

FORRESTER RESEARCH INC

Form 10-Q

May 10, 2011

**Table of Contents**

**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, 2011**  
**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  Smaller 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 6, 2011, 22,710,000 shares of the registrant's common stock were outstanding.

FORRESTER RESEARCH, INC.  
INDEX TO FORM 10-Q

|   | <b>PAGE</b> |
|---|-------------|
| <b><u>PART I. FINANCIAL INFORMATION</u></b>   | <b>3</b>    |
| <b><u>ITEM 1. Financial Statements</u></b>  | <b>3</b>    |
| <u>Consolidated Balance Sheets as of March 31, 2011 (Unaudited) and December 31, 2010</u>                   | 3           |
| <u>Consolidated Statements of Income for the Three Months Ended March 31, 2011 and 2010 (Unaudited)</u>     | 4           |
| <u>Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010 (Unaudited)</u> | 5           |
| <u>Notes to Consolidated Financial Statements</u>   | 6           |
| <b><u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b> | <b>14</b>   |
| <b><u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>                            | <b>19</b>   |
| <b><u>ITEM 4. Controls and Procedures</u></b>   | <b>19</b>   |
| <b><u>PART II. OTHER INFORMATION</u></b>  | <b>19</b>   |
| <b><u>ITEM 1A. Risk Factors</u></b>   | <b>19</b>   |
| <b><u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>                           | <b>19</b>   |
| <b><u>ITEM 6. Exhibits</u></b>  | <b>21</b>   |
| <u>EX-31.1</u>  |             |
| <u>EX-31.2</u>  |             |
| <u>EX-32.1</u>  |             |
| <u>EX-32.2</u>  |             |

**Table of Contents**PART I. FINANCIAL INFORMATION  
ITEM 1. FINANCIAL STATEMENTSFORRESTER RESEARCH, INC.  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except per share data)

|   | <b>March 31,<br/>2011<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2010</b> |
|---|---|----------------------------------|
| <b>ASSETS</b>                                   |   |                                  |
| Current Assets:                                 |   |                                  |
| Cash and cash equivalents                       | \$ 97,600                                 | \$ 86,927                        |
| Marketable investments (Note 3)                 | 133,090                                   | 119,990                          |
| Accounts receivable, net                        | 48,280                                    | 73,574                           |
| Deferred income taxes                           | 4,040                                     | 4,089                            |
| Deferred commissions                            | 11,795                                    | 12,598                           |
| Prepaid expenses and other current assets       | 19,426                                    | 16,733                           |
| Restricted cash                                 | 3,683                                     | 3,879                            |
| <br>  |   |                                  |
| Total current assets                            | 317,914                                   | 317,790                          |
| Long-term marketable securities (Note 3)        | 9,117                                     | 9,117                            |
| Restricted cash                                 | 4,623                                     | 11,609                           |
| Property and equipment, net                     | 30,875                                    | 19,838                           |
| Deferred income taxes                           | 7,743                                     | 7,779                            |
| Goodwill  | 68,237                                    | 67,958                           |
| Intangible assets, net                          | 7,794                                     | 8,487                            |
| Non-marketable investments (Note 4)             | 7,834                                     | 7,359                            |
| Other assets                                    | 557                                       | 540                              |
| <br>  |   |                                  |
| Total assets                                    | \$ 454,694                                | \$ 450,477                       |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>      |   |                                  |
| Current Liabilities:                            |   |                                  |
| Accounts payable                                | \$ 4,675                                  | \$ 3,644                         |
| Accrued expenses                                | 31,768                                    | 36,485                           |
| Deferred revenue                                | 137,527                                   | 131,521                          |
| <br>  |   |                                  |
| Total current liabilities                       | 173,970                                   | 171,650                          |
| Non-current liabilities                         | 8,685                                     | 6,920                            |
| <br>  |   |                                  |
| Total liabilities                               | 182,655                                   | 178,570                          |
| <br>  |   |                                  |
| Stockholders' Equity (Note 7):                  |   |                                  |
| Preferred stock, \$.01 par value                |   |                                  |
| Authorized - 500 shares, issued and outstanding | none                                      |                                  |
| Common stock, \$.01 par value                   |   |                                  |

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|   |            |            |
|---|------------|------------|
| Authorized - 125,000 shares   |            |            |
| Issued - 30,578 and 30,500 as of March 31, 2011 and<br>December 31, 2010, respectively                |            |            |
| Outstanding - 22,653 and 22,812 as of March 31, 2011 and<br>December 31, 2010, respectively           | 306        | 305        |
| Additional paid-in capital  | 361,541    | 358,017    |
| Retained earnings   | 84,563     | 81,652     |
| Treasury stock - 7,925 and 7,688 as of March 31, 2011 and<br>December 31, 2010, respectively, at cost | (171,162)  | (162,595)  |
| Accumulated other comprehensive loss  | (3,209)    | (5,472)    |
| Total stockholders' equity  | 272,039    | 271,907    |
| Total liabilities and stockholders' equity  | \$ 454,694 | \$ 450,477 |

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

**Table of Contents**

FORRESTER RESEARCH, INC.  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share data)

|  | <b>Three Months Ended March<br/>31,<br/>2011                      2010<br/>(Unaudited)</b> |               |
|--|--|---------------|
| Revenues:  |  |               |
| Research services                                  | \$ 44,547  | \$ 39,416     |
| Advisory services and other                        | 21,195   | 19,764        |
| <b>Total revenues</b>                              | <b>65,742</b>  | <b>59,180</b> |
| <br>   |  |               |
| Operating expenses:                                |  |               |
| Cost of services and fulfillment                   | 25,498   | 22,327        |
| Selling and marketing                              | 25,465   | 20,088        |
| General and administrative                         | 8,918  | 7,204         |
| Depreciation                                       | 970  | 918           |
| Amortization of intangible assets                  | 693  | 905           |
| <b>Total operating expenses</b>                    | <b>61,544</b>  | <b>51,442</b> |
| <br>   |  |               |
| Income from operations                             | 4,198  | 7,738         |
| <br>   |  |               |
| Other income (expense), net                        | (109)  | 1,075         |
| Gains on investments, net                          | 582  | 425           |
| <br>   |  |               |
| Income before income taxes                         | 4,671  | 9,238         |
| <br>   |  |               |
| Income tax provision                               | 1,760  | 3,466         |
| <br>   |  |               |
| Net income   | \$ 2,911   | \$ 5,772      |
| <br>   |  |               |
| Basic income per common share                      | \$ 0.13  | \$ 0.26       |
| <br>   |  |               |
| Diluted income per common share                    | \$ 0.13  | \$ 0.25       |
| <br>   |  |               |
| Basic weighted average common shares outstanding   | 22,713   | 22,389        |
| <br>   |  |               |
| Diluted weighted average common shares outstanding | 23,252   | 22,877        |

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



**Table of Contents**

FORRESTER RESEARCH, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)

|   | <b>Three Months Ended March</b> |             |
|---|---------------------------------|-------------|
|   | <b>31,</b>                      |             |
|   | <b>2011</b>                     | <b>2010</b> |
|   | <b>(Unaudited)</b>              |             |
| Cash flows from operating activities:   |                                 |             |
| Net income  | \$ 2,911                        | \$ 5,772    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |             |
| Depreciation  | 970                             | 919         |
| Amortization of intangible assets   | 693                             | 905         |
| Net gains from investments  | (582)                           | (425)       |
| Deferred income taxes   | 495                             | (336)       |
| Stock-based compensation  | 1,438                           | 1,106       |
| Amortization of premium on investments  | 812                             | 400         |
| Foreign currency (gains) losses   | 562                             | (386)       |
| Other non-cash items  |                                 | 193         |
| Changes in assets and liabilities, net of acquisitions                            |                                 |             |
| Accounts receivable   | 25,956                          | 19,809      |
| Deferred commissions  | 804                             | (469)       |
| Prepaid expenses and other current assets   | (2,627)                         | (3,998)     |
| Accounts payable  | 988                             | 900         |
| Accrued expenses  | (4,754)                         | (2,350)     |
| Deferred revenue  | 4,495                           | 1,088       |
| Net cash provided by operating activities   | 32,161                          | 23,128      |
| Cash flows from investing activities:   |                                 |             |
| Acquisitions  |                                 | (1,660)     |
| Purchases of property and equipment   | (10,711)                        | (1,402)     |
| Purchases of marketable investments   | (32,038)                        | (19,820)    |
| Proceeds from sales and maturities of marketable investments                      | 18,039                          | 33,566      |
| Decrease in restricted cash   | 7,182                           | 1,934       |
| Other investing activity  | 82                              | 39          |
| Net cash provided by (used in) investing activities                               | (17,446)                        | 12,657      |
| Cash flows from financing activities:   |                                 |             |
| Proceeds from issuance of common stock under employee equity incentive plans      | 2,055                           | 3,780       |
| Excess tax benefits from stock-based compensation                                 | 31                              | 133         |
| Repurchases of common stock   | (8,567)                         |             |
| Net cash provided by (used in) financing activities                               | (6,481)                         | 3,913       |



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|  |           |            |
|--|-----------|------------|
| Effect of exchange rate changes on cash and cash equivalents | 2,439     | (2,257)    |
| Net increase in cash and cash equivalents                    | 10,673    | 37,441     |
| Cash and cash equivalents, beginning of period               | 86,927    | 97,805     |
| Cash and cash equivalents, end of period                     | \$ 97,600 | \$ 135,246 |

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

5

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**Table of Contents**

**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. The year-end balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. It is recommended that these financial statements be read in conjunction with the consolidated financial statements and related notes that appear in the Forrester Research, Inc. ( Forrester ) Annual Report on Form 10-K for the year ended December 31, 2010. 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, 2011 may not be indicative of the results for the year ending December 31, 2011, or any other period.

**Note 2 Revenue Recognition**

Effective January 1, 2011 the Company adopted Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13). ASU 2009-13 updates the previous multiple-element revenue arrangements guidance. The revised guidance primarily provides three significant changes: 1) it eliminates the need for objective and reliable evidence of the fair value of the undelivered element in order for a delivered item to be treated as a separate unit of accounting; 2) it eliminates the residual method to allocate the arrangement consideration; and, 3) it modifies the fair value requirements of EITF Issue 00-21 by providing best estimate of selling price in addition to vendor specific objective evidence and vendor objective evidence for determining the selling price of a deliverable. In addition, the guidance also expands the disclosure requirements for revenue recognition. The Company adopted the new standard effective January 1, 2011 for contracts entered into or materially modified after that date. The adoption of ASU 2009-13 did not have a material impact on the Company's financial position, results of operations or cash flows.

Forrester generates revenues from licensing research (including our data products), performing advisory services and consulting projects and hosting events. Forrester executes contracts that govern the terms and conditions of each arrangement. Revenues are recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, services have been provided to the customer, and collectability is reasonably assured. Revenue contracts may include either a single product or service or a combination of multiple products and services. Revenues from contracts that contain multiple products and services are allocated among the separate units of accounting based on their relative selling prices; however, the amount recognized is limited to the amount that is not contingent on future performance conditions. The Company obtains the selling prices of its products and services based on an analysis of standalone sales of these products and services during the year. Research service revenues are recognized ratably over the term of the contract. Advisory service revenues are recognized when 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. Losses on consulting project contracts, if any, would be recognized in the period in which the loss first becomes probable and reasonably estimable. Reimbursed out-of-pocket expenses are recorded as advisory services revenue. Event revenues are recognized upon completion of the event.

Annual subscriptions to our RoleView research includes access to all or a designated portion of our research, and depending on the type of license, membership in one or more of our Forrester leadership boards, unlimited phone or email analyst inquiry, unlimited participation in Forrester Teleconferences, and the right to attend one event. Contracts for RoleView research entered into prior to the adoption of ASU 2009-13 on January 1, 2011, were accounted for as one unit of accounting and recognized ratably as research services revenue over the membership period. Contracts for RoleView research entered into or significantly modified after January 1, 2011 are accounted for as two units of accounting: 1) the event ticket and 2) the remaining research services that are delivered throughout the contract period

based on the new guidance that permits alternative methods of determining selling price as it relates to the components that we do not sell on a standalone basis, such as research services in this case. Arrangement consideration is allocated to each of these elements based upon their relative selling prices, which is based on standalone sales of event tickets and the estimated selling price of the remaining research services. Annual subscriptions to our data products include access to designated survey data products and access to a data specialist, which are delivered throughout the year, and are accounted for as one unit of accounting and recognized ratably as research services revenue over the membership period. Clients are offered a service guarantee, which gives them the right to cancel their contracts prior to the end of the contract term and receive a refund for unused products or services.

**Table of Contents****FORRESTER RESEARCH, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 3 Marketable Investments**

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

|  | <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, 2011</b>                          |                           |                                       |  |                         |
| <i>Available-for-sale securities</i>           |                           |                                       |  |                         |
| State and municipal obligations                | \$ 11,968                 | \$ 22                                 | \$ (17)                                | 11,973                  |
| Federal agency and corporate obligations       | 120,909                   | 378                                   | (170)                                  | 121,117                 |
| Total short-term available-for-sale securities | 132,877                   | 400                                   | (187)                                  | 133,090                 |
| ARS, long-term                                 | 11,000                    |                                       | (1,883)                                | 9,117                   |
| Total available-for-sale securities            | \$ 143,877                | \$ 400                                | \$ (2,070)                             | \$ 142,207              |
|  |                           |                                       |  |                         |
|  | <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>December 31, 2010</b>                       |                           |                                       |  |                         |
| <i>Available-for-sale securities</i>           |                           |                                       |  |                         |
| State and municipal obligations                | \$ 12,011                 | \$ 23                                 | \$ (25)                                | \$ 12,009               |
| Federal agency and corporate obligations       | 107,669                   | 483                                   | (171)                                  | 107,981                 |
| Total short-term available-for-sale securities | 119,680                   | 506                                   | (196)                                  | 119,990                 |
| ARS, long-term                                 | 11,000                    |                                       | (1,883)                                | 9,117                   |
| Total available-for-sale securities            | \$ 130,680                | \$ 506                                | \$ (2,079)                             | \$ 129,107              |

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, 2011 or 2010.

The following table summarizes the maturity periods of the marketable securities in the Company's portfolio as of March 31, 2011. In February 2008, certain auction rate securities (ARS) that Forrester held experienced failed auctions that limited the liquidity of these securities. These auction failures have continued and based on current market conditions, it is likely that auction failures will continue. The following table reflects the ARS at their contractual maturity dates of between 2024 and 2034 (in thousands).

|  | <b>FY2011</b> | <b>FY2012</b> | <b>FY2013</b> | <b>Thereafter</b> | <b>Total</b> |
|--|---------------|---------------|---------------|-------------------|--------------|
| Federal agency and corporate obligations | \$ 42,016     | \$ 50,542     | \$ 23,560     | \$ 4,999          | \$ 121,117   |
| State and municipal obligations          | 6,213         | 5,760         |               |                   | 11,973       |
| ARS                                      |               |               |               | 9,117             | 9,117        |
| Total short and long-term                | \$ 48,229     | \$ 56,302     | \$ 23,560     | \$ 14,116         | \$ 142,207   |

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

7

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Table of Contents

**FORRESTER RESEARCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|  | As of March 31, 2011                   |                      |   |                      |
|--|--|----------------------|---|----------------------|
|  | Less Than 12 Months<br>Market<br>Value | Unrealized<br>Losses | 12 Months or Greater<br>Market<br>Value | Unrealized<br>Losses |
| State and municipal bonds                | \$ 1,120                               | \$ 17                | \$                                      | \$                   |
| Federal agency and corporate obligations | 51,533                                 | 170                  |   |                      |
| ARS                                      |  |                      | 9,117                                   | 1,883                |
| Total                                    | \$ 52,653                              | \$ 187               | \$ 9,117                                | \$ 1,883             |

|  | As of December 31, 2010                |                      |   |                      |
|--|--|----------------------|---|----------------------|
|  | Less Than 12 Months<br>Market<br>Value | Unrealized<br>Losses | 12 Months or Greater<br>Market<br>Value | Unrealized<br>Losses |
| State and municipal bonds                | \$ 3,258                               | \$ 25                | \$                                      | \$                   |
| Federal agency and corporate obligations | 45,928                                 | 171                  |   |                      |
| ARS                                      |  |                      | 9,117                                   | 1,883                |
| Total                                    | \$ 49,186                              | \$ 196               | \$ 9,117                                | \$ 1,883             |

***Fair Value***

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

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

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

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

The following table represents the Company's fair value hierarchy for its financial assets (cash equivalents and investments) measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010 (in thousands):

|  | As of March 31, 2011 |            |          |            |
|--|----------------------|------------|----------|------------|
|  | Level<br>1           | Level 2    | Level 3  | Total      |
| Money market funds (1)                       | \$ 5,696             | \$         | \$       | \$ 5,696   |
| Federal agency and corporate obligations (2) |                      | 126,014    |          | 126,014    |
| State and municipal obligations (3)          |                      | 14,073     | 9,117    | 23,190     |
| Total  | \$ 5,696             | \$ 140,087 | \$ 9,117 | \$ 154,900 |

|  | As of December 31, 2010 |         |         |       |
|--|-------------------------|---------|---------|-------|
|  | Level 1                 | Level 2 | Level 3 | Total |

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|  |           |            |          |            |
|--|-----------|------------|----------|------------|
| Money market funds (1)                   | \$ 25,222 | \$         | \$       | \$ 25,222  |
| Federal agency and corporate obligations |           | 107,981    |          | 107,981    |
| State and municipal obligations          |           | 12,009     | 9,117    | 21,126     |
| Total                                    | \$ 25,222 | \$ 119,990 | \$ 9,117 | \$ 154,329 |

(1) Included in cash and cash equivalents.

(2) \$4,897 included in cash and cash equivalents as original maturities at the time of purchase were 90 days or less.

**Table of Contents****FORRESTER RESEARCH, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(3) \$2,100 included in cash and cash equivalents as original maturities at the time of purchase were 90 days or less. Level 2 assets consist of the Company's entire portfolio of federal, state, municipal and corporate bonds, excluding those municipal bonds described below with an auction reset feature. Level 2 assets have been initially valued at the transaction price and subsequently valued, at the end of each reporting period, typically utilizing third party pricing services or other market observable data. The pricing services utilize industry standard valuation methods, including both income and market based approaches and observable market inputs to determine value. These observable market inputs include reportable trades, benchmark yields, credit spreads, broker/dealer quotes, bids, offers, current spot rates and other industry and economic events.

Level 3 assets at March 31, 2011 consist entirely of municipal bonds with an auction reset feature (ARS) and at March 31, 2010 also included the UBS Right (as defined below). 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, 2011, the Company held ARS with one investment advisor that provided a valuation of the ARS 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 \$1.9 million at March 31, 2011 and December 31, 2010. The Company believes that the loss is temporary due to the strong underlying credit rating of the securities and the fact that the Company does not intend to sell the securities and is not likely to be required to sell the securities. The assumptions used in valuing the ARS are volatile and subject to change as the underlying sources of these assumptions and market conditions change.

Through July 1, 2010, the Company also held ARS with UBS AG (UBS). Historically, UBS provided a valuation utilizing Level 3 inputs for the ARS investments. 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 included estimates, based on data available at each balance sheet date, of interest rates, timing and amount of cash flows, credit and liquidity premiums, and expected holding periods of the ARS. 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 at any time 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 and timing and amount of cash flows, adjusted for any bearer risk associated with UBS's financial ability to repurchase the ARS beginning June 30, 2010, based on data available at each balance sheet date. The combined fair value of the Right and the UBS ARS historically equaled the par value of the UBS ARS. The remaining \$5.4 million of par value UBS ARS at June 30, 2010 were sold to UBS at par under the Right on July 1, 2010.

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, 2011 and 2010 (in thousands):

|  | <b>ARS</b> |
|--|------------|
| Balance at December 31, 2010           | \$ 9,117   |
| Sales/Maturities                       |            |
| Total gains (losses):                  |            |
| Included in other comprehensive income |            |
| Included in earnings                   |            |



Balance at March 31, 2011

\$ 9,117

**Table of Contents**

**FORRESTER RESEARCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|  | <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  |

**Note 4 Non-Marketable Investments**

At March 31, 2011 and December 31, 2010, the carrying value of the Company's non-marketable investments, which were composed primarily of interests in technology-related private equity funds, were \$7.8 million and \$7.4 million, respectively.

One of the Company's investments, with a book value of \$1.6 million and \$1.7 million at March 31, 2011 and December 31, 2010, respectively, is being accounted for using the cost method and, accordingly, is valued at cost unless an other-than-temporary impairment in its value occurs. The other investments are being accounted for using the equity method as the investments are limited partnerships and the Company has an ownership interest in excess of 5% and, accordingly, the Company records its share of the investee's operating results each period. During the three months ended March 31, 2011 and 2010, the Company recorded a gain from its non-marketable investments of \$0.6 million and \$0.4 million, respectively, which are included in gains on investments, net in the Consolidated Statements of Income.

**Note 5 Reorganization**

The following table rolls forward the activity in the reorganization accrual for the three months ended March 31, 2011 (in thousands):

|                              | <b>Facility<br/>Consolidation</b> | <b>Total</b> |
|------------------------------|-----------------------------------|--------------|
| Accrual at December 31, 2010 | \$ 446                            | \$ 446       |
| Cash payments                | (195)                             | (195)        |
| Accrual at March 31, 2011    | \$ 251                            | \$ 251       |

The accrued costs related to the reorganization are expected to be paid during 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.

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

| <b>Three Months Ended<br/>March 31,</b> |             |
|---|-------------|
| <b>2011</b>                             | <b>2010</b> |

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|  |        |        |
|--|--------|--------|
| Basic weighted average common shares outstanding   | 22,713 | 22,389 |
| Weighted average common equivalent shares  | 539    | 488    |
| Diluted weighted average common shares outstanding   | 23,252 | 22,877 |
| Options excluded from diluted weighted average share calculation as effect would have been anti-dilutive | 57     | 773    |

**Table of Contents****FORRESTER RESEARCH, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Note 7 Stockholders Equity***Comprehensive Income*

The components of total comprehensive income for the three months ended March 31, 2011 and 2010 are as follows (in thousands):

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2011</b>                             | <b>2010</b> |
| Net income   | \$ 2,911                                | \$ 5,772    |
| Cumulative translation adjustment                            | 2,264                                   | (2,313)     |
| Unrealized gain (loss) on marketable investments, net of tax | (1)                                     | 50          |
| Total comprehensive income                                   | \$ 5,174                                | \$ 3,509    |

*Equity Plans*

Stock option activity for the three months ended March 31, 2011 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, 2010 | 2,215                           | \$ 26.00   |   |  |
| Granted                          | 39                              | 36.13  |   |  |
| Exercised                        | (78)                            | 26.09  |   |  |
| Forfeited                        | (38)                            | 32.82  |   |  |
| Outstanding at March 31, 2011    | 2,138                           | \$ 26.06   | 6.59  | \$ 26,150                                |
| Exercisable at March 31, 2011    | 1,311                           | \$ 24.70   | 5.41  | \$ 17,813                                |

Restricted stock unit activity for the three months ended March 31, 2011 is presented below (in thousands, except per share data):

|                               | <b>RSUs</b> | <b>Weighted-<br/>Average<br/>Grant Date<br/>Fair Value</b> |
|-------------------------------|-------------|--|
| Unvested at December 31, 2010 | 192         | \$ 27.64   |
| Granted                       |             |  |
| Vested or settled             |             |  |
| Forfeited                     | (8)         | 27.36  |
| Unvested at March 31, 2011    | 184         | \$ 27.65   |

*Stock-Based Compensation*

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

11

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**Table of Contents**

**FORRESTER RESEARCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|                                  | <b>Three Months Ended<br/>March 31,</b> |             |
|----------------------------------|---|-------------|
|                                  | <b>2011</b>                             | <b>2010</b> |
| Cost of services and fulfillment | \$ 615                                  | \$ 449      |
| Selling and marketing            | 339                                     | 244         |
| General and administrative       | 484                                     | 413         |
| Total                            | \$ 1,438                                | \$ 1,106    |

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

|                                 | <b>Three Months Ended<br/>March 31, 2011</b> |   | <b>Three Months Ended<br/>March 31, 2010</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 | 1.51%  | 0.18%   | 1.99%  | 0.15%   |
| Expected dividend yield         | None   | None  | None   | None  |
| Expected life                   | 3.5<br>Years                                 | 0.5<br>Years                                    | 3.5<br>Years                                 | 0.5<br>Years                                    |
| Expected volatility             | 40%  | 28%   | 40%  | 25%   |
| Weighted average fair value     | \$ 11.05                                     | \$ 8.23   | \$ 8.58                                      | \$ 5.89   |

**Treasury Stock**

Forrester's Board of Directors has authorized an aggregate \$260 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 and director equity incentive and purchase plans. As of March 31, 2011, Forrester had repurchased approximately 7.9 million shares of common stock at an aggregate cost of approximately \$171.2 million.

**Note 8 Income Taxes**

Forrester provides for income taxes on an interim basis according to management's estimate of the effective tax rate expected to be applicable for the full fiscal year. Certain items such as changes in tax rates, foreign exchange gains or 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, and amortization of intangibles. 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).

Table of Contents

**FORRESTER RESEARCH, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

|   | <b>IT</b> | <b>TI</b> | <b>M&amp;S</b> | <b>Events</b> | <b>Consolidated</b> |
|---|-----------|-----------|----------------|---------------|---------------------|
| <b>Three months ended March 31, 2011</b>              |           |           |                |               |                     |
| Revenue   | \$ 24,034 | \$ 19,640 | \$ 20,063      | \$ 2,005      | \$ 65,742           |
| Direct margin   | 16,187    | 14,600    | 12,208         | 588           | 43,583              |
| Selling, marketing, administrative and other expenses |           |           |                |               | (38,692)            |
| Amortization of intangible assets                     |           |           |                |               | (693)               |
| Income from operations                                |           |           |                |               | \$ 4,198            |

|   | <b>IT</b> | <b>TI</b> | <b>M&amp;S</b> | <b>Events</b> | <b>Consolidated</b> |
|---|-----------|-----------|----------------|---------------|---------------------|
| <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            |



**Table of Contents****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, anticipated property and equipment purchases, and future depreciation expenses. These statements are based on our current plans and expectations and involve risks and uncertainties that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual future activities and results to differ include, among others, our ability to retain and enrich memberships for our research products and services, technology spending, our ability to respond to business and economic conditions and market trends, the risks and challenges inherent in international business activities, competition and industry consolidation, the ability to attract and retain professional staff, our dependence on key personnel, and possible variations in our quarterly operating results. These risks are described more completely in our Annual Report on Form 10-K for the year ended December 31, 2010. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

We derive revenues from memberships to our research products and services, performing advisory services and consulting projects, and hosting events. We offer contracts for our research products that are typically renewable annually and payable in advance. Research revenues are recognized as revenue ratably over the term of the contract. Accordingly, a substantial portion of our billings are initially recorded as deferred revenue. Clients purchase advisory services independently and/or to supplement their memberships to our research. Billings attributable to advisory services and consulting projects are initially recorded as deferred revenue. Advisory service revenues are recognized when the customer receives the agreed upon deliverable. Consulting project revenues, which generally are short-term in nature and based upon fixed-fee agreements, are recognized as the services are provided. Event billings are also initially recorded as deferred revenue and are recognized as revenue upon completion of each event.

Our primary operating expenses consist of cost of services and fulfillment, selling and marketing expenses and general and administrative expenses. Cost of services and fulfillment represents the costs associated with the production and delivery of our products and services, including salaries, bonuses, employee benefits and stock-based compensation expense for research personnel and all associated editorial, travel, and support services. Selling and marketing expenses include salaries, sales commissions, bonuses, employee benefits, stock-based compensation expense, travel expenses, promotional costs and other costs incurred in marketing and selling our products and services. General and administrative expenses include the costs of the technology, operations, finance, and human resources groups and our other administrative functions, including salaries, bonuses, employee benefits, and stock-based compensation expense. Overhead costs such as facilities are allocated to these categories according to the number of employees in each group. Deferred revenue, agreement value, client retention, dollar retention 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.

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

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

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

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):

14

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**Table of Contents**

|                   | As of<br>March 31, |          | Absolute<br>Increase<br>(Decrease) | Percentage<br>Increase<br>(Decrease) |
|-------------------|--------------------|----------|------------------------------------|--------------------------------------|
|                   | 2011               | 2010     |                                    |                                      |
| Deferred revenue  | \$ 137.5           | \$ 117.6 | \$ 19.9                            | 17%                                  |
| Agreement value   | \$ 200.5           | \$ 185.3 | \$ 15.2                            | 8%                                   |
| Client retention  | 80%                | 77%      | 3                                  | 4%                                   |
| Dollar retention  | 91%                | 88%      | 3                                  | 3%                                   |
| Enrichment        | 103%               | 98%      | 5                                  | 5%                                   |
| Number of clients | 2,605              | 2,487    | 118                                | 5%                                   |

The increase in deferred revenue and agreement value from March 31, 2010 to March 31, 2011 is primarily due to increased demand for our products and services. Client and dollar retention rates as well as our enrichment rate have all increased from the March 31, 2010 period which is consistent with improved economic activity.

**Critical Accounting Policies and Estimates**

Management's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our policies and estimates, including but not limited to, those related to our revenue recognition, stock-based compensation, non-marketable investments, goodwill and other intangible assets, income taxes and valuation and impairment of marketable investments. Management bases its estimates on historical experience, data available at the time the estimates are made and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. In conjunction with the adoption on January 1, 2011 of Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements* a consensus of the FASB Emerging Issue Task Force, we have updated our critical accounting policy for revenue recognition below. Our other critical accounting policies and estimates are described in our Annual Report on Form 10-K for the year ended December 31, 2010.

Effective January 1, 2011 we adopted Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements* a consensus of the FASB Emerging Issues Task Force (ASU 2009-13). ASU 2009-13 updates the previous multiple-element revenue arrangements guidance. The revised guidance primarily provides three significant changes: 1) it 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; 2) it eliminates the residual method to allocate the arrangement consideration; and, 3) it modifies the fair value requirements of EITF Issue 00-21 by providing best estimate of selling price in addition to vendor specific objective evidence and vendor objective evidence for determining the selling price of a deliverable.

We generate revenues from licensing memberships to our research (including our data products), performing advisory services and consulting projects and hosting events. We execute contracts that govern the terms and conditions of each arrangement. Revenues are recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, services have been provided to the customer, and collectability is reasonably assured. Our contracts may include either a single product or service or a combination of multiple products and services. Revenues from contracts that contain multiple products or services are allocated among the separate units of accounting based on their relative selling prices; however, the amount recognized is limited to the amount that is not contingent on future performance conditions. We obtain the selling prices of our products and services based upon an analysis of standalone sales of these products and services during the year. Research service revenues are recognized ratably over the term of the contract. Advisory service revenues are recognized when the customer receives the agreed upon deliverable and consulting project revenues are recognized as the services are provided. Reimbursed out-of-pocket expenses are recorded as advisory services revenue. Event revenues are recognized upon completion of the event.

Annual subscriptions to our RoleView research include access to all or a designated portion of our research, and depending on the type of license, membership in one or more of our Forrester leadership boards, unlimited phone or email analyst inquiry, unlimited participation in Forrester Teleconferences, and the right to attend one event. Contracts for RoleView research entered into prior to the adoption of ASU 2009-13 on January 1, 2011, were accounted for as one unit of accounting and recognized ratably as research services revenue over the membership period. Contracts for RoleView research entered into or significantly modified after January 1, 2011 are accounted for as two units of accounting: 1) the event ticket and 2) the remaining research services that are delivered throughout the contract period based on the new guidance that permits alternative methods of determining selling prices as it relates to the components that we do not sell on a standalone basis, such as research services in our case. Arrangement consideration is allocated to each element based upon its relative selling price, which is determined based on standalone sales of event tickets and the estimated selling price of the remaining research services. Annual subscriptions to our data products include access to designated survey data products and access to a data specialist, which are delivered throughout the year, and are accounted for as one unit of accounting and recognized ratably as research services revenue over the membership period. We offer our clients a service guarantee, which gives our clients the right to cancel their contracts prior to the end of the contract term and receive a refund for unused products or services. Furthermore, our revenue recognition determines the timing of commission expenses, as commissions are paid during the month a contract is booked and are deferred and recognized as expense as the related revenue is recognized. We evaluate the recoverability of deferred commissions at each balance sheet date.

### 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>2011</b>                             | <b>2010</b> |
| Revenues:                         |   |             |
| Research services                 | 68%                                     | 67%         |
| Advisory services and other       | 32                                      | 33          |
| Total revenues                    | 100                                     | 100         |
| Operating expenses:               |   |             |
| Cost of services and fulfillment  | 39                                      | 38          |
| Selling and marketing             | 39                                      | 34          |
| General and administrative        | 14                                      | 12          |
| Depreciation                      | 1                                       | 2           |
| Amortization of intangible assets | 1                                       | 1           |
| Income from operations            | 6                                       | 13          |
| Other income, net                 |   | 2           |
| Gains on investments, net         | 1                                       | 1           |
| Income before income taxes        | 7                                       | 16          |
| Income tax provision              | 3                                       | 6           |
| Net income                        | 4%                                      | 10%         |

### *Three Months Ended March 31, 2011 and March 31, 2010 Revenues*

**Table of Contents**

|   | <b>Three Months<br/>Ended<br/>March 31,</b> |             | <b>Absolute<br/>Increase<br/>(Decrease)</b> | <b>Percentage<br/>Increase<br/>(Decrease)</b> |
|---|---|-------------|---|---|
|   | <b>2011</b>                                 | <b>2010</b> |   |   |
|   | <b>(dollars in millions)</b>                |             |   |   |
| Revenues  | \$ 65.7                                     | \$ 59.2     | \$ 6.5                                      | 11%   |
| Revenues from research services                                     | \$ 44.5                                     | \$ 39.4     | \$ 5.1                                      | 13%   |
| Revenues from advisory services and other                           | \$ 21.2                                     | \$ 19.8     | \$ 1.4                                      | 7%  |
| Revenues attributable to customers outside of the U.S.              | \$ 19.9                                     | \$ 17.6     | \$ 2.3                                      | 13%   |
| Percentage of revenue attributable to customers outside of the U.S. | 30%   | 30%         |   |   |
| Number of clients (at end of period)                                | 2,605                                       | 2,487       | 118   | 5%  |
| Number of events  | 4   | 4           |   |   |

The increase in total revenues is principally the result of increased demand for our products and services from both the enrichment of our existing clients, as shown by our enrichment rate of 103% for the twelve-month period ended March 31, 2011, as well as from an increase in the number of clients. We have also increased the number of selling and marketing personnel from 404 at March 31, 2010 to 465 at March 31, 2011. Revenue growth for the current quarter was driven by a 20% increase in revenue in the marketing and strategy client group, a 6% increase in revenue in the technology industry client group and a 5% increase revenue in the information technology client group.

**Cost of Services and Fulfillment**

|  | <b>Three Months<br/>Ended<br/>March 31,</b> |             | <b>Absolute<br/>Increase<br/>(Decrease)</b> | <b>Percentage<br/>Increase<br/>(Decrease)</b> |
|--|---|-------------|---|---|
|  | <b>2011</b>                                 | <b>2010</b> |   |   |
| Cost of services and fulfillment (dollars in millions)             | \$ 25.5                                     | \$ 22.3     | \$ 3.2                                      | 14%   |
| Cost of services and fulfillment as a percentage of total revenues | 39%   | 38%         | 1   | 3%  |
| Number of research and fulfillment employees (at end of period)    | 482   | 429         | 53  | 12%   |

The increase in cost of services and fulfillment in dollars and as a percentage of total revenues during the three months ended March 31, 2011 compared to the prior period is primarily the result of increased facility costs, increased compensation and benefits primarily due to an increase in research and fulfillment employees, and increased travel and entertainment expense due in part to an all-employee meeting in the first quarter of 2011. We recognized \$1.5 million of lease costs in the first quarter of 2011, of which approximately \$0.6 million was recorded as cost of services and fulfillment, related to our new corporate headquarters as we have access to the facility for construction purposes prior to the expected date that we will occupy the facility for operations in the third quarter of 2011.

**Selling and Marketing**

|  | <b>Three Months<br/>Ended<br/>March 31,</b> |             | <b>Absolute<br/>Increase<br/>(Decrease)</b> | <b>Percentage<br/>Increase<br/>(Decrease)</b> |
|--|---|-------------|---|---|
|  | <b>2011</b>                                 | <b>2010</b> |   |   |
| Selling and marketing expenses (dollars in millions)             | \$ 25.5                                     | \$ 20.1     | \$ 5.4                                      | 27%   |
| Selling and marketing expenses as a percentage of total revenues | 39%   | 34%         | 5   | 15%   |
| Selling and marketing employees (at end of period)               | 465   | 404         | 61  | 15%   |

The increase in selling and marketing expenses in dollars and as a percentage of total revenues during the three months ended March 31, 2011 is primarily due to an increase in compensation and benefits costs resulting from an increase in the number of selling and marketing employees and an increase in sales commissions. The increase is also attributable to increased travel and entertainment expense and increased facility costs. Subject to the business environment for our products and services, we have an ongoing initiative to expand our sales force by 15% to 20% annually. Increased sales of our research services resulting from the higher number of sales employees are generally recognized over a twelve-month period, which typically results in an increase in selling and marketing expense as a percent of revenue during periods of sales force expansion. As noted above under cost of services and fulfillment, we recognized \$1.5 million of lease costs related to our new corporate headquarters, of which \$0.6 million was recorded as selling and marketing expense.

**Table of Contents****General and Administrative**

|   | <b>Three Months<br/>Ended<br/>March 31,</b> |             | <b>Absolute<br/>Increase<br/>(Decrease)</b> | <b>Percentage<br/>Increase<br/>(Decrease)</b> |
|---|---|-------------|---|---|
|   | <b>2011</b>                                 | <b>2010</b> |   |   |
| General and administrative expenses (dollars in millions)             | \$ 8.9                                      | \$ 7.2      | \$ 1.7                                      | 24%   |
| General and administrative expenses as a percentage of total revenues | 14%   | 12%         | 2   | 17%   |
| General and administrative employees (at end of period)               | 173   | 153         | 20  | 13%   |

The increase in general and administrative expense in dollars and as a percentage of total revenues during the three months ended March 31, 2011 is primarily due to an increase in compensation and benefits costs resulting from an increase in the number of general and administrative employees to support our growth plan, acquisition costs of approximately \$0.4 million in 2011 compared to a credit of \$0.3 million in 2010, and an increase in facility costs. As noted above under cost of services and fulfillment, we recognized \$1.5 million of lease costs related to our new corporate headquarters, of which \$0.3 million was recorded as general and administrative expense.

**Depreciation**

|  | <b>Three Months<br/>Ended<br/>March 31,</b> |             | <b>Absolute<br/>Increase<br/>(Decrease)</b> | <b>Percentage<br/>Increase<br/>(Decrease)</b> |
|--|---|-------------|---|---|
|  | <b>2011</b>                                 | <b>2010</b> |   |   |
| Depreciation expense (dollars in millions)             | \$ 1.0                                      | \$ 0.9      | \$ 0.1                                      | 11%   |
| Depreciation expense as a percentage of total revenues | 1%  | 2%          | (1)   | (50%)   |

Depreciation expense was consistent during the three months ended March 31, 2011 compared to the prior year. We expect depreciation expense to increase significantly in the second half of 2011 due to the build-out and equipping of our new corporate headquarters, scheduled to be operative in the third quarter of 2011, and to customer facing technologies that will be implemented in the second half of 2011.

**Amortization of Intangible Assets**

|  | <b>Three Months<br/>Ended<br/>March 31,</b> |             | <b>Absolute<br/>Increase<br/>(Decrease)</b> | <b>Percentage<br/>Increase<br/>(Decrease)</b> |
|--|---|-------------|---|---|
|  | <b>2011</b>                                 | <b>2010</b> |   |   |
| Amortization expense (dollars in millions)             | \$ 0.7                                      | \$ 0.9      | \$ (0.2)                                    | (22%)   |
| Amortization expense as a percentage of total revenues | 1%  | 1%          |   |   |

The decrease in amortization expense during the three months ended March 31, 2011 is primarily due to certain intangible assets from the acquisition of Strategic Oxygen becoming fully amortized in the first quarter of 2011.

**Other Income (Expense), Net**

|  | <b>Three Months<br/>Ended<br/>March 31,</b> |             | <b>Absolute<br/>Increase<br/>(Decrease)</b> | <b>Percentage<br/>Increase<br/>(Decrease)</b> |
|--|---|-------------|---|---|
|  | <b>2011</b>                                 | <b>2010</b> |   |   |
| Other income(expense), net (dollars in millions) | \$ (0.1)                                    | \$ 1.1      | \$ (1.2)                                    | (112%)  |

Other income(expense), net as a percentage of total  
revenues 2% (2) (100%)

The decrease in other income (expense), net, during the three months ended March 31, 2011 is primarily due to net foreign exchange losses of \$0.6 million in the 2011 quarter compared to \$0.4 million of foreign exchange gains in the prior year period. In addition, interest income decreased during 2011 primarily due to lower returns on invested capital.

*Gains on Investments, Net*



**Table of Contents**

|   | <b>Three Months<br/>Ended<br/>March 31,</b> |             | <b>Absolute<br/>Increase<br/>(Decrease)</b> | <b>Percentage<br/>Increase<br/>(Decrease)</b> |
|---|---|-------------|---|---|
|   | <b>2011</b>                                 | <b>2010</b> |   |   |
| Gains on investments, net (dollars in millions)             | \$ 0.6                                      | \$ 0.4      | \$ 0.2                                      | 47%   |
| Gains on investments, net as a percentage of total revenues | 1%  | 1%          |   |   |

Gains on investments during the three months ended March 31, 2011 and 2010 primarily represent our share of equity method investment gains and were consistent during the three months ended March 31, 2011 compared to the prior year.

***Provision for Income Taxes***

|  | <b>Three Months<br/>Ended<br/>March 31,</b> |             | <b>Absolute<br/>Increase<br/>(Decrease)</b> | <b>Percentage<br/>Increase<br/>(Decrease)</b> |
|--|---|-------------|---|---|
|  | <b>2011</b>                                 | <b>2010</b> |   |   |
| Provision for income taxes (dollars in millions) | \$ 1.8                                      | \$ 3.5      | \$ (1.7)                                    | (49%)   |
| Effective tax rate                               | 38%   | 38%         |   |   |

The effective tax rate was consistent during the three months ended March 31, 2011 compared to the prior year. The three month period ended March 31, 2011 reflects tax expense from the remeasurement loss of a euro-denominated deferred tax liability compared to a credit from a remeasurement gain in the 2010 period; however, this increase in tax expense during 2011 was offset by lower state taxes in the 2011 period.

**Liquidity and Capital Resources**

We have historically financed our operations primarily through funds generated from operations. Memberships for research services, which constituted approximately 68% of our revenues during the three months ended March 31, 2011, are annually renewable and are generally payable in advance. We generated cash from operating activities of \$32.2 million and \$23.1 million during the three months ended March 31, 2011 and 2010, respectively. The \$9.0 million increase in cash provided from operations for the three months ended March 31, 2011 is primarily attributable to a \$6.1 million increase in net cash received from the collection of accounts receivable in 2011. For the three months ended March 31, 2011, we generated \$26.0 million of cash from collections of accounts receivable. In the first quarter of the year, we traditionally generate a significant amount of cash from the collection of accounts receivable as a large portion of our business is contracted for and billed in the fourth quarter of the year.

During the three months ended March 31, 2011, we used \$17.4 million of cash from investing activities, consisting primarily of \$14.0 million in net purchases of marketable investments and \$10.7 million of purchases of property and equipment. The property and equipment purchases were partially funded by \$7.2 million of restricted cash that had been placed in escrow for such purchases. Property and equipment purchases during the first quarter of 2011 consisted of leasehold improvements for new facilities as well as purchases of software and computer equipment. During 2011, we anticipate spending \$30 to \$35 million for property and equipment purchases, a majority of which will be utilized for the build-out and equipping of our new headquarters in Cambridge, Massachusetts. We had \$15.5 million in escrow at December 31, 2010, classified as restricted cash on the Consolidated Balance Sheets, which will be utilized to fund a portion of the leasehold improvements during 2011. 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 during the 2010 period as the contingent purchase price element of the Strategic Oxygen acquisition was settled and paid during the quarter. We regularly invest excess funds in short and intermediate-term interest-bearing obligations of investment grade.

We used \$6.5 million of cash from financing activities during the three months ended March 31, 2011 resulting from \$8.6 million of purchases of our common stock, partially offset by \$2.1 million of proceeds from exercises of stock

options. We generated \$3.9 million of cash from financing activities during the three months ended March 31, 2010 from proceeds from exercises of stock options. At March 31, 2011, we had \$88.8 million remaining on our stock repurchase authorization and we plan to continue to repurchase our common stock during the remainder of 2011, as market conditions warrant.

As of March 31, 2011, we held approximately \$9.1 million (\$11.0 million par value) of state and municipal bonds with an auction reset feature (auction rate securities or ARS ). In February 2008, auctions began to fail for these securities and have continued to fail. As a result, our ability to liquidate our investment and fully recover the carrying value of our investment in the near term may be limited or not exist. Based on our expected operating cash flows and our cash resources, we do not anticipate the current lack of liquidity on our remaining ARS investments will affect our ability to execute our current business plan.

**Table of Contents**

As of March 31, 2011, we had cash and cash equivalents of \$97.6 million and marketable investments and long-term investments of \$142.2 million. We do not have a line of credit and do not presently anticipate the need to access a line of credit in the foreseeable future. We believe that our current cash balance, marketable investments, and cash flows from operations will satisfy working capital, financing activities, and capital expenditure requirements for at least the next two years.

**Contractual Obligations**

There have been no material changes to the contractual obligations table as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010.

**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, 2010.

**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, 2011. 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 to provide reasonable assurance 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, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**PART II. OTHER INFORMATION**

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this Form 10-Q, you should carefully consider the factors discussed in Part I, Item 1A: Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, which could materially affect our business, financial condition or future results. The risk factors described in our Annual Report on Form 10-K remain applicable to our business. The risks described in our Annual Report on Form 10-K are not the only risks that we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Through March 31, 2011, our Board of Directors authorized an aggregate \$260 million to purchase common stock under our stock repurchase program, including \$60 million authorized in 2010 and \$50 million authorized in 2009. During the quarter ended March 31, 2011, we purchased the following shares of our common stock under the stock repurchase program:

**Table of Contents**

| <b>Period</b>            | <b>Total Number of<br/>Shares<br/>Purchased (1)</b> | <b>Average<br/>Price<br/>Paid per<br/>Share</b> | <b>Maximum<br/>Dollar<br/>Value that May<br/>Yet be<br/>Purchased<br/><br/>Under the Stock<br/>Repurchase<br/>Program<br/>(In thousands)</b> |
|--------------------------|---|---|--|
| January 1- January 31    | 73,020  | \$ 35.60  | \$ 94,806  |
| February 1 - February 28 | 99,548  | \$ 35.91  | \$ 91,231  |
| March 1 - March 31       | 64,300  | \$ 37.20  | \$ 88,839  |
|                          | 236,868   |   |  |

(1) All purchases of our common stock were made under the stock repurchase program first announced in 2002.

**Table of Contents**

ITEM 6. EXHIBITS

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.

21

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**Table of Contents**

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, 2011

22

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**Table of Contents**

Exhibit Index

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