UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

/X/ Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the quarterly period ended March 31, 2002.

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	04-2797789
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
400 Technology Square Cambridge, Massachusetts	02139
(Address of principal executive offices)	(Zip Code)

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

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

Yes /X/ No / /

As of May 13, 2002, 23,564,391 shares of the registrant's common stock were outstanding.

FORRESTER RESEARCH, INC.

INDEX TO FORM 10-Q

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

FORRESTER RESEARCH, INC.

CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

ASSETS

	MARCH 31, 2002 (UNAUDITED)	DECEMBER 31, 2001
Current assets:		
Cash and cash equivalents	$ 13,094	$ 17,747
Marketable securities	190,115	187,435
Accounts receivable, net	15,110	24,498
Deferred commissions	3,823	4,444
Prepaid income taxes	766	559
Prepaid expenses and other current assets	5,988	5,483
Total current assets	228,896	240,166
Long-term assets:		
Property and equipment, net	16,399	21,258
Goodwill and other intangible assets, net	14,251	14,333
Deferred income taxes	19,919	19,387
Non-marketable investments and other assets	9,296	10,008
Total long-term assets	59,865	64,986
Total assets	$ 288,761	$ 305,152

LIABILITIES AND STOCKHOLDERS' EQUITY

	MARCH 31, 2002 (UNAUDITED)	DECEMBER 31, 2001
Current liabilities:		
Accounts payable	$ 2,048	$ 2,667
Customer deposits	384	498
Accrued expenses	17,985	17,938
Accrued income taxes	2,444	3,721
Deferred revenue	53,380	59,930
Total current liabilities	76,241	84,754
Commitments		
Stockholders' equity:		
Preferred stock, $.01 par value Authorized -- 500 shares Issued and outstanding -- none	--	--
Common stock, $.01 par value Authorized -- 125,000 shares Issued and outstanding -- 23,269 and 23,052 shares as of March 31, 2002 and December 31, 2001, respectively	233	230
Additional paid-in capital	158,461	156,043
Retained earnings	58,050	64,165
Treasury stock, at cost -- 185 shares as of March 31, 2002	(3,547)	--
Accumulated other comprehensive loss	(677)	(40)
Total stockholders' equity	212,520	220,398
Total liabilities and stockholders' equity	$ 288,761	$ 305,152

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

FORRESTER RESEARCH, INC.

CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	THREE MONTHS ENDED MARCH 31, 2002	THREE MONTHS ENDED MARCH 31, 2001
	(UNAUDITED)	
Revenues:		
Core research	$ 19,286	$ 35,352
Advisory services and other	6,770	8,293
Total revenues	26,056	43,645
Operating expenses:		
Cost of services and fulfillment	8,981	12,297
Selling and marketing	8,472	17,746
General and administrative	3,326	4,976
Depreciation and amortization	2,148	2,722
Reorganization costs	9,088	--
Total operating expenses	32,015	37,741
(Loss) income from operations	(5,959)	5,904
Other income:		
Other income, net	1,560	1,757
Impairments of non-marketable investments	(2,248)	--
(Loss) income before income tax (benefit) provision	(6,647)	7,661
Income tax (benefit) provision	(532)	2,796
Net (loss) income	$ (6,115)	$ 4,865
Basic net (loss) income per common share	$ (0.26)	$ 0.22
Diluted net (loss) income per common share	$ (0.26)	$ 0.20
Basic weighted average common shares outstanding	23,146	22,054
Diluted weighted average common shares outstanding	23,146	24,670

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

FORRESTER RESEARCH, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	THREE MONTHS ENDED MARCH 31, 2002	THREE MONTHS ENDED MARCH 31, 2001
	(UNAUDITED)	
Cash flows from operating activities:		
Net (loss) income	$ (6,115)	$ 4,865
Adjustments to reconcile net (loss) income to net cash provided by operating activities --		
Depreciation and amortization	2,148	2,722
Impairments of non-marketable investments	2,248	--
Loss on disposals of property and equipment	92	--
Tax benefit from exercises of employee stock options	--	6,556
Deferred income taxes	(532)	(3,760)
Non-cash reorganization costs	2,772	--
Increase in provision for doubtful accounts	--	150
Changes in assets and liabilities --		
Accounts receivable	9,579	20,119
Deferred commissions	621	1,510
Prepaid income taxes	(212)	(7)
Prepaid expenses and other current assets	(528)	(1,822)
Accounts payable	(611)	(2,107)
Customer deposits	(143)	101
Accrued expenses	179	2,630
Accrued income taxes	(1,327)	--
Deferred revenue	(6,519)	(8,673)
Net cash provided by operating activities	1,652	22,284
Cash flows from investing activities:		
Purchases of property and equipment	(244)	(5,225)
Purchases of non-marketable investments	(1,675)	(3,318)
Increase in other assets	139	(8)
Purchases of marketable securities	(21,782)	(57,527)
Proceeds from sales and maturities of marketable securities	18,360	40,001
Net cash used in investing activities	(5,202)	(26,077)
Cash flows from financing activities:		
Proceeds from exercises of employee stock options	2,421	6,553
Acquisition of treasury stock	(3,547)	--
Net cash (used in) provided by financing activities	(1,126)	6,553
Effect of exchange rate changes on cash and cash equivalents	23	98
Net (decrease) increase in cash and cash equivalents	(4,653)	2,858
Cash and cash equivalents, beginning of period	17,747	15,848
Cash and cash equivalents, end of period	$ 13,094	$ 18,706
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 1,804	$ 7

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

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 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, 2001. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations, and cash flows as of the dates and for the periods presented have been included. The results of operations for the three months ended March 31, 2002 may not be indicative of the results that may be expected for the year ended December 31, 2002, or any other period.

NOTE 2 - ACCOUNTING FOR GOODWILL AND OTHER INTANGIBLE ASSETS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, Business Combinations, and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method. SFAS No. 141 also specifies criteria that acquired intangible assets must meet to be recognized and reported apart from goodwill. As a result of the adoption of SFAS No. 141 on June 30, 2001, Forrester reclassified approximately $82,000 of assembled workforce related intangible assets into goodwill. The adoption of SFAS No. 141 did not have a material effect on Forrester's consolidated financial position or results of operations.

SFAS No. 142 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. Forrester adopted SFAS No. 142 effective January 1, 2002. In connection with the SFAS No. 142 transitional goodwill impairment evaluation, Forrester was required to perform an assessment of whether there was an indication that goodwill in any reporting units was impaired as of the date of adoption. Through an independently obtained appraisal, it was determined that the carrying amount of the reporting unit with goodwill did not exceed the fair value, and as a result no transitional impairment loss exists.

Had the provisions of SFAS No. 142 been applied for the three months ended March 31, 2001, Forrester's net (loss) income and net (loss) income per share would have been as follows:

	THREE MONTHS ENDED MARCH 31, 2002	2001
	(in thousands, except per share data)	
Reported net (loss) income	$ (6,115)	$ 4,865
Effect of SFAS No. 142, net of tax	--	114
Adjusted net (loss) income	$ (6,115)	$ 4,979
Reported basic net (loss) income per common share	$ (0.26)	$ 0.22
Effect of SFAS No. 142, net of tax	--	0.01
Adjusted basic net (loss) income per common share	$ (0.26)	$ 0.23
Reported diluted net (loss) income per common share	$ (0.26)	$ 0.20
Effect of SFAS No. 142, net of tax	--	0.00
Adjusted diluted net (loss) income per common share	$ (0.26)	$ 0.20

Amortization expense related to identifiable intangible assets that will continue to be amortized in the future was approximately $82,000 for the three months ended March 31, 2002 and 2001, respectively. Additional amortization expense in the three months ended March 31, 2001 related to goodwill that ceased to be amortized with the adoption of SFAS No. 142 was approximately $179,000. Estimated amortization expense related to identifiable intangible assets that will continue to be amortized is as follows:

	AMOUNT (IN THOUSANDS)
Remaining nine months ending December 31, 2002	$ 247
Year ending December 31, 2003	279
Year ending December 31, 2004	129
Year ending December 31, 2005	129
Year ending December 31, 2006	129
Year ending December 31, 2007	94
Total	$1,007

A summary of Forrester's intangible assets as of March 31, 2002 is as follows:

	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT
		(IN THOUSANDS)	
Amortized intangible assets:			
Customer base	$ 900	$ 193	$ 707
Research content	600	300	300
Subtotal	$ 1,500	$ 493	1,007
Goodwill			13,244
Total			$14,251

NOTE 3 - REORGANIZATIONS

On January 10, 2002, Forrester announced the reduction of its work force by approximately 126 positions in response to conditions and demands of the market and a slower economy. As a result, Forrester recorded a reorganization charge of approximately $9.3 million in the three months ended March 31, 2002. Approximately 39% of the terminated employees had been members of the sales force, while 33% and 28% had held research and administrative roles, respectively. This charge consisted primarily of severance and related benefits costs, office consolidation costs, such as contractual lease commitments for space that was vacated, the write-off of related leasehold improvements, and other payments for professional services incurred in connection with the reorganization. Additional depreciable assets that were written off included computer equipment, software, and furniture and fixtures related to terminated employees and vacated locations in connection with the reorganization.

Costs related to the January 10, 2002 reorganization are as follows:

	TOTAL CHARGE	NON-CASH CHARGES	CASH PAYMENTS	ACCRUED AS OF MARCH 31, 2002
		(IN THOUSANDS)		
Workforce reduction	$3,545	$ --	$3,073	$ 472
Facility consolidation and other related costs	2,934	--	1,183	1,751
Depreciable assets	2,772	2,772	--	--
Total	$9,251	$2,772	$4,256	$2,223

The accrued costs related to the January 10, 2002 reorganization are expected to be paid in the following periods:

	2002	2003	2004	2005	2006	ACCRUED AS OF MARCH 31, 2002
			(IN THOUSANDS)			
Workforce reduction	$ 472	$ --	$ --	$ --	$ --	$ 472
Facility consolidation and other related costs	1,170	199	146	146	90	1,751
Total	$1,642	$ 199	$ 146	$ 146	$ 90	$2,223

On July 12, 2001, Forrester announced a sales force reorganization and general work force reduction in response to conditions and demands of the market and a slower economy. As a result, Forrester reduced its work force by 111 positions, closed sales offices in Atlanta, Los Angeles, Melbourne, New York, and Zurich, and recorded a reorganization charge of approximately $3.1 million in the three months ended September 30, 2001. Approximately 66% of the terminated employees had been members of the sales force, while 12% and 22% had held research and administrative roles, respectively. This charge consisted primarily of severance and related benefits costs from the work force reduction. This charge also included office consolidation costs, such as contractual lease commitments for space that was vacated, the write-off of related leasehold improvements, and other payments for professional services incurred in connection with the reorganization. Additional depreciable assets that were written off included computer equipment, software, and furniture and fixtures related to terminated employees and vacated locations in connection with the reorganization.

Costs related to the July 12, 2001 reorganization that were accrued as of December 31, 2001 were utilized during the three months ended March 31, 2002 as follows:

	ACCRUED AS OF DECEMBER 31, 2001	CASH PAYMENTS	EXCESS RESERVE	ACCRUED AS OF MARCH 31, 2002
		(IN THOUSANDS)		
Workforce reduction	$104	$ 49	$ 55	$ --
Facility consolidation and other related costs	118	10	108	--
Total	$222	$ 59	$163	$ --

During the three months ended March 31, 2002, management concluded that approximately $163,000 of the reorganization charge was excess, and accordingly reversed that amount through reorganization costs in the statement of income during that period.

NOTE 4 - NET INCOME PER COMMON SHARE

Basic and diluted net income per common share for the three months ended March 31, 2002 were computed by dividing net income by the basic weighted average number of common shares outstanding during the period. Diluted net income per common share for the three months ended March 31, 2001 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. Reconciliation of basic to diluted weighted average shares outstanding is as follows:

	THREE MONTHS ENDED MARCH 31, 2002	2001
	(IN THOUSANDS)	
Basic weighted average common shares outstanding	23,146	22,054
Weighted average common equivalent shares	--	2,616
Diluted weighted average shares outstanding	23,146	24,670

As of March 31, 2002 and 2001, approximately 5,851,000 and 601,000 stock options, respectively, were excluded from the calculation of diluted weighted average shares outstanding as the effect would have been anti-dilutive.

NOTE 5 - COMPREHENSIVE (LOSS) INCOME

The components of other comprehensive (loss) income for the three months ended March 31, 2002 and 2001 are as follows:

	THREE MONTHS ENDED MARCH 31, 2002	2001
	(IN THOUSANDS)	
Unrealized (loss) gain on marketable securities, net of taxes	$ (742)	$1,125
Cumulative translation adjustment	105	343
Total other comprehensive (loss) income	$ (637)	$1,468
Reported net (loss) income	(6,115)	4,865
Total comprehensive (loss) income	(6,752)	6,333

NOTE 6 - NON-MARKETABLE INVESTMENTS

In June 2000, Forrester committed to invest $20.0 million in two private equity investment funds over a period of up to five years. During the three months ended March 31, 2002, Forrester contributed approximately $1.7 million to these investment funds, resulting in total cumulative contributions of approximately $8.9 million. The carrying value of the investment funds as of March 31, 2002 was approximately $6.4 million. During the three months ended March 31, 2002, Forrester recorded an impairment to these investments of approximately $784,000, which is included in the consolidated statement of income, increasing the total cumulative impairments recorded to approximately $1,691,000 as of March 31, 2002. During the three months ended March 31, 2002, fund management charges of approximately $121,000 were included in other income in the consolidated statement of income, bringing the total cumulative fund management charges to approximately $725,000. 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 investment funds, 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.

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 quarter.

In September 2001, Forrester sold its Internet AdWatch product to Evaliant Media Resources, LLC ("Evaliant"), a privately held international provider of online advertising data, in exchange for membership interests in Evaliant representing approximately an 8% ownership interest. Revenues related to the Internet AdWatch product were not material to Forrester's total revenues in the three months ended March 31, 2001. This transaction resulted in a net gain to Forrester of approximately $1.7 million during the three months ended September 30, 2001, which was included in other income in the consolidated statement of income. The investment in Evaliant is being accounted for using the cost method and, accordingly, is being valued at cost unless an impairment in its value that is other than temporary occurs or the investment is liquidated. In March 2002, Forrester determined that its investment had been impaired. As a result, Forrester recorded a write-down of approximately $1,464,000 during the three months ended March 31, 2002, which was included in the consolidated statement of income, reducing the carrying value to approximately $250,000 as of March 31, 2002. As of March 31, 2002, Forrester determined that no further impairment had occurred.

NOTE 7 - STOCK REPURCHASE PROGRAM

In October 2001, Forrester announced a program authorizing the repurchase of up to $50 million of its common stock. The shares repurchased will be used, among other things, in connection with Forrester's employee stock option and stock purchase plans and for potential acquisitions. During the three months ended March 31, 2002, Forrester repurchased 185,000 shares of common stock at an aggregate cost of approximately $3.5 million.

NOTE 8 - SEGMENT AND ENTERPRISE WIDE REPORTING

As of January 1, 2002, Forrester implemented a structure under which its operations are managed within the following four operating groups ("Operating Groups"): (i) North America, (ii) Europe, (iii) Global, and (iv) Asia, Middle East, Africa, and Latin America ("Asia, MEA, and Latin America"). All of the Operating Groups generate revenues through sales of the same core research, strategic services, and events offerings. The Operating Groups for North America, Europe, and Asia, MEA, and Latin America are comprised of sales forces responsible for clients located in each respective region and research personnel focused primarily on issues generally more relevant to clients in each of those regions. The Global Operating Group is comprised of a sales force responsible for Forrester's largest clients, and its research staff focuses on topics of more universal appeal. Due to the four Operating Groups having similarities in economic characteristics, the nature of products and services provided, production processes, class of client, and distribution methods used, they are aggregated for presentation. Accordingly, the financial information disclosed in the consolidated statement of income for the three months ended March 31, 2002 materially represents the aggregation of the Operating Groups.

Through December 31, 2001, Forrester viewed its operations and managed its business principally as one segment, research services. As a result, the financial information disclosed in the consolidated statement of income materially represents all of the financial information related to Forrester's principal operating segment through that date.

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

	THREE MONTHS ENDED MARCH 31, 2002	2001
	(IN THOUSANDS)	
United States	$18,671	$30,375
United Kingdom	2,374	3,401
Europe (excluding United Kingdom)	2,407	5,088
Canada	788	2,135
Other	1,816	2,646
	$26,056	$43,645

	THREE MONTHS ENDED MARCH 31, 2002	2001
United States	72%	70%
United Kingdom	9	8
Europe (excluding United Kingdom)	9	11
Canada	3	5
Other	7	6
	100%	100%

NOTE 9 - RECENT ACCOUNTING PRONOUNCEMENTS

In August 2001, the FASB issued SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This statement supersedes SFAS No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, and the accounting and reporting provisions of Accounting Principles Board Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions. Under this statement, it is required that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and it broadens the presentation of discontinued operations to include more disposal transactions. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early adoption permitted. The adoption of SFAS No. 144 did not have a material effect on Forrester's consolidated financial position or 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 similar expressions are intended to identify these forward-looking statements. 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 results to differ materially from those indicated by forward-looking statements include, among others, the ability to attract and retain qualified professional staff, fluctuations in our quarterly operating results, a decline in renewals for our membership-based core research, loss of key management, failure to anticipate and respond to market trends, our ability to develop and offer new products and services, and competition. This list of factors is not exhaustive. Other risks and uncertainties are discussed elsewhere in this report and in further detail under the caption entitled "Risks and Uncertainties" included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2001 which has been filed with the SEC. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. Unless the context otherwise requires, references in this Quarterly Report to "we," "us," and "our" refer to Forrester Research, Inc. and our Subsidiaries.

We are a leading independent emerging-technology research firm that conducts research and analysis on the impact of emerging technologies on business, consumers, and society. We provide our clients with an integrated perspective on technology and business, which we call the WholeView. Our approach provides companies with the strategies, data, and product evaluations they need to evolve their business models and infrastructure to embrace broader on-line markets and to scale their operations. We help our clients develop business strategies that use technology to win customers, identify new markets, and gain competitive operational advantages. Our products and services primarily benefit the senior management, business strategists, and marketing and technology professionals at Global 3,500 companies who use our prescriptive, executable research to understand and capitalize on business models and emerging technologies.

We derive revenues from memberships to our core research and from our advisory services and Forum and Summit events. We offer contracts for our products and services that are typically renewable annually and payable in advance. Accordingly, a substantial portion of our billings are initially recorded as deferred revenue. Research revenues are recognized ratably on a monthly basis over the term of the contract. Our advisory services clients purchase such services to supplement their memberships to our research. Billings attributable to advisory services are initially recorded as deferred revenue and recognized as revenue when performed. Forum and Summit billings are also initially recorded as deferred revenue and are recognized 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 operating expenses consist of cost of services and fulfillment, selling and marketing expenses, general and administrative expenses, and depreciation and amortization. Cost of services and fulfillment represents the costs associated with the production and delivery of our products and services, and they include 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.

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. Agreement value decreased approximately 47% to $90.1 million at March 31, 2002 from $170.4 million at March 31, 2001. No single client accounted for more than 2% of agreement value at March 31, 2002. In past years, a substantial portion of our client companies renewed expiring contracts. Over the last 5 quarters, we have been experiencing a decline in renewal rates. Approximately 50% of our client companies with memberships expiring during the twelve months ended March 31, 2002 renewed one or more memberships for our products and services, compared with 70% of client companies with memberships expiring during the twelve months ended March 31, 2001.

Renewal rates are not necessarily indicative of the rate of future retention of our revenue base. The declines in agreement value and renewal rate are reflective of the more difficult economic environment and will lead to a decrease in revenues during the three months ended June 30, 2002 as compared to the corresponding three-month period in 2001.

On January 10, 2002, we announced the reduction of our work force by approximately 126 positions in response to conditions and demands of the market and a slower economy. As a result, we recorded a reorganization charge of approximately $9.3 million in the three months ended March 31, 2002. Approximately 39% of the terminated employees had been members of the sales force, while 33% and 28% had held research and administrative roles, respectively. This charge consisted primarily of severance and related benefits costs, office consolidation costs, such as contractual lease commitments for space that was vacated, the write-off of related leasehold improvements, and other payments for professional services incurred in connection with the reorganization. Additional depreciable assets that were written off included computer equipment, software, and furniture and fixtures related to terminated employees and vacated locations in connection with the reorganization.

Costs related to the January 10, 2002 reorganization are as follows:

	TOTAL CHARGE	NON-CASH CHARGES	CASH PAYMENTS	ACCRUED AS OF MARCH 31, 2002
		(IN THOUSANDS)		
Workforce reduction	$3,545	$ --	$3,073	$ 472
Facility consolidation and other related costs	2,934	--	1,183	1,751
Depreciable assets	2,772	2,772	--	--
Total	$9,251	$2,772	$4,256	$2,223

The accrued costs related to the January 10, 2002 reorganization are expected to be paid in the following periods (in thousands):

	2002	2003	2004	2005	2006	ACCRUED AS OF MARCH 31, 2002
			(IN THOUSANDS)			
Workforce reduction	$ 472	$ --	$ --	$ --	$ --	$ 472
Facility consolidation and other related costs	1,170	199	146	146	90	1,751
Total	$1,642	$ 199	$ 146	$ 146	$ 90	$2,223

On July 12, 2001, we announced a sales force reorganization and general work force reduction in response to conditions and demands of the market and a slower economy. As a result, we reduced our work force by 111 positions, closed sales offices in Atlanta, Los Angeles, Melbourne, New York, and Zurich, and recorded a reorganization charge of approximately $3.1 million in the three months ended September 30, 2001. Approximately 66% of the terminated employees had been members of the sales force, while 12% and 22% had held research and administrative roles, respectively. This charge consisted primarily of severance and related benefits costs from the work force reduction. This charge also included office consolidation costs, such as contractual lease commitments for space that was vacated, the write-off of related leasehold improvements, and other payments for professional services incurred in connection with the reorganization. Additional depreciable assets that were written off included computer equipment, software, and furniture and fixtures related to terminated employees and vacated locations in connection with the reorganization.

Costs related to the July 12, 2001 reorganization that were accrued as of December 31, 2001 were utilized during the three months ended March 31, 2002 as follows:

	ACCRUED AS OF DECEMBER 31, 2001	CASH PAYMENTS	EXCESS RESERVE	ACCRUED AS OF MARCH 31, 2002
	(IN THOUSANDS)			
Workforce reduction	$104	$ 49	$ 55	$ --
Facility consolidation and other related costs	118	10	108	--
Total	$222	$ 59	$163	$ --

During the three months ended March 31, 2002, management concluded that approximately $163,000 of the reorganization charge was excess, and accordingly reversed that amount through reorganization costs in the statement of income during that period.

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. 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 estimates, including but not limited to, those related to our revenue recognition, allowance for doubtful accounts, non-marketable investments, and goodwill and other intangible assets. 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 have identified the following policies as critical to our business operations and the understanding of our results of operations. This listing 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 a detailed discussion of the application of these and our other accounting policies, see Note 1 in the Notes to Consolidated Financial Statements of our December 31, 2001 Annual Report on Form 10-K, previously filed with the SEC.

- - REVENUE RECOGNITION. We generally invoice our core research, advisory, and other services when orders are received. The contract amount is recorded as accounts receivable and deferred revenue when the client is invoiced. Core research is generally recorded as revenue ratably over the term of the agreement. Advisory and other services are recognized during the period in which the services are performed. 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 March 31, 2002, deferred revenues and deferred commissions totaled $53.4 million and $3.8 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 $856,000 as of March 31, 2002. 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.

- - NON-MARKETABLE INVESTMENTS. We hold minority interests in companies and equity investment funds that totaled approximately $9.2 million as of March 31, 2002. We record impairment charges when we believe that an investment has experienced a decline in value that is other than temporary. Our estimates have led us to record cumulative impairment charges that total approximately $6.4 million, including approximately $2.2 million recorded in the three months ended March 31, 2002. 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. We have goodwill and other intangible assets that totaled approximately $14.3 million as of March 31, 2002. Forrester adopted SFAS No. 142 effective January 1, 2002. In connection with the SFAS No. 142 transitional goodwill impairment evaluation, Forrester was required to perform an assessment of whether there was an indication that goodwill in any of our reporting units was impaired as of the date of adoption. Through an independently obtained appraisal, it was determined that the carrying amount of our reporting unit with goodwill did not exceed the fair value, and as a result no transitional impairment loss exists. Our judgments regarding the existence of impairment indicators are based on market conditions and operational performance. Future events could cause us to conclude that impairment indicators exist and that goodwill or other intangible assets are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED MARCH 31, 2002	2001
Core research	74%	81%
Advisory services and other	26	19
Total revenues	100	100
Cost of services and fulfillment	34	28
Selling and marketing	33	41
General and administrative	13	11
Depreciation and amortization	8	6
Reorganization costs	35	--
(Loss) income from operations	(23)	14
Other income, net	6	4
Impairment of non-marketable investments	(9)	--
(Loss) income before income tax (benefit) provision	(26)	18
Income tax (benefit) provision	(2)	7
Net (loss) income	(24)%	11%

THREE MONTHS ENDED MARCH 31, 2002 AND MARCH 31, 2001

REVENUES. Total revenues decreased 40% to $26.1 million in the three months ended March 31, 2002 from $43.6 million in the three months ended March 31, 2001. Revenues from core research decreased 45% to $19.3 million in the three months ended March 31, 2002 from $35.4 million in the three months ended March 31, 2001 and comprised 74% of total revenues for the quarter. Decreases in total revenues and revenues from core research were primarily attributable to decreases in the number of client companies to 1,309 at March 31, 2002 from 2,136 at March 31, 2001, as well as lower average contract values. No single client company accounted for more than 2% of revenues during the three months ended March 31, 2002 or 2001.

Advisory services and other revenues decreased 18% to $6.8 million in the three months ended March 31, 2002 from $8.3 million in the three months ended March 31, 2001. This decrease was primarily attributable to decreased demand for advisory services and is reflected in the reduction of analyst staffing in our research organization to 144 at March 31, 2002 from 227 at March 31, 2001.

Revenues attributable to customers outside the United States decreased 44% to $7.4 million in the three months ended March 31, 2002 from $13.3 million in the three months ended March 31, 2001. Revenues attributable to customers outside the United States decreased as a percentage of total revenues to 28% for the three months ended March 31, 2002 from 30% for the three months ended March 31, 2001. The decrease in international revenues as a percentage of total revenues was primarily attributable to our not holding any European events in the three months ended March 31, 2002 while holding one in the three months ended March 31, 2001. The decrease in international revenues is primarily attributable to a decline in revenues from core research related to decreases in the number of client companies, as well as lower average contract values. We invoice our international clients in U.S. dollars, except for those billed by our UK Research Centre, which invoices its clients in British pounds sterling. To date, the effect of changes in currency exchange rates have not had a significant impact on our results of operations.

COST OF SERVICES AND FULFILLMENT. Cost of services and fulfillment increased as a percentage of total revenues to 34% in the three months ended March 31, 2002 from 28% in the three months ended March 31, 2001. These expenses decreased 27% to $9.0 million in the three months ended March 31, 2002 from $12.3 million in the three months ended March 31, 2001. The increase in expense as a percentage of revenues was primarily attributable to a greater amount of overhead expenses being allocated to cost of services and fulfillment as a result of the research organization comprising a greater proportion of total headcount in 2002. The increase in expense as a percentage of revenues was also due to increased survey costs and was compounded by the smaller revenue base in 2002. The expense decrease in the current period was principally due to lower compensation expenses as a result of the reduction in analyst staffing in our research organization to 144 at March 31, 2002 from 227 at March 31, 2001.

SELLING AND MARKETING. Selling and marketing expenses decreased as a percentage of total revenues to 33% in the three months ended March 31, 2002 from 41% in the three months ended March 31, 2001. These expenses decreased 52% to $8.5 million in the three months ended March 31, 2002 from $17.7 million in the three months ended March 31, 2001. The decreases in expenses and expense as a percentage of revenues were principally due to lower compensation and travel expenses as a result of the reduction in the number of direct sales personnel to 136 at March 31, 2002 from 290 at March 31, 2001.

GENERAL AND ADMINISTRATIVE. General and administrative expenses increased as a percentage of total revenues to 13% in the three months ended March 31, 2002 from 11% in the three months ended March 31, 2001. These expenses decreased 33% to $3.3 million in the three months ended March 31, 2002 from $5.0 million in the three months ended March 31, 2001. The increase in expense as a percentage of revenues was principally due to a smaller revenue base in 2002. The decrease in expenses was principally due to lower compensation expenses as a result of the reduction in staffing in our technology, operations, finance, and strategy groups to 91 at March 31, 2002 from 165 at March 31, 2001.

DEPRECIATION AND AMORTIZATION. Depreciation and amortization expenses decreased 21% to $2.1 million in the three months ended March 31, 2002 from $2.7 million in the three months ended March 31, 2001. The decrease in these expenses was principally due to the write-off of depreciable assets in connection with the reorganizations discussed previously, as well as decreased capital spending in 2001 compared to 2000. The adoption of SFAS No. 142 also resulted in a reduction in quarterly amortization of intangible assets to approximately $82,000 in 2002 from approximately $261,000 in 2001.

OTHER INCOME. Other income, consisting primarily of interest income, decreased 11% to $1.6 million in the three months ended March 31, 2002 from $1.8 million in the three months ended March 31, 2001. The decrease was principally due to marketable securities producing lower effective yields due to a decline in market interest rates. Impairments of non-marketable investments also resulted in charges of $2.2 million during the three months ended March 31, 2002.

PROVISION FOR INCOME TAXES. During the three months ended March 31, 2002, we recorded a tax benefit of $532,000 reflecting an effective tax rate of 8.0%. During the three months ended March 31, 2001, we recorded a tax provision of $2.8 million, which reflected an effective tax rate of 36.5%. The decrease in our effective tax rate resulted primarily from our expected taxable income for fiscal 2002 being mainly attributable to interest income from our marketable securities, which are predominantly tax-exempt investments.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations during these periods primarily through funds generated from operations. Memberships for core research, which constituted approximately 74% of our revenues during the three months ended March 31, 2002, are annually renewable and are generally payable in advance. We generated cash from operating activities of $1.6 million and $22.3 million during the three months ended March 31, 2002 and 2001, respectively. This decline in cash from operations is primarily the result of the decrease in agreement value to $90.1 million at March 31, 2002 from $170.4 million at March 31, 2001, which is reflected in lower accounts receivable and deferred revenue balances as of March 31, 2002. These declines in key business metrics are reflective of the more difficult economic environment. The decline in cash from operations is also the result of the $6.3 million cash portion of our $9.1 million reorganization charge and a decrease in the tax benefit from exercises of employee stock options.

During the three months ended March 31, 2002, we used $5.2 million of cash in investing activities, consisting of $1.7 million for net purchases of non-marketable investments and $3.4 million for net purchases of marketable securities. We regularly invest excess funds in short-and intermediate-term interest-bearing obligations of investment grade.

During the three months ended March 31, 2002, we used $1.1 million of cash in financing activities, consisting of $3.5 million used for the acquisition of treasury shares net of $2.4 million provided from the exercise of employee stock options.

As of March 31, 2002, we had cash and cash equivalents of $13.1 million and $190.1 million in marketable securities. We do not have a line of credit and do not anticipate the need for one in the foreseeable future. We plan to continue to introduce new products and services and expect to make minimal investments in our infrastructure during the next 12 months. We believe that our current cash balance, marketable securities, and cash flows from operations will satisfy working capital, financing activities, and capital expenditure requirements for at least the next two years.

In October 2001, we announced a program authorizing the repurchase of up to $50 million of our common stock. The shares repurchased will be used, among other things, in connection with our employee stock option and stock purchase plans and for potential acquisitions. As of March 31, 2002, we had repurchased 185,000 shares of common stock at an aggregate cost of approximately $3.5 million.

In June 2000, we committed to invest $20.0 million in two private equity investment funds over a period of up to five years. We have adopted a cash bonus plan to pay bonuses, after the return of invested capital, measured by the proceeds of a portion of the 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. As of March 31, 2002, we had contributed approximately $8.9 million to the funds. The timing and amount of future contributions are entirely within the discretion of the investment funds.

As of March 31, 2002, we had recorded total write-downs to the private equity funds of approximately $1.7 million as a result of the impairment of certain investments within the funds. The timing of the recognition of future gains or losses from the investment funds is beyond our control. As a result, it is not possible to predict when we will recognize such gains or losses, if we will award cash bonuses based on the net profit from such investments, or when we will incur compensation expense in connection with the payment of such bonuses. If the investment funds realize large gains or losses on their investments, we could experience significant variations in our quarterly results unrelated to our 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 quarter.

As of March 31, 2002, we had future contractual obligations as follows:

	FUTURE PAYMENTS DUE BY YEAR						
CONTRACTUAL OBLIGATIONS	TOTAL	2002	2003	2004	2005	2006	2007
	(IN THOUSANDS)						
Operating leases	$46,296	$ 5,950	$8,550	$8,816	$8,822	$7,269	$6,889
Unconditional purchase obligations	735	735	--	--	--	--	--
Total contractual cash obligations	$47,031	$ 6,685	$8,550	$8,816	$8,822	$7,269	$6,889

We do not maintain any off-balance sheet financing arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. We do not use derivative financial instruments for speculative or trading purposes.

INTEREST RATE SENSITIVITY. We maintain an investment portfolio consisting mainly of corporate, federal agency, and state and municipal obligations with a weighted-average maturity of approximately 13 months. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity. Therefore, we would not expect our operating results or cash flows to be affected to any significant degree by a sudden change in market interest rates on our securities portfolio. The following table provides information about our investment portfolio. For investment securities, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates.

Principal amounts by expected maturity in U.S. Dollars are as follows:

	FAIR VALUE AT MARCH 31, 2002	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
			(DOLLARS IN THOUSANDS)			
Cash equivalents	$ 11,935	$ 11,935	$ --	$ --	$ --	$ --
Weighted average interest rate	2.09%	2.09%	-- %	--	--	--
Investments	$ 190,115	$ 103,025	$ 38,180	$ 25,007	$ 16,822	$ 7,081
Weighted average interest rate	3.39%	3.33%	3.18%	3.03%	3.94%	5.44%
Total portfolio	$ 202,050	$ 114,960	$ 38,180	$ 25,007	$ 16,822	$ 7,081
Weighted average interest rate	3.32%	3.20%	3.18%	3.03%	3.94%	5.44%

FOREIGN CURRENCY EXCHANGE. On a global level, we face exposure to movements in foreign currency exchange rates. This exposure may change over time as business practices evolve and could have a material adverse impact on our financial results. Historically, our primary exposure has been related to non-U.S. dollar-denominated operating expenses in Europe, Canada, and Asia, where we sell primarily in U.S. dollars. The introduction of the Euro as a common currency for members of the European Monetary Union has not, to date, had a significant impact on our financial position or results of operations. To date, we have not entered into any hedging agreements. However, we are prepared to hedge against fluctuations that the euro, or other foreign currencies, will have on foreign exchange exposure if this exposure becomes material. As of March 31, 2002, the total assets related to non-US dollar denominated currencies that are subject to foreign currency exchange risk was approximately $9.1 million.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is not currently a party to any material legal proceedings.

ITEM 2. CHANGES IN SECURITIES

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY-HOLDERS

None.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

- 10.1 1996 Amended and Restated Stock Option Plan for Non-employee Directors.

(b) Reports on Form 8-K

None.

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/ George F. Colony

George F. Colony
Chairman of the Board of Directors
and Chief Executive Officer (principal
executive officer)

Date: May 15, 2002

By: /s/ Warren W. Hadley

Warren W. Hadley
Chief Financial Officer and Treasurer
(principal financial and accounting
officer)

Date: May 15, 2002

Exhibit 10.1

FORRESTER RESEARCH, INC.

AMENDED AND RESTATED 1996 STOCK OPTION PLAN FOR NON-EMPLOYEE DIRECTORS

1. PURPOSE

The purpose of this Amended and Restated 1996 Stock Option Plan for Non-Employee Directors (the "Plan") is to advance the interests of Forrester Research, Inc. (the "Company") by enhancing the ability of the Company to attract and retain non-employee directors who are in a position to make significant contributions to the success of the Company and to reward directors for such contributions through the awarding of options ("Options") to purchase shares of the Company's common stock (the "Stock").

2. ADMINISTRATION

The Plan shall be administered by a committee (the "Committee") of the Board of Directors (the "Board") of the Company designated by the Board for that purpose. Unless and until a Committee is appointed the Plan shall be administered by the entire Board, and references in the Plan to the "Committee" shall be deemed references to the Board. The Committee shall have authority, not inconsistent with the express provisions of the Plan, (a) to grant Options in accordance with the Plan to such directors as are eligible to receive Options; (b) to prescribe the form or forms of instruments evidencing Options and any other instruments required under the Plan and to change such forms from time to time; (c) to adopt, amend and rescind rules and regulations for the administration of the Plan; and (d) to interpret the Plan and to decide any questions and settle all controversies and disputes that may arise in connection with the Plan. Such determinations of the Committee shall be conclusive and shall bind all parties.

3. EFFECTIVE DATE AND TERM OF PLAN

The Plan shall become effective on the date on which the Plan is approved by the Board of Directors of the Company, subject to approval by the shareholders of the Company. No Option shall be granted under the Plan after the completion of ten years from the date on which the Plan was adopted by the Board, but Options previously granted may extend beyond that date.

4. SHARES SUBJECT TO THE PLAN

(a) Number of Shares. Subject to adjustment as provided in Section 4(c), the aggregate number of shares of Stock that may be delivered upon the exercise of Options granted under the Plan shall be 300,000. If any Option granted under the Plan terminates without having been exercised in full, the number of shares of Stock as to which such Option was not exercised shall be available for future grants within the limits set forth in this Section 4(a).

(b) Shares to be Delivered. Shares delivered under the Plan shall be authorized but unissued Stock or, if the Board so decides in its sole discretion, previously issued Stock acquired by the Company and held in treasury. No fractional shares of Stock shall be delivered under the Plan.

(c) Changes in Stock. In the event of a stock dividend, stock split or combination of shares, recapitalization or other change in the Company's capital stock, after the effective date of the Plan, the number and kind of shares of stock or securities of the Company subject to Options then outstanding or subsequently granted under the Plan, the maximum number of shares or securities that may be delivered under the Plan, the exercise price, and other relevant provisions shall be appropriately adjusted by the Committee, whose determination shall be binding on all persons.

5. ELIGIBILITY FOR OPTIONS

Directors eligible to receive Options under the Plan ("Eligible Directors") shall be those directors who are not employees of the Company or of any subsidiary of the Company.

6. TERMS AND CONDITIONS OF OPTIONS

(a) Formula Options.

On the date that the Company first files a registration statement under the Securities Act of 1933 covering shares of Stock, each person who has agreed to serve as a director and who, upon commencing such service, would be an Eligible Director shall be awarded on such date an Option covering 6,000 shares of Stock. Each Eligible Director elected for the first time thereafter shall also be awarded on the date of his or her first election an Option covering 6,000 shares of Stock. In addition, immediately following the annual meeting of shareholders, each Eligible Director shall be awarded an Option covering 12,500 shares of Stock. The Options awarded under this paragraph (a) are referred to as "Formula Options."

(b) Discretionary Options. The Committee shall also have the authority under this Plan to award Options to purchase Stock to Eligible Directors in such amounts and on such terms not inconsistent with this Plan as it shall determine at the time of the award. The Options awarded under this paragraph (b) are referred to herein as "Discretionary Options."

(c) Exercise Price. The exercise price of each Formula Option shall be (i) in the case of Options granted prior to the Company's initial public offering, the low end of the estimated price range reflected in the registration statement and (ii) 100% of the fair market value per share of the Stock at the time the Option is granted. The exercise price of each Discretionary Options shall be set by the Committee. In no event, however, shall the Option price be less, in the case of an original issue of authorized stock, than par value per share. For purposes of this paragraph, the fair market value of a share of Stock will be the mean between the high and low sale prices as reported on the principal market on which the Stock is traded or, if no sales are reported, the fair market value as determined in good faith by the Committee.

(d) Duration of Options. The latest date on which an Option may be exercised (the "Final Exercise Date") shall be the date which is ten years from the date the Option was granted.

(e) Exercise of Options.

(1) Each Formula Option shall become exercisable as to one quarter of the shares covered thereby on each anniversary of the date of the grant; provided, however, that the initial Formula Option for 6,000 shares shall become exercisable as to one quarter of the shares on the date of the award (or on the date of Company's initial public offering in the case of such options granted prior to the Company's initial public offering) and as to one quarter of the shares on each of the next three anniversaries of that date. Each Discretionary Option shall become exercisable at such time or times as the Committee shall determine.

(2) Any exercise of an Option shall be in writing, signed by the proper person and delivered or mailed to the Company, accompanied by (i) any documentation required by the Committee and (ii) payment in full for the number of shares for which the Option is exercised.

(3) If an Option is exercised by the executor or administrator of a deceased director, or by the person or persons to whom the Option has been transferred by the director's will or the applicable laws of descent and distribution, the Company shall be under no obligation to deliver Stock pursuant to such exercise until the Company is satisfied as to the authority of the person or persons exercising the Option.

(f) Payment for and Delivery of Stock. Stock purchased under the Plan shall be paid for as follows: (i) in cash or by check (acceptable to the Company in accordance with guidelines established for this purpose), bank draft or money order payable to the order of the Company or (ii) if so permitted by the terms of the Option, (A) through the delivery of shares of Stock (which, in the case of shares of Stock acquired from the Company, have been outstanding for at least six months) having a fair market value on the last business day preceding the date of exercise equal to the purchase price or (B) by having the Company hold back from the shares transferred upon exercise Stock having a fair market value on the last business day preceding the date of exercise equal to the purchase price or (C) by delivery of a promissory note of the Option holder to the Company, such note to be payable on such terms as are specified or (D) by delivery of an unconditional and irrevocable undertaking by a broker to deliver promptly to the Company sufficient funds to pay the exercise price or (E) by any combination of the permissible forms of payment; provided, that if the Stock delivered upon exercise of the Option is an original issue of authorized Stock, at least so much of the exercise price as represents the par value of such Stock shall be paid other than with a personal check or promissory note of the Option holder.

An Option holder shall not have the rights of a shareholder with regard to awards under the Plan except as to Stock actually received by him or her under the Plan.

The Company shall not be obligated to deliver any shares of Stock (a) until, in the opinion of the Company's counsel, all applicable federal and state laws and regulations have been complied with, and (b) if the outstanding Stock is at the time listed on any stock exchange, until the shares to be delivered have been listed or authorized to be listed on such exchange upon official notice of issuance, and (c) until all other legal matters in connection with the issuance and delivery of such shares have been approved by the Company's counsel. If the sale of Stock has not been registered under the Securities Act of 1933, as amended, the Company may require, as a condition to exercise of the Option, such representations or agreements as counsel for the Company may consider appropriate to avoid violation of such Act and may require that the certificates evidencing such Stock bear an appropriate legend restricting transfer.

(g) Nontransferability of Options. Except as the Committee shall otherwise provide, no Option may be transferred other than by will or by the laws of descent and distribution, and during a director's lifetime an Option may be exercised only by him or her.

(h) Death. Except as the Committee shall otherwise provided, upon the death of any director granted Options under this Plan, all Options not then exercisable shall terminate. All Options held by the director that are exercisable immediately prior to death may be exercised by his or her executor or administrator, or by the person or persons to whom the Option is transferred by will or the applicable laws of descent and distribution, at any time within one year after the director's death (subject, however, to the limitations of Section 6(d) regarding the maximum exercise period for such Option). After completion of that one-year period, such Options shall terminate to the extent not previously exercised.

(i) Other Termination of Status of Director. Except as the Committee shall otherwise provided, if a director's service with the Company terminates for any reason other than death, all Options held by the director that are not then exercisable shall terminate. Options that are exercisable on the date of termination shall continue to be exercisable for a period of three months (subject to Section 6(d)). After completion of that three-month period, such Options shall terminate to the extent not previously exercised, expired or terminated.

(j) Mergers, etc. In the event of a consolidation or merger in which the Company is not the surviving corporation (other than a consolidation or merger in which the holders of Stock of the Company acquire a majority of the voting stock of the surviving corporation) or which results in the acquisition of substantially all the Company's outstanding Stock by a single person or entity or by a group of persons and/or entities acting in concert, or in the event of a sale or transfer of substantially all of the Company's assets or a dissolution or liquidation of the Company, all Options hereunder will terminate; provided, that 20 days prior to the effective date of any such merger, consolidation, sale, dissolution, or liquidation, all Options outstanding hereunder that are not otherwise exercisable shall become immediately exercisable. Notwithstanding the foregoing, in the event that a transaction covered by this Section 6(j) is a merger or consolidation intended to qualify as a pooling of interests for accounting purposes, then the acquiring or surviving corporation shall assume, or otherwise provide replacement options for, all Options outstanding under this Plan, with such adjustments to the number of shares covered by such Option and the exercise price thereof as may be necessary to reflect the exchange ratio provided for in the merger or consolidation. Such substitute options shall otherwise be on terms and conditions substantially equivalent to those set forth in this Plan, shall be immediately exercisable and, except as to Eligible Directors who become directors of the acquiring or surviving corporation, shall terminate on the 180th day following the consummation of the merger or consolidation. Options held by Eligible Directors who become directors of the acquiring or surviving corporation shall be governed, mutatis mutandis, by the provisions of this Plan and the agreement evidencing the Option surrendered in substitution.

7. EFFECT, DISCONTINUANCE, CANCELLATION, AMENDMENT, TERMINATION AND EFFECTIVENESS

Neither adoption of the Plan nor the grant of Options to a director shall affect the Company's right to grant to such director Options that are not subject to the Plan, to issue to such directors Stock as a bonus or otherwise, or to adopt other plans or arrangements under which Stock may be issued to directors.