specific roles within their targeted clients. Each client group consists of research personnel focused primarily on issues relevant to particular roles and to the day-to-day responsibilities of persons within the roles. Amounts included in the Events segment relate to the operations of the events production department. Revenue reported in the Events segment consists primarily of sponsorships and event tickets to Forrester events.

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Forrester evaluates reportable segment performance and allocates resources based on direct margin. Direct margin, as presented below, is defined as operating income excluding sales expenses, certain marketing and fulfillment expenses, stock-based compensation expense, general and administrative expenses, depreciation expense, amortization of intangible assets and reorganization costs. In the first quarter of 2013, the Company modified segment direct margin for each of the BT and M&S client groups to reflect the transfer of revenue and direct costs related to one product line from BT to M&S and to reallocate certain shared consulting costs between BT & M&S. Accordingly, the 2012 amounts have been reclassified to conform to the current presentation. The accounting policies used by the segments are the same as those used in the consolidated financial statements.

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The following tables present information about reportable segments (in thousands):

|   | BT        | M&S       | Events | Consolidated |
|---|-----------|-----------|--------|--------------|
| <b>Three Months Ended March 31, 2013</b>              |           |           |        |              |
| Revenue   | \$ 38,875 | \$ 31,782 | \$ 842 | \$ 71,499    |
| Direct margin   | 27,031    | 21,318    | (263)  | 48,086       |
| Selling, marketing, administrative and other expenses |           |           |        | (42,518)     |
| Amortization of intangible assets                     |           |           |        | (559)        |
| Reorganization costs                                  |           |           |        | (1,591)      |
| Other income and gains/losses on investments          |           |           |        | 325          |
| Income before income taxes                            |           |           |        | \$ 3,743     |

|   | BT        | M&S       | Events | Consolidated |
|---|-----------|-----------|--------|--------------|
| <b>Three Months Ended March 31, 2012</b>              |           |           |        |              |
| Revenue   | \$ 38,325 | \$ 31,180 | \$ 755 | \$ 70,260    |
| Direct margin   | 26,207    | 20,680    | (293)  | 46,594       |
| Selling, marketing, administrative and other expenses |           |           |        | (40,009)     |
| Amortization of intangible assets                     |           |           |        | (614)        |
| Reorganization costs                                  |           |           |        | (1,343)      |
| Other income and gains/losses on investments          |           |           |        | 468          |
| Income before income taxes                            |           |           |        | \$ 5,096     |

**Note 9 Recent Accounting Pronouncements**

In July 2012, the Financial Accounting Standards Board issued ASU No. 2012-02, Intangibles – Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment (ASU 2012-02). This newly issued accounting standard allows an entity the option to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test for indefinite-lived intangibles other than goodwill. Under that option, an entity would no longer be required to calculate the fair value of an indefinite-lived intangible asset unless the entity determines, based on that qualitative assessment, that it is more likely than not that the fair value of the indefinite-lived intangible asset is less than its carrying amount. This ASU is effective for annual and interim indefinite-lived intangible asset impairment tests performed for fiscal years beginning after September 15, 2012. Early adoption is permitted. As the Company does not have any indefinite-lived intangible assets as of March 31, 2013 other than goodwill, the adoption of this standard on January 1, 2013 did not have an impact on the Company's consolidated results.

**Note 10 Subsequent Events**

On April 3, 2013 the Company commenced a modified Dutch auction self-tender offer to repurchase up to \$130 million of its common stock at a price per share within the range of \$32.00 to \$36.00. A modified Dutch auction self-tender offer allows stockholders to indicate how many shares and at what price within the company's specified range (in increments of \$0.25 per share) they wish to tender. When the tender offer expired, based upon the number of shares tendered and the prices specified by the tendering stockholders, the Company determined the purchase price, which was the lowest price per share within the range that enabled the Company to purchase up to \$130 million of its common stock. The tender offer expired on May 1, 2013 and the Company purchased 2,054,732 shares of its common stock on May 7, 2013 at a purchase price per of \$36.00 per share for an aggregate price of \$74.0 million, excluding expenses related to the tender offer.

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

**Overview**

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as expects, believes, anticipates, intends, plans, estimates, or similar expressions are intended to identify these forward-looking statements. These statements include, but are not limited to, statements about the adequacy of our liquidity and capital resources, future growth rates, anticipated increases in our sales force, future dividends, anticipated continued repurchases of our common stock, and remediation of our internal control over financial reporting. These statements are based on our current plans and expectations and involve risks and uncertainties that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual future activities and results to differ include, among others, our ability to retain and enrich memberships for our research products and services, technology spending, the risks and challenges inherent in international business activities, our ability to offer new products and services, our dependence on key personnel, the ability to attract and retain professional staff, our ability to respond to business and economic conditions and market trends, the possibility of network disruptions and security breaches, competition and industry consolidation, possible variations in our quarterly operating results, and our ability to remediate the identified material weakness in our internal control over financial reporting as of December 31, 2012. These risks are described more completely in our Annual Report on Form 10-K for the year ended December 31, 2012. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

We derive revenues from memberships to our research products and services, performing advisory services and consulting projects, and hosting events. We offer contracts for our research products that are typically renewable annually and payable in advance. Research 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 research. 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 research personnel and 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 are allocated to these categories according to the number of employees in each group.

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

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

**Agreement value** - the total revenues recognizable from all 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.

**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.

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

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

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

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

|                   | As of    |          | Absolute<br>Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
|-------------------|----------|----------|------------------------------------|--------------------------------------|
|                   | 2013     | 2012     |                                    |                                      |
| Deferred revenue  | \$ 152.2 | \$ 151.7 | \$ 0.5                             |                                      |
| Agreement value   | \$ 218.6 | \$ 220.7 | \$ (2.1)                           | (1%)                                 |
| Client retention  | 77%      | 80%      | (3)                                | (4%)                                 |
| Dollar retention  | 90%      | 90%      |                                    |                                      |
| Enrichment        | 95%      | 99%      | (4)                                | (4%)                                 |
| Number of clients | 2,442    | 2,524    | (82)                               | (3%)                                 |

Deferred revenue and agreement value remained essentially flat at March 31, 2013 as compared to March 31, 2012, which continues a trend from 2012 of declining year-over-year growth due to the downward trend in the growth in overall contract bookings during this period.

Enrichment at 95% for the period ending March 31, 2013 is consistent with the period ending December 31, 2012, however it represents a 4% decrease from the prior year. As the enrichment rate includes a 12-month period, the decline in the rate as of March 31, 2013 compared to the prior year reflects the challenges associated with the implementation of the sales reorganization in January 2012 as well as high sales employee attrition during 2012. Client retention, dollar retention and number of clients at March 31, 2013 remained essentially flat with December 31, 2012 and the retention metrics remain near historical levels.

**Table of Contents****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, stock-based compensation, non-marketable investments, goodwill and other intangible assets, income taxes, and valuation and impairment of marketable investments. Management bases its estimates on historical experience, data available at the time the estimates are made and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our other critical accounting policies and estimates are described in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Results of Operations**

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

|                                    | <b>Three Months Ended</b> |             |
|------------------------------------|---------------------------|-------------|
|                                    | <b>March 31,</b>          |             |
|                                    | <b>2013</b>               | <b>2012</b> |
| <b>Revenues:</b>                   |                           |             |
| Research services                  | 70.5%                     | 70.8%       |
| Advisory services and other        | 29.5                      | 29.2        |
| <br>                               |                           |             |
| Total revenues                     | 100.0                     | 100.0       |
| <b>Operating expenses:</b>         |                           |             |
| Cost of services and fulfillment   | 37.8                      | 38.3        |
| Selling and marketing              | 37.8                      | 35.8        |
| General and administrative         | 13.3                      | 13.8        |
| Depreciation                       | 3.3                       | 2.8         |
| Amortization of intangible assets  | 0.8                       | 0.9         |
| Reorganization costs               | 2.2                       | 1.9         |
| <br>                               |                           |             |
| Income from operations             | 4.8                       | 6.5         |
| Other income, net                  | 0.5                       | 0.6         |
| Gains (losses) on investments, net | (0.1)                     | 0.1         |
| <br>                               |                           |             |
| Income before income taxes         | 5.2                       | 7.2         |
| Income tax provision               | 1.9                       | 2.7         |
| <br>                               |                           |             |
| Net income                         | 3.3%                      | 4.5%        |

**Three Months Ended March 31, 2013 and March 31, 2012****Revenues**

|          | <b>Three Months Ended</b>    |             | <b>Absolute</b>   | <b>Percentage</b> |
|----------|------------------------------|-------------|-------------------|-------------------|
|          | <b>March 31,</b>             |             |                   |                   |
|          | <b>2013</b>                  | <b>2012</b> | <b>Increase</b>   | <b>Increase</b>   |
|          | <b>(dollars in millions)</b> |             | <b>(Decrease)</b> | <b>(Decrease)</b> |
| Revenues | \$ 71.5                      | \$ 70.3     | \$ 1.2            | 2%                |

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|   |         |         |          |      |
|---|---------|---------|----------|------|
| Revenues from research services                                     | \$ 50.4 | \$ 49.8 | \$ 0.6   | 1%   |
| Revenues from advisory services and other                           | \$ 21.1 | \$ 20.5 | \$ 0.6   | 3%   |
| Revenues attributable to customers outside of the U.S.              | \$ 19.1 | \$ 20.1 | \$ (1.0) | (5%) |
| Percentage of revenue attributable to customers outside of the U.S. | 27%     | 29%     | (2)      | (7%) |
| Number of clients (at end of period)                                | 2,442   | 2,524   | (82)     | (3%) |
| Number of events  | 2       | 1       | 1        | 100% |

The 2% increase in total revenues during the three months ended March 31, 2013 compared to the prior year was driven by a 3% increase in advisory services and other revenue and a 1% increase in research services revenue. Foreign exchange fluctuations had an insignificant impact on revenue growth during the quarter. Revenues from customers outside of the U.S. in the 2013 quarter declined by 2% as a percentage of total revenues compared to the prior year due primarily to a decline in revenue from the European region. The general economic conditions in Europe as well as open positions in our European sales leadership team have contributed to a difficult selling environment in that region.

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Research services revenues are generally recognized as revenue ratably over the term of the contracts, which are generally twelve-month periods. Revenue growth in the first quarter of 2013 continues the downward trend in year-over-year growth rates experienced in the second half of 2012, reflecting a downward trend in the growth in overall contract bookings during this period.

Revenue from advisory services and other increased \$0.6 million or 3% during the three months ended March 31, 2013 compared to the prior year primarily due to higher productivity during the current quarter from the research analysts delivering the revenue. Event revenue increased approximately \$0.1 million during the current quarter compared to the prior year due to the addition of one small event in the Asia Pacific region during the current quarter.

Please refer to the *Segment Results* section below for a discussion of revenue and direct margin results by segment.

**Cost of Services and Fulfillment**

|  | Three Months Ended<br>March 31, |         | Absolute<br>Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
|--|---------------------------------|---------|------------------------------------|--------------------------------------|
|  | 2013                            | 2012    |                                    |                                      |
| Cost of services and fulfillment (dollars in millions)             | \$ 27.0                         | \$ 26.9 | \$ 0.1                             |                                      |
| Cost of services and fulfillment as a percentage of total revenues | 37.8%                           | 38.3%   | (0.5)                              | (1%)                                 |
| Number of research and fulfillment employees (at end of period)    | 531                             | 537     | (6)                                | (1%)                                 |

The small increase in cost of services and fulfillment in dollars during the three months ended March 31, 2013 compared to the prior year period is primarily due to an increase in stock compensation expense resulting primarily from an increase in the amount of awards granted and an increase in facility costs due to new office space in the Asia Pacific region. These increases were partially offset by a decrease in professional services fees primarily related to a reduction in the cost and amount of surveys performed.

**Selling and Marketing**

|  | Three Months Ended<br>March 31, |         | Absolute<br>Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
|--|---------------------------------|---------|------------------------------------|--------------------------------------|
|  | 2013                            | 2012    |                                    |                                      |
| Selling and marketing expenses (dollars in millions)             | \$ 27.1                         | \$ 25.1 | \$ 2.0                             | 8%                                   |
| Selling and marketing expenses as a percentage of total revenues | 37.8%                           | 35.8%   | 2.0                                | 6%                                   |
| Selling and marketing employees (at end of period)               | 523                             | 491     | 32                                 | 7%                                   |

The increase in selling and marketing expenses during the three months ended March 31, 2013 compared to the prior year period is primarily due to an increase in compensation costs resulting from an increase in sales and marketing employees, an increase in stock compensation costs and increased facility costs. Subject to the business environment, we intend to expand our sales force by approximately 10% in 2013 as compared to 2012. Increased sales of our research services are generally recognized over a twelve-month period, which typically results in an increase in selling and marketing expense as a percentage of revenues during periods of sales force expansion.

**General and Administrative**

|   | Three Months Ended<br>March 31, |        | Absolute<br>Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
|---|---------------------------------|--------|------------------------------------|--------------------------------------|
|   | 2013                            | 2012   |                                    |                                      |
| General and administrative expenses (dollars in millions)             | \$ 9.5                          | \$ 9.6 | \$ (0.1)                           | (1%)                                 |
| General and administrative expenses as a percentage of total revenues | 13.3%                           | 13.8%  | (0.5)                              | (4%)                                 |
| General and administrative employees (at end of period)               | 168                             | 176    | (8)                                | (5%)                                 |

The decrease in general and administrative expenses during the three months ended March 31, 2013 compared to the prior year period is primarily due to a decrease in professional service fees for information technology projects, partially offset by an increase in stock compensation

costs and increased facility costs.

***Depreciation***

Depreciation expense increased approximately \$0.4 million during the three months ended March 31, 2013 compared to the prior year primarily resulting from the initiation of depreciation for our new website in March 2012.

***Amortization of Intangible Assets***

Amortization expense remained essentially consistent during the three months ended March 31, 2013 compared to the prior year.

**Table of Contents****Reorganization Costs**

During the three months ended March 31, 2013 we incurred \$1.6 million of severance and related costs for the elimination of 31 jobs or approximately 2.5% of our workforce worldwide to streamline our operations. We anticipate incurring an additional \$0.3 million of severance and related costs in the second quarter of 2013 related to this reduction. The accrual at March 31, 2013 and any additional costs in the second quarter are expected to be paid by the end of 2013.

During the three months ended March 31, 2012 we realigned our sales force to simplify the selling process to our customers. We incurred \$1.3 million of severance and related costs in the first quarter of 2012 for the termination of 17 additional employees related to the sales reorganization and other cost reduction initiatives. In addition, we incurred an additional \$0.1 million of severance and related costs in the second quarter of 2012 related to these initiatives.

**Other Income, Net**

Other income, net remained essentially consistent during the three months ended March 31, 2013 compared to the prior year.

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

Gains (losses) on investments, net were insignificant during the three months ended March 31, 2013 and 2012.

**Provision for Income Taxes**

|  | Three Months Ended<br>March 31, |        | Absolute               | Percentage             |
|--|---------------------------------|--------|------------------------|------------------------|
|  | 2013                            | 2012   | Increase<br>(Decrease) | Increase<br>(Decrease) |
| Provision for income taxes (dollars in millions) | \$ 1.4                          | \$ 1.9 | \$ (0.5)               | (27%)                  |
| Effective tax rate                               | 37.5%                           | 37.6%  | (0.1)                  |                        |

The effective tax rate has remained relatively consistent during the three months ended March 31, 2013 as compared to the prior year period.

**Segment Results**

We are organized into two client groups with each client group responsible for writing relevant research for the roles within the client organization on a worldwide basis. The two client groups, which are considered operating segments, are: Business Technology ( BT ) and Marketing and Strategy ( M&S ). In addition, our Events segment supports both client groups. Each client group generates revenues through sales of research, advisory and other service offerings targeted at specific roles within their targeted clients. Each client group consists of research personnel focused primarily on issues relevant to particular roles and to the day-to-day responsibilities of persons within the roles. Amounts included in the Events segment relate to the operations of the events production department. Revenue reported in the Events segment consists primarily of sponsorships and event tickets to Forrester events.

We evaluate reportable segment performance and allocate resources based on direct margin. Direct margin, as presented below, is defined as operating income excluding sales expenses, certain marketing and fulfillment expenses, stock-based compensation expense, general and administrative expenses, depreciation expense, amortization of intangible assets and reorganization costs. In the first quarter of 2013, we modified segment direct margin for each of the BT and M&S clients groups to reflect the transfer of revenue and direct costs related to one product line from BT to M&S and to reallocate certain shared consulting costs between BT and M&S. Accordingly, the 2012 amounts have been reclassified to conform to the current presentation. The accounting policies used by the segments are the same as those used in the consolidated financial statements.

|  | BT        | M&S       | Events   | Consolidated |
|--|-----------|-----------|----------|--------------|
| <b>Three Months Ended March 31, 2013</b> |           |           |          |              |
| Revenue (in thousands)                   | \$ 38,875 | \$ 31,782 | \$ 842   | \$ 71,499    |
| Direct margin                            | \$ 27,031 | \$ 21,318 | \$ (263) | \$ 48,086    |

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|                               |       |       |        |       |
|-------------------------------|-------|-------|--------|-------|
| Year over year revenue growth | 1%    | 2%    | 12%    | 2%    |
| Direct margin percentage      | 69.5% | 67.1% | -31.2% | 67.3% |

|  | BT        | M&S       | Events   | Consolidated |
|--|-----------|-----------|----------|--------------|
| <b>Three Months Ended March 31, 2012</b> |           |           |          |              |
| Revenue (in thousands)                   | \$ 38,325 | \$ 31,180 | \$ 755   | \$ 70,260    |
| Direct margin                            | \$ 26,207 | \$ 20,680 | \$ (293) | \$ 46,594    |
| Direct margin percentage                 | 68.4%     | 66.3%     | -38.8%   | 66.3%        |

BT revenue increased 1% during the three months ended March 31, 2013 compared to the prior year due to a 3% increase in research services revenue partially offset by a 2% decrease in advisory services and other revenue. The increase in direct margin percentage during the three months ended March 31, 2013 compared to the prior year is due to a decrease in direct costs during the three months ended March 31, 2013 primarily resulting from a decrease in professional services related to a reduction in the cost and amount of surveys performed.

M&S revenue increased 2% during the three months ended March 31, 2013 compared to the prior year due to an 8% increase in advisory services and other revenue partially offset by a 1% decrease in research services revenue. The increase in direct margin percentage during the three months ended March 31, 2013 compared to the prior year is due to direct costs remaining flat during the three months ended March 31, 2013 compared to the prior year primarily resulting from a decrease in professional services related to a reduction in the cost and amount of surveys performed.

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Events revenue and margin are insignificant during the three months ended March 31, 2013 and 2012 as only two events, including a small event in the Asia Pacific region, were held during the three months ended March 31, 2013 and only one event was held during the three months ended March 31, 2012. We typically hold the majority of our events during the second and fourth quarters of the year.

### **Liquidity and Capital Resources**

We have historically financed our operations primarily through funds generated from operations. Memberships for research services, which constituted approximately 70% of our revenues during the three months ended March 31, 2013, are annually renewable and are generally payable in advance. We generated cash from operating activities of \$35.5 million and \$34.9 million during the three months ended March 31, 2013 and 2012, respectively. The \$0.6 million increase in cash provided from operations for the three months ended March 31, 2013 is primarily attributable to a decrease in cash paid for income taxes due to the timing of estimated payments in the current year, which was partially offset by lower collections of accounts receivable during the 2013 period due to a lower amount of accounts receivable outstanding at the end of 2012 compared to the prior year. For the three months ended March 31, 2013, we generated \$25.2 million of cash from collections of accounts receivable. In the first quarter of the year, we traditionally generate a significant amount of cash from the collection of accounts receivable as a large portion of our business is contracted for and billed in the fourth quarter of the year.

During the three months ended March 31, 2013, we generated \$12.8 million of cash from investing activities, consisting primarily of \$13.6 million in net maturities of marketable investments partially offset by \$0.9 million of purchases of property and equipment. Property and equipment purchases during the 2013 period consisted primarily of software and leasehold improvements. We expect property and equipment purchases to be in the range of \$3.0 million to \$6.0 million in 2013. During the three months ended March 31, 2012, we used \$7.7 million of cash from investing activities, consisting primarily of \$6.2 million in net purchases of marketable investments and \$2.4 million of purchases of property and equipment. Property and equipment purchases during the 2012 period consisted primarily of software and leasehold improvements. We regularly invest excess funds in short and intermediate-term interest-bearing obligations of investment grade.

We used \$1.8 million of cash from financing activities during the three months ended March 31, 2013 resulting from a \$3.4 million dividend payment, partially offset by \$1.4 million of proceeds from exercises of stock options. We did not repurchase any of our common stock during the three months ended March 31, 2013. We used \$8.9 million of cash from financing activities during the three months ended March 31, 2012 resulting from \$7.7 million of purchases of our common stock and a \$3.2 million dividend payment, partially offset by \$2.0 million of proceeds from exercises of stock options.

On April 3, 2013 we commenced a modified Dutch auction self-tender offer to repurchase up to \$130 million of our common stock at a price per share within the range of \$32.00 to \$36.00. A modified Dutch auction self-tender offer allows stockholders to indicate how many shares and at what price within the company's specified range (in increments of \$0.25 per share) they wish to tender. When the tender offer expired, based upon the number of shares tendered and the prices specified by the tendering stockholders, we determined the purchase price, which was the lowest price per share within the range that enabled us to purchase up to \$130 million of our common stock. The tender offer expired on May 1, 2013 and we purchased 2,054,732 shares of our common stock on May 7, 2013 at a purchase price per of \$36.00 per share for an aggregate price of \$74.0 million, excluding expenses related to the tender offer. We funded the repurchase from cash and marketable securities on hand. At March 31, 2013, we had \$149.2 million remaining on our stock repurchase authorization and after the tender offer we have approximately \$75.2 million remaining on the authorization. We plan to continue to repurchase our common stock during the remainder of 2013, as market conditions warrant.

As of March 31, 2013, we held approximately \$8.9 million (\$11.0 million par value) of state and municipal bonds with an auction reset feature (auction rate securities or ARS). In February 2008, auctions began to fail for these securities and have continued to fail. As a result, our ability to liquidate our investment and fully recover the carrying value of our investment in the near term may be limited or not exist. Based on our expected operating cash flows and our cash resources, we do not anticipate the current lack of liquidity of our ARS investments will affect our ability to execute our current business plan.

As of March 31, 2013, we had cash and cash equivalents of \$143.9 million and marketable investments of \$129.5 million. We do not have a line of credit and do not presently anticipate the need to access a line of credit in the foreseeable future. We believe that our current cash balance, marketable investments, and cash flows from operations will satisfy working capital, financing activities (including the tender offer discussed above), and capital expenditure requirements for at least the next two years.

### **Contractual Obligations**

There have been no material changes to the contractual obligations table as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Off-Balance Sheet Arrangements**

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

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

There have been no material changes in our assessment of our sensitivity to market risk since our presentation set forth in Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended December 31, 2012.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

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

As of December 31, 2012, we reported that management had identified a material weakness in the Company's internal control over financial reporting related to

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revenue for advisory services and consulting projects. Specifically, we did not design and operate effective controls to evidence that our advisory services and consulting projects were monitored for services performed in support of the revenue recognized. Although the deficiency did not result in the identification of a material misstatement during 2012, this deficiency could have resulted in a misstatement of the Company's annual or interim consolidated financial statements that would have been material and would not have been prevented or detected. Management concluded that as a result of such material weakness, our internal control over financial reporting was not effective as of December 31, 2012.

Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2013. As part of our evaluation, we considered whether the control deficiencies related to the above described material weakness in our internal control over financial reporting continued to exist. Although we have commenced implementation of the remediation plan described below, and have made progress in that regard, our management has concluded that the control deficiencies relating to the material weakness had not been remediated as of March 31, 2013. Based upon their evaluation and subject to the foregoing, the principal executive officer and principal financial officer concluded that, because of the material weakness described above, our disclosure controls and procedures were not effective as of March 31, 2013. Notwithstanding such material weakness, management believes that the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows for the periods presented in conformity with accounting principles generally accepted in the United States.

### **Remediation Plan**

We are in the process of remediating the above described material weakness. These remedial efforts as outlined below are intended to address the identified material weakness and to enhance our overall control environment. Management believes these efforts will effectively remediate the material weakness.

1. **Consulting Project Scoping:** During the scoping phase of each project, we will ensure that evidence is maintained of the review and approval of the allocation of the project revenue to the services to be delivered to the client.
2. **Advisory Services and Consulting Project Performance:** Our project managers will more closely monitor the performance of each advisory service and consulting project and will maintain evidence of their review and approval of the services performed.
3. **Training:** We will ensure that we conduct proper training so that the remedial actions identified above are understood and followed by applicable personnel.

### **Changes in Internal Control Over Financial Reporting**

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2013 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, **Item 1A: Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2012, which could materially affect our business, financial condition or future results. The risk factors described in our Annual Report on Form 10-K remain applicable to our business. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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ITEM 6. EXHIBITS

|          |   |
|----------|---|
| 10.1     | Amended and Restated Executive Cash Incentive Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K previously filed on March 19, 2013, file No. 000-21433, and incorporated herein by reference) |
| 31.1     | Certification of the Principal Executive Officer. (filed herewith)  |
| 31.2     | Certification of the Principal Financial Officer. (filed herewith)  |
| 32.1     | Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)  |
| 32.2     | Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)  |
| 101.INS* | XBRL Instance Document. (furnished herewith)  |
| 101.SCH* | XBRL Taxonomy Extension Schema. (furnished herewith)  |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase. (furnished herewith)  |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase. (furnished herewith)   |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase. (furnished herewith)  |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase. (furnished herewith)   |

\* Pursuant to Rule 406T of Regulation S-T, these interactive data files shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to liability under that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as expressly set forth by specific reference in such filing.

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SIGNATURES

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

FORRESTER RESEARCH, INC.

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

(Principal financial officer)

Date: May 10, 2013

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Exhibit Index

| <b>Exhibit No.</b> | <b>Document</b>   |
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