

FORRESTER RESEARCH INC  
Form 10-Q  
November 09, 2012  
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 September 30, 2012**

**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)

**60 Acorn Park Drive**

**04-2797789**  
(I.R.S. Employer

Identification Number)

**02140**

Edgar Filing: FORRESTER RESEARCH INC - Form 10-Q

CAMBRIDGE, MASSACHUSETTS

(Address of principal executive offices)

(Zip Code)

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

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

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

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

Large accelerated filer  Accelerated filer

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

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

As of November 6, 2012, 22,295,000 shares of the registrant's common stock were outstanding.

**Table of Contents**

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 September 30, 2012 and December 31, 2011 (Unaudited)</u>	3
<u>Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	4
<u>Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	5
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2012 and 2011 (Unaudited)</u>	6
<u>Notes to Consolidated Financial Statements</u>	7
<b><u>ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	<b>16</b>
<b><u>ITEM 3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	<b>23</b>
<b><u>ITEM 4. Controls and Procedures</u></b>	<b>23</b>
<b><u>PART II. OTHER INFORMATION</u></b>	<b>24</b>
<b><u>ITEM 1A. Risk Factors</u></b>	<b>24</b>
<b><u>ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	<b>24</b>
<b><u>ITEM 6. Exhibits</u></b>	<b>24</b>

**Table of Contents**

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

## FORRESTER RESEARCH, INC.

## CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data, unaudited)

	September 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 80,900	\$ 81,047
Marketable investments (Note 3)	147,757	136,991
Accounts receivable, net	44,149	81,378
Deferred commissions	7,890	12,010
Prepaid expenses and other current assets	21,279	25,935
Total current assets	301,975	337,361
Long-term marketable investments (Note 3)	9,789	9,565
Property and equipment, net	48,312	50,448
Goodwill	78,211	71,543
Intangible assets, net	8,517	10,317
Other assets	17,902	8,344
Total assets	\$ 464,706	\$ 487,578
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 933	\$ 1,223
Accrued expenses and other current liabilities	25,270	30,153
Deferred revenue	124,857	147,887
Total current liabilities	151,060	179,263
Non-current liabilities	17,499	17,580
Total liabilities	168,559	196,843
Commitments		
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		
Issued - 31,338 and 30,962 as of September 30, 2012 and December 31, 2011, respectively		
Outstanding - 22,303 and 22,747 as of September 30, 2012 and December 31, 2011, respectively	313	310
Additional paid-in capital	385,873	373,591
Retained earnings	116,504	104,662
Treasury stock - 9,035 and 8,215 as of September 30, 2012 and December 31, 2011, respectively, at cost	(207,187)	(181,000)
Accumulated other comprehensive income (loss)	644	(6,828)

Edgar Filing: FORRESTER RESEARCH INC - Form 10-Q

Total stockholders' equity	296,147	290,735
Total liabilities and stockholders' equity	\$ 464,706	\$ 487,578

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, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
<b>Revenues:</b>				
Research services	\$ 50,300	\$ 49,242	\$ 151,132	\$ 141,130
Advisory services and other	18,211	20,532	66,732	67,836
<b>Total revenues</b>	<b>68,511</b>	<b>69,774</b>	<b>217,864</b>	<b>208,966</b>
<b>Operating expenses:</b>				
Cost of services and fulfillment	25,736	25,071	82,502	78,593
Selling and marketing	24,309	24,927	75,709	76,401
General and administrative	8,411	7,928	26,667	25,176
Depreciation	2,262	1,420	6,510	3,335
Amortization of intangible assets	579	679	1,779	1,898
Reorganization costs	37		1,431	
<b>Total operating expenses</b>	<b>61,334</b>	<b>60,025</b>	<b>194,598</b>	<b>185,403</b>
<b>Income from operations</b>	<b>7,177</b>	<b>9,749</b>	<b>23,266</b>	<b>23,563</b>
Other income, net	357	378	896	273
Gains on investments, net	147	8	290	648
<b>Income before income taxes</b>	<b>7,681</b>	<b>10,135</b>	<b>24,452</b>	<b>24,484</b>
Income tax provision (benefit)	(2,692)	4,403	3,129	10,371
<b>Net income</b>	<b>\$ 10,373</b>	<b>\$ 5,732</b>	<b>\$ 21,323</b>	<b>\$ 14,113</b>
<b>Basic income per common share</b>	<b>\$ 0.46</b>	<b>\$ 0.25</b>	<b>\$ 0.94</b>	<b>\$ 0.62</b>
<b>Diluted income per common share</b>	<b>\$ 0.45</b>	<b>\$ 0.25</b>	<b>\$ 0.93</b>	<b>\$ 0.61</b>
<b>Basic weighted average common shares outstanding</b>	<b>22,398</b>	<b>22,620</b>	<b>22,573</b>	<b>22,672</b>
<b>Diluted weighted average common shares outstanding</b>	<b>22,858</b>	<b>23,082</b>	<b>23,018</b>	<b>23,179</b>
<b>Cash dividends declared per common share</b>	<b>\$ 0.14</b>	<b>\$</b>	<b>\$ 0.42</b>	<b>\$</b>

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

**Table of Contents**

## FORRESTER RESEARCH, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Net income	\$ 10,373	\$ 5,732	\$ 21,323	\$ 14,113
Other comprehensive income (loss), net of taxes:				
Cumulative translation adjustments	7,197	(2,593)	6,865	298
Changes in market value of investments:				
Unrealized gain (loss), net of taxes of \$188 and (\$146) for the three months ended September 30, 2012 and 2011, and \$354 and (\$143) for the nine months ended September 30, 2012 and 2011	291	(197)	624	11
Less: reclassification adjustment for net gains realized in net income, net of taxes of \$2 for the three months ended September 30, 2012, and \$12 and \$3 for the nine months ended September 30, 2012 and 2011	(3)		(17)	(4)
Net change in market value of investments	288	(197)	607	7
Other comprehensive income (loss)	7,485	(2,790)	7,472	305
Comprehensive income	\$ 17,858	\$ 2,942	\$ 28,795	\$ 14,418

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, unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 21,323	\$ 14,113
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation	6,510	3,335
Amortization of intangible assets	1,779	1,898
Net gains from investments	(290)	(648)
Deferred income taxes	(9,851)	5,820
Stock-based compensation	3,921	3,093
Amortization of premium on investments	2,144	2,523
Foreign currency losses	382	1,202
<b>Changes in assets and liabilities, net of acquisitions</b>		
Accounts receivable	37,196	31,273
Deferred commissions	4,127	3,193
Prepaid expenses and other current assets	3,929	926
Accounts payable	(318)	(1,732)
Accrued expenses and other liabilities	(4,327)	(3,428)
Deferred revenue	(23,302)	(15,061)
<b>Net cash provided by operating activities</b>	<b>43,223</b>	<b>46,507</b>
<b>Cash flows from investing activities:</b>		
Acquisitions		(7,164)
Purchases of property and equipment	(4,845)	(33,194)
Purchases of marketable investments	(85,211)	(81,008)
Proceeds from sales and maturities of marketable investments	73,055	58,888
Change in restricted cash	946	13,272
Other investing activity	66	307
<b>Net cash used in investing activities</b>	<b>(15,989)</b>	<b>(48,899)</b>
<b>Cash flows from financing activities:</b>		
Dividends paid on common stock	(9,481)	
Repurchases of common stock	(26,187)	(18,405)
Proceeds from issuance of common stock under employee equity incentive plans	8,538	7,017
Excess tax benefits from stock-based compensation	401	432
Payment of deferred acquisition consideration	(864)	
<b>Net cash used in financing activities</b>	<b>(27,593)</b>	<b>(10,956)</b>
Effect of exchange rate changes on cash and cash equivalents	212	7
<b>Net decrease in cash and cash equivalents</b>	<b>(147)</b>	<b>(13,341)</b>
Cash and cash equivalents, beginning of period	81,047	86,927
<b>Cash and cash equivalents, end of period</b>	<b>\$ 80,900</b>	<b>\$ 73,586</b>



Edgar Filing: FORRESTER RESEARCH INC - Form 10-Q

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

**Table of Contents****FORRESTER RESEARCH, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****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, 2011. 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 and nine months ended September 30, 2012 may not be indicative of the results for the year ending December 31, 2012, or any other period.

**Note 2 Acquisition**

On May 12, 2011, Forrester acquired Springboard Research ( Springboard ), a provider of research and advisory services focused on Asia Pacific and emerging markets. Springboard was a former division of Knowledge Platform, Inc. The acquisition of the Springboard business further supports Forrester s role-based strategy and expands Forrester s coverage in the Asia Pacific region. The total purchase price was approximately \$9.0 million, of which approximately \$6.7 million was paid on the acquisition date and \$2.3 million (the Holdback ) is payable at various times through June 1, 2013, subject to possible reduction to satisfy indemnification claims. Of the \$2.3 million Holdback, up to \$0.9 million was contingent on the retention of certain employees for a period of time and on the extension of a certain lease. As of May 2012, both contingency provisions have elapsed with the full amount payable to Knowledge Platform. As of September 30, 2012, \$1.4 million of the Holdback had been paid by the Company and \$0.9 million of the Holdback remains in accrued expenses in the Consolidated Balance Sheet. The results of Springboard, which were not material to the consolidated financial statements, have been included in Forrester s consolidated financial statements since May 12, 2011 in the Business Technology segment. Pro forma financial information has not been provided as it is not material to the consolidated results of operations.

A summary of the purchase price allocation for Springboard is as follows (in thousands):

<b>Assets:</b>	
Cash	\$ 85
Accounts receivable	561
Other current assets	285
Goodwill	3,695
Intangible assets	4,815
<b>Total assets</b>	<b>9,441</b>
<b>Liabilities:</b>	
Accrued expenses	160
Deferred revenue	312
<b>Total liabilities</b>	<b>472</b>
<b>Net assets acquired</b>	<b>\$ 8,969</b>

## Edgar Filing: FORRESTER RESEARCH INC - Form 10-Q

Approximately \$2.1 million of the goodwill is deductible for tax purposes. The Company believes the goodwill reflects its expectations of synergistic revenue opportunities from the acquisition and the value of the acquired workforce.

**Table of Contents**

Intangible assets are amortized according to the expected cash flows to be received. The following are the identifiable intangible assets acquired and their respective weighted average lives (dollars in thousands):

	Assigned Value	Useful Life (in years)
Customer relationships	\$ 3,605	7.5
Research content	1,080	1.5
Backlog	130	1.0
	\$ 4,815	

**Note 3 Marketable Investments**

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
<b>September 30, 2012</b>				
<i>Available-for-sale securities</i>				
State and municipal obligations	\$ 19,051	\$ 30	\$ (5)	\$ 19,076
Federal agency and corporate obligations	128,190	495	(4)	128,681
Total short-term available-for-sale securities	147,241	525	(9)	147,757
ARS, long-term	11,000		(1,211)	9,789
Total available-for-sale securities	\$ 158,241	\$ 525	\$ (1,220)	\$ 157,546
<b>December 31, 2011</b>				
<i>Available-for-sale securities</i>				
State and municipal obligations	\$ 9,485	\$ 9	\$ (12)	\$ 9,482
Federal agency and corporate obligations	127,717	127	(335)	127,509
Total short-term available-for-sale securities	137,202	136	(347)	136,991
ARS, long-term	11,000		(1,435)	9,565
Total available-for-sale securities	\$ 148,202	\$ 136	\$ (1,782)	\$ 146,556

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 and nine months ended September 30, 2012 or 2011.

The following table summarizes the maturity periods of the marketable securities in the Company's portfolio as of September 30, 2012. 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).

Edgar Filing: FORRESTER RESEARCH INC - Form 10-Q

	<b>FY 2012</b>	<b>FY2013</b>	<b>FY2014</b>	<b>Thereafter</b>	<b>Total</b>
State and municipal obligations	\$	\$ 6,477	\$ 10,442	\$ 2,157	\$ 19,076
Federal agency and corporate obligations	12,223	48,514	46,962	20,982	128,681
ARS				9,789	9,789
Total	\$ 12,223	\$ 54,991	\$ 57,404	\$ 32,928	\$ 157,546

**Table of Contents**

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

	As of September 30, 2012			
	Less Than 12 Months Market Value	Unrealized Losses	12 Months or Greater Market Value	Unrealized Losses
State and municipal bonds	\$ 9,531	\$ 5	\$	\$
Federal agency and corporate obligations	6,437	4		
ARS			9,789	1,211
Total	\$ 15,968	\$ 9	\$ 9,789	\$ 1,211

	As of December 31, 2011			
	Less Than 12 Months Market Value	Unrealized Losses	12 Months or Greater Market Value	Unrealized Losses
State and municipal bonds	\$ 2,763	\$ 9	\$ 1,107	\$ 3
Federal agency and corporate obligations	68,962	313	2,043	22
ARS			9,565	1,435
Total	\$ 71,725	\$ 322	\$ 12,715	\$ 1,460

**Fair Value**

The Company measures certain financial assets at fair value on a recurring basis, including cash equivalents and available-for-sale 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 September 30, 2012 and December 31, 2011 (in thousands):

	As of September 30, 2012			
	Level 1	Level 2	Level 3	Total
Money market funds (1)	\$ 2,246	\$	\$	\$ 2,246
State and municipal obligations		19,076		19,076
Federal agency and corporate obligations (2)		138,777		138,777
ARS			9,789	9,789
Total	\$ 2,246	\$ 157,853	\$ 9,789	\$ 169,888

Edgar Filing: FORRESTER RESEARCH INC - Form 10-Q

	As of December 31, 2011			Total
	Level 1	Level 2	Level 3	
Money market funds (1)	\$ 5,786	\$	\$	\$ 5,786
State and municipal obligations		9,482		9,482
Federal agency and corporate obligations (2)		128,509		128,509
ARS			9,565	9,565
<b>Total</b>	<b>\$ 5,786</b>	<b>\$ 137,991</b>	<b>\$ 9,565</b>	<b>\$ 153,342</b>

- (1) Included in cash and cash equivalents.
- (2) \$10.1 million and \$1.0 million included in cash and cash equivalents at September 30, 2012 and December 31, 2011, respectively, as original maturities at the time of purchase were 90 days or less.

**Table of Contents**

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 consist entirely of municipal bonds with an auction reset feature (ARS). Prior to 2008, the fair value of the ARS investments approximated par value due to the frequent resets through the auction process. While the Company continues to receive interest income on its ARS investments at each interest rate reset date (which occurs at either seven or 35 day intervals for each security), these investments trade infrequently and therefore do not have a readily determinable market value. Interest rates on the securities ranged from 0.11% to 0.46% and 0.12% to 0.60% during the nine months ended September 30, 2012 and 2011, respectively. The Company values the ARS using a discounted cash flow model that includes unobservable inputs including estimates of interest rates, discounts rates and expected holding periods of the securities, which is considered a Level 3 valuation. Unobservable inputs included in the valuation as of September 30, 2012 included a weighted average interest rate of 0.30%, a weighted average discount rate of 2.84% and a weighted average holding period of 5 years. The valuation resulted in an unrealized loss recorded in other comprehensive loss in the Consolidated Balance Sheets of \$1.2 million and \$1.4 million at September 30, 2012 and December 31, 2011, respectively. The Company believes that the loss is temporary due to the strong underlying credit rating of the securities and the fact that the Company does not intend to sell the securities and is not likely to be required to sell the securities. The assumptions used in valuing the ARS are volatile and subject to change as the underlying sources of these assumptions and market conditions change. Significant increases or decreases in any of the valuation assumptions in isolation would result in a significant change in the fair value.

The following table provides a summary of changes in fair value of the Company's Level 3 financial assets for the nine months ended September 30, 2012 and 2011 (in thousands):

	<b>ARS</b>
Balance at December 31, 2011	9,565
Sales	
Total unrealized gains (losses):	
Included in other comprehensive income (loss)	224
Balance at September 30, 2012	\$ 9,789
	<b>ARS</b>
Balance at December 31, 2010	9,117
Sales	
Total unrealized gains (losses):	
Included in other comprehensive income (loss)	422
Balance at September 30, 2011	\$ 9,539

**Note 4 Non-Marketable Investments**

At September 30, 2012 and December 31, 2011, the carrying value of the Company's non-marketable investments, which were composed primarily of interests in technology-related private equity funds, was \$7.8 million and \$7.9 million, respectively, and is recorded in other assets in the Consolidated Balance Sheets.

One of the Company's investments, with a book value of \$1.4 million and \$1.5 million at September 30, 2012 and December 31, 2011, respectively, is being accounted for using the cost method and, accordingly, is valued at cost unless an other-than-temporary impairment in its



**Table of Contents**

value occurs. The other investments are being accounted for using the equity method as the investments are limited partnerships and the Company has an ownership interest in excess of 5% and, accordingly, the Company records its share of the investee's operating results each period. The Company recorded a gain from its non-marketable investments of \$0.1 million during the three months ended September 30, 2012, and \$0.3 million and \$0.6 million during the nine months ended September 30, 2012 and 2011, respectively, which are included in gains on investments, net in the Consolidated Statements of Income. Gains from non-marketable investments were insignificant during the three months ended September 30, 2011. During the third quarter of 2012, the Company identified an error related to the amount of income previously recorded for investments under the equity-method. Income related to equity method investments was understated by approximately \$0.4 million in 2007, \$0.2 million in 2008 and, based on a revision received by the Company in the third quarter of 2012 to the information that was originally provided to the Company for the year ended December 31, 2011, was overstated by approximately \$1.2 million in 2011. Management has concluded that these errors are immaterial to all prior period financial statements and recorded a correction of these errors as a \$0.6 million reduction in equity method income in the three months ended September 30, 2012.

**Note 5 Reorganization**

The following table rolls forward the activity in the reorganization accrual for the nine months ended September 30, 2012 (in thousands):

	<b>Workforce Reduction</b>
Accrual at December 31, 2011	\$ 375
Additions	1,431
Cash payments	(1,672)
Accrual at September 30, 2012	\$ 134

In the first quarter of 2012 the Company realigned its sales force to simplify the selling process to its customers and to increase the productivity of the sales organization. The Company incurred approximately \$0.4 million of severance costs in the fourth quarter of 2011 for three sales employees located outside of the U.S. based on statutory termination benefits in their country of employment and the fact that termination was considered probable at December 31, 2011. The Company incurred an additional \$1.4 million of severance and related costs in the nine months ended September 30, 2012 for the termination of 17 additional employees related to the sales reorganization and other cost reduction initiatives. The remaining accrual at September 30, 2012 is expected to be paid by the end of 2012.

**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.

**Table of Contents**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Basic weighted average common shares outstanding	22,398	22,620	22,573	22,672
Weighted average common equivalent shares	460	462	445	507
<b>Diluted weighted average common shares outstanding</b>	<b>22,858</b>	<b>23,082</b>	<b>23,018</b>	<b>23,179</b>
Options excluded from diluted weighted average share calculation as effect would have been anti-dilutive	967	447	644	209

**Note 7 Stockholders Equity***Equity Plans*

Stock option activity for the nine months ended September 30, 2012 is presented below (in thousands, except per share data):

	Number of Shares	Weighted - Average Exercise Price Per Share	Weighted - Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2011	2,130	\$ 27.46		
Granted	381	33.84		
Exercised	(323)	24.72		
Forfeited	(105)	30.91		
<b>Outstanding at September 30, 2012</b>	<b>2,083</b>	<b>\$ 28.88</b>	<b>6.43</b>	<b>\$ 4,339</b>
Exercisable at September 30, 2012	1,202	\$ 26.19	4.77	\$ 3,973

Restricted stock unit (RSU) activity for the nine months ended September 30, 2012 is presented below (in thousands, except per share data):

	Number of Shares	Weighted- Average Grant Date Fair Value
Unvested at December 31, 2011	267	\$ 29.93
Granted	179	33.88
Vested or settled	(49)	27.60
Forfeited	(72)	27.68
<b>Unvested at September 30, 2012</b>	<b>325</b>	<b>\$ 32.96</b>

*Stock-Based Compensation*

## Edgar Filing: FORRESTER RESEARCH INC - Form 10-Q

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):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Cost of services and fulfillment	\$ 835	\$ 678	\$ 2,213	\$ 1,325
Selling and marketing	207	294	638	686
General and administrative	367	440	1,070	1,082
Total	\$ 1,409	\$ 1,412	\$ 3,921	\$ 3,093

**Table of Contents**

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

In 2010 the Company issued to its employees approximately 63,000 performance-based RSUs. The vesting of the RSUs is subject to performance criteria and will vest at 100% or 40% on April 1, 2013, or the RSUs could be forfeited, depending on whether specified revenue growth and certain operating margin targets related to full year 2012 performance are achieved. Compensation expense through the third quarter of 2011 was recognized based on an estimate of 100% vesting of the RSUs and in the fourth quarter of 2011 the Company modified its assessment of vesting to a zero percent level. The Company continues to utilize a zero percent vesting estimate in 2012. In addition, Forrester issued approximately 42,000 RSUs during 2010 that generally vest equally over a four-year period.

In 2011 the Company issued to its employees approximately 71,000 performance-based RSUs. The vesting of the RSUs is subject to performance criteria and will vest at 100% or 40% on April 1, 2014, or the RSUs could be forfeited, depending on whether specified revenue growth and certain operating margin targets related to full year 2013 performance are achieved. Compensation expense through the third quarter of 2011 was recognized based on an estimate of 100% vesting of the RSUs and in the fourth quarter of 2011 the Company modified its assessment of vesting to a zero percent level. The Company continues to utilize a zero percent vesting estimate in 2012. In addition, Forrester issued approximately 48,000 RSUs during 2011 that generally vest equally over a four-year period.

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

	Three Months Ended September 30, 2012		Three Months Ended September 30, 2011	
	Equity Incentive Plans	Employee Stock Purchase Plan	Equity Incentive Plans	Employee Stock Purchase Plan
Average risk-free interest rate	0.62%	0.14%	1.11%	0.08%
Expected dividend yield	1.7%	1.7%	None	None
Expected life	4.5 Years	0.5 Years	3.5 Years	0.5 Years
Expected volatility	40%	31%	40%	28%
Weighted average fair value	\$ 9.42	\$ 6.89	\$ 10.01	\$ 7.56

  

	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	Equity Incentive Plans	Employee Stock Purchase Plan	Equity Incentive Plans	Employee Stock Purchase Plan
Average risk-free interest rate	0.87%	0.14%	1.29%	0.14%
Expected dividend yield	1.7%	1.7%	None	None
Expected life	4.5 Years	0.5 Years	3.5 Years	0.5 Years
Expected volatility	40%	31%	40%	28%
Weighted average fair value	\$ 9.81	\$ 6.87	\$ 10.53	\$ 7.55

*Dividends*

In the first nine months of 2012 the Company declared and paid dividends of \$0.42 per share or \$9.5 million in the aggregate. In October 2012, the Company declared a dividend of \$0.14 per share payable on December 19, 2012 to shareholders of record as of December 5, 2012.

---

**Table of Contents**

*Treasury Stock*

In October 2012 the Company's Board of Directors approved an additional \$50.0 million to purchase common stock under the stock repurchase program, bringing the total authorization under the program to \$310.0 million. The shares repurchased may be used, among other things, in connection with the Company's employee and director equity incentive and purchase plans. During the nine months ended September 30, 2012 the Company repurchased approximately 0.8 million shares of common stock at an aggregate cost of approximately \$26.2 million. As of September 30, 2012, the Company had cumulative repurchases of approximately 9.0 million shares of common stock at an aggregate cost of approximately \$207.2 million under the program.

**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. The primary discrete items in the nine months ended September 30, 2012 include a \$5.5 million deferred tax benefit recognized in the third quarter of 2012 resulting from the settlement of a tax audit at one of the Company's foreign subsidiaries, a reduction in the reserve for uncertain tax positions and deductions from disqualified dispositions of incentive stock options. The primary discrete item in the nine months ended September 30, 2011 was a remeasurement loss of a euro-denominated deferred tax liability.

**Note 9 Operating Segments**

Forrester is organized into two client groups with each client group responsible for writing relevant research for the roles within the client organization on a worldwide basis. The two client groups, which are considered operating segments, are: Business Technology ( BT ) and Marketing and Strategy ( M&S ). In addition, the Company's Events segment supports both client groups. Each client group generates revenue through sales of research, advisory and other service offerings targeted at specific roles within their targeted clients. Each client group consists of research personnel focused primarily on issues relevant to particular roles and to the day-to-day responsibilities of persons within the roles. Amounts included in the Events segment relate to the operations of the events production department. Revenue reported in the Events segment consists primarily of sponsorships and sales of 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. In the second quarter of 2012, the Company modified its management structure by consolidating its former Technology Industry client group segment into its two remaining client groups: Business Technology and Marketing and Strategy. In addition, in the first quarter of 2012, the Company modified its calculation of segment direct margin to exclude certain marketing costs and Springboard integration costs and to include certain business development costs. Accordingly, the 2011 amounts have been reclassified to conform to the current presentation. The accounting policies used by the reportable segments are the same as those used in the consolidated financial statements.

**Table of Contents**

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

	BT	M&S	Events	Consolidated
<b>Three Months Ended September 30, 2012</b>				
Revenue	\$ 38,630	\$ 29,579	\$ 302	\$ 68,511
Direct margin	25,645	20,261	(726)	45,180
Selling, marketing, administrative and other expenses				(37,424)
Amortization of intangible assets				(579)
Income from operations				\$ 7,177

	BT	M&S	Events	Consolidated
<b>Three Months Ended September 30, 2011</b>				
Revenue	\$ 39,365	\$ 29,009	\$ 1,400	\$ 69,774
Direct margin	26,556	19,675	410	46,641
Selling, marketing, administrative and other expenses				(36,213)
Amortization of intangible assets				(679)
Income from operations				\$ 9,749

	BT	M&S	Events	Consolidated
<b>Nine Months Ended September 30, 2012</b>				
Revenue	\$ 118,845	\$ 89,614	\$ 9,405	\$ 217,864
Direct margin	78,687	61,012	3,241	142,940
Selling, marketing, administrative and other expenses				(117,895)
Amortization of intangible assets				(1,779)
Income from operations				\$ 23,266

	BT	M&S	Events	Consolidated
<b>Nine Months Ended September 30, 2011</b>				
Revenue	\$ 113,650	\$ 85,219	\$ 10,097	\$ 208,966
Direct margin	75,965	57,137	4,603	137,705
Selling, marketing, administrative and other expenses				(112,244)
Amortization of intangible assets				(1,898)
Income from operations				\$ 23,563

**Note 10 Recent Accounting Pronouncements**

In May 2011, the Financial Accounting Standards Board ( FASB ) issued amended guidance on fair value measurement and related disclosures. The new guidance clarifies the concepts applicable for fair value measurement of non-financial assets and requires the disclosure of quantitative information about the unobservable inputs used in a fair value measurement. This guidance is effective for reporting periods beginning after December 15, 2011 and has been applied prospectively. The adoption of this amended guidance did not have a material impact on the Company's consolidated financial statements.

In June 2011, the FASB amended its accounting guidance on the presentation of other comprehensive income (OCI) in an entity's financial statements. The amended guidance eliminates the option to present the components of OCI as part of the statement of changes in shareholders equity and provides two options for presenting OCI: in a statement included in the income statement or in a separate statement immediately following the income statement. The amendments do not change the guidance for the items that have to be reported in OCI or when an item of OCI has to be moved into net income. The Company adopted this guidance as of January 1, 2012 by presenting a separate statement of

comprehensive income.

In September 2011, the FASB issued updated guidance on the periodic testing of goodwill for impairment. The updated guidance gives companies the option to perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. The amendment is intended to reduce the cost and complexity of the annual goodwill impairment test by providing entities an option to perform a qualitative assessment to determine whether further impairment testing is necessary. The updated accounting guidance is effective for fiscal years beginning after December 15, 2011 and the adoption of this guidance as of January 1, 2012 did not have a material impact on the Company's consolidated financial statements.

---

**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, future growth rates, anticipated increases in our sales force, future capital expenditures, continued payment of dividends, and anticipated continued repurchases of our common stock. 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, including the potential impact of the fiscal cliff arising from scheduled federal spending cuts and tax increases set for the end of 2012, 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, the possibility of network disruptions and security breaches, 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, 2011. 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, enrichment and number of clients are metrics we believe are important to understanding our business. We believe that the amount of deferred revenue, along with the agreement value of contracts to purchase research and advisory services, provide a significant measure of our business activity. We define these metrics as follows:

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

**Agreement value** - the total revenues recognizable from all research and advisory service contracts in force at a given time (but not including advisory-only contracts), without regard to how much revenue has already been recognized.

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



## Edgar Filing: FORRESTER RESEARCH INC - Form 10-Q

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

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

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

**Table of Contents**

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

	As of September 30,		Absolute Increase (Decrease)	Percentage Increase (Decrease)
	2012	2011		
Deferred revenue	\$ 124.9	\$ 117.5	\$ 7.4	6%
Agreement value	\$ 221.6	\$ 211.2	\$ 10.4	5%
Client retention	78%	81%	(3)	(4%)
Dollar retention	91%	91%		
Enrichment	96%	104%	(8)	(8%)
Number of clients	2,498	2,508	(10)	

The growth rate of agreement value at September 30, 2012 of 5% has trended down from the growth rate of 10% in the first quarter of 2012 and 7% in the second quarter of 2012 as compared to the prior year periods. The decrease in the agreement value growth rate is primarily due to a continuing decrease in our enrichment rates, which at 96% for the 12-month period ending September 30, 2012, reflects a decline in the contract value of existing clients as they renewed their contracts. Dollar retention rates remain near historic highs.

Effective as of June 30, 2012, we modified our calculation of the number of clients in accordance with an automated system that counts as a single client the various divisions and subsidiaries of a corporate parent and also aggregates separate instrumentalities of federal, state, and provincial governments. The number of clients as of September 30, 2011 has been recalculated to conform to the current methodology; however prior period client and dollar retention and enrichment are not recalculated. Accordingly, the client and dollar retention and enrichment percentages at September 30, 2012 are directionally but not absolutely indicative of the actual change from the comparable period in 2011.

**Critical Accounting Policies and Estimates**

Management's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our policies and estimates, including but not limited to, those related to our revenue recognition, stock-based compensation, non-marketable investments, goodwill and other intangible assets, income taxes, and valuation and impairment of marketable investments. Management bases its estimates on historical experience, data available at the time the estimates are made and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies and estimates are described in our Annual Report on Form 10-K for the year ended December 31, 2011.

**Table of Contents****Results of Operations**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Revenues:				
Research services	73.4%	70.6%	69.4%	67.5%
Advisory services and other	26.6	29.4	30.6	32.5
Total revenues	100.0	100.0	100.0	100.0
Operating expenses:				
Cost of services and fulfillment	37.6	35.9	37.9	37.6
Selling and marketing	35.5	35.7	34.7	36.6
General and administrative	12.3	11.4	12.2	12.0
Depreciation	3.3	2.0	3.0	1.6
Amortization of intangible assets	0.8	1.0	0.8	0.9
Reorganization costs			0.7	
Income from operations	10.5	14.0	10.7	11.3
Other income (expense), net	0.5	0.5	0.4	0.1
Gains on investments, net	0.2		0.1	0.3
Income before income taxes	11.2	14.5	11.2	11.7
Income tax provision	(3.9)	6.3	1.4	5.0
Net income	15.1%	8.2%	9.8%	6.7%

**Three and Nine Months Ended September 30, 2012 and June 30, 2011****Revenues**

	Three Months Ended September 30,		Absolute	Percentage
	2012	2011	Increase	Increase
	(dollars in millions)		(Decrease)	(Decrease)
Revenues	\$ 68.5	\$ 69.8	\$ (1.3)	(2%)
Revenues from research services	\$ 50.3	\$ 49.2	\$ 1.1	2%
Revenues from advisory services and other	\$ 18.2	\$ 20.5	\$ (2.3)	(11%)
Revenues attributable to customers outside of the U.S.	\$ 19.5	\$ 20.5	\$ (1.0)	(5%)
Percentage of revenue attributable to customers outside of the U.S.	28%	29%	(1)	(3%)
Number of clients (at end of period)	2,498	2,508	(10)	(0%)
Number of events	3	2	1	50%
	Nine Months Ended September 30,		Absolute	Percentage
	2012	2011	Increase	Increase
	(dollars in millions)		(Decrease)	(Decrease)
Revenues	\$ 217.9	\$ 209.0	\$ 8.9	4%
Revenues from research services	\$ 151.1	\$ 141.1	\$ 10.0	7%
Revenues from advisory services and other	\$ 66.7	\$ 67.8	\$ (1.1)	(2%)

## Edgar Filing: FORRESTER RESEARCH INC - Form 10-Q

Revenues attributable to customers outside of the U.S.	\$ 61.0	\$ 62.0	\$ (1.0)	(2%)
Percentage of revenue attributable to customers outside of the U.S.	28%	30%	(2)	(7%)
Number of events	10	10		

Total revenues decreased by 2% and increased by 4% during the three and nine months ended September 30, 2012, respectively, compared to the corresponding periods in the prior year. Total revenues were driven by a 2% and 7% increase in research services revenue during the three and nine months ended September 30, 2012, respectively, while advisory services and other revenue decreased by 11% and 2% during the three and nine months ended September 30, 2012, respectively. Foreign exchange fluctuations from the prior year had the effect of reducing

**Table of Contents**

revenue growth by 2% and 1% for the three and nine months ended September 30, 2012, respectively, while the effect of the Springboard Research acquisition in May 2011 had an insignificant impact on revenue growth during the 2012 periods. Revenues from customers outside the U.S. during the nine months ended September 30, 2012 compared to the prior year declined by 2 points as a percent of total revenues due to both the effect of foreign currency rates and to a decline in revenue from the European region. The general economic conditions in Europe have contributed to a difficult selling environment in that region. We expect overall revenue growth for the fourth quarter of 2012 to range from a decline of 4% to growth of 2%.

Research services revenues are recognized as revenue ratably over the term of the contracts, which are generally twelve-month periods. Accordingly, the increase in research services revenues during 2012 reflects increased contract bookings during the prior twelve-month period. Revenue growth over the comparable periods in 2011 has trended downward during each of the first three quarters of 2012 reflecting a trend downward in the year-over year growth in contract bookings during this period.

Revenue from advisory services and other decreased 11% during the three months ended September 30, 2012 due to a \$1.1 million decrease in event revenues and a decline in advisory and consulting revenue during the quarter as compared to the prior year quarter. The decline in event revenue resulted principally from the smaller scope of events in the current quarter as compared to the events held in the prior year quarter. We count co-located events, which enable our clients to attend multiple events with one event ticket, as a single event in the tables above. The decline in advisory and consulting revenue was due primarily to lower productivity during the quarter and to higher attrition of research analysts as compared to the prior year. Revenue from advisory services and other decreased 2% during the nine months ended September 30, 2012 due primarily to the same factors that impacted revenue during the third quarter.

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

**Cost of Services and Fulfillment**

	Three Months Ended September 30,		Absolute Increase (Decrease)	Percentage Increase (Decrease)
	2012	2011		
Cost of services and fulfillment (dollars in millions)	\$ 25.7	\$ 25.1	\$ 0.6	3%
Cost of services and fulfillment as a percentage of total revenues	37.6%	35.9%	1.7	5%
Number of research and fulfillment employees (at end of period)	531	552	(21)	(4%)

	Nine Months Ended September 30,		Absolute Increase (Decrease)	Percentage Increase (Decrease)
	2012	2011		
Cost of services and fulfillment (dollars in millions)	\$ 82.5	\$ 78.6	\$ 3.9	5%
Cost of services and fulfillment as a percentage of total revenues	37.9%	37.6%	0.3	1%

The increase in cost of services and fulfillment expenses during the three months ended September 30, 2012 compared to the prior year period is primarily the result of increased salary and benefit costs resulting from annual pay increases and higher incentive bonuses (partially offset by salary savings from lower average headcount in 2012) and due to higher travel and entertainment costs. These increases were partially offset by lower event costs as the third quarter 2012 events were smaller in scope as compared to the events in the prior year quarter. The increase in costs of services and fulfillment as a percentage of total revenues during the three months ended September 30, 2012 compared to the prior period is primarily due to the reduction in both event and advisory/consulting revenue compared to the prior year.

The increase in cost of services and fulfillment expenses during the nine months ended September 30, 2012 compared to the prior year period is primarily the result of increased salary and benefit costs resulting from annual pay increases and higher incentive bonuses (partially offset by salary savings from lower average headcount in 2012), increased professional services fees in support of consulting revenue and an increase of \$0.9 million of stock compensation costs resulting from a credit to expense in the 2011 period resulting from a change in estimate for the amount of performance-based RSUs that would vest.

**Table of Contents*****Selling and Marketing***

	Three Months Ended September 30,		Absolute Increase	Percentage Increase
	2012	2011	(Decrease)	(Decrease)
Selling and marketing expenses (dollars in millions)	\$ 24.3	\$ 24.9	\$ (0.6)	(2%)
Selling and marketing expenses as a percentage of total revenues	35.5%	35.7%	(0.2)	(1%)
Selling and marketing employees (at end of period)	510	490	20	4%

	Nine Months Ended September 30,		Absolute Increase	Percentage Increase
	2012	2011	(Decrease)	(Decrease)
Selling and marketing expenses (dollars in millions)	\$ 75.7	\$ 76.4	\$ (0.7)	(1%)
Selling and marketing expenses as a percentage of total revenues	34.7%	36.6%	(1.9)	(5%)

The decrease in selling and marketing expenses during the three and nine months ended September 30, 2012 compared to the prior year periods is primarily the result of a decrease in total compensation costs resulting from lower sales commissions principally due to modifications to our sales commission plan in 2012. The decrease in commissions was partially offset by an increase in incentive bonuses and salary and benefits resulting from an increase in the number of selling and marketing employees. The decrease in selling and marketing expenses as a percentage of total revenues during the 2012 periods is primarily due to lower commission expense as a percentage of sales. Subject to the business environment, we intend to expand our sales force by 15% to 20% in 2013 as compared to 2012. Increased sales of our research services are generally recognized over a twelve-month period, which typically results in an increase in selling and marketing expense as a percentage of revenue during periods of sales force expansion.

***General and Administrative***

	Three Months Ended September 30,		Absolute Increase	Percentage Increase
	2012	2011	(Decrease)	(Decrease)
General and administrative expenses (dollars in millions)	\$ 8.4	\$ 7.9	\$ 0.5	6%
General and administrative expenses as a percentage of total revenues	12.3%	11.4%	0.9	8%
General and administrative employees (at end of period)	177	180	(3)	(2%)

	Nine Months Ended September 30,		Absolute Increase	Percentage Increase
	2012	2011	(Decrease)	(Decrease)
General and administrative expenses (dollars in millions)	\$ 26.7	\$ 25.2	\$ 1.5	6%
General and administrative expenses as a percentage of total revenues	12.2%	12.0%	0.2	2%

The increase in general and administrative expenses during the three and nine months ended September 30, 2012 compared to the prior year periods is primarily due to an increase in professional services costs principally related to information technology projects, including our updated website, and an increase in salary and benefits costs.

***Depreciation***

Depreciation expense increased by \$0.8 million and \$3.2 million during the three and nine months ended September 30, 2012, respectively, compared to the prior year periods primarily due to the initiation of depreciation for our new corporate headquarters in August 2011 and our new website in March 2012.

***Amortization of Intangible Assets***

Amortization expense has remained essentially consistent during 2012 as compared to the prior year.



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

We incurred reorganization costs of \$1.4 million during the nine months ended September 30, 2012. In the first quarter of 2012 we realigned our sales force to simplify the selling process to our customers and to increase the productivity of the sales organization. We incurred approximately \$0.4 million of severance costs in the fourth quarter of 2011 for three sales employees located outside of the U.S. based on statutory termination benefits in their country of employment and the fact that termination was considered probable at December 31, 2011. We incurred an additional \$1.4 million of severance and related costs during 2012 for the termination of 17 additional employees related to the sales reorganization and other cost reduction initiatives. We do not anticipate incurring any additional costs related to these initiatives and expect that all amounts incurred will be paid by the end of 2012.

**Other Income, Net**

Other income, net, decreased by \$21,000 and increased by \$0.6 million during the three and nine months ended September 30, 2012, respectively. The increase during the nine month period of 2012 was primarily due to lower net foreign exchange losses in the 2012 period as compared to the prior year period.

**Gains on Investments, Net**

Gains on investments primarily represent our share of equity method investment gains from our technology-related investment funds. The decrease in gains during the nine months ended September 30, 2012 is primarily due to a smaller increase in the valuation of certain assets within the funds as compared to the prior year period.

**Provision for Income Taxes**

	<b>Three Months Ended September 30,</b>		<b>Absolute</b>	<b>Percentage</b>
	<b>2012</b>	<b>2011</b>	<b>Increase (Decrease)</b>	<b>Increase (Decrease)</b>
Provision for income taxes (dollars in millions)	\$ (2.7)	\$ 4.4	\$ (7.1)	(161%)
Effective tax rate	(35.0%)	43.4%	(78.4)	(181%)
	<b>Nine Months Ended September 30,</b>		<b>Absolute</b>	<b>Percentage</b>
	<b>2012</b>	<b>2011</b>	<b>Increase (Decrease)</b>	<b>Increase (Decrease)</b>
Provision for income taxes (dollars in millions)	\$ 3.1	\$ 10.4	\$ (7.3)	(70%)
Effective tax rate	12.8%	42.4%	(29.6)	(70%)

The decrease in the effective tax rate during the 2012 periods as compared to the prior year periods is due to a \$5.5 million deferred tax benefit recognized in the third quarter of 2012 resulting from the settlement of a tax audit at one of our foreign subsidiaries, a reduction in the reserve for uncertain tax positions and higher deductions from disqualified dispositions of incentive stock options in the 2012 periods as compared to the 2011 periods. In addition, the nine months ended September 30, 2012 includes a remeasurement gain of a euro-denominated deferred tax liability compared to a remeasurement loss in the 2011 period.

**Segment Results**

We are organized into two client groups with each client group responsible for writing relevant research for the roles within the client organization on a worldwide basis. The two client groups, which are considered operating segments, are: Business Technology ( BT ), and Marketing and Strategy ( M&S ). In addition, our Events segment supports both client groups. Each client group generates revenue through sales of research, advisory and other service offerings targeted at specific roles within their targeted clients. Each client group consists of research personnel focused primarily on issues relevant to particular roles and to the day-to-day responsibilities of persons within the roles. Amounts included in the Events segment relate to the operations of the events production department. Revenue reported in the Events segment consists primarily of sponsorships and sales of event tickets to Forrester events. In the second quarter of 2012, we modified our management structure by consolidating our former Technology Industry client group segment into our two remaining client groups: Business Technology and Marketing and Strategy. In addition, in the first quarter of 2012, we modified our calculation of segment direct margin to exclude certain marketing costs and Springboard integration costs and to include certain business development costs. Accordingly, the 2011 amounts have been reclassified to conform to the current presentation.



## Edgar Filing: FORRESTER RESEARCH INC - Form 10-Q

We evaluate reportable segment performance 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.

**Table of Contents**

	BT	M&S	Events	Consolidated
<b>Three Months Ended September 30, 2012</b>				
Revenue	\$ 38,630	\$ 29,579	\$ 302	\$ 68,511
Direct margin	\$ 25,645	\$ 20,261	\$ (726)	\$ 45,180
Year over year revenue growth	-2%	2%	-78%	-2%
Direct margin percentage	66.4%	68.5%	-240.4%	65.9%
<b>Three Months Ended September 30, 2011</b>				
Revenue	\$ 39,365	\$ 29,009	\$ 1,400	\$ 69,774
Direct margin	\$ 26,556	\$ 19,675	\$ 410	\$ 46,641
Direct margin percentage	67.5%	67.8%	29.3%	66.8%
<b>Nine Months Ended September 30, 2012</b>				
Revenue	\$ 118,845	\$ 89,614	\$ 9,405	\$ 217,864
Direct margin	\$ 78,687	\$ 61,012	\$ 3,241	\$ 142,940
Year over year revenue growth	5%	5%	-7%	4%
Direct margin percentage	66.2%	68.1%	34.5%	65.6%
<b>Nine Months Ended September 30, 2011</b>				
Revenue	\$ 113,650	\$ 85,219	\$ 10,097	\$ 208,966
Direct margin	\$ 75,965	\$ 57,137	\$ 4,603	\$ 137,705
Direct margin percentage	66.8%	67.0%	45.6%	65.9%

BT revenue decreased 2% and increased 5% for the three and nine months ended September 30, 2012, respectively, compared to the prior year periods. Research services revenues increased 2% and 6%, respectively, for each of the periods compared to the prior year periods while advisory services and other decreased 12% and increased 2%, respectively, for each of the periods compared to the prior year periods. The decrease in direct margin percentage for the 2012 periods compared to the prior year is primarily due to the decrease in advisory services revenue in the third quarter of 2012 compared to 2011.

M&S revenue increased 2% and 5% for the three and nine months ended September 30, 2012, respectively, compared to the prior year periods, primarily resulting from growth in research services of 2% and 9%, respectively. Advisory services and other increased 1% and decreased 4% for the three and nine months ended September 30, 2012, respectively. The increase in direct margin percentage during the 2012 periods compared to the prior year is primarily due to expenses growing at a slower rate than revenue, primarily due to savings from a decrease in headcount during 2012 compared to 2011.

Events revenue decreased 78% and 7% for the three and nine months ended September 30, 2012, respectively, compared to the prior year periods. During 2012 we repositioned our events to more closely align with our roles resulting in an increased amount of smaller, co-located role-based events in comparison to larger combined events in the prior year. Co-located events enable our clients to attend multiple events with one event ticket and are considered as a single event. The decrease in revenue during the 2012 periods is primarily due to the smaller scope of events held in 2012 as compared to the prior year, resulting in less event ticket revenue. The decrease in direct margin percentage during 2012 is primarily due to lower event ticket revenue compared to the prior year.

**Liquidity and Capital Resources**

We have historically financed our operations primarily through funds generated from operations. Memberships for research services, which constituted approximately 69% of our revenues during the nine months ended September 30, 2012, are annually renewable and are generally payable in advance. We generated cash from operating activities of \$43.2 million and \$46.5 million during the nine months ended September 30, 2012 and 2011, respectively. The \$3.3 million decrease in cash provided from operations for the nine months ended September 30, 2012 is primarily attributable to an increase in cash paid for taxes during the 2012 period.

During the nine months ended September 30, 2012, we used \$16.0 million of cash from investing activities, consisting primarily of \$12.2 million in net purchases of marketable investments and \$4.8 million of purchases of property and equipment. Property and equipment purchases during the 2012 period consisted primarily of software and computer equipment. We expect property and equipment purchases to be in the range of

Edgar Filing: FORRESTER RESEARCH INC - Form 10-Q

\$5.0 million to \$8.0 million in 2012. During the nine months ended September 30, 2011, we used \$48.9 million of cash

---

## **Table of Contents**

from investing activities, consisting primarily of \$22.1 million in net purchases of marketable investments, \$33.2 million of purchases of property and equipment and \$7.2 million for acquisitions. The property and equipment purchases were partially funded by \$13.3 million of restricted cash that had been placed in escrow for such purchases. Property and equipment purchases during the 2011 period consisted of leasehold improvements for new facilities as well as purchases of software and computer equipment. We regularly invest excess funds in short and intermediate-term interest-bearing obligations of investment grade.

We used \$27.6 million of cash from financing activities during the nine months ended September 30, 2012 resulting from \$26.2 million of purchases of our common stock and \$9.5 million of dividend payments, partially offset by \$8.5 million of proceeds from exercises of stock options and our employee stock purchase plan. We used \$11.0 million of cash from financing activities during the nine months ended September 30, 2011 resulting from \$18.4 million of purchases of our common stock, partially offset by \$7.0 million of proceeds from exercises of stock options and our employee stock purchase plan. In October 2012 our board of directors approved a \$50 million increase to our stock repurchase program, which brought the available authorization to approximately \$100 million. In addition, we announced our intention to repurchase \$100 million of our common stock through 2013, which, if completed, would represent a significant increase in the rate of our repurchase activity. Our future purchases of our common stock may be affected by, among other things, market conditions, business opportunities and unanticipated events.

As of September 30, 2012, we held approximately \$9.8 million (\$11.0 million par value) of state and municipal bonds with an auction reset feature (auction rate securities or ARS). In February 2008, auctions began to fail for these securities and have continued to fail. As a result, our ability to liquidate our investment and fully recover the carrying value of our investment in the near term may be limited or not exist. Based on our expected operating cash flows and our cash resources, we do not anticipate the current lack of liquidity of our ARS investments will affect our ability to execute our current business plan.

As of September 30, 2012, we had cash and cash equivalents of \$80.9 million and marketable investments of \$157.5 million. We do not have a line of credit and do not presently anticipate the need to access a line of credit in the foreseeable future. We believe that our current cash balance, marketable investments, and cash flows from operations will satisfy working capital, financing activities, repurchases of our common stock 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, 2011.

### **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, 2011.

### **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 September 30, 2012. 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 September 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents**

## 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, 2011, 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

Our Board of Directors has authorized an aggregate \$310.0 million to purchase common stock under our stock repurchase program, including \$50.0 million authorized in October 2012 and \$60.0 million authorized in 2010. During the quarter ended September 30, 2012, we purchased the following shares of our common stock under the stock repurchase program:

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Maximum Dollar Value that May Yet be Purchased Under the Stock Repurchase Program (In thousands)
July 1 - July 31	93,649	\$ 31.47	\$ 59,001
August 1 - August 31	123,015	\$ 29.48	\$ 55,374
September 1 - September 30	86,007	\$ 29.29	\$ 52,855 (2)
	302,671		

(1) All purchases of our common stock were made under the stock repurchase program first announced in 2001.

(2) Excludes \$50.0 million authorized in October 2012.

## ITEM 6. EXHIBITS

10.1+	Separation Agreement between the Company and Gregory Nelson, effective September 13, 2012.
31.1	Certification of the Principal Executive Officer. (filed herewith)
31.2	Certification of the Principal Financial Officer. (filed herewith)
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)
101.INS*	XBRL Instance Document. (furnished herewith)
101.SCH*	XBRL Taxonomy Extension Schema. (furnished herewith)
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase. (furnished herewith)
101.DEF*	XBRL Taxonomy Extension Definition Linkbase. (furnished herewith)
101.LAB*	XBRL Taxonomy Extension Label Linkbase. (furnished herewith)
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase. (furnished herewith)

+ Denotes management contract or compensation arrangements.

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

**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: November 9, 2012



**Table of Contents**

Exhibit Index

<b>Exhibit</b>	
<b>No.</b>	<b>Document</b>
10.1+	Separation Agreement between the Company and Gregory Nelson, effective September 13, 2012.
31.1	Certification of the Principal Executive Officer. (filed herewith)
31.2	Certification of the Principal Financial Officer. (filed herewith)
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (furnished herewith)
101.INS*	XBRL Instance Document. (furnished herewith)
101.SCH*	XBRL Taxonomy Extension Schema. (furnished herewith)
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase. (furnished herewith)
101.DEF*	XBRL Taxonomy Extension Definition Linkbase. (furnished herewith)
101.LAB*	XBRL Taxonomy Extension Label Linkbase. (furnished herewith)
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase. (furnished herewith)

+ Denotes management contract or compensation arrangements.

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