

FORRESTER RESEARCH, INC.

Form 10-Q

November 05, 2014

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FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED September 30, 2014

OR

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

COMMISSION FILE NUMBER: 000-21433

FORRESTER RESEARCH, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

60 Acorn Park Drive

CAMBRIDGE, MASSACHUSETTS
(Address of principal executive offices)

02140
(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 3, 2014 18,205,000 shares of the registrant's common stock were outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FORRESTER RESEARCH, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data, unaudited)

	September 30, 2014	December 31, 2013
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 56,932	\$ 74,132
Marketable investments (Note 3)	55,497	81,013
Accounts receivable, net	39,041	77,543
Deferred commissions	9,709	12,939
Prepaid expenses and other current assets	23,207	20,762
Total current assets	184,386	266,389
Property and equipment, net	33,863	39,868
Goodwill	77,793	80,001
Intangible assets, net	4,019	5,777
Other assets	10,828	10,167
Total assets	\$ 310,889	\$ 402,202
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 1,035	\$ 1,024
Accrued expenses and other current liabilities	26,516	33,471
Deferred revenue	129,390	152,903
Total current liabilities	156,941	187,398
Non-current liabilities	9,305	10,142
Total liabilities	166,246	197,540
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		

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Issued 20,781 and 20,491 as of September 30, 2014 and December 31, 2013, respectively

Outstanding- 18,247 and 19,756 as of September 30, 2014 and December 31, 2013, respectively	208	205
Additional paid-in capital	120,415	109,676
Retained earnings	116,628	118,415
Treasury stock- 2,534 and 735 as of September 30, 2014 and December 31, 2013, respectively, at cost	(92,645)	(26,088)
Accumulated other comprehensive income	37	2,454
Total stockholders' equity	144,643	204,662
Total liabilities and stockholders' equity	\$ 310,889	\$ 402,202

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

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FORRESTER RESEARCH, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Research services	\$ 50,622	\$ 49,855	\$ 153,737	\$ 151,445
Advisory services and events	24,741	19,960	77,644	68,684
Total revenues	75,363	69,815	231,381	220,129
Operating expenses:				
Cost of services and fulfillment	30,105	27,584	93,143	85,397
Selling and marketing	27,677	25,771	86,190	79,617
General and administrative	10,023	9,310	29,365	27,217
Depreciation	2,174	2,292	7,236	6,954
Amortization of intangible assets	530	557	1,605	1,670
Reorganization costs (credits)	(71)		1,817	1,905
Total operating expenses	70,438	65,514	219,356	202,760
Income from operations	4,925	4,301	12,025	17,369
Other income (expense), net	232	(71)	247	560
Gains (losses) on investments, net	(105)	18	(25)	(84)
Income before income taxes	5,052	4,248	12,247	17,845
Income tax provision	2,009	1,739	4,981	6,982
Net income	\$ 3,043	\$ 2,509	\$ 7,266	\$ 10,863
Basic income per common share	\$ 0.17	\$ 0.12	\$ 0.38	\$ 0.51
Diluted income per common share	\$ 0.16	\$ 0.12	\$ 0.38	\$ 0.50
Basic weighted average common shares outstanding	18,287	20,117	18,886	21,226
Diluted weighted average common shares outstanding	18,549	20,665	19,169	21,690
Cash dividends declared per common share	\$ 0.16	\$ 0.15	\$ 0.48	\$ 0.45

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

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FORRESTER RESEARCH, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income	\$ 3,043	\$ 2,509	\$ 7,266	\$ 10,863
Other comprehensive income (loss), net of taxes:				
Foreign currency translation	(2,333)	1,560	(2,394)	221
Net change in market value of investments	(59)	231	(23)	(185)
Other comprehensive income (loss)	(2,392)	1,791	(2,417)	36
Comprehensive income	\$ 651	\$ 4,300	\$ 4,849	\$ 10,899

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

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FORRESTER RESEARCH, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands, unaudited)

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 7,266	\$ 10,863
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,236	6,954
Amortization of intangible assets	1,605	1,670
Net losses from investments	25	84
Deferred income taxes	(5,406)	(6,461)
Stock-based compensation	5,148	4,588
Amortization of premium on investments	1,048	1,809
Foreign currency losses	234	248
Changes in assets and liabilities		
Accounts receivable	37,921	37,570
Deferred commissions	3,230	1,002
Prepaid expenses and other current assets	(255)	3,609
Accounts payable	18	116
Accrued expenses and other liabilities	(7,924)	(4,698)
Deferred revenue	(22,295)	(25,002)
Net cash provided by operating activities	27,851	32,352
Cash flows from investing activities:		
Purchases of property and equipment	(1,110)	(2,049)
Purchases of marketable investments	(27,165)	(39,636)
Proceeds from sales and maturities of marketable investments	51,610	85,398
Other investing activity	1,471	134
Net cash provided by investing activities	24,806	43,847
Cash flows from financing activities:		
Dividends paid on common stock	(9,053)	(9,425)
Repurchases of common stock	(66,557)	(109,193)
Proceeds from issuance of common stock under employee equity incentive plans	6,781	14,506
Excess tax benefits from stock-based compensation	157	687
Payment of deferred acquisition consideration		(900)
Net cash used in financing activities	(68,672)	(104,325)

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Effect of exchange rate changes on cash and cash equivalents	(1,185)	16
Net decrease in cash and cash equivalents	(17,200)	(28,110)
Cash and cash equivalents, beginning of period	74,132	98,810
Cash and cash equivalents, end of period	\$ 56,932	\$ 70,700

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

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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, 2013. 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, of comprehensive income and of 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, 2014 may not be indicative of the results for the year ending December 31, 2014, or any other period.

During the quarter ended March 31, 2014, the Company recorded \$0.5 million of expenses for out-of-period corrections, of which \$0.4 million related to depreciation and \$0.1 million related to other immaterial amounts that related to prior periods. The Company has concluded that these errors are immaterial to all prior period financial statements.

Fair Value Measurements

The carrying amounts reflected in the Consolidated Balance Sheets for cash and cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value due to their short-term maturities. See Note 3 Marketable Investments for the fair value of the Company s marketable investments.

Revision of quarterly financial statements

During the quarter ended December 31, 2013, the Company identified an immaterial prior period error of \$0.1 million that had the effect of decreasing income tax expense for the three and nine months ended September 30, 2013. The Company has reflected in the financial information included in this Note the correction of this error in the period in which it originated (in thousands except per share amounts).

Revised Consolidated Statements of Income

Three Months Ended September 30, 2014 **Three Months Ended September 30, 2013**
Adjustments **Adjustments**

	As Previously Reported		As Revised		As Previously Reported		As Revised	
Income tax provision	1,813	(74)	1,739	7,056	(74)	6,982		
Net income	\$ 2,435	\$ 74	\$ 2,509	\$ 10,789	\$ 74	\$ 10,863		
Basic income per common share	\$ 0.12	\$	\$ 0.12	\$ 0.51	\$	\$ 0.51		
Diluted income per common share	\$ 0.12	\$	\$ 0.12	\$ 0.50	\$	\$ 0.50		

Revised Consolidated Statements of Comprehensive Income

The consolidated statement of comprehensive income for the three and nine months ended September 30, 2013 is impacted by the same amount as net income for the period.

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Revised Consolidated Statement of Cash Flows

Nine Months Ended September 30,
2013

	As Previously Reported	Adjustments	As Revised
Cash flows from operating activities:			
Net income	\$ 10,789	\$ 74	\$ 10,863
Prepaid expenses and other current assets	3,683	(74)	3,609
Net cash provided by operating activities	32,352		32,352

Note 2 Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income are as follows (in thousands):

	Net Unrealized Gain (Loss) on Marketable Investments	Cumulative Translation Adjustment	Total Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2014	\$ 16	\$ 2,438	\$ 2,454
Foreign currency translation		(2,394)	(2,394)
Unrealized loss on investments before reclassification, net of tax of \$6	(18)		(18)
Reclassification adjustment for net gains realized in net income, net of tax of \$7	(5)		(5)
Balance at September 30, 2014	\$ (7)	\$ 44	\$ 37

	Net Unrealized Gain (Loss) on Marketable Investments	Cumulative Translation Adjustment	Total Accumulated Other Comprehensive Income (Loss)
Balance at July 1, 2014	\$ 52	\$ 2,377	\$ 2,429
Foreign currency translation		(2,333)	(2,333)
Unrealized loss on investments before reclassification, net of tax of \$33	(51)		(51)
	(8)		(8)

Reclassification adjustment for net gains realized in net income, net of tax of \$5

Balance at September 30, 2014	\$	(7)	\$	44	\$	37
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		Net Unrealized Gain (Loss) on Marketable Investments		Cumulative Translation Adjustment		Total Accumulated Other Comprehensive Income (Loss)
Balance at January 1, 2013	\$	(1,024)	\$	1,612	\$	588
Foreign currency translation				221		221
Unrealized loss on investments before reclassification, net of tax of \$98		(202)				(202)
Reclassification adjustments for net losses realized in net income, net of tax of \$11		17				17
Balance at September 30, 2013	\$	(1,209)	\$	1,833	\$	624

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	Net Unrealized Gain (Loss) on Marketable Investments	Cumulative Translation Adjustment	Total Accumulated Other Comprehensive Income (Loss)
Balance at July 1, 2013	\$ (1,440)	\$ 273	\$ (1,167)
Foreign currency translation		1,560	1,560
Unrealized gain on investments before reclassification, net of tax of \$143	238		238
Reclassification adjustments for net gains realized in net income, net of tax of \$4	(7)		(7)
Balance at September 30, 2013	\$ (1,209)	\$ 1,833	\$ 624

Reclassification adjustments for net gains (losses) are reported in gains (losses) on investments, net in the Consolidated Statements of Income.

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
September 30, 2014				
<i>Available-for-sale securities</i>				
State and municipal obligations	\$ 1,980	\$ 2	\$	\$ 1,982
Federal agency and corporate obligations	53,528	52	(65)	53,515
Total	\$ 55,508	\$ 54	\$ (65)	\$ 55,497

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
December 31, 2013				
<i>Available-for-sale securities</i>				
State and municipal obligations	\$ 6,809	\$ 5	\$	\$ 6,814
Federal agency and corporate obligations	74,179	112	(92)	74,199
Total	\$ 80,988	\$ 117	\$ (92)	\$ 81,013

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, 2014 or 2013.

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The following table summarizes the maturity periods of the marketable securities in the Company's portfolio as of September 30, 2014 (in thousands).

	FY 2014	FY 2015	FY 2016	Thereafter	Total
State and municipal obligations	\$	\$ 1,982	\$	\$	\$ 1,982
Federal agency and corporate obligations	3,531	24,219	16,192	9,573	53,515
Total	\$ 3,531	\$ 26,201	\$ 16,192	\$ 9,573	\$ 55,497

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):

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	As of September 30, 2014			
	Less Than 12 Months Market Value	Unrealized Losses	12 Months or Greater Market Value	Unrealized Losses
State and municipal bonds	\$	\$	\$	\$
Federal agency and corporate obligations	16,102	65		
Total	\$ 16,102	\$ 65	\$	\$

	As of December 31, 2013			
	Less Than 12 Months Market Value	Unrealized Losses	12 Months or Greater Market Value	Unrealized Losses
State and municipal bonds	\$	\$	\$	\$
Federal agency and corporate obligations	30,645	92		
Total	\$ 30,645	\$ 92	\$	\$

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, 2014 and December 31, 2013 (in thousands):

	As of September 30, 2014			
	Level 1	Level 2	Level 3	Total
Money market funds (1)	\$ 931	\$	\$	\$ 931
State and municipal obligations		1,982		1,982
Federal agency and corporate obligations		53,515		53,515

Total	\$ 931	\$ 55,497	\$	\$ 56,428
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As of December 31, 2013

	Level 1	Level 2	Level 3	Total
Money market funds (1)	\$ 6,897	\$	\$	\$ 6,897
State and municipal obligations		6,814		6,814
Federal agency and corporate obligations (2)		80,449		80,449
Total	\$ 6,897	\$ 87,263	\$	\$ 94,160

(1) Included in cash and cash equivalents.

(2) \$6.2 million are included in cash and cash equivalents at December 31, 2013 as original maturities at the time of purchase were 90 days or less.

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Level 2 assets consist of the Company's entire portfolio of federal, state, municipal and corporate bonds. 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.

Note 4 Non-Marketable Investments

At September 30, 2014 and December 31, 2013, the carrying value of the Company's non-marketable investments, which were composed primarily of interests in technology-related private equity funds, was \$4.1 million and \$5.7 million, respectively, and is included in other assets in the Consolidated Balance Sheets.

One of the Company's investments, with a book value of \$0.8 million and \$0.9 million at September 30, 2014 and December 31, 2013, 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. Gains and losses from non-marketable investments were insignificant during the three and nine months ended September 30, 2014 and 2013, and are included in gains (losses) on investments, net in the Consolidated Statements of Income. During the nine months ended September 30, 2014 and 2013, gross distributions of \$1.5 million and \$0.3 million, respectively, were received from the funds.

Note 5 Reorganization

In the first quarter of 2014 the Company terminated approximately 1% of its employees across various geographies and functions primarily to realign resources due to the Company's new organizational structure implemented in late 2013. The Company incurred \$1.8 million of severance and related costs in the nine months ended September 30, 2014 related to this action. The costs under this plan are expected to be substantially paid by the end of 2014.

During 2013 the Company incurred \$1.9 million of severance and related costs for the elimination of 31 jobs or approximately 2.5% of its workforce worldwide in an effort to streamline its operations.

The following table rolls forward the activity in the reorganization accrual for the nine months ended September 30, 2014 (in thousands):

	Workforce Reduction
Accrual at December 31, 2013	\$ 121
Additions	1,817
Cash payments	(1,509)
Accrual at September 30, 2014	\$ 429

Note 6 Net Income Per Common Share

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

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

	Three Months Ended		Nine Months Ended	
	September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Basic weighted average common shares outstanding	18,287	20,117	18,886	21,226
Weighted average common equivalent shares	262	548	283	464
Diluted weighted average common shares outstanding	18,549	20,665	19,169	21,690
Equity instruments excluded from diluted weighted average share calculation as effect would have been anti-dilutive	610	608	591	700

Note 7 Stockholders Equity*Equity Plans*

Stock option activity for the nine months ended September 30, 2014 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, 2013	1,734	\$ 31.85		
Granted	532	38.12		
Exercised	(182)	29.89		
Forfeited	(65)	34.69		
Outstanding at September 30, 2014	2,019	\$ 33.59	7.23	\$ 7,452
Exercisable at September 30, 2014	898	\$ 30.29	5.12	\$ 5,977

Restricted stock unit activity for the nine months ended September 30, 2014 is presented below (in thousands, except per share data):

Number of Shares	Weighted-Average Grant Date Fair
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		Value
Unvested at December 31, 2013	372	\$ 34.14
Granted	235	36.67
Vested or settled	(96)	33.99
Forfeited	(74)	33.55
Unvested at September 30, 2014	437	\$ 35.63

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):

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	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Cost of services and fulfillment	\$ 1,134	\$ 1,061	\$ 3,005	\$ 2,708
Selling and marketing	302	321	767	893
General and administrative	547	478	1,376	987
Total	\$ 1,983	\$ 1,860	\$ 5,148	\$ 4,588

Forrester utilizes the Black-Scholes valuation model for estimating the fair value of stock options. 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		Three Months Ended	
	September 30, 2014		September 30, 2013	
	Equity Incentive	Employee Stock	Equity Incentive	Employee Stock
	Plans	Purchase Plan	Plans	Purchase Plan
Average risk-free interest rate	1.70%	0.06%	1.40%	0.08%
Expected dividend yield	1.8%	1.8%	2.1%	2.1%
Expected life	5.1 Years	0.5 Years	4.9 Years	0.5 Years
Expected volatility	25%	23%	36%	19%
Weighted average fair value	\$ 7.68	\$ 8.00	\$ 9.94	\$ 6.02

	Nine Months Ended		Nine Months Ended	
	September 30, 2014		September 30, 2013	
	Equity Incentive	Employee Stock	Equity Incentive	Employee Stock
	Plans	Purchase Plan	Plans	Purchase Plan
Average risk-free interest rate	1.69%	0.06%	0.81%	0.08%
Expected dividend yield	1.8%	1.8%	2.1%	2.1%
Expected life	5.1 Years	0.5 Years	4.9 Years	0.5 Years
Expected volatility	26%	23%	37%	19%
Weighted average fair value	\$ 7.91	\$ 8.00	\$ 9.15	\$ 6.02

Dividends

In the nine months ended September 30, 2014, the Company declared and paid dividends of \$9.1 million consisting of a \$0.16 per share dividend in each of the first three quarters of 2014. In the nine months ended September 30, 2013, the Company declared and paid dividends of \$9.4 million consisting of a \$0.15 per share dividend in each of the first three quarters of 2013. In October 2014 the Company declared a dividend of \$0.16 per share payable on December 17,

2014 to shareholders of record as of December 3, 2014.

Treasury Stock

Forrester's Board of Directors has authorized an aggregate \$410.0 million to purchase common stock under its stock repurchase program, including \$25.0 million authorized in April 2014. The shares repurchased may be used, among other things, in connection with Forrester's employee and director equity incentive and purchase plans. In the nine months ended September 30, 2014, the Company repurchased approximately 1.8 million shares of common stock at an aggregate cost of approximately \$66.6 million. From the inception of the program through September 30, 2014, Forrester repurchased approximately 14.2 million shares of common stock at an aggregate cost of approximately \$395.6 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 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.

Income tax expense for the nine months ended September 30, 2014 was \$5.0 million resulting in an effective tax rate of 40.7% for the period. Income tax expense for the nine months ended September 30, 2013 was \$7.0 million resulting in an effective tax rate of 39.1% for the period. The increase in the effective tax rate during the nine months ended September 30, 2014 as compared to the prior year was primarily due to the recognition of \$0.2 million in the nine months ended September 30, 2014 for potential additional tax expense resulting from an on-going U.S. state audit.

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At the end of 2013 the Company reorganized its fulfillment organization into a single global research organization and a single global product organization to better support its client base by facilitating better research collaboration and quality, promoting a more uniform client experience and improved customer satisfaction, and encouraging innovation. During 2013 the Company also established a dedicated consulting organization to provide research-based project consulting services to its clients, allowing the Company's research personnel to spend additional time on writing research and providing shorter-term advisory services. As of January 1, 2014 the Company conformed its internal reporting to match the new organizational structure and as such is reporting segment information for the newly formed Research, Product and Project Consulting organizations. The 2013 segment amounts have been reclassified to conform to the current presentation.

The Research segment includes the costs of the Company's research personnel who are responsible for writing the research and performing the webinars and inquiries for the Company's RoleView product. In addition, the research personnel deliver advisory services (such as workshops, speeches and advisory days) and a portion of the Company's project consulting services. Revenue in this segment includes only revenue from advisory services and project consulting services that are delivered by the research personnel in this segment. During 2013, the Company began to transition the delivery of project consulting to a dedicated project consulting organization. The Company anticipates that the transition will be complete by the end of 2014 such that essentially all project consulting will be delivered by the project consulting organization in 2015.

The Product segment includes the costs of the product management organization that is responsible for pricing, packaging and the launch of new products. In addition, this segment includes the costs of the Company's data, Forrester Leadership Boards and events organizations. Revenue in this segment includes all revenue for the Company (including RoleView) except for revenue from advisory services and project consulting services that are delivered by personnel in the Research and Project Consulting segments.

The Project Consulting segment includes the costs of the consultants that deliver the Company's project consulting services. During 2013 the Company began to hire dedicated consultants to transition the delivery of project consulting services from research personnel (included in the Research segment) to the new Project Consulting segment. Revenue in this segment includes the project consulting revenue delivered by the consultants in this segment.

The Company evaluates reportable segment performance and allocates resources based on segment revenues and expenses. Segment expenses include the direct expenses of each segment organization and exclude selling and marketing expenses, general and administrative expenses, stock-based compensation expense, depreciation expense, adjustments to incentive bonus compensation from target amounts, amortization of intangible assets, reorganization costs, other income and gains (losses) on investments. The accounting policies used by the segments are the same as those used in the consolidated financial statements.

	Products	Research	Project Consulting	Consolidated
Three Months Ended September 30, 2014				
Research services revenues	\$ 50,622	\$	\$	\$ 50,622
Advisory services and events revenues	2,310	10,925	11,506	24,741
Total segment revenues	52,932	10,925	11,506	75,363

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Segment expenses	8,298	13,012	7,590	28,900
Contribution margin (loss)	44,634	(2,087)	3,916	46,463
Selling, marketing, administrative and other expenses				(41,079)
Amortization of intangible assets				(530)
Reorganization credits				71
Other income and gains (losses) on investments				127
Income before income taxes				\$ 5,052

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	Products	Research	Project Consulting	Consolidated
Three Months Ended September 30, 2013				
Research services revenues	\$ 49,855	\$	\$	\$ 49,855
Advisory services and events revenues	2,167	12,781	5,012	19,960
Total segment revenues	52,022	12,781	5,012	69,815
Segment expenses	7,408	14,420	4,196	26,024
Contribution margin (loss)	44,614	(1,639)	816	43,791
Selling, marketing, administrative and other expenses				(38,933)
Amortization of intangible assets				(557)
Reorganization costs				
Other income and gains (losses) on investments				(53)
Income before income taxes				\$ 4,248

	Products	Research	Project Consulting	Consolidated
Nine Months Ended September 30, 2014				
Research services revenues	\$ 153,737	\$	\$	\$ 153,737
Advisory services and events revenues	15,161	37,573	24,910	77,644
Total segment revenues	168,898	37,573	24,910	231,381
Segment expenses	28,543	40,386	19,705	88,634
Contribution margin (loss)	140,355	(2,813)	5,205	142,747
Selling, marketing, administrative and other expenses				(127,300)
Amortization of intangible assets				(1,605)
Reorganization costs				(1,817)
Other income and gains (losses) on investments				222
Income before income taxes				\$ 12,247

	Products	Research	Project Consulting	Consolidated
Nine Months Ended September 30, 2013				
Research services revenues	\$ 151,445	\$	\$	\$ 151,445
Advisory services and events revenues	13,868	42,531	12,285	68,684
Total segment revenues	165,313	42,531	12,285	220,129
Segment expenses	25,902	43,006	11,169	80,077

Contribution margin (loss)	139,411	(475)	1,116	140,052
Selling, marketing, administrative and other expenses				(119,108)
Amortization of intangible assets				(1,670)
Reorganization costs				(1,905)
Other income and gains (losses) on investments				476
Income before income taxes				\$ 17,845

Note 10 Recent Accounting Pronouncements

In May, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which supersedes all existing revenue recognition requirements, including most industry-specific guidance. The new standard requires a company to recognize revenue when it transfers goods or services to customers in an amount that reflects the consideration that the company expects to receive for those goods or services. The new standard will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. For Forrester, the standard will be effective in the first quarter of 2017. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented, or the modified retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. The Company has not yet selected a transition method. The Company is currently evaluating the potential changes from this ASU to its future financial reporting and disclosures.

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The standard addresses the balance sheet presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The standard

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requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The adoption of this ASU as of January 1, 2014 did not have a material effect on the Company's financial position.

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, the continued build-out of a dedicated consulting organization, anticipated increases in our sales force, future 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, the risks and challenges inherent in international business activities, our ability to offer new products and services, our dependence on key personnel, the ability to attract and retain qualified professional staff, our ability to respond to business and economic conditions and market trends, the possibility of network disruptions and security breaches, competition and industry consolidation, 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, 2013. 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 and data products and services, performing advisory services and consulting projects, and hosting events. We offer contracts for our research products that are typically renewable annually and payable in advance. Research revenues are recognized as revenue ratably over the term of the contract. Accordingly, a substantial portion of our billings are initially recorded as deferred revenue. Clients purchase advisory services independently and/or to supplement their memberships to our research. Billings attributable to advisory services and consulting projects are initially recorded as deferred revenue. Advisory service revenues, such as workshops, speeches and advisory days, are recognized when the customer receives the agreed upon deliverable. Consulting project revenues, which generally are short-term in nature and based upon fixed-fee agreements, are recognized as the services are provided. Event billings are also initially recorded as deferred revenue and are recognized as revenue upon completion of each event.

Our primary operating expenses consist of cost of services and fulfillment, selling and marketing expenses and general and administrative expenses. Cost of services and fulfillment represents the costs associated with the production and delivery of our products and services, including salaries, bonuses, employee benefits and stock-based compensation expense for research and consulting 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 and service fees for cloud-based information

systems 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.

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.

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

Clients we count as a single client the various divisions and subsidiaries of a corporate parent and we also aggregate separate instrumentalities of the federal, state, and provincial governments as a single client. Client retention, dollar retention, and enrichment are not necessarily indicative of the rate of future retention of our revenue base. A summary of our key metrics is as follows (dollars in millions):

	As of September 30,		Absolute Increase (Decrease)	Percentage Increase (Decrease)
	2014	2013		
Deferred revenue	\$ 129.4	\$ 125.8	\$ 3.6	3%
Agreement value	\$ 226.9	\$ 210.7	\$ 16.2	8%
Client retention	76%	76%		
Dollar retention	89%	89%		
Enrichment	97%	95%	2	2%
Number of clients	2,452	2,482	(30)	(1%)

Deferred revenue and agreement value at September 30, 2014 increased approximately 3% and 8%, respectively, compared to the prior year due primarily to increased contract bookings. Foreign exchange fluctuations had the effect of decreasing deferred revenue growth by 1%. Enrichment at 97% for the period ending September 30, 2014 is consistent with the past three quarters; however it represents a 2% increase from the prior year period. Client retention and dollar retention at September 30, 2014 have been flat or have increased slightly on a sequential basis during the prior four quarters and have now fully recovered to prior year levels.

Management's discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, we evaluate our policies and estimates, including but not limited to, those related to our revenue recognition, stock-based compensation, non-marketable investments, goodwill and other intangible assets, income taxes, and valuation and impairment of marketable investments. Management bases its estimates on historical experience, data available at the time the estimates are made and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our other critical accounting policies and estimates are described in our Annual Report on Form 10-K for the year ended December 31, 2013.

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,	
	2014	2013	2014	2013
Revenues:				
Research services	67.2%	71.4%	66.4%	68.8%
Advisory services and events	32.8	28.6	33.6	31.2
Total revenues	100.0	100.0	100.0	100.0
Operating expenses:				
Cost of services and fulfillment	40.0	39.5	40.2	38.8
Selling and marketing	36.7	36.9	37.3	36.1
General and administrative	13.3	13.3	12.7	12.4
Depreciation	2.9	3.3	3.1	3.1
Amortization of intangible assets	0.7	0.8	0.7	0.8
Reorganization costs (credits)	(0.1)		0.8	0.9
Income from operations	6.5	6.2	5.2	7.9
Other income (expense), net	0.3	(0.1)	0.1	0.2
Gains (losses) on investments, net	(0.1)			
Income before income taxes	6.7	6.1	5.3	8.1
Income tax provision	2.7	2.5	2.2	3.2
Net income	4.0%	3.6%	3.1%	4.9%

Three and Nine Months Ended September 30, 2014 and 2013**Revenues**

	Three Months Ended September 30,		Absolute	Percentage
	2014	2013	Increase (Decrease)	Increase (Decrease)
	(dollars in millions)			
Revenues	\$ 75.4	\$ 69.8	\$ 5.6	8%
Revenues from research services	\$ 50.6	\$ 49.9	\$ 0.7	2%
Revenues from advisory services and events	\$ 24.7	\$ 20.0	\$ 4.7	24%
Revenues attributable to customers outside of the U.S.	\$ 19.5	\$ 18.9	\$ 0.6	3%
Percentage of revenue attributable to customers outside of the U.S.	26%	27%	(1)	(4%)

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Number of clients (at end of period)	2,452	2,482	(30)	(1%)
Number of events	4	3	1	33%

	Nine Months Ended September 30,		Absolute	Percentage
	2014	2013	Increase	Increase
	(dollars in millions)		(Decrease)	(Decrease)
Revenues	\$ 231.4	\$ 220.1	\$ 11.3	5%
Revenues from research services	\$ 153.7	\$ 151.4	\$ 2.3	2%
Revenues from advisory services and events	\$ 77.6	\$ 68.7	\$ 8.9	13%
Revenues attributable to customers outside of the U.S.	\$ 59.3	\$ 57.8	\$ 1.5	3%
Percentage of revenue attributable to customers outside of the U.S.	26%	26%		
Number of events	11	10	1	10%

Total revenues increased 8% and 5% during the three and nine months ended September 30, 2014, respectively, compared to the prior year periods due primarily to the growth in revenues from advisory services and events and to a lesser extent growth in research services. Foreign exchange fluctuations had an insignificant effect on revenue growth in each of the three and nine month periods ending September 30, 2014 compared to the prior year. While revenues from customers outside of the U.S. increased 3% during the three and nine months ended September 30, 2014 compared to the prior year periods, the percentage of revenues attributable to

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customers outside of the U.S. decreased by one percentage point during the three months ended September 30, 2014 and was unchanged during the nine months ended September 30, 2014, each as compared to the prior year periods. Foreign exchange fluctuations had an insignificant effect on foreign revenue growth during the three months ended September 30, 2014 and an effect of increasing revenue growth by 1% during the nine months ended September 30, 2014 compared to the prior year. We continue to experience stronger growth during 2014 in the U.S. region compared to outside of the U.S. Strong growth in the Asia Pacific region and Canada was partially offset by a revenue decline (on a constant currency basis) in the European region.

Research services revenues are recognized as revenue primarily on a ratable basis over the term of the contracts, which are generally twelve-month periods. Research services revenues increased 2% during the three and nine months ended September 30, 2014 compared to the prior year, which is primarily consistent with the related contract bookings growth during this period. Compared to the corresponding prior year periods, revenues from our data subscription products declined by approximately \$0.2 million and \$2.0 million during the three and nine months ended September 30, 2014, respectively, the majority of which is due to the phasing out of our Tech Marketing Navigator product that began in 2013. The decline in data subscription revenues was offset by growth in our research product revenues.

Revenue from advisory services and events increased 24% and 13% during the three and nine months ended September 30, 2014, respectively, compared to the prior year periods. The increase was driven by strong growth in advisory and consulting revenues due primarily to strong demand for both advisory and consulting services and an increase in consulting headcount as we complete the build out of a dedicated consulting organization that began in 2013. We expect the growth rate in future periods for advisory and consulting revenues to decrease from the growth rate experienced in the three months ended September 30, 2014 as the year-over-year increase in headcount will slow in future periods as we complete the build out of the consulting organization and due to a historically high delivery of advisory and consulting revenue in the three months ended September 30, 2014. Events revenues were insignificant during the three months ended September 30, 2014 and 2013 and increased 7% during the nine months ended September 30, 2014 compared to the prior year due to higher ticket and sponsorship revenues.

Please refer to the Segments Results section below for a discussion of revenues and expenses by segment.

Cost of Services and Fulfillment

	Three Months Ended September 30,		Absolute Increase	Percentage Increase
	2014	2013	(Decrease)	(Decrease)
Cost of services and fulfillment (dollars in millions)	\$ 30.1	\$ 27.6	\$ 2.5	9%
Cost of services and fulfillment as a percentage of total revenues	40.0%	39.5%	0.5	1%
Number of research and fulfillment employees (at end of period)	589	554	35	6%

	Nine Months Ended September 30,		Absolute Increase	Percentage Increase
	2014	2013	(Decrease)	(Decrease)
Cost of services and fulfillment (dollars in millions)	\$ 93.1	\$ 85.4	\$ 7.7	9%

Cost of services and fulfillment as a percentage of total revenues	40.2%	38.8%	1.4	4%
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The increase in cost of services and fulfillment expenses during the three and nine months ended September 30, 2014 compared to the prior year periods is primarily due to a \$1.8 million and \$6.2 million increase in compensation and benefit costs, respectively, resulting primarily from an increase in the number of employees (primarily consulting and product specialist employees) and annual merit increases, partially offset by lower incentive bonus expense. We hired additional consulting employees during 2013 and 2014 to build out a dedicated consulting organization to provide research-based project consulting services to our clients, allowing our analysts to spend additional time on writing research and providing shorter-term advisory services. In addition, both periods in 2014 include increased costs for the Forrester events, increased costs for travel and entertainment and increased facility costs.

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

	Three Months Ended September 30,		Absolute	Percentage
	2014	2013	Increase (Decrease)	Increase (Decrease)
Selling and marketing expenses (dollars in millions)	\$ 27.7	\$ 25.8	\$ 1.9	7%
Selling and marketing expenses as a percentage of total revenues	36.7%	36.9%	(0.2)	(1%)
Selling and marketing employees (at end of period)	546	533	13	2%

	Nine Months Ended September 30,		Absolute	Percentage
	2014	2013	Increase (Decrease)	Increase (Decrease)
Selling and marketing expenses (dollars in millions)	\$ 86.2	\$ 79.6	\$ 6.6	8%
Selling and marketing expenses as a percentage of total revenues	37.3%	36.1%	1.2	3%

The increase in selling and marketing expenses during the three and nine months ended September 30, 2014 compared to the prior year periods is primarily due to a \$1.9 million and \$5.7 million increase in compensation and benefit costs, respectively, resulting from an increase in sales employees, annual merit increases and increased commission costs, partially offset by lower incentive bonus expense. During the three months ended September 30, 2014 we also incurred increased facility costs that were offset by lower professional service costs and travel and entertainment costs. In addition to the costs as described for the three months ended September 30, 2014, we also incurred increased costs during the nine months ended September 30, 2014 due to a larger sales kick off meeting in 2014 and costs to terminate a contract with an independent international sales representative.

Subject to the business environment, we intend to expand our quota carrying sales force by approximately 7% to 9% in 2014 as compared to 2013. Any resulting increase in contract bookings of our research services would generally be recognized over a twelve-month period, which typically results in an increase in selling and marketing expense as a percentage of revenues during periods of sales force expansion.

General and Administrative

	Three Months Ended September 30,		Absolute	Percentage
	2014	2013	Increase (Decrease)	Increase (Decrease)
General and administrative expenses (dollars in millions)	\$ 10.0	\$ 9.3	\$ 0.7	8%
General and administrative expenses as a percentage of total revenues	13.3%	13.3%		
	181	176	5	3%

General and administrative employees (at end of period)

	Nine Months Ended September 30,		Absolute Increase (Decrease)	Percentage Increase (Decrease)
	2014	2013		
General and administrative expenses (dollars in millions)	\$ 29.4	\$ 27.2	\$ 2.2	8%
General and administrative expenses as a percentage of total revenues	12.7%	12.4%	0.3	2%

The increase in general and administrative expenses during the three and nine months ended September 30, 2014 compared to the prior year periods is primarily due to a \$0.2 million and \$0.7 million increase, respectively, in compensation and benefits costs resulting from increased headcount, annual merit increases and increased payroll taxes, partially offset by lower incentive bonus expense. Other cost increases during 2014 include professional services due to the implementation of cloud-based software services, stock compensation costs due in part to lower employee turnover in 2014 and recruiting costs due to increased hiring in 2014 primarily for consulting and sales employees.

Depreciation

Depreciation expense during the three months ended September 30, 2014 was consistent with the prior year, and during the nine months ended September 30, 2014 increased by \$0.3 million compared to the prior year. The \$0.3 million increase during the nine months ended September 30, 2014 is due to a \$0.4 million adjustment recorded during the three months ended March 31, 2014 to correct an immaterial understatement of depreciation expense of approximately \$0.2 million in each of 2013 and 2012.

Table of Contents***Amortization of Intangible Assets***

Amortization expense remained essentially consistent during the three and nine months ended September 30, 2014 compared to the prior year.

Reorganization Costs

During the nine months ended September 30, 2014 we incurred \$1.8 million of severance and related costs for the termination of approximately 1% of our employees across various geographies and functions primarily to realign resources due to our new organizational structure implemented in late 2013. The costs under this plan are expected to be substantially paid by the end of 2014.

During the nine months ended September 30, 2013 we incurred \$1.9 million of severance and related costs for the elimination of 31 jobs or approximately 2.5% of our workforce worldwide in an effort to streamline our operations.

Other Income, Net

Other income, net primarily consists of interest income on our investments as well as gains and losses on foreign currency. The increase in other income, net during the three months ended September 30, 2014 is primarily due to foreign currency gains of approximately \$0.1 million during the current year quarter versus foreign currency losses of \$0.3 million during the prior year quarter. The decrease in other income, net during the nine months ended September 30, 2014 is primarily due to lower interest income earned in 2014 due to lower investment balances.

Gains (Losses) on Investments, Net

Gains (losses) on investments, net primarily represent our share of equity method investment gains (losses) from our technology-related investment funds. Activity within the funds was insignificant during the 2014 and 2013 periods.

Provision for Income Taxes

	Three Months Ended September 30,		Absolute	Percentage
	2014	2013	Increase (Decrease)	Increase (Decrease)
Provision for income taxes (dollars in millions)	\$ 2.0	\$ 1.7	\$ 0.3	16%
Effective tax rate	39.8%	40.9%	(1.1)	(3%)

	Nine Months Ended September 30,		Absolute	Percentage
	2014	2013	Increase (Decrease)	Increase (Decrease)
Provision for income taxes (dollars in millions)	\$ 5.0	\$ 7.0	\$ (2.0)	(29%)
Effective tax rate	40.7%	39.1%	1.6	4%

The increase in the effective tax rate during the nine months ended September 30, 2014 as compared to the prior year period is primarily due to \$0.2 million recorded in the nine months ended September 30, 2014 for potential additional tax expense resulting from an ongoing U.S. state audit.

Segment Results

At the end of 2013 we reorganized our fulfillment organization into a single global research organization and a single global product organization to better support our client base by facilitating better research collaboration and quality, promoting a more uniform client experience and improved customer satisfaction, and encouraging innovation. During 2013 we also established a dedicated consulting organization to provide research-based project consulting services to our clients, allowing our research personnel to spend additional time on writing research and providing shorter-term advisory services. As of January 1, 2014 we conformed our internal reporting to match the new organizational structure and as such we are reporting segment information for the newly formed Research, Product and Project Consulting organizations. The 2013 segment amounts have been reclassified to conform to the current presentation.

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The Research segment includes the costs of our research personnel who are responsible for writing the research and performing the webinars and inquiries for our RoleView product. In addition, the research personnel deliver advisory services (such as workshops, speeches and advisory days) and a portion of our project consulting services. Revenue in this segment includes only revenue from advisory services and project consulting services that are delivered by the research personnel in this segment. During 2013, we began to transition the delivery of project consulting to a dedicated project consulting organization. We anticipate that the transition will be complete by the end of 2014 such that essentially all project consulting will be delivered by the project consulting organization in 2015.

The Product segment includes the costs of the product management organization that is responsible for pricing, packaging and the launch of new products. In addition, this segment includes the costs of our data, Forrester Leadership Boards and events organizations. Revenue in this segment includes all of our revenue (including RoleView) except for revenue from advisory services and project consulting services that are delivered by personnel in the Research and Project Consulting segments.

The Project Consulting segment includes the costs of the consultants that deliver our project consulting services. During 2013 we began to hire dedicated consultants to transition the delivery of project consulting services from research personnel (included in the Research segment) to the new Project Consulting segment. Revenue in this segment includes the project consulting revenue delivered by the consultants in this segment.

We evaluate reportable segment performance and allocate resources based on segment revenues and expenses. Segment expenses include the direct expenses of each segment organization and exclude selling and marketing expenses, general and administrative expenses, stock-based compensation expense, depreciation expense, adjustments to incentive bonus compensation from target amounts, amortization of intangible assets, reorganization costs, other income and gains (losses) on investments. The accounting policies used by the segments are the same as those used in the consolidated financial statements.

	Products	Research	Project Consulting	Consolidated
Three Months Ended September 30, 2014				
Research services revenues	\$ 50,622	\$	\$	\$ 50,622
Advisory services and events revenues	2,310	10,925	11,506	24,741
Total segment revenues	52,932	10,925	11,506	75,363
Segment expenses	8,298	13,012	7,590	28,900
Contribution margin (loss)	44,634	(2,087)	3,916	46,463
Year over year revenue change	2%	(15%)	130%	8%
Year over year expense change	12%	(10%)	81%	11%

	Products	Research	Project Consulting	Consolidated
Three Months Ended September 30, 2013				
Research services revenues	\$ 49,855	\$	\$	\$ 49,855
Advisory services and events revenues	2,167	12,781	5,012	19,960

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Total segment revenues	52,022	12,781	5,012	69,815
Segment expenses	7,408	14,420	4,196	26,024
Contribution margin (loss)	44,614	(1,639)	816	43,791

	Products	Research	Project Consulting	Consolidated
Nine Months Ended September 30, 2014				
Research services revenues	\$ 153,737	\$	\$	\$ 153,737
Advisory services and events revenues	15,161	37,573	24,910	77,644
Total segment revenues	168,898	37,573	24,910	231,381
Segment expenses	28,543	40,386	19,705	88,634
Contribution margin (loss)	140,355	(2,813)	5,205	142,747
Year over year revenue change	2%	(12%)	103%	5%
Year over year expense change	10%	(6%)	76%	11%

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	Products	Research	Project Consulting	Consolidated
Nine Months Ended September 30, 2013				
Research services revenues	\$ 151,445	\$	\$	\$ 151,445
Advisory services and events revenues	13,868	42,531	12,285	68,684
Total segment revenues	165,313	42,531	12,285	220,129
Segment expenses	25,902	43,006	11,169	80,077
Contribution margin (loss)	139,411	(475)	1,116	140,052

Product segment revenues increased 2% during the three and nine months ended September 30, 2014 compared to the prior year periods. Research services revenues increased 2% during the three and nine months ended September 30, 2014 compared to the prior year, which is essentially consistent with the related contract bookings growth during this period. Revenues from our data subscription products declined by approximately \$0.2 million and \$2.0 million during the three and nine months ended September 30, 2014, respectively, each as compared to the corresponding prior year period, with the majority of the decline due to the phasing out of our Tech Marketing Navigator product that began in 2013. The decline in data subscription revenues was offset by growth in our research product revenues. Events revenues were \$0.5 million and \$9.7 million during the three and nine months ended September 30, 2014, respectively, representing an increase of 36% and 7%, respectively, driven by higher ticket and sponsorship revenues for the events in 2014 as compared to the prior year. Data advisory revenues were flat during the three months ended September 30, 2014 and increased approximately \$0.7 million during the nine months ended September 30, 2014. Product segment expenses increased 12% and 10% during the three and nine months ended September 30, 2014 due primarily to a \$0.8 million and \$2.4 million increase, respectively, in compensation and benefit costs due to an increase in the number of employees and annual merit increases.

Research segment revenues decreased 15% and 12% during the three and nine months ended September 30, 2014, respectively, compared to the prior year due to the ongoing transition of the performance of project consulting services from personnel in our Research segment to personnel in our Project Consulting segment. Research segment expenses decreased by 10% and 6% during the three and nine months ended September 30, 2014, respectively, due primarily to a decrease in compensation and benefit costs due to a decrease in the number of employees in the Research segment related to the continued transition in the delivery of project consulting services to the Project Consulting segment.

Project Consulting segment revenues increased 130% and 103% during the three and nine months ended September 30, 2014, respectively, compared to the prior year periods due primarily to the ongoing transition of the performance of project consulting services from research personnel (in the Research segment) to consulting personnel, and due to strong demand for certain consulting projects and increased headcount to deliver the projects. Project Consulting segment expenses increased 81% and 76% during the three and nine months ended September 30, 2014, respectively, due primarily to a \$2.8 million and \$7.4 million increase, respectively, in compensation and benefit costs due to an increase in the number of employees and annual merit increases.

Liquidity and Capital Resources

We have historically financed our operations primarily through funds generated from operations. Memberships for research services, which constituted approximately 66% of our revenues during the nine months ended September 30, 2014, are generally renewable annually and are typically payable in advance. We generated cash from operating activities of \$27.9 million and \$32.4 million during the nine months ended September 30, 2014 and 2013, respectively. The \$4.5 million decrease in cash provided from operations for the nine months ended September 30,

2014 is primarily attributable to a decrease in net income of \$3.6 million for the nine months ended September 30, 2014 compared to the prior year period and an increase in cash taxes paid during the 2014 period primarily due to the timing of estimated tax payments.

During the nine months ended September 30, 2014, we generated \$24.8 million of cash from investing activities, consisting primarily of \$24.4 million in net sales and maturities of marketable investments and \$1.5 million of distributions from our non-marketable investments, which were partially offset by \$1.1 million of purchases of property and equipment. Property and equipment purchases during 2014 consisted primarily of software and leasehold improvements. During the nine months ended September 30, 2013, we generated \$43.8 million of cash from investing activities, consisting primarily of \$45.8 million in net sales and maturities of marketable investments partially offset by \$2.0 million of purchases of property and equipment. Property and equipment purchases during the 2013 period consisted primarily of software and leasehold improvements. We regularly invest excess funds in short and intermediate-term interest-bearing obligations of investment grade.

We used \$68.7 million of cash from financing activities during the nine months ended September 30, 2014 primarily for \$66.6 million of purchases of our common stock. In addition, we paid \$9.1 million of dividends consisting of a \$0.16 per share dividend in each of the first three quarters of 2014 and we received \$6.8 million of proceeds from the exercise of stock options and our employee stock purchase plan during the nine months ended September 30, 2014. We used \$104.3 million of cash from financing activities during the nine months ended September 30, 2013 primarily for \$109.2 million of purchases of our common stock, of which \$75.1 million was

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purchased through our modified Dutch auction self-tender offer and \$34.1 million was purchased on the open market subsequent to completion of the self-tender offer. In addition, during the 2013 period we paid \$9.4 million of dividends consisting of a \$0.15 per share dividend in each of the first three quarters of 2013 and we received \$14.5 million of proceeds from the exercise of stock options and our employee stock purchase plan during the nine months ended September 30, 2013.

In April 2014 our board of directors increased our stock repurchase authorization by \$25 million. As of September 30, 2014 our remaining stock repurchase authorization was approximately \$14.4 million. We plan to continue to repurchase our common stock during the remainder of 2014, as market conditions warrant.

As of September 30, 2014, we had cash and cash equivalents of \$56.9 million and marketable investments of \$55.5 million. These balances include \$31.2 million held outside of the U.S. If these funds outside of the U.S. are needed for our operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate these funds for our U.S. operations. We do not currently have a line of credit and do not presently anticipate the need to access a line of credit in the foreseeable future except in the case of a significant acquisition. 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 the next twelve months.

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, 2013.

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, 2013.

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, 2014. 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, 2014 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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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, 2013, 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 \$410.0 million to purchase common stock under our stock repurchase program, including \$25.0 million authorized in April 2014, \$25.0 million authorized in July 2013, and \$50.0 million authorized in February 2013. During the quarter ended September 30, 2014, 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	257,469	\$ 38.47	
August 1 August 31	10,000	\$ 38.77	
September 1 September 31	35,000	\$ 37.87	\$ 14,391
	302,469		

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

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ITEM 6. EXHIBITS

10.1	Form of Stock Option Certificate with Non-Solicitation Covenant (Amended and Restated 2006 Equity Incentive Plan) (filed herewith)
10.2	Form of Stock Option Certificate with Non-Solicitation and Non-Competition Covenants (Amended and Restated 2006 Equity Incentive Plan) (filed herewith)
10.3	Form of Restricted Stock Unit Award Agreement with Non-Solicitation Covenant (Amended and Restated 2006 Equity Incentive Plan) (filed herewith)
10.4	Form of Restricted Stock Unit Award Agreement with Non-Solicitation and Non-Competition Covenants (Amended and Restated 2006 Equity Incentive Plan) (filed herewith)
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. (filed herewith)
101.SCH	XBRL Taxonomy Extension Schema. (filed herewith)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase. (filed herewith)
101.DEF	XBRL Taxonomy Extension Definition Linkbase. (filed herewith)
101.LAB	XBRL Taxonomy Extension Label Linkbase. (filed herewith)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase. (filed herewith)

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SIGNATURES

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

FORRESTER RESEARCH, INC.

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

(Principal financial officer)

Date: November 5, 2014

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Exhibit Index

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