

FORRESTER RESEARCH INC

Form 10-Q

May 10, 2010

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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, 2010**  
**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)

400 TECHNOLOGY SQUARE  
CAMBRIDGE, MASSACHUSETTS  
(Address of principal executive  
offices)

02139  
(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 ☐ Small reporting company  
☐

(Do not check if a 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, 2010, 22,540,642 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)

|                                                 | March 31,<br>2010<br>(Unaudited) | December<br>31,<br>2009 |
|-------------------------------------------------|----------------------------------|-------------------------|
| <b>ASSETS</b>                                   |                                  |                         |
| Current Assets:                                 |                                  |                         |
| Cash and cash equivalents                       | \$ 135,246                       | \$ 97,805               |
| Marketable investments (Note 3)                 | 137,650                          | 152,037                 |
| Accounts receivable, net                        | 46,878                           | 67,436                  |
| Deferred income taxes                           | 5,276                            | 5,276                   |
| Deferred commissions                            | 10,100                           | 9,631                   |
| Prepaid expenses and other current assets       | 12,360                           | 8,616                   |
| Total current assets                            | 347,510                          | 340,801                 |
| Long-term marketable securities (Note 3)        | 10,222                           | 9,950                   |
| Restricted cash                                 | 14,836                           | 16,770                  |
| Property and equipment, net                     | 6,249                            | 5,823                   |
| Deferred income taxes                           | 10,350                           | 10,323                  |
| Goodwill                                        | 68,025                           | 68,314                  |
| Intangible assets, net                          | 11,203                           | 12,108                  |
| Non-marketable investments (Note 4)             | 5,946                            | 5,546                   |
| Other assets                                    | 532                              | 561                     |
| Total assets                                    | \$ 474,873                       | \$ 470,196              |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>     |                                  |                         |
| Current Liabilities:                            |                                  |                         |
| Accounts payable                                | \$ 2,969                         | \$ 2,078                |
| Accrued expenses                                | 25,878                           | 30,168                  |
| Deferred revenue                                | 117,580                          | 117,888                 |
| Total current liabilities                       | 146,427                          | 150,134                 |
| Non-current liabilities                         | 7,669                            | 8,117                   |
| Total liabilities                               | 154,096                          | 158,251                 |
| Stockholders' Equity (Note 7):                  |                                  |                         |
| Preferred stock, \$.01 par value                |                                  |                         |
| Authorized - 500 shares, issued and outstanding | none                             |                         |
| Common stock, \$.01 par value                   |                                  |                         |
| Authorized - 125,000 shares                     |                                  |                         |

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Issued - 29,543 and 29,362 as of March 31, 2010 and December 31, 2009, respectively

Outstanding - 22,515 and 22,334 as of March 31, 2010 and December 31, 2009, respectively

|                                                                            |            |            |
|----------------------------------------------------------------------------|------------|------------|
|                                                                            | 295        | 294        |
| Additional paid-in capital                                                 | 330,529    | 325,207    |
| Retained earnings                                                          | 135,331    | 129,559    |
| Treasury stock - 7,028 as of March 31, 2010 and December 31, 2009, at cost | (141,250)  | (141,250)  |
| Accumulated other comprehensive loss                                       | (4,128)    | (1,865)    |
| Total stockholders' equity                                                 | 320,777    | 311,945    |
| Total liabilities and stockholders' equity                                 | \$ 474,873 | \$ 470,196 |

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)

|                                                    | <b>Three Months Ended March<br/>31,</b> |             |
|----------------------------------------------------|-----------------------------------------|-------------|
|                                                    | <b>2010</b>                             | <b>2009</b> |
|                                                    | <b>(Unaudited)</b>                      |             |
| Revenues:                                          |                                         |             |
| Research services                                  | \$ 39,416                               | \$ 39,050   |
| Advisory services and other                        | 19,764                                  | 17,357      |
| Total revenues                                     | 59,180                                  | 56,407      |
| Operating expenses:                                |                                         |             |
| Cost of services and fulfillment                   | 22,327                                  | 22,981      |
| Selling and marketing                              | 20,088                                  | 18,380      |
| General and administrative                         | 7,204                                   | 6,972       |
| Depreciation                                       | 918                                     | 1,092       |
| Amortization of intangible assets                  | 905                                     | 656         |
| Reorganization costs                               |                                         | 3,141       |
| Total operating expenses                           | 51,442                                  | 53,222      |
| Income from operations                             | 7,738                                   | 3,185       |
| Other income, net                                  | 1,075                                   | 1,269       |
| Gains on investments, net                          | 425                                     |             |
| Income before income taxes                         | 9,238                                   | 4,454       |
| Income tax provision                               | 3,466                                   | 1,823       |
| Net income                                         | \$ 5,772                                | \$ 2,631    |
| Basic income per common share                      | \$ 0.26                                 | \$ 0.11     |
| Diluted income per common share                    | \$ 0.25                                 | \$ 0.11     |
| Basic weighted average common shares outstanding   | 22,389                                  | 22,946      |
| Diluted weighted average common shares outstanding | 22,877                                  | 23,106      |

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)

|                                                                                                               | <b>Three Months Ended March<br/>31,<br/>2010                      2009<br/>(Unaudited)</b> |           |
|---------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|-----------|
| Cash flows from operating activities:                                                                         |                                                                                            |           |
| Net income                                                                                                    | \$ 5,772                                                                                   | \$ 2,631  |
| Adjustments to reconcile net income to net cash provided by operating activities:                             |                                                                                            |           |
| Depreciation and asset write-offs                                                                             | 919                                                                                        | 1,092     |
| Amortization of intangible assets                                                                             | 905                                                                                        | 656       |
| Net gains from investments                                                                                    | (425)                                                                                      |           |
| Deferred income taxes                                                                                         | (336)                                                                                      | (240)     |
| Stock-based compensation                                                                                      | 1,106                                                                                      | 2,192     |
| Amortization of premium on investments                                                                        | 400                                                                                        | 293       |
| Foreign currency gains                                                                                        | (386)                                                                                      | (95)      |
| Other non-cash items                                                                                          | 193                                                                                        |           |
| Changes in assets and liabilities, net of acquisitions                                                        |                                                                                            |           |
| Accounts receivable                                                                                           | 19,809                                                                                     | 23,401    |
| Deferred commissions                                                                                          | (469)                                                                                      | 958       |
| Prepaid expenses and other current assets                                                                     | (3,998)                                                                                    | (2,721)   |
| Accounts payable                                                                                              | 900                                                                                        | (896)     |
| Accrued expenses                                                                                              | (2,350)                                                                                    | (2,314)   |
| Deferred revenue                                                                                              | 1,088                                                                                      | (4,280)   |
| Net cash provided by operating activities                                                                     | 23,128                                                                                     | 20,677    |
| Cash flows from investing activities:                                                                         |                                                                                            |           |
| Acquisitions                                                                                                  | (1,660)                                                                                    | (561)     |
| Purchases of property and equipment                                                                           | (1,402)                                                                                    | (2,602)   |
| Purchases of marketable investments                                                                           | (19,820)                                                                                   | (245,911) |
| Proceeds from sales and maturities of marketable investments                                                  | 33,566                                                                                     | 216,444   |
| Decrease in restricted cash                                                                                   | 1,934                                                                                      |           |
| Other investing activity                                                                                      | 39                                                                                         | 268       |
| Net cash provided by (used in) investing activities                                                           | 12,657                                                                                     | (32,362)  |
| Cash flows from financing activities:                                                                         |                                                                                            |           |
| Proceeds from issuance of common stock under employee equity incentive plans and employee stock purchase plan | 3,780                                                                                      | 366       |
| Excess tax benefits from stock-based compensation                                                             | 133                                                                                        |           |
| Repurchases of common stock                                                                                   |                                                                                            | (4,899)   |
| Net cash provided by (used in) financing activities                                                           | 3,913                                                                                      | (4,533)   |
| Effect of exchange rate changes on cash and cash equivalents                                                  | (2,257)                                                                                    | (1,976)   |



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|                                                      |            |            |
|------------------------------------------------------|------------|------------|
| Net increase (decrease) in cash and cash equivalents | 37,441     | (18,194)   |
| Cash and cash equivalents, beginning of period       | 97,805     | 129,478    |
| Cash and cash equivalents, end of period             | \$ 135,246 | \$ 111,284 |

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

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FORRESTER RESEARCH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

**Note 1 Interim Consolidated Financial Statements**

*Basis of Presentation*

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ( GAAP ) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission ( SEC ) for reporting on Form 10-Q. Accordingly, certain information and footnote disclosures required for complete financial statements are not included herein. 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, 2009. 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, 2010 may not be indicative of the results for the year ending December 31, 2010, or any other period.

*Reclassifications*

Certain costs within the line items costs of services and fulfillment and selling and marketing have been reclassified in the prior year s consolidated financial statements to properly reflect the nature of those costs. The reclassification did not have an effect on total operating expenses or income from operations.

**Note 2 Acquisitions**

*Forrester Middle East FZ-LLC*

On January 22, 2009, Forrester acquired all of the outstanding share capital of Forrester Middle East FZ-LLC (FME), a Dubai, UAE based reseller of Forrester s products that also offered consulting services to local customers, to expand the Company s direct geographical presence in the area. The total purchase price was approximately \$1.1 million of which approximately \$0.6 million was paid on the acquisition date, \$0.2 million was paid in the three months ended June 30, 2009 and \$0.3 million was contingent upon the acquired company meeting certain financial metrics in 2009, which were not met and accordingly the final \$0.3 million was not required to be paid by Forrester. The results of FME s operations, which were not material to the consolidated financial statements, have been included in Forrester s consolidated financial statements since January 22, 2009, with the revenue included within the client group segment to which it relates. Pro forma financial information has not been provided as it is not material to the consolidated results of operations.

*Strategic Oxygen*

On December 1, 2009, Forrester acquired the Strategic Oxygen business to further support Forrester s syndicated business model and the Company s role-based strategy. The total purchase price was approximately \$7.3 million, of which approximately \$4.6 million was paid on the acquisition date, \$0.5 million was paid in February 2010 and \$0.4 million is payable in June 2011 subject to reduction for indemnification claims. The remaining purchase price of \$1.8 million represented contingent purchase price valued as of December 1, 2009, which was subject to adjustment based on the achievement of certain financial metrics related to the acquired business. Of the \$1.8 million contingent purchase price, \$0.2 million was paid in December 2009 and \$1.2 million was paid in February 2010 as full consideration. At December 31, 2009, the Company maintained approximately \$2.0 million in an escrow account classified as restricted cash in the Consolidated Balance Sheets related to the contingent purchase price. The balance of the escrow account was fully released as of March 31, 2010. The Company recorded a credit of approximately \$0.5 million within general and administrative expense during the three months ended March 31, 2010 as a result of a reduction in the estimated amount of contingent purchase price from December 31, 2009 to the final calculation date. The results of Strategic Oxygen, which were not material to the consolidated financial statements, have been included in Forrester s consolidated financial statements since December 1, 2009 in the Technology Industry Client Group segment. Pro forma financial information has not been provided as it is not material to the consolidated results of operations.

An agreement existed between an employee of Strategic Oxygen, who became an employee of Forrester upon the closing of the acquisition, and the seller of Strategic Oxygen that provided for an allocation of a portion of the contingent consideration from the seller to the employee. The contingent consideration was earned by the seller based upon the

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financial performance of Strategic Oxygen for a short period of time subsequent to the acquisition. Forrester was not a party to this agreement; however, this payment in the amount of \$0.2 million paid to Forrester's employee by the seller is considered to have resulted in services that benefited Forrester, and therefore the payment was required to be recorded as a non-cash compensation expense, within general and administrative expense, by Forrester and a capital contribution to Forrester by the seller.

**Note 3 Marketable Investments**

The following table summarizes the Company's marketable investments:

|                                                | <b>Amortized<br/>Cost</b> | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> | <b>Market<br/>Value</b> |
|------------------------------------------------|---------------------------|---------------------------------------|----------------------------------------|-------------------------|
| <b>March 31, 2010</b>                          |                           |                                       |                                        |                         |
| <i>Available-for-sale securities</i>           |                           |                                       |                                        |                         |
| State and municipal obligations                | \$ 37,531                 | \$ 288                                | \$                                     | 37,819                  |
| Federal agency and corporate obligations       | 70,165                    | 441                                   |                                        | 70,606                  |
| Total short-term available-for-sale securities | 107,696                   | 729                                   |                                        | 108,425                 |
| Non-UBS ARS, long-term                         | 11,000                    |                                       | (778)                                  | 10,222                  |
| Total available-for-sale securities            | 118,696                   | 729                                   | (778)                                  | 118,647                 |
| <i>Trading securities</i>                      |                           |                                       |                                        |                         |
| UBS ARS                                        | 29,225                    |                                       | (1,750)                                | 27,475                  |
| UBS Right                                      |                           | 1,750                                 |                                        | 1,750                   |
| Total securities                               | \$ 147,921                | \$ 2,479                              | \$ (2,528)                             | \$ 147,872              |
| <b>December 31, 2009</b>                       |                           |                                       |                                        |                         |
| <i>Available-for-sale securities</i>           |                           |                                       |                                        |                         |
| State and municipal obligations                | \$ 45,392                 | \$ 482                                | \$ (2)                                 | 45,872                  |
| Federal agency and corporate obligations       | 73,992                    | 498                                   |                                        | 74,490                  |
| Total short-term available-for-sale securities | 119,384                   | 980                                   | (2)                                    | 120,362                 |
| Non-UBS ARS                                    | 11,000                    |                                       | (1,050)                                | 9,950                   |
| Total available-for-sale securities            | 130,384                   | 980                                   | (1,052)                                | 130,312                 |
| <i>Trading securities</i>                      |                           |                                       |                                        |                         |
| UBS ARS                                        | 31,675                    |                                       | (2,100)                                | 29,575                  |
| UBS Right                                      |                           | 2,100                                 |                                        | 2,100                   |
| Total securities                               | \$ 162,059                | \$ 3,080                              | \$ (3,152)                             | \$ 161,987              |

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, 2010 or 2009.

The following table summarizes the maturity periods of the marketable securities in the Company's portfolio as of March 31, 2010. 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 current auction reset dates. The actual contractual maturities of these investments were they not to reset would occur at various dates between 2022 and 2041.

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|                                          | <b>FY 2010</b> | <b>FY 2011</b>        | <b>FY 2012</b> | <b>Total</b> |
|------------------------------------------|----------------|-----------------------|----------------|--------------|
|                                          |                | <b>(in thousands)</b> |                |              |
| Federal agency and corporate obligations | \$ 20,502      | \$ 32,589             | \$ 17,515      | \$ 70,606    |
| Non- ARS state and municipal obligations | 22,139         | 14,680                | 1,000          | 37,819       |
| UBS ARS                                  | 27,475         |                       |                | 27,475       |
| Non-UBS ARS                              | 10,222         |                       |                | 10,222       |
| UBS Right                                | 1,750          |                       |                | 1,750        |
| Total short and long-term investments    | \$ 82,088      | \$ 47,269             | \$ 18,515      | \$ 147,872   |

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

|                           | <b>As of March 31, 2010</b> |                          |                             |                          |
|---------------------------|-----------------------------|--------------------------|-----------------------------|--------------------------|
|                           | <b>Less Than 12 Months</b>  |                          | <b>12 Months or Greater</b> |                          |
|                           | <b>Market Value</b>         | <b>Unrealized Losses</b> | <b>Market Value</b>         | <b>Unrealized Losses</b> |
| State and municipal bonds | \$                          | \$                       | \$                          | \$                       |
| Non-UBS ARS               |                             |                          | 11,000                      | 778                      |
| Total                     | \$                          | \$                       | \$ 11,000                   | \$ 778                   |

|                           | <b>As of December 31, 2009</b> |                          |                             |                          |
|---------------------------|--------------------------------|--------------------------|-----------------------------|--------------------------|
|                           | <b>Less Than 12 Months</b>     |                          | <b>12 Months or Greater</b> |                          |
|                           | <b>Market Value</b>            | <b>Unrealized Losses</b> | <b>Market Value</b>         | <b>Unrealized Losses</b> |
| State and municipal bonds | \$ 1,148                       | \$ 2                     | \$                          | \$                       |
| Non-UBS ARS               | 11,000                         | 1,050                    |                             |                          |
| Total                     | \$ 12,148                      | \$ 1,052                 | \$                          | \$                       |

**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 value 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, 2010 and December 31, 2009 (in thousands):

**As of March 31, 2010**

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|                                          | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|------------------------------------------|----------------|----------------|----------------|--------------|
| Money market funds (1)                   | \$ 65,096      | \$             | \$             | \$ 65,096    |
| Federal agency and corporate obligations |                | 70,606         |                | 70,606       |
| State and municipal obligations          |                | 37,819         | 37,697         | 75,516       |
| UBS Right                                |                |                | 1,750          | 1,750        |
| Total                                    | \$ 65,096      | \$ 108,425     | \$ 39,447      | \$ 212,968   |

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|                                          |                  | <b>As of December 31, 2009</b> |                  |                   |
|------------------------------------------|------------------|--------------------------------|------------------|-------------------|
|                                          | <b>Level 1</b>   | <b>Level 2</b>                 | <b>Level 3</b>   | <b>Total</b>      |
| Money market funds (1)                   | \$ 50,472        | \$                             | \$               | \$ 50,472         |
| Federal agency and corporate obligations |                  | 74,490                         |                  | 74,490            |
| State and municipal obligations          |                  | 45,872                         | 39,525           | 85,397            |
| UBS Right                                |                  |                                | 2,100            | 2,100             |
| <b>Total</b>                             | <b>\$ 50,472</b> | <b>\$ 120,362</b>              | <b>\$ 41,625</b> | <b>\$ 212,459</b> |

(1) Included in cash and cash equivalents.

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 models, 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.

Level 3 assets primarily consist of municipal bonds with an auction reset feature (ARS) whose underlying assets are principally student loans which are substantially backed by the federal government and municipalities. 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 earn interest on its ARS investments at the contractual rate, these investments trade infrequently and therefore do not have a readily determinable market value. Accordingly, the estimated fair value of the ARS no longer approximates par value. At March 31, 2010, the Company held ARS with two investment advisors, both of which provided a valuation utilizing Level 3 inputs for the ARS investments. A large portion of these ARS are held by UBS AG (UBS), one of the Company's investment advisors. UBS utilized a discounted cash flow approach to arrive at its valuation, which was corroborated by a separate and comparable discounted cash flow analysis prepared by the Company. The assumptions used in preparing the discounted cash flow model include estimates, based on data available at March 31, 2010, of interest rates, timing and amount of cash flows, credit and liquidity premiums, and expected holding periods of the ARS. The discounted cash flow technique was used to value the ARS investments, which have had limited market activity since the auction failures began in 2008. In November 2008, the Company accepted an offer (the "Right") from UBS entitling the Company to sell at par value ARS originally purchased from UBS (approximately \$29.2 million and \$31.7 million par value at March 31, 2010 and December 31, 2009, respectively) ("UBS ARS") at anytime during a two-year period from June 30, 2010 through July 2, 2012. The Company valued the Right as an asset using a discounted cash flow approach including estimates of interest rates, timing and amount of cash flow, adjusted for any bearer risk associated with UBS's financial ability to repurchase the ARS beginning June 30, 2010, based on data available at March 31, 2010. The combined fair value of the Right and the UBS ARS is equal to the par value of the UBS ARS.

The other investment advisor provided a valuation at par value, which Forrester considered to be a Level 3 input based on the limited market activity. In addition to the valuation provided by the investment advisor, Forrester completed a valuation of the securities using a discounted cash flow model that included estimates of interest rates, timing and amount of cash flows, credit and liquidity premiums and expected holding periods of the securities. Forrester relied most heavily on its own valuation, based primarily on the lack of market activity in these securities, which resulted in an unrealized loss recorded in other comprehensive loss in the Consolidated Balance Sheets of \$0.8 million and \$1.1 million at March 31, 2010 and December 31, 2009, respectively. The Company believes that the loss is temporary due to the underlying credit rating of the securities and the fact that the Company does not intend to sell the



securities and is not more likely than not to be required to sell the securities. The assumptions used in valuing both the ARS and the Right are volatile and subject to change as the underlying sources of these assumptions and market conditions change.

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, 2010 and 2009 (in thousands):

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|                                        | <b>UBS<br/>Right</b> | <b>ARS</b> |
|----------------------------------------|----------------------|------------|
| Balance at December 31, 2009           | \$ 2,100             | \$ 39,525  |
| Sales/Maturities                       |                      | (2,450)    |
| Total gains (losses):                  |                      |            |
| Included in other comprehensive income |                      | 272        |
| Included in earnings                   | (350)                | 350        |
| Balance at March 31, 2010              | \$ 1,750             | \$ 37,697  |

|                                        | <b>UBS<br/>Right</b> | <b>ARS</b> |
|----------------------------------------|----------------------|------------|
| Balance at December 31, 2008           | \$ 6,887             | \$ 39,613  |
| Sales/Maturities                       |                      | (1,250)    |
| Total gains (losses):                  |                      |            |
| Included in other comprehensive income |                      | (1,050)    |
| Included in earnings                   | (5,483)              | 5,483      |
| Balance at March 31, 2009              | \$ 1,404             | \$ 42,796  |

**Note 4 Non-Marketable Investments**

At March 31, 2010 and December 31, 2009, the carrying value of the Company's non-marketable investments, which were comprised primarily of interests in technology-related private equity funds, were \$5.9 million and \$5.5 million, respectively.

One of the Company's investments, with a book value of \$1.9 million at March 31, 2010 and December 31, 2009, is being accounted for using the cost method and, accordingly, is valued at cost unless an other-than-temporary impairment in its value occurs or the investment is liquidated. The other investments are being accounted for using the equity method as the investments are limited partnerships and Forrester has an ownership interest in excess of 5% and, accordingly, Forrester records its share of the investee's operating results each period. During the three months ended March 31, 2010 the Company recorded a gain of approximately \$0.4 million which is included in gains on investments, net in the Consolidated Statements of Income. No gains or losses on investments were recorded during the three months ended March 31, 2009.

**Note 5 Reorganization**

The following table rolls forward the activity in the reorganization accrual for the three months ended March 31, 2010 (in thousands):

|                              | <b>Workforce<br/>Reduction</b> | <b>Facility<br/>Consolidation</b> | <b>Total</b> |
|------------------------------|--------------------------------|-----------------------------------|--------------|
| Accrual at December 31, 2009 | \$ 98                          | \$ 1,587                          | \$ 1,685     |
| Cash payments                | (2)                            | (347)                             | (349)        |
| Accrual at March 31, 2010    | \$ 96                          | \$ 1,240                          | \$ 1,336     |

The accrued costs related to the reorganization are expected to be paid as follows: \$0.8 million in the remainder of 2010 and \$0.5 million in 2011.

**Note 6 Net Income Per Common Share**

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

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

|                                                    | <b>Three Months Ended<br/>March 31,</b> |             |
|----------------------------------------------------|-----------------------------------------|-------------|
|                                                    | <b>2010</b>                             | <b>2009</b> |
| Basic weighted average common shares outstanding   | 22,389                                  | 22,946      |
| Weighted average common equivalent shares          | 488                                     | 160         |
| Diluted weighted average common shares outstanding | 22,877                                  | 23,106      |

As of March 31, 2010 and 2009, options to purchase 0.8 million and 2.2 million shares, respectively, were outstanding but not included in the diluted weighted average common share calculation as the effect would have been anti-dilutive.

**Note 7 Stockholders Equity***Comprehensive Income*

The components of total comprehensive income for the three months ended March 31, 2010 and 2009 are as follows (in thousands):

|                                                              | <b>Three Months Ended<br/>March 31,</b> |             |
|--------------------------------------------------------------|-----------------------------------------|-------------|
|                                                              | <b>2010</b>                             | <b>2009</b> |
| Net income                                                   | \$ 5,772                                | \$ 2,631    |
| Cumulative translation adjustment                            | (2,313)                                 | (1,726)     |
| Unrealized gain (loss) on marketable investments, net of tax | 50                                      | (534)       |
| Total comprehensive income                                   | \$ 3,509                                | \$ 371      |

*Equity Plans*

Stock option activity for the three months ended March 31, 2010 is presented below (in thousands, except per share data):

|                                  | <b>Number<br/>of<br/>Shares</b> | <b>Weighted<br/>-<br/>Average<br/>Exercise<br/>Price Per<br/>Share</b> | <b>Weighted -<br/>Average<br/>Remaining<br/>Contractual<br/>Term (in<br/>years)</b> | <b>Aggregate<br/>Intrinsic<br/>Value</b> |
|----------------------------------|---------------------------------|------------------------------------------------------------------------|-------------------------------------------------------------------------------------|------------------------------------------|
| Outstanding at December 31, 2009 | 3,090                           | \$ 25.18                                                               |                                                                                     |                                          |
| Granted                          | 40                              | 27.51                                                                  |                                                                                     |                                          |
| Exercised                        | (182)                           | 20.77                                                                  |                                                                                     |                                          |
| Forfeited                        | (49)                            | 29.35                                                                  |                                                                                     |                                          |
| Outstanding at March 31, 2010    | 2,899                           | \$ 25.42                                                               | 6.26                                                                                | \$ 16,550                                |
| Exercisable at March 31, 2010    | 1,939                           | \$ 24.92                                                               | 5.21                                                                                | \$ 12,943                                |

Restricted stock unit activity for the three months ended March 31, 2010 is presented below (in thousands, except per share data):

|                               |             | <b>Weighted-<br/>Average<br/>Grant Date<br/>Fair Value</b> |
|-------------------------------|-------------|------------------------------------------------------------|
|                               | <b>RSUs</b> |                                                            |
| Unvested at December 31, 2009 | 94,202      | \$ 25.21                                                   |
| Granted                       | 3,000       | 26.67                                                      |
| Vested or settled             |             |                                                            |
| Forfeited                     | (709)       | 25.25                                                      |
| Unvested at March 31, 2010    | 96,493      | \$ 25.25                                                   |

*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. Forrester recorded approximately \$1.1 million and \$2.2 million of stock-based compensation in the accompanying Consolidated Statements of Income for the three months ended March 31, 2010 and 2009, respectively, included in the following expense categories (in thousands):

|                                  | <b>Three Months Ended<br/>March 31,</b> |             |
|----------------------------------|-----------------------------------------|-------------|
|                                  | <b>2010</b>                             | <b>2009</b> |
| Cost of services and fulfillment | \$ 449                                  | \$ 1,149    |
| Selling and marketing            | 244                                     | 365         |
| General and administrative       | 413                                     | 678         |
| Total                            | \$ 1,106                                | \$ 2,192    |

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

|                                 | <b>Three Months Ended<br/>March 31, 2010</b> |                                                 | <b>Three Months Ended<br/>March 31, 2009</b> |                                                 |
|---------------------------------|----------------------------------------------|-------------------------------------------------|----------------------------------------------|-------------------------------------------------|
|                                 | <b>Equity<br/>Incentive<br/>Plans</b>        | <b>Employee<br/>Stock<br/>Purchase<br/>Plan</b> | <b>Equity<br/>Incentive<br/>Plans</b>        | <b>Employee<br/>Stock<br/>Purchase<br/>Plan</b> |
| Average risk-free interest rate | 1.99%                                        | 0.15%                                           | 1.37%                                        | 0.30%                                           |
| Expected dividend yield         | None                                         | None                                            | None                                         | None                                            |
| Expected life                   | 3.5<br>Years                                 | 0.5 Years                                       | 3.5<br>Years                                 | 0.5 Years                                       |
| Expected volatility             | 40%                                          | 25%                                             | 44%                                          | 44%                                             |
| Weighted average fair value     | \$ 8.58                                      | \$ 5.89                                         | \$ 8.24                                      | \$ 7.71                                         |

**Treasury Stock**

The Board of Directors of the Company has authorized an aggregate \$200 million to purchase common stock under the stock repurchase program. The shares repurchased may be used, among other things, in connection with Forrester's employee equity incentive and purchase plans. No shares were repurchased during the three months ended March 31, 2010. As of March 31, 2010, Forrester had repurchased approximately 7.0 million shares of common stock at an aggregate cost of approximately \$141.3 million.

**Note 8 Income Taxes**

Forrester provides for income taxes on an interim basis according to management's estimate of the effective tax rate expected to be applicable for the full fiscal year. Certain items such as adjustments to the Company's tax expense related to the prior fiscal year, changes in tax rates, foreign exchange losses on the remeasurement of deferred tax liabilities 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 9 Operating Segments**

Forrester is organized into three client groups with each client group responsible for writing relevant research for the roles within the client organizations on a worldwide basis. The three client groups are: Information Technology ( IT ), Technology Industry ( TI ), and Marketing and Strategy ( M&S ). All of the client groups generate revenues through sales of research and advisory and other service offerings targeted at specific roles within their targeted clients. Each of the client groups 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.

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 intangibles and reorganization costs. In the first quarter of 2010, the Company modified its calculation of segment direct margin to exclude all selling costs. Accordingly, the 2009 amounts have been reclassified to conform to the current

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presentation. The accounting policies used by the reportable segments are the same as those used in the consolidated financial statements.

Forrester does not identify or allocate assets, including capital expenditures, by operating segment. Accordingly, assets are not being reported by segment because the information is not available by segment and is not reviewed in the evaluation of performance or in making decisions on the allocation of resources.

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

|                                                       | IT        | TI        | M&S       | Events   | Consolidated |
|-------------------------------------------------------|-----------|-----------|-----------|----------|--------------|
| <b>Three months ended March 31, 2010</b>              |           |           |           |          |              |
| Revenue                                               | \$ 22,811 | \$ 18,530 | \$ 16,760 | \$ 1,079 | \$ 59,180    |
| Direct margin                                         | 15,913    | 13,915    | 10,159    | (120)    | 39,867       |
| Selling, marketing, administrative and other expenses |           |           |           |          | (31,224)     |
| Amortization of intangible assets                     |           |           |           |          | (905)        |
| Income from operations                                |           |           |           |          | \$ 7,738     |

|                                                       | IT        | TI        | M&S       | Events   | Consolidated |
|-------------------------------------------------------|-----------|-----------|-----------|----------|--------------|
| <b>Three months ended March 31, 2009</b>              |           |           |           |          |              |
| Revenue                                               | \$ 22,830 | \$ 17,057 | \$ 15,122 | \$ 1,398 | \$ 56,407    |
| Direct margin                                         | 15,632    | 13,053    | 8,085     | 134      | 36,904       |
| Selling, marketing, administrative and other expenses |           |           |           |          | (29,922)     |
| Amortization of intangible assets                     |           |           |           |          | (656)        |
| Reorganization costs                                  |           |           |           |          | (3,141)      |
| Income from operations                                |           |           |           |          | \$ 3,185     |

**Note 10 Recent Accounting Pronouncements**

Effective January 1, 2010 the Company adopted ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*, or ASU 2010-06. A reporting entity should provide additional disclosures about the different classes of assets and liabilities measured at fair value, the valuation techniques and inputs used, the activity in Level 3 fair value measurements, and the transfers between Levels 1, 2, and 3 fair value measurements. The adoption of the additional disclosures for Level 1 and Level 2 fair value measurements did not have an impact on the Company's financial position, results of operations or cash flows. The disclosures regarding Level 3 fair value measurements do not become effective until January 1, 2011 and, given such, the Company is currently evaluating the potential impact of this part of the update.

Effective January 1, 2010, the Company adopted ASU No. 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*, or ASU 2009-17. The amendments in this update replace the quantitative-based risks and rewards calculation for determining which reporting entity, if any, has a controlling financial interest in a variable interest entity with an approach focused on identifying which reporting entity has the power to direct the activities of a variable interest entity that most significantly impacts the entity's economic performance and (1) the obligation to absorb losses of the entity or (2) the right to receive benefits from the entity. An approach that is expected to be primarily qualitative will be more effective for identifying which reporting entity has a controlling financial interest in a variable interest entity. The amendments in this update also require additional disclosures about a reporting entity's involvement in variable interest entities, which will enhance the information provided to users of financial statements. The adoption of this standard did not have an impact on the Company's financial position, results of operations or cash flows.



In September 2009, the FASB issued Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13). It updates the existing multiple-element revenue arrangements guidance currently included under ASC 605-25, which originated primarily from the guidance in EITF Issue No. 00-21, *Revenue Arrangements with Multiple Deliverables* (EITF 00-21). The revised guidance primarily provides two significant changes: 1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and 2) eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. ASU 2009-13 will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company is currently assessing the future impact of this new accounting update to its consolidated financial statements.

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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 and the success of and demand for our research and advisory products and services. 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 respond to business and economic conditions, technology spending, market trends, competition, the ability to attract and retain professional staff, possible variations in our quarterly operating results, any cost savings related to reductions in force and associated actions, risks associated with our ability to offer new products and services and our dependence on renewals of our membership-based research services and on key personnel. These risks are described more completely in our Annual Report on Form 10-K for the year ended December 31, 2009. 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, 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 are recognized during the period in which the customer receives the agreed upon deliverable and consulting project revenues, which 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, bonuses, employee benefits, stock-based compensation expense, travel expenses, promotional costs, sales commissions, 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 strategy 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 and enrichment 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. No single client accounted for more than 2% of agreement value at March 31, 2010.

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

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

**Enrichment** the percentage of the dollar value of client membership contracts renewed during the period to the dollar value of the corresponding expiring contracts.

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):

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|                   | <b>As of<br/>March 31,</b> |             | <b>Absolute<br/>Increase<br/>(Decrease)</b> | <b>Percentage<br/>Increase<br/>(Decrease)</b> |
|-------------------|----------------------------|-------------|---------------------------------------------|-----------------------------------------------|
|                   | <b>2010</b>                | <b>2009</b> |                                             |                                               |
| Deferred revenue  | \$ 117.6                   | \$ 108.4    | \$ 9.2                                      | 8%                                            |
| Agreement value   | \$ 185.3                   | \$ 201.9    | \$ (16.6)                                   | (8)%                                          |
| Client retention  | 77%                        | 73%         | 4                                           | 5%                                            |
| Dollar retention  | 88%                        | 83%         | 5                                           | 6%                                            |
| Enrichment        | 98%                        | 101%        | (3)                                         | (3)%                                          |
| Number of clients | 2,487                      | 2,585       | (98)                                        | (4)%                                          |

The increase in deferred revenue from March 31, 2009 to March 31, 2010 is primarily due to increased demand for our products due to the improvement in the economy as well as the effect of the Strategic Oxygen acquisition in December 2009. The decrease in agreement value from March 31, 2009 to March 31, 2010 is primarily due to a change in the calculation to exclude agreement value in excess of the first year value for multiple year contracts signed in 2009 and beyond. Our client retention metrics, which are based on a twelve-month period, showed mixed results. Client and dollar retention rates have increased which is consistent with improved economic activity in 2010; however, the enrichment rate at March 31, 2010, which trended up from 96% at December 31, 2009, still lags the March 31, 2009 rate.

**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, allowance for doubtful accounts, 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 critical accounting policies and estimates are described in our Annual Report on Form 10-K for the year ended December 31, 2009.

**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<br/>March 31,</b> |             |
|-----------------------------------|-----------------------------------------|-------------|
|                                   | <b>2010</b>                             | <b>2009</b> |
| Revenues:                         |                                         |             |
| Research services                 | 67%                                     | 69%         |
| Advisory services and other       | 33                                      | 31          |
| Total revenues                    | 100                                     | 100         |
| Operating expenses:               |                                         |             |
| Cost of services and fulfillment  | 38                                      | 41          |
| Selling and marketing             | 34                                      | 33          |
| General and administrative        | 12                                      | 12          |
| Depreciation                      | 2                                       | 2           |
| Amortization of intangible assets | 1                                       | 1           |

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|                            |     |    |
|----------------------------|-----|----|
| Reorganization costs       |     | 5  |
| Income from operations     | 13  | 6  |
| Other income, net          | 2   | 2  |
| Gains on investments, net  | 1   |    |
| Income before income taxes | 16  | 8  |
| Income tax provision       | 6   | 3  |
| Net income                 | 10% | 5% |

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|                                                                   | <b>Three Months<br/>Ended<br/>March 31,</b> |             | <b>Absolute</b>   | <b>Percentage</b> |
|-------------------------------------------------------------------|---------------------------------------------|-------------|-------------------|-------------------|
|                                                                   | <b>2010</b>                                 | <b>2009</b> | <b>Increase</b>   | <b>Increase</b>   |
|                                                                   | <b>(dollars in millions)</b>                |             | <b>(Decrease)</b> | <b>(Decrease)</b> |
| Revenues                                                          | \$ 59.2                                     | \$ 56.4     | \$ 2.8            | 5%                |
| Revenues from research services                                   | \$ 39.4                                     | \$ 39.1     | \$ 0.3            | 1%                |
| Revenues from advisory services and other                         | \$ 19.8                                     | \$ 17.3     | \$ 2.5            | 14%               |
| Revenues attributable to customers outside of the US              | \$ 17.6                                     | \$ 16.1     | \$ 1.5            | 9%                |
| Percentage of revenue attributable to customers outside of the US | 30%                                         | 29%         | 1%                | 3%                |
| Number of clients (at end of period)                              | 2,487                                       | 2,585       | (98)              | (4)%              |
| Number of research employees (at end of period)                   | 357                                         | 389         | (32)              | (8)%              |
| Number of events                                                  | 4                                           | 4           |                   |                   |

The increase in total revenues is principally the result of the acquisition of Strategic Oxygen in December 2009 (approximately 2% of revenue growth), increased demand for our advisory and consulting services, and the impact of foreign exchange (approximately 1% of revenue growth). The increase in international revenues as a percentage of total revenues is primarily attributable to foreign exchange rates.

***Cost of Services and Fulfillment***

|                                                                    | <b>March 31,</b> |             | <b>Increase</b>   | <b>Increase</b>   |
|--------------------------------------------------------------------|------------------|-------------|-------------------|-------------------|
|                                                                    | <b>2010</b>      | <b>2009</b> | <b>(Decrease)</b> | <b>(Decrease)</b> |
| Cost of services and fulfillment (dollars in millions)             | \$ 22.3          | \$ 23.0     | \$ (0.7)          | (3)%              |
| Cost of services and fulfillment as a percentage of total revenues | 38%              | 41%         | (3)               | (7)%              |
| Number of research and fulfillment employees (at end of period)    | 429              | 466         | (37)              | (8)%              |

The decrease in cost of services and fulfillment in dollars and as a percentage of total revenues during the three months ended March 31, 2010 compared to the prior period is primarily the result of the presence in the prior period of stock-based compensation expense from the accelerated vesting of performance-based stock options. The decrease in expenses was also attributable to lower facility and salary costs due to a decrease in the number of employees, partially offset by increased travel related costs and increased costs due to the acquisition of Strategic Oxygen.

***Selling and Marketing***

|                                                                  | <b>March 31,</b> |             | <b>Increase</b>   | <b>Increase</b>   |
|------------------------------------------------------------------|------------------|-------------|-------------------|-------------------|
|                                                                  | <b>2010</b>      | <b>2009</b> | <b>(Decrease)</b> | <b>(Decrease)</b> |
| Selling and marketing expenses (dollars in millions)             | \$ 20.1          | \$ 18.4     | \$ 1.7            | 9%                |
| Selling and marketing expenses as a percentage of total revenues | 34%              | 33%         | 1                 | 3%                |
| Selling and marketing employees (at end of period)               | 404              | 384         | 20                | 5%                |

The increase in selling and marketing expenses in dollars and as a percentage of total revenues during the three months ended March 31, 2010 is primarily due to an increase in compensation and benefits costs resulting from an increase in the number of selling and marketing employees as well as to an increase in sales commissions. The increase is also attributable to increased travel related costs and professional services, partially offset by lower facility costs.



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|                                                                                                                                                                                                                                                                                                        | <b>Three Months<br/>Ended<br/>March 31,</b> |             | <b>Absolute<br/>Increase<br/>(Decrease)</b> | <b>Percentage<br/>Increase<br/>(Decrease)</b> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------|-------------|---------------------------------------------|-----------------------------------------------|
|                                                                                                                                                                                                                                                                                                        | <b>2010</b>                                 | <b>2009</b> |                                             |                                               |
| General and administrative expenses (dollars in millions)                                                                                                                                                                                                                                              | \$ 7.2                                      | \$ 7.0      | \$ 0.2                                      | 3%                                            |
| General and administrative expenses as a percentage of total revenues                                                                                                                                                                                                                                  | 12%                                         | 12%         |                                             |                                               |
| General and administrative employees (at end of period)                                                                                                                                                                                                                                                | 153                                         | 143         | 10                                          | 7%                                            |
| The increase in general and administrative expense during the three months ended March 31, 2010 is primarily due to an increase in compensation and benefits costs resulting from an increase in the number of general and administrative employees as well as to an increase in travel related costs. |                                             |             |                                             |                                               |

***Depreciation***

|                                                                                                                                        | <b>March 31,</b> |             | <b>Increase<br/>(Decrease)</b> | <b>Increase<br/>(Decrease)</b> |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------|--------------------------------|--------------------------------|
|                                                                                                                                        | <b>2010</b>      | <b>2009</b> |                                |                                |
| Depreciation expense (dollars in millions)                                                                                             | \$ 0.9           | \$ 1.1      | \$ (0.2)                       | (18)%                          |
| Depreciation expense as a percentage of total revenues                                                                                 | 2%               | 2%          |                                |                                |
| Depreciation expense was consistent during the three months ended March 31, 2010 as compared to the three months ended March 31, 2009. |                  |             |                                |                                |

***Amortization of Intangible Assets***

|                                                                                                                                        | <b>March 31,</b> |             | <b>Increase<br/>(Decrease)</b> | <b>Increase<br/>(Decrease)</b> |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------|--------------------------------|--------------------------------|
|                                                                                                                                        | <b>2010</b>      | <b>2009</b> |                                |                                |
| Amortization expense (dollars in millions)                                                                                             | \$ 0.9           | \$ 0.7      | \$ 0.2                         | 29%                            |
| Amortization expense as a percentage of total revenues                                                                                 | 1%               | 1%          |                                |                                |
| Amortization expense was consistent during the three months ended March 31, 2010 as compared to the three months ended March 31, 2009. |                  |             |                                |                                |

***Reorganization Costs***

|                                                                                                                                                                                                                        | <b>March 31,</b> |             | <b>Increase<br/>(Decrease)</b> | <b>Increase<br/>(Decrease)</b> |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------|--------------------------------|--------------------------------|
|                                                                                                                                                                                                                        | <b>2010</b>      | <b>2009</b> |                                |                                |
| Reorganization costs (dollars in millions)                                                                                                                                                                             | \$               | \$ 3.1      | \$ (3.1)                       | (100)%                         |
| Reorganization costs as a percentage of total revenues                                                                                                                                                                 |                  | 5%          | (5)                            | (100)%                         |
| Reorganization costs of \$3.1 million in 2009 primarily related to severance and related benefits costs incurred in connection with the termination of approximately 50 positions and to facility consolidation costs. |                  |             |                                |                                |

***Other Income, Net***

|                                                                                                                                                                         | <b>March 31,</b> |             | <b>Increase<br/>(Decrease)</b> | <b>Increase<br/>(Decrease)</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|-------------|--------------------------------|--------------------------------|
|                                                                                                                                                                         | <b>2010</b>      | <b>2009</b> |                                |                                |
| Other income, net (dollars in millions)                                                                                                                                 | \$ 1.1           | \$ 1.3      | \$ (0.2)                       | (15)%                          |
| Other income, net as a percentage of total revenues                                                                                                                     | 2%               | 2%          |                                |                                |
| The decrease in other income, net, in the three months ended March 31, 2010 is primarily due to lower interest income resulting from lower returns on invested capital. |                  |             |                                |                                |





**Table of Contents*****Gains on Investments, Net***

|                                                             | <b>March 31,<br/>2010</b> | <b>March 31,<br/>2009</b> | <b>Increase<br/>(Decrease)</b> | <b>Increase<br/>(Decrease)</b> |
|-------------------------------------------------------------|---------------------------|---------------------------|--------------------------------|--------------------------------|
| Gains on investments, net (dollars in millions)             | \$ 0.4                    | \$                        | \$ 0.4                         | N/A                            |
| Gains on investments, net as a percentage of total revenues | 1%                        | 0%                        | 1                              | N/A                            |

Gains on investments during the three months ended March 31, 2010 represent our share of our equity method investment gains for the period.

***Provision for Income Taxes***

|                                                  | <b>March 31,<br/>2010</b> | <b>March 31,<br/>2009</b> | <b>Increase<br/>(Decrease)</b> | <b>Increase<br/>(Decrease)</b> |
|--------------------------------------------------|---------------------------|---------------------------|--------------------------------|--------------------------------|
| Provision for income taxes (dollars in millions) | \$ 3.5                    | \$ 1.8                    | \$ 1.7                         | 94%                            |
| Effective tax rate                               | 38%                       | 41%                       | (3)                            | (7)%                           |

The decrease in the effective tax rate during the three months ended March 31, 2010 is primarily due to a non-cash foreign exchange gain on the remeasurement of a euro-denominated deferred tax liability.

***Liquidity and Capital Resources***

We have financed our operations primarily through funds generated from operations. Memberships for research services, which constituted approximately 67% of our revenues during the three months ended March 31, 2010, are annually renewable and are generally payable in advance. We generated cash from operating activities of \$23.1 million and \$20.7 million during the three months ended March 31, 2010 and 2009, respectively. The increase in cash provided from operations of \$2.4 million for the three months ended March 31, 2010 is primarily attributable to an increase in net income of \$3.1 million for the period. We generated \$19.8 million of cash from the collection of accounts receivable during the three months ended March 31, 2010. In the first quarter of the year, we traditionally generates a significant amount of cash from collections of accounts receivable, as a significant portion of our business is contracted for and billed in the fourth quarter of the year.

During the three months ended March 31, 2010, we generated \$12.7 million of cash from investing activities, consisting primarily of \$13.7 million in proceeds from net maturities of marketable investments which was partially offset by \$1.4 million of property and equipment purchases. In addition, approximately \$1.9 million was released from an escrow account as the contingent purchase price element of the Strategic Oxygen acquisition was settled and paid during the quarter. During the three months ended March 31, 2009, we used \$32.4 million of cash from investing activities, consisting primarily of \$29.5 million used for net purchases of marketable investments and \$2.6 million of property and equipment purchases. We regularly invest excess funds in short and intermediate-term interest-bearing obligations of investment grade.

We generated \$3.9 million of cash in financing activities during the three months ended March 31, 2010 from proceeds from exercises of employee stock options. We did not repurchase any of our common stock during the current period; however, we intend to be opportunistic regarding future purchases of our common stock and have \$58.8 million remaining on our repurchase authorization. We used \$4.5 million of cash from financing activities during the three months ended March 31, 2009 primarily from \$4.9 million of purchases of our common stock, partially offset by \$0.4 million of proceeds from exercises of employee stock options.

As of March 31, 2010, we held approximately \$37.7 million (\$40.2 million par value) of state and municipal bonds with an auction reset feature (auction rate securities or ARS) whose underlying assets are generally student loans which are substantially backed by the federal government or municipalities. 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. In November 2008, we accepted an offer (the Right) from UBS AG (UBS), one of our investment advisors, entitling us to sell at par ARS originally purchased from UBS (approximately \$29.2 million par value) at anytime during a two-year period from June 30, 2010 to July 2, 2012 (UBS ARS). We currently intend to sell our UBS ARS, valued at \$27.5 million at March 31, 2010, to UBS

under the Right during the second half of 2010. Based on our expected operating cash flows and our cash resources, we do not anticipate the current lack of liquidity on our ARS investments will affect our ability to execute our current business plan.

As of March 31, 2010, we had cash and cash equivalents of \$135.2 million and marketable investments and long-term investments of \$147.9 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 plan to continue to introduce new products and services and expect to make minimal investments in our infrastructure during the next 12 months. We believe that our current cash balance, short-term

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investments, and cash flows from operations will satisfy working capital, financing activities, and capital expenditure requirements for at least the next two years. Under a build-to-suit lease entered into on September 29, 2009, whereby the landlord will build a new corporate headquarters for us in Cambridge, Massachusetts, we have committed to construct approximately \$14.8 million of leasehold improvements in the building under the terms of the lease. We expect to incur the majority of these costs in 2011. The funding for the leasehold improvements has been placed in an escrow account and is included in restricted cash on the Consolidated Balance Sheets at March 31, 2010 and December 31, 2009. The \$14.8 million in escrow will be increased or decreased based upon the final estimate of construction costs and will be released from escrow as the leasehold improvements are constructed.

### **Contractual Obligations**

There have been no material changes to the contractual obligations tables as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

### **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, 2009.

### **ITEM 4. CONTROLS AND PROCEDURES**

#### **Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures, as such term is defined under Securities Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2010. Based upon their evaluation and subject to the foregoing, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of that date.

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

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **ITEM 6. EXHIBITS**

- 10.1 Forrester Research, Inc. Stock Option Plan for Directors, as amended
- 31.1 Certification of the Principal Executive Officer
- 31.2 Certification of the Principal Financial Officer
- 32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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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, 2010

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Exhibit Index

| <b>Exhibit No.</b> | <b>Document</b>                                                                                         |
|--------------------|---------------------------------------------------------------------------------------------------------|
| 10.1               | Forrester Research, Inc. Stock Option Plan for Directors, as amended                                    |
| 31.1               | Certification of the Principal Executive Officer                                                        |
| 31.2               | Certification of the Principal Financial Officer                                                        |
| 32.1               | Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2               | Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |