FORRESTER RESEARCH INC
Form 10-Q/A
February 24, 2006

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FORM 10-Q/A

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2005

OR

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

COMMISSION FILE NUMBER: 000-21433

FORRESTER RESEARCH, INC.

(Exact name of registrant as specified in its charter)

DELAWARE (State or other jurisdiction of incorporation or organization)	04-2797789 (I.R.S. Employer Identification Number)
400 TECHNOLOGY SQUARE CAMBRIDGE, MASSACHUSETTS (Address of principal executive offices)	02139 (Zip Code)

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes þ No o

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

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

As of August 5, 2005, 21,289,876 shares of the registrant s common stock were outstanding.

FORRESTER RESEARCH, INC.
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EXPLANATORY NOTE

We are filing this Quarterly Report on Form 10-Q/A (the Amended Report) to correct an error in the accounting for performance-based stock options to purchase 940,500 shares of common stock granted on March 31, 2005, reflected in our financial statements reported on Form 10-Q for the period ended June 30, 2005 (the Original Report). As a result of the error, we did not record non-cash stock-based compensation expense of approximately $290,000 for the three and six month periods ended June 30, 2005 as required by Accounting Principles Board Opinion (APB) No. 25, Accounting for Stock Issued to Employees. We are filing this Amended Report in order to restate our financial statements to reflect this expense and the related income tax effect.

For the reason discussed above, we are filing this Amended Report in order to amend Part I. Item 1. Financial Statements, Part I. Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations, Part I. Item 4. Controls and Procedures and Part II. Item 6 Exhibits to the extent necessary to reflect the adjustment discussed above and to reflect the results of our evaluations of disclosure controls and procedures and internal control over financial reporting, taking into consideration this restatement. The remaining Items of our Original Report are not amended hereby.

In order to preserve the nature and character of the disclosures set forth in the Original Report, except as expressly noted above, this report speaks as of the date of the filing of the Original Report, August 8, 2005, and we have not updated the disclosures in this report to speak as of the later date. All information contained in this Amended Report is subject to updating and supplementing as provided in our reports filed with the SEC subsequent to the date of the Original Report.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FORRESTER RESEARCH, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	JUNE 30, 2005 (UNAUDITED) (restated)	DECEMBER 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 55,217	$ 37,328
Marketable securities	76,603	90,112
Accounts receivable, net	28,056	39,210
Deferred commissions	6,661	6,834
Prepaid expenses and other current assets	5,816	5,509
Total current assets	172,353	178,993
Long-term assets:		
Property and equipment, net	6,558	6,410
Goodwill	52,921	52,875
Deferred income taxes	43,118	42,860
Non-marketable investments	13,287	13,430
Intangible assets, net	5,105	6,992
Other assets	973	1,312
Total long-term assets	121,962	123,879
Total assets	$ 294,315	$ 302,872
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 2,455	$ 3,741
Accrued expenses	25,910	26,928
Deferred revenue	69,961	72,357
Total current liabilities	98,326	103,026
Stockholders equity:		

Preferred stock, $.01 par value				
Authorized 500 shares				
Issued and outstanding-none				
Common stock, $.01 par value				
Authorized 125,000 shares				
Issued 24,916 and 24,729 shares as of June 30, 2005 and December 31, 2004, respectively				
Outstanding 21,173 and 21,684 shares as of June 30, 2005 and December 31, 2004, respectively		249		247
Additional paid-in capital		183,198		180,310
Retained earnings		76,273		71,077
Treasury stock, at cost 3,743 and 3,045 shares as of June 30, 2005 and December 31, 2004, respectively		(61,243)		(50,056)
Accumulated other comprehensive loss		(2,488)		(1,732)
Total stockholders equity		195,989		199,846
Total liabilities and stockholders equity	$	294,315	$	302,872

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)

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005	**2004**	**2005**	**2004**
		(UNAUDITED)		
	(restated)		**(restated)**	
Revenues:				
Research services	$ 23,847	$ 23,046	$ 47,216	$ 46,035
Advisory services and other	15,399	11,875	25,812	20,615
Total revenues	39,246	34,921	73,028	66,650
Operating expenses:				
Cost of services and fulfillment	16,673	14,377	30,450	27,516
Selling and marketing	13,065	11,605	24,967	22,665
General and administrative	4,484	3,985	8,518	7,396
Depreciation	882	1,026	1,756	2,057
Amortization of intangible assets	833	1,384	1,956	3,728
Reorganization costs		6,794		8,751
Total operating expenses	35,937	39,171	67,647	72,113
Income (loss) from operations	3,309	(4,250)	5,381	(5,463)
Other income (expense):				
Other income, net	754	662	1,504	1,488
Realized gains on sales of securities			1,489	
Realized gains on non-marketable investments	112	57	291	57
Income (loss) before income tax provision (benefit)	4,175	(3,531)	8,665	(3,918)
Income tax provision (benefit)	1,718	(1,183)	3,469	(1,313)
Net income (loss)	$ 2,457	$ (2,348)	$ 5,196	$ (2,605)
Basic and diluted net income (loss) per common share	$ 0.11	$ (0.11)	$ 0.24	$ (0.12)
Basic weighted average common shares outstanding	21,511	22,074	21,561	22,165

Diluted weighted average common shares outstanding	21,847	22,074	21,843	22,165

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

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

	SIX MONTHS ENDED JUNE 30,	
	2005	2004
	(UNAUDITED)	
	(restated)	
Cash flows from operating activities:		
Net income (loss)	$ 5,196	$ (2,605)
Adjustments to reconcile net income (loss) to net cash provided by operating activities-		
Depreciation	1,756	2,057
Amortization of intangible assets	1,956	3,728
Realized gains on sales of securities	(1,489)	
Realized gains on non-marketable investments	(291)	(57)
Tax benefit from exercises of employee stock options	400	238
Deferred income taxes	198	(2)
Non-cash reorganization costs		1,844
Non-cash stock-based compensation	290	
Amortization of premium on marketable securities	577	404
Changes in assets and liabilities, net of acquisition-		
Accounts receivable	10,114	14,785
Deferred commissions	173	548
Prepaid expenses and other current assets	(531)	(717)
Accounts payable	(1,286)	279
Accrued expenses	(123)	(5,359)
Deferred revenue	(415)	(5,481)
Net cash provided by operating activities	16,525	9,662
Cash flows from investing activities:		
Purchases of property and equipment	(1,983)	(1,279)
Purchases of non-marketable investments		(2,163)
Decrease in other assets	538	529
Purchases of marketable securities	(103,222)	(67,735)
Proceeds from sales and maturities of marketable securities	115,567	91,549
Net cash provided by investing activities	10,900	20,901
Cash flows from financing activities:		
Proceeds from issuance of common stock	2,202	2,350
Acquisition of treasury stock	(11,187)	(9,178)
Structured stock repurchase		54

Net cash used in financing activities	(8,985)	(6,774)
Effect of exchange rate changes on cash and cash equivalents	(551)	(106)
Net increase in cash and cash equivalents	17,889	23,683
Cash and cash equivalents, beginning of period	37,328	22,385
Cash and cash equivalents, end of period	$ 55,217	$ 46,068
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 333	$ 477

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

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FORRESTER RESEARCH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for reporting on Form 10-Q. Accordingly, certain information and footnote disclosures required for complete financial statements are not included herein. It is recommended that these financial statements be read in conjunction with the consolidated financial statements and related notes that appear in the Annual Report of Forrester Research, Inc. (Forrester) as reported on Form 10-K for the year ended December 31, 2004. 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 six months ended June 30, 2005 may not be indicative of the results that may be expected for the year ended December 31, 2005, or any other period.

Forrester is restating the financial results included in its previously issued consolidated financial statements as of June 30, 2005 and for the periods ended June 30, 2005, to correct an error under GAAP relating to non-cash stock-based compensation expense. Such adjustments are reflected in the accompanying consolidated financial statements and notes thereto, as discussed in Note 2 below.

Stock-Based Compensation

Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation and SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure requires the measurement of the fair value of stock options or warrants to be included in the statement of income or disclosed in the notes to financial statements. Forrester has determined it will continue to account for stock-based compensation for employees under APB No. 25 and elect the disclosure-only alternative under SFAS No. 123.

On March 31, 2005, Forrester issued stock options to its employees to purchase 940,500 shares of common stock. These options vest only if certain pro-forma earnings per share (EPS) goals are achieved for the year ended December 31, 2005. The vesting of these options will be over 24 or 36 months, or the options could be forfeited, depending on the actual pro-forma EPS achieved. Under APB No. 25, these stock options are accounted for as options with variable terms until the performance criteria are met based upon 2005 financial performance, as the awards contain performance criteria that could result in the forfeiture of the entire stock option. For the three and six month periods ended June 30, 2005, Forrester recorded non-cash stock-based compensation expense of $290,000. The compensation expense represents the vested portion of the intrinsic value of the options granted and is based on an estimated vesting period of 36 months. The total non-cash stock-based compensation expense included in the consolidated statements of income is included in the following expense categories (in thousands):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005	2004	2005	2004
	(UNAUDITED)			
	(restated)		(restated)	
Cost of services and fulfillment	$ 159		$ 159	
Selling and marketing	63		63	
General and administrative	68		68	
Total	$ 290		$ 290	

Compensation expense will be measured throughout the performance period based upon the intrinsic value of the options and will be recognized over the estimated vesting period.

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If compensation cost for Forrester s stock option plans had been determined using the fair value method prescribed in SFAS No. 123, net income (loss) for the three and six months ended June 30, 2005 and 2004 would have been approximately as follows (in thousands, except per share data):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005 (restated)	2004	2005 (restated)	2004
Net income (loss), as reported	$ 2,457	$ (2,348)	$ 5,196	$ (2,605)
Add: Non-cash stock-based compensation expense	290		290	
Less: Total stock-based employee compensation expense determined under fair value based method for all awards	(1,064)	(1,071)	(2,012)	(2,289)
Pro-forma net income (loss)	$ 1,683	$ (3,419)	$ 3,474	$ (4,894)
Basic and diluted net income (loss) per share as reported	$ 0.11	$ (0.11)	$ 0.24	$ (0.12)
Basic and diluted net income (loss) per share pro forma	$ 0.08	$ (0.15)	$ 0.16	$ (0.22)

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 ending December 31.

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NOTE 2 RESTATEMENT

The previously issued consolidated financial statements as of June 30, 2005 and for the three and six month periods ended June 30, 2005, have been restated to correct an error in the accounting for performance-based common stock options granted on March 31, 2005. On March 31, 2005, Forrester issued performance-based stock options to employees to purchase a total of 940,500 shares of common stock that are based upon attainment of 2005 financial goals. Because the number of option shares were not fixed at the time of grant, Forrester was required to account for these options as options with variable terms until the performance criteria were met. As a result, non-cash stock-based compensation expense of $290,000 related to this option grant, and $23,000 of related tax benefit, is reflected in the accompanying consolidated financial statements for the three and six month periods ended June 30, 2005.

The following lists the accounts in the consolidated statements of income and balance sheet that were affected by the aforementioned restatement, with comparisons of the restated amounts to the originally reported amounts and the effect of such restatements on net income per share:

	THREE MONTHS ENDED JUNE 30, 2005		SIX MONTHS ENDED JUNE 30, 2005	
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
	As restated	**As reported**	**As restated**	**As reported**
Cost of services and fulfillment	$ 16,673	$ 16,514	$ 30,450	$ 30,291
Selling and marketing	$ 13,065	$ 13,002	$ 24,967	$ 24,904
General and administrative	$ 4,484	$ 4,416	$ 8,518	$ 8,450
Total operating expenses	$ 35,937	$ 35,647	$ 67,647	$ 67,357
Income from operations	$ 3,309	$ 3,599	$ 5,381	$ 5,671
Income before income tax provision	$ 4,175	$ 4,465	$ 8,665	$ 8,955
Income tax provision	$ 1,718	$ 1,741	$ 3,469	$ 3,492
Net income	$ 2,457	$ 2,724	$ 5,196	$ 5,463
Basic net income per share	$ 0.11	$ 0.13	$ 0.24	$ 0.25
Diluted net income per share	$ 0.11	$ 0.12	$ 0.24	$ 0.25

	JUNE 30, 2005 (IN THOUSANDS)	
	As restated	**As reported**
Accrued expenses	$ 25,910	$ 25,933
Total current liabilities	$ 98,326	$ 98,349
Additional paid-in capital	$ 183,198	$ 182,908
Retained earnings	$ 76,273	$ 76,540
Total stockholders equity	$ 195,989	$ 195,966

All applicable amounts relating to the aforementioned restatements have been reflected in these consolidated financial statements and notes hereto.

NOTE 3 INTANGIBLE ASSETS

A summary of Forrester s amortizable intangible assets as of June 30, 2005 is as follows:

	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT
	(IN THOUSANDS)		

Amortized intangible assets:			
Customer relationships	$ 19,985	$ 14,880	$ 5,105
Research content	2,444	2,444	
Registered trademarks	570	570	
Subtotal	$ 22,999	$ 17,894	$ 5,105

Amortization expense related to identifiable intangible assets was approximately $833,000 and $1,384,000 during the three months ended June 30, 2005 and 2004, respectively, and $1,956,000 and $3,728,000 during the six months ended June 30, 2005 and 2004, respectively. Estimated amortization expense related to identifiable intangible assets that will continue to be amortized is as follows

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		AMOUNTS (IN THOUSANDS)
Remaining six months ending December 31, 2005	$	1,600
Year ending December 31, 2006		2,064
Year ending December 31, 2007		1,230
Year ending December 31, 2008		211
Total	$	5,105

NOTE 4 REORGANIZATIONS

In November 2003, Forrester acquired the assets of GigaGroup S.A. (GigaGroup). In January 2004, Forrester announced a reduction of its workforce by approximately 15 positions in connection with the integration of GigaGroup s operations. As a result, Forrester recorded an initial reorganization charge of $1,957,000 during the three months ended March 31, 2004. Approximately 53% of the terminated employees had been members of the sales force, while 27% and 20% had held administrative and research roles, respectively. The charge consisted primarily of severance and related benefit costs, and other payments for professional services incurred in connection with the reorganization. During the three-months ended June 30, 2004 and December 31, 2004, Forrester provided for additional severance and related benefits costs of $240,000 and $313,000, respectively.

In connection with the integration of GigaGroup s operations, Forrester vacated and subleased office space in San Francisco, Amsterdam and London during the three-months ended June 30, 2004. As a result of these vacancies and related subleases, Forrester recorded reorganization charges of approximately $4,693,000 related to the excess of contractual lease commitments over the contracted sublease revenue and $1,861,000 for the write-off of related leasehold improvements and furniture and fixtures.

The activity related to the January 2004 reorganization during the six months ended June 30, 2005 is as follows:

	Accrued as of December 31, 2004	Cash Payments	Accrued as of June 30, 2005
		(IN THOUSANDS)	
Workforce reduction	$ 442	$ 363	$ 79
Facility consolidation and other related costs	4,218	664	3,554
Total	$ 4,660	$ 1,027	$ 3,633

The accrued costs related to the 2004 reorganizations are expected to be paid in the following periods:

	TOTAL	2005	2006	2007	2008	2009	Thereafter
				(IN THOUSANDS)			
Workforce reduction	$ 79	$ 79	$	$	$	$	$
Facility consolidation and other related costs	3,554	578	1,226	1,210	168	180	192
Total	$ 3,633	$ 657	$ 1,226	$ 1,210	$ 168	$ 180	$ 192

In connection with prior reorganizations of its workforce, Forrester has consolidated its office space. As a result of these consolidations, Forrester has aggregate accrued facility consolidation costs of $274,000 as of June 30, 2005. The activity related to these costs during the six months ended June 30, 2005 is as follows:

	Accrued as of December 31, 2004	**Cash Payments**	**Accrued as of June 30, 2005**
		(IN THOUSANDS)	
Facility costs	$ 677	$ 403	$ 274

These accrued facility costs are expected to be paid in the following periods:

	TOTAL	**2005**	**2006**
		(IN THOUSANDS)	
Facility costs	$ 274	$ 185	$ 89

NOTE 5 NET INCOME (LOSS) PER COMMON SHARE

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Basic net income per common share for the three and six months ended June 30, 2005 and basic and diluted net income (loss) per common share for the three and six months ended June 30, 2004 were computed by dividing the net income (loss) by the basic weighted average number of common shares outstanding during the period. Diluted net income per common share for the three and six months ended June 30, 2005 was computed by dividing net income by the diluted weighted average number of common 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 stock equivalents consist of common stock issuable on the exercise of outstanding options when dilutive. A reconciliation of basic to diluted weighted average shares outstanding is as follows:

	THREE MONTHS ENDED JUNE 30,		**SIX MONTHS ENDED JUNE 30,**	
	2005	**2004**	**2005**	**2004**
	(IN THOUSANDS)			
Basic weighted average common shares outstanding	21,511	22,074	21,561	22,165
Weighted average common equivalent shares	336		282	
Diluted weighted average shares outstanding	21,847	22,074	21,843	22,165

During the three and six month periods ended June 30, 2005, approximately 3,039,000 and 3,137,000 stock options, respectively, were excluded from the calculation of diluted weighted average shares outstanding as the effect would have been anti-dilutive.

NOTE 6 COMPREHENSIVE INCOME (LOSS)

The components of total comprehensive income (loss) for the three and six months ended June 30, 2005 and 2004 are as follows:

	THREE MONTHS ENDED JUNE 30,		**SIX MONTHS ENDED JUNE 30,**	
	2005	**2004**	**2005**	**2004**
	(IN THOUSANDS)			
	(restated)		**(restated)**	
Unrealized gain (loss) on marketable securities, net of taxes	$ 77	$ (915)	$ (361)	$ (732)
Reclassification adjustment for realized gains in net income, net of taxes			(1,122)	
Cumulative translation adjustment	(2)	95	726	(159)
Total other comprehensive income (loss)	$ 75	$ (820)	$ (757)	$ (891)
Reported net income (loss)	2,457	(2,348)	5,196	(2,605)
Total comprehensive income (loss)	$ 2,532	$ (3,168)	$ 4,439	$ (3,496)

NOTE 7 MARKETABLE INVESTMENT

As of March 31, 2004, Forrester held an approximately 1.1% ownership interest in Greenfield Online, Inc. (Greenfield), an Internet-based market research firm. This investment was accounted for as a cost basis investment and valued at approximately $267,000 as of March 31, 2004. In July 2004, Greenfield (NASDAQ: SRVY) completed an initial public offering in which Forrester s ownership interest was converted to approximately 136,000 shares of common stock. Upon consummation of the offering, Forrester received a conversion payment of approximately $463,000, and participated in the offering by selling approximately 21,000 shares of common stock for which net proceeds of approximately $256,000 were received. In December 2004, Greenfield completed a secondary offering in which Forrester participated and sold an additional 26,000 shares of common stock, receiving net proceeds of approximately $445,000. Upon expiration of the 90 day lock-up agreement in March 2005, Forrester sold the remainder of its holdings, approximately 89,000 shares of common stock, received net proceeds of approximately $1.7 million and recognized a gain of approximately $1.5 million related to the sale of these shares.

NOTE 8 NON-MARKETABLE INVESTMENTS

In June 2000, Forrester committed to invest $20.0 million in two technology-related private equity investment funds with capital contributions required to be funded over an expected period of five years. During the three months ended June 30, 2005 and 2004, Forrester contributed approximately $163,000 and $600,000 to these investment funds, respectively. During the six months ended June 30, 2005 and 2004, Forrester contributed approximately $313,000 and $1.2 million to these investment funds, respectively, resulting in total cumulative contributions of approximately $18.2 million to date. One of these investments is being accounted for using the cost method and, accordingly, is valued at cost unless an other than temporary impairment in its value occurs or the investment is liquidated. The other investment is being accounted for using the equity method. During the three and six months ended June 30, 2005, gross distributions of $213,000 and $580,000, respectively, were recorded and resulted in gains of $112,000 and $292,000, respectively, in the consolidated statements of income. During the three and six months ended June 30, 2005 and 2004 there were no impairments recorded. During the three months and six months ended June 30, 2005 and 2004, fund management charges of approximately $84,000 and $168,000 were included in other income, net for each period in the consolidated statements of income, respectively, bringing the total cumulative fund management charges paid by Forrester to approximately $2.1 million as of June 30, 2005. Fund management charges are recorded as a reduction of the investments carrying value.

Forrester has adopted a cash bonus plan to pay bonuses, after the return of invested capital, measured by the proceeds of a portion of its share of net profits from these investments, if any, to certain key employees, subject to the terms and conditions of the plan. The payment of such bonuses would result in compensation expense with respect to the amounts so paid. To date, no bonuses have been paid under this plan. The principal purpose of this cash bonus plan was to retain key employees by allowing them to participate in a portion of the potential return from Forrester s technology-related investments if they remained employed by the Company. The plan was established at a time when technology and internet companies were growing significantly, and providing incentives to retain key employees during that time was important.

The timing of the recognition of future gains or losses from these investment funds is beyond Forrester s control. As a result, it is not possible to predict when Forrester will recognize such gains or losses, if Forrester will award cash bonuses based on the net profit from such investments, or when Forrester will incur compensation expense in connection with the payment of such bonuses. If the investment funds realize large gains or losses on their investments, Forrester could experience significant variations in its quarterly results unrelated to its business operations. These variations could be due to significant gains or losses or to significant compensation expenses. While gains may offset compensation expenses in a particular quarter, there can be no assurance that related gains and compensation expenses will occur in the same quarters.

NOTE 9 STOCK REPURCHASE

In October 2001, Forrester announced a program authorizing the repurchase of up to $50 million of its common stock. The shares repurchased may be used, among other things, in connection with Forrester s employee stock option and stock purchase plans and for potential acquisitions. In February 2005, the Board of Directors authorized the repurchase of up to an additional $50.0 million of common stock. As of June 30, 2005, Forrester had repurchased

approximately 3,743,000 shares of common stock at an aggregate cost of approximately $61.2 million.

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NOTE 10 OPERATING SEGMENT AND ENTERPRISE WIDE REPORTING

During 2004, Forrester viewed its operations within the following three operating groups (Operating Groups): (i) North America, (ii) Europe and, (iii) World Markets which includes Asia, Middle East, Africa, and Latin America. Effective January 1, 2005, Forrester reorganized the operating groups as follows (i) Americas, (ii) Europe, Middle East and Africa (EMEA) and (iii) Asia Pacific. All of the Operating Groups generate revenues through sales of the same research and advisory and other service offerings. Each of the Operating Groups is composed of sales forces responsible for clients located in such Operating Group s region and research personnel focused primarily on issues generally more relevant to clients in that region. Forrester evaluates reportable segment performance and allocates resources based on direct margin. Direct margin, as presented below, is defined as operating income excluding certain selling and marketing expenses, general and administrative expenses, depreciation expense, amortization of intangibles, non-cash stock-based compensation expense and reorganization charges. The accounting policies used by the reportable segments are the same as those used by Forrester.

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

The following tables present information about reportable segments. Segment information for the three and six months ended June 30, 2004 has been restated to conform to the current year s presentation.

	Americas	EMEA	Asia Pacific	Consolidated
Three months ended June 30, 2005 (restated)				
Revenue	$ 29,546	$ 8,273	$ 1,427	$ 39,246
Direct Margin	10,716	547	666	11,929
Corporate expenses				(7,787)
Amortization of intangible assets				(833)
Reorganization costs				
Income from operations				$ 3,309
Three months ended June 30, 2004				
Revenue	$ 26,223	$ 7,296	$ 1,402	$ 34,921
Direct Margin	10,436	652	820	11,908
Corporate expenses				(7,980)
Amortization of intangible assets				(1,384)
Reorganization costs				(6,794)
Loss from operations				$ (4,250)
Six months ended June 30, 2005 (restated)				
Revenue	$ 54,952	$ 15,144	$ 2,932	$ 73,028
Direct Margin	20,001	504	1,433	21,938
Corporate expenses				(14,601)
Amortization of intangible assets				(1,956)
Reorganization costs				
Income from operations				$ 5,381

Six months ended June 30, 2004				
Revenue	$ 49,367	$ 14,426	$ 2,857	$ 66,650
Direct Margin	19,507	936	1,665	22,108
Corporate expenses				(15,092)
Amortization of intangible assets				(3,728)
Reorganization costs				(8,751)
Loss from operations				$ (5,463)

Net revenues by geographic client location and as a percentage of total revenues are as follows:

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	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005	2004	2005	2004
	(IN THOUSANDS)			
United States	$ 27,130	$ 23,788	$ 50,464	$ 44,863
Europe (excluding United Kingdom)	5,140	4,409	9,302	8,747
United Kingdom	3,126	3,298	5,953	6,224
Canada	2,127	1,613	3,836	3,222
Other	1,723	1,813	3,473	3,594
	$ 39,246	$ 34,921	$ 73,028	$ 66,650

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005	2004	2005	2004
United States	69%	68%	69%	67%
Europe (excluding United Kingdom)	13	13	13	13
United Kingdom	8	9	8	9
Canada	5	5	5	5
Other	5	5	5	6
	100%	100%	100%	100%

NOTE 11 RECENT ACCOUNTING PRONOUNCEMENTS

In December 2004, the Financial Accounting Standards Board (FASB) revised SFAS No. 123 (SFAS No. 123-R) which requires the measurement of the cost of employee services received in exchange for an award of an equity instrument based on the grant-date fair value of the award. The measured cost is to be recognized over the period during which an employee is required to provide service in exchange for the award, usually the vesting period. The provisions of SFAS No. 123-R are effective for all employee equity awards granted and to any unvested awards outstanding as of January 1, 2006. Retrospective application is permitted. The adoption of this statement is expected to have a material adverse impact on Forrester s results of operations. Forrester is currently assessing the transition method it will use upon adoption.

In December 2004, the FASB issued SFAS No. 153, Exchanges of Nonmonetary Assets, which eliminates the exception of fair value measurement for nonmonetary exchanges of similar productive assets in existing accounting literature and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. The provisions of SFAS No. 153 are effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. Adoption of this statement is not expected to have a material impact on Forrester s financial position and results of operations.

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 sim expressions are intended to identify these forward-looking statements. These statements include, but are not limited to,

statements about the success of and demand for our research and advisory products and services, and our ability to achieve success as the industry consolidates. 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 anticipate business and economic conditions, market trends, competition, the ability to attract and retain professional staff, possible variations in our quarterly operating results, risks associated with our ability to offer new products and services, the actual amount of the charge and any cost savings related to reductions in force and associated actions, and our dependence on renewals of our membership-based research services and on key personnel. 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 product offerings and from our advisory services and events available through what we refer to as Research, Data, Consulting, and Community offerings. 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 offered through our Data, Consulting and Community products and services to supplement their memberships to our research. Billings attributable to advisory services are initially recorded as deferred revenue and are recognized as revenue when performed. Event billings are also initially recorded as deferred revenue and are recognized as revenue upon completion of each event. Consequently, changes in the number and value of client contracts, both net decreases as well as net increases, impact our revenues and other results over a period of several months.

Our primary operating expenses consist of cost of services and fulfillment, selling and marketing expenses, general and administrative expenses, depreciation and amortization of intangible assets. Cost of services and fulfillment represents the costs associated with the production and delivery of our products and services, and it includes the costs of salaries, bonuses, and related benefits for research personnel and all associated editorial, travel, and support services. Selling and marketing expenses include salaries, employee benefits, travel expenses, promotional costs, sales commissions, and other costs incurred in marketing and selling our products and services. General and administrative expenses include the costs of the technology, operations, finance, and strategy groups and our other administrative functions. Overhead costs are allocated over these categories according to the number of employees in each group. Amortization of intangible assets represents the cost of amortizing acquired intangible assets such as customer relationships.

Agreement value, client retention, dollar retention and enrichment are metrics we believe are important to understanding our business. We believe that the agreement value of contracts to purchase research and advisory services provides a significant measure of our business volume. We calculate agreement value as the total revenues recognizable from all research and advisory service contracts in force at a given time, without regard to how much revenue has already been recognized. No single client accounted for more than 3% of agreement value at June 30, 2005. We calculate client retention as the number of client companies who renewed with memberships as a percentage of those that would have expired. We calculate dollar retention as a percentage of the dollar value of all client membership contracts renewed during the most recent twelve month fiscal period to the total dollar value of all client membership contracts that expired during the period. We calculate enrichment as a percentage of the dollar value of client membership contracts renewed during the period to the dollar value of the corresponding expiring contracts. Client retention, dollar retention, and enrichment are not necessarily indicative of the rate of future retention of our revenue base. A summary of our key metrics is as follows:

	JUNE 30, 2005	JUNE 30, 2004	Absolute Increase (Decrease)	Percentage Increase (Decrease)
Agreement Value (In Millions)	$ 130.0	$ 119.5	$ 10.5	8.8%
Client Retention	76.0%	74.0%	2%	2.7%
Dollar Retention	86.0%	85.0%	1%	1.2%
Enrichment	104.0%	106.0%	(2)%	(1.8)%
Number of clients	1,906	1,817	89	5%

The increase in agreement value from June 30, 2004 to June 30, 2005 is primarily due to an increase in the number of clients. Client retention and dollar retention increases in 2005 reflect an improving economic environment. The decrease in enrichment reflects shifting customer demand towards advisory services.

RESTATEMENT

On January 31, 2006, we announced that we would restate certain of our previously issued financial statements because they contained errors under accounting principles generally accepted in the United States of America (GAAP) relating to the accounting for performance-based stock options to purchase 940,500 shares of common stock granted on March 31, 2005. The necessary restatement required the recording of approximately $290,000 of non-cash

stock-based compensation expense and $23,000 of related tax benefit, for the three and six month periods ended June 30, 2005.

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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. 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, allowance for doubtful accounts, non-marketable investments, goodwill and other intangible assets and income taxes. Management bases its estimates on historical experience 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.

We consider the following accounting policies to be those that require that most subjective judgment or those most important to the portrayal of our financial condition and results of operations. If actual results differ significantly from management s estimates and projections, there could be a material effect on our financial statements. This is not a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management s judgment in their application. There are also areas in which management s judgment in selecting any available alternative would not produce a materially different result. For further discussion of the application of these and our other accounting policies, see Management s Discussion and Analysis of Financial Condition and Results of Operations and the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2004, previously filed with the SEC.

REVENUE RECOGNITION. We generate revenues from licensing research, performing advisory services, and hosting events. We execute contracts that govern the terms and conditions of each arrangement. Revenues from contracts that contain multiple deliverables are allocated among the separate units based on their relative fair values, the estimate of which requires us to make estimates of such fair values. The amount of revenue recognized is limited to the amount that is not contingent on future performance conditions. Research service revenues are recognized ratably over the term of the agreement. Advisory service revenues are recognized during the period in which the services are performed. Events revenues are recognized upon completion of the events. In certain cases, where estimates of fair value cannot be made for events or advisory services, the amounts are recognized ratably and included in research service revenues. While our historical business practice has been to offer membership contracts with a non-cancelable term, effective April 1, 2005, we offer clients a money back guarantee, which gives them the right to cancel their membership contracts prior to the end of the contract term. For contracts that can be terminated during the contract term, any refund would be issued on a pro-rata basis only. Reimbursed out of pocket expenses are recorded as advisory revenue. Furthermore, our revenue recognition determines the timing of commission expenses that are deferred and expensed to operations as the related revenue is recognized. We evaluate the recoverability of deferred commissions at each balance sheet date. As of June 30, 2005, deferred revenues and deferred commissions totaled $70.0 million and $6.7 million, respectively.

ALLOWANCE FOR DOUBTFUL ACCOUNTS. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make contractually obligated payments that totaled approximately $862,000 as of June 30, 2005. Management specifically analyzes accounts receivable and historical bad debts, customer concentrations, current economic trends, and changes in our customer payment terms when evaluating the adequacy of the allowance for doubtful accounts. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required, and if the financial condition of our customers were to improve, the allowances may be reduced accordingly.

NON-MARKETABLE INVESTMENTS. We hold minority interests in technology-related companies and equity investment funds that totaled approximately $13.3 million as of June 30, 2005. These investments are in companies that are not publicly traded, and, therefore, because no established market for these securities exists, the estimate of

the fair value of our investments requires significant judgment. We have a policy in place to

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review the fair value of our investments on a regular basis to evaluate the carrying value of the investments in these companies which consists primarily of reviewing the investee s revenue and earnings trends relative to predefined milestones and overall business prospects. We record impairment charges when we believe that an investment has experienced a decline in value that is other than temporary. During the three and six months ended June 30, 2005, we have no investments that have experienced a decline in value which we believe is permanent or temporary and accordingly no impairment charges have been recorded. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment s current carrying value, thereby possibly requiring an impairment charge in the future.

GOODWILL AND OTHER INTANGIBLE ASSETS. At June 30, 2005, we had goodwill and identified intangible assets with finite lives related to our acquisitions that totaled approximately $52.9 million and $5.1 million, respectively. SFAS No. 142, Goodwill and Other Intangible Assets , requires that goodwill and intangible assets with indefinite lives no longer be amortized but instead be measured for impairment at least annually or whenever events indicate that there may be an impairment. In order to determine if an impairment exists, an analysis is done which determines if the carrying amount of the reporting unit exceeds the fair value. The estimates of the reporting unit s fair value are based on market conditions and operational performance. Absent an event that indicates a specific impairment may exist, we have selected November 30th as the date of performing the annual goodwill impairment test. As of June 30, 2005, we believe that the carrying value of our goodwill is not impaired. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with our acquired businesses is impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

Intangible assets with finite lives are valued according to the future cash flows they are estimated to produce. These assigned values are amortized on an accelerated basis which matches the periods those cash flows are estimated to be produced. We continually evaluate whether events or circumstances have occurred that indicate that the estimated remaining useful life of our intangible assets may warrant revision or that the carrying value of these assets may be impaired. To compute whether assets have been impaired, the estimated undiscounted future cash flows for the estimated remaining useful life of the assets are compared to the carrying value. To the extent that the future cash flows are less than the carrying value, the assets are written down to the estimated fair value of the asset.

INCOME TAXES. We have deferred tax assets related to temporary differences between the financial statement and tax bases of assets and liabilities as well as operating loss carryforwards (primarily from stock option exercises and the acquisition of Giga) that totaled approximately $43.1 million as of June 30, 2005. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and the carryforwards expire. Although realization is not assured, based upon the level of our historical taxable income and projections for our future taxable income over the periods during which the deferred tax assets are deductible and the carryforwards expire, management believes it is more likely than not that we will realize the benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced if estimates of future taxable income during the carry-forward periods are incorrect.

RESULTS OF OPERATIONS

The following table sets forth selected financial data as a percentage of total revenues for the periods indicated:

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005 (restated)	2004	2005 (restated)	2004
Research services	61%	66%	66%	69%

Advisory services and other	39	34	34	31
Total revenues	100	100	100	100
Cost of services and fulfillment	43	41	42	41
Selling and marketing	33	33	34	34
General and administrative	11	11	12	11

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	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2005 (restated)	2004	2005 (restated)	2004
Depreciation	2	3	2	3
Amortization of intangible assets	3	4	3	6
Reorganization costs		19		13
Income (loss) from operations	8	(11)	7	(8)
Other income, net	2	1	2	2
Realized gains on sales of securities			2	
Realized gains on non-marketable investments			1	
Income (loss) before income tax provision (benefit)	10	(10)	12	(6)
Income tax provision (benefit)	4	(3)	5	(2)
Net income (loss)	6%	(7)%	7%	(4)%

THREE MONTHS ENDED JUNE 30, 2005 AND JUNE 30, 2004
REVENUES.

	THREE MONTHS ENDED JUNE 30,		Absolute Increase (Decrease)	Percentage Increase (Decrease)
	2005	2004		
Revenues (in millions)	$ 39.2	$ 34.9	4.3	12%
Revenues from research services (in millions)	$ 23.8	$ 23.0	0.8	3%
Advisory services and other revenues (in millions)	$ 15.4	$ 11.9	3.5	29%
Revenues attributable to customers outside of the United States (in millions)	$ 12.1	$ 11.1	1	9%
Revenues attributable to customers outside of the United States as a percentage of total revenues	31%	32%	(1)%	
Number of events	3	3		

The increase in total revenues as well as the increase in the number of clients is primarily attributable to improving economic conditions. Additionally, the effects of foreign currency translation contributed approximately a 1% positive effect on revenues in the three months ended June 30, 2005. No single client company accounted for more than 3% of revenues during the three months ended June 30, 2005 or 2004.

Research services revenues as a percentage of total revenues declined from 66% in the three months ended June 30, 2004 to 61% in the three months ended June 30, 2005 as customer demand is shifting towards advisory services. The increase in advisory services and other revenues is primarily attributable to increased demand for advisory services.

The decrease in international revenues as a percentage of total revenues is primarily attributable to demand for our products and services growing at a faster rate domestically than internationally. International revenues increased 9% to $12.1 million in the three months ended June 30, 2005 from $11.1 million in the three months ended June 30, 2004.

COST OF SERVICES AND FULFILLMENT.

	THREE MONTHS ENDED JUNE 30, 2005	THREE MONTHS ENDED JUNE 30, 2004	Absolute Increase (Decrease)	Percentage Increase (Decrease)
Cost of services and fulfillment (in millions)	$ 16.7	$ 14.4	$ 2.3	16%
Cost of services and fulfillment as a percentage of total revenues	43%	41%	2%	5%
Number of research employees	227	207	20	10%

The increase in cost of services and fulfillment both in dollars and a percentage of total revenues is primarily attributable to increased compensation costs resulting from an increase in the number of research employees, the recording of non-cash stock-based compensation expense related to the March 31, 2005 grant, increased survey costs and increased incentive compensation paid for the performance of advisory services.

SELLING AND MARKETING.

	THREE MONTHS ENDED JUNE 30, 2005	THREE MONTHS ENDED JUNE 30, 2004	Absolute Increase (Decrease)	Percentage Increase (Decrease)
Selling and marketing expenses (in millions)	$ 13.1	$ 11.6	$ 1.5	13%
Selling and marketing expenses as a percentage of total revenues	33%	33%		