

FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2004

OR

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

COMMISSION FILE NUMBER: 000-21433

FORRESTER RESEARCH, INC.

(Exact name of registrant as specified in its charter)

DELAWARE
(State or other jurisdiction of
incorporation or organization)

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

400 TECHNOLOGY SQUARE
CAMBRIDGE, MASSACHUSETTS
(Address of principal executive offices)

02139
(Zip Code)

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

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

Yes No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of August 5, 2004, 22,149,990 shares of the registrant's common stock were outstanding.

FORRESTER RESEARCH, INC.

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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, 2004	DECEMBER 31, 2003
	(UNAUDITED)	
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 46,068	\$ 22,385
Marketable securities	79,025	104,348
Accounts receivable, net	26,059	40,013
Deferred commissions	5,451	5,999
Prepaid expenses and other current assets	8,206	7,079
Total current assets	<u>164,809</u>	<u>179,824</u>
Long-term assets:		
Property and equipment, net	5,618	8,266
Goodwill	56,894	57,006
Intangible assets, net	9,731	13,456
Deferred income taxes	40,590	40,159
Non-marketable investments and other assets	13,989	12,264
Total long-term assets	<u>126,822</u>	<u>131,151</u>
Total assets	<u>\$291,631</u>	<u>\$310,975</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 2,950	\$ 2,566
Accrued expenses	25,976	31,457
Deferred revenue	63,891	68,630
Total current liabilities	<u>92,817</u>	<u>102,653</u>
Stockholders' equity:		
Preferred stock, \$.01 par value		
Authorized— 500 shares		
Issued and outstanding—none	—	—
Common stock, \$.01 par value		
Authorized — 125,000 shares		
Issued — 24,553 and 24,355 shares as of June 30, 2004 and December 31, 2003, respectively		
Outstanding— 22,022 and 22,461 shares as of June 30, 2004 and December 31, 2003, respectively	245	243
Additional paid-in capital	177,688	172,523
Retained earnings	64,340	66,945
Treasury stock, at cost— 2,531 and 1,894 shares as of June 30, 2004 and December 31, 2003, respectively	(41,478)	(30,300)
Accumulated other comprehensive loss	(1,981)	(1,089)
Total stockholders' equity	<u>198,814</u>	<u>208,322</u>
Total liabilities and stockholders' equity	<u>\$291,631</u>	<u>\$310,975</u>

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 JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(UNAUDITED)			
Revenues:				
Research services	\$23,046	\$25,865	\$46,035	\$44,371
Advisory services and other	11,875	8,113	20,615	14,089
Total revenues	<u>34,921</u>	<u>33,978</u>	<u>66,650</u>	<u>58,460</u>
Operating expenses:				
Cost of services and fulfillment	14,377	14,330	27,516	23,855
Selling and marketing	11,605	11,022	22,665	18,774
General and administrative	3,985	3,781	7,396	7,058
Depreciation	1,026	1,839	2,057	3,532
Amortization of intangible assets	1,384	2,608	3,728	3,532
Reorganization costs	6,794	—	8,751	—
Integration costs	—	740	—	771
Total operating expenses	<u>39,171</u>	<u>34,320</u>	<u>72,113</u>	<u>57,522</u>
(Loss) income from operations	(4,250)	(342)	(5,463)	938
Other income (expense):				
Other income, net	662	819	1,488	2,414
Non-marketable investment gains (impairments), net	57	(272)	57	(572)
(Loss) income before income tax (benefit) provision	(3,531)	205	(3,918)	2,780
Income tax (benefit) provision	(1,183)	64	(1,313)	862
Net (loss) income	<u>\$ (2,348)</u>	<u>\$ 141</u>	<u>\$ (2,605)</u>	<u>\$ 1,918</u>
Basic net (loss) income per common share	<u>\$ (0.11)</u>	<u>\$ 0.01</u>	<u>\$ (0.12)</u>	<u>\$ 0.08</u>
Diluted net (loss) income per common share	<u>\$ (0.11)</u>	<u>\$ 0.01</u>	<u>\$ (0.12)</u>	<u>\$ 0.08</u>
Basic weighted average common shares outstanding	<u>22,074</u>	<u>22,515</u>	<u>22,165</u>	<u>22,627</u>
Diluted weighted average common shares outstanding	<u>22,074</u>	<u>22,718</u>	<u>22,165</u>	<u>22,819</u>

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

FORRESTER RESEARCH, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	SIX MONTHS ENDED JUNE 30,	
	2004	2003
	(UNAUDITED)	
Cash flows from operating activities:		
Net (loss) income	\$ (2,605)	\$ 1,918
Adjustments to reconcile net (loss) income to net cash provided by operating activities—		
Depreciation	2,057	3,532
Amortization of intangible assets	3,728	3,532
Non-marketable investment (gains) impairments, net	(57)	572
Tax benefit from exercises of employee stock options	238	155
Deferred income taxes	(2)	793
Non-cash reorganization costs	1,844	—
Realized gains on sales of marketable securities	—	(509)
Amortization of premium on marketable securities	404	413
Changes in assets and liabilities, net of acquisition—		
Accounts receivable	14,785	10,534
Deferred commissions	548	(1,260)
Prepaid expenses and other current assets	(717)	1,758
Accounts payable	279	(207)
Accrued expenses	(5,359)	(7,649)
Deferred revenue	(5,481)	(8,710)
Net cash provided by operating activities	<u>9,662</u>	<u>4,872</u>
Cash flows from investing activities:		
Acquisition of Giga Information Group, Inc., net of cash acquired	—	(56,066)
Purchases of property and equipment	(1,279)	(1,017)
Purchases of non-marketable investments	(2,163)	(2,150)
Decrease in other assets	529	75
Purchases of marketable securities	(67,735)	(126,158)
Proceeds from sales and maturities of marketable securities	91,549	188,766
Net cash provided by investing activities	<u>20,901</u>	<u>3,450</u>
Cash flows from financing activities:		
Proceeds from issuance of common stock	2,350	1,457
Acquisition of treasury stock	(9,178)	(5,295)
Structured stock repurchase	54	(1,892)
Net cash used in financing activities	<u>(6,774)</u>	<u>(5,730)</u>
Effect of exchange rate changes on cash and cash equivalents	(106)	(190)
Net increase in cash and cash equivalents	23,683	2,402
Cash and cash equivalents, beginning of period	22,385	11,479
Cash and cash equivalents, end of period	<u>\$ 46,068</u>	<u>\$ 13,881</u>
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	<u>\$ 477</u>	<u>\$ 838</u>

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

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 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, 2003. 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, 2004 may not be indicative of the results that may be expected for the year ended December 31, 2004, or any other period. Certain amounts in the prior period financial statements have been reclassified to conform to the current year’s presentation.

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 Accounting Principles Board Opinion (“APB”) No. 25 and elect the disclosure-only alternative under SFAS No. 123. There is no compensation expense related to option grants reflected in the accompanying financial statements.

If compensation cost for Forrester’s stock option plans had been determined using the fair value method prescribed in SFAS No. 123, net (loss) income for the three and six months period ended June 30, 2004 and 2003 would have been approximately as follows (in thousands, except per share data):

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)		(IN THOUSANDS)	
Net (loss) income, as reported	\$ (2,348)	\$ 141	\$ (2,605)	\$ 1,918
Less: Total stock-based employee compensation expense determined under fair value based method for all awards	(1,071)	(1,738)	(2,289)	(3,375)
Pro-forma net loss	<u>\$ (3,419)</u>	<u>\$ (1,597)</u>	<u>\$ (4,894)</u>	<u>\$ (1,457)</u>
Basic and diluted net (loss) income per share — as reported	<u>\$ (0.11)</u>	<u>\$ 0.01</u>	<u>\$ (0.12)</u>	<u>\$ 0.08</u>
Basic and diluted net loss per share — pro forma	<u>\$ (0.15)</u>	<u>\$ (0.07)</u>	<u>\$ (0.22)</u>	<u>\$ (0.06)</u>

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.

NOTE 2 — ACQUISITIONS

(a) Giga Information Group, Inc.

In the first quarter of 2003, Forrester acquired Giga Information Group, Inc. (“Giga”), a global technology advisory firm, pursuant to a cash tender offer and second step merger. The acquisition increased agreement value and the number of client companies and has reduced operating expenses of the combined entity through economies of scale. The aggregate purchase price was \$62,510,000 in cash which consisted of \$60,347,000 for the acquisition of all outstanding shares of Giga common stock; \$981,000 of estimated direct acquisition costs; and \$1,182,000 for severance related to 27 employees of Giga terminated as a result of the acquisition. The results of Giga’s operations have been included in Forrester’s consolidated financial statements since February 28, 2003. Forrester elected to

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treat the acquisition of Giga as a stock purchase for income tax purposes, and accordingly, the goodwill and intangible assets are not deductible for income tax purposes.

The following table summarizes the estimated fair values of the Giga assets acquired and liabilities assumed at the date of acquisition.

	FEBRUARY 28, 2003
	(IN THOUSANDS)
Assets	
Cash	\$ 5,302
Accounts receivable	10,458
Prepaid expenses and other current assets	1,396
Property and equipment, net	2,108
Goodwill	39,883
Intangible assets	19,484
Deferred income taxes	18,666
Non-marketable investments and other assets	1,366
Total assets	\$98,663
Liabilities	
Accounts payable	\$ 1,485
Accrued expenses	9,655
Capital lease obligations	204
Deferred revenue	24,809
Total liabilities	\$36,153
Net assets acquired	\$62,510

The acquired intangible assets are being amortized using an accelerated method according to the expected cash flows to be received from the underlying assets over their respective lives as follows:

	ASSIGNED VALUE	USEFUL LIFE
	(IN THOUSANDS)	
Amortized intangible assets:		
Customer relationships	\$17,070	5 years
Research content	1,844	1 year
Registered trademarks	570	1 year
Subtotal	\$19,484	

Amortization expense related to identifiable intangible assets was approximately \$1,118,000 and \$2,526,000 during the three months ended June 30, 2004 and 2003, respectively, and \$3,175,000 and \$3,368,000 during the six months ended June 30, 2004 and 2003, respectively.

The following table presents pro forma financial information as if the acquisition of Giga had been completed as of January 1, 2003.

	SIX MONTHS ENDED JUNE 30, 2003
	(IN THOUSANDS, EXCEPT PER SHARE DATA)
Revenues	\$69,034
Income from operations	\$ 495
Net income	\$ 1,136
Basic and diluted net income per common share	\$ 0.05

(b) GigaGroup S.A.

As part of the acquisition of Giga discussed above, Forrester acquired an equity investment in GigaGroup S.A. ("GigaGroup"). GigaGroup was created in 2000 through the spin-off of Giga's French subsidiary, and held an

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exclusive agreement to distribute all Giga research and certain services in France, Belgium, Netherlands, Luxemburg, Switzerland, Italy, Spain, and Portugal. During 2003, prior to the acquisition discussed below, Forrester recognized revenues of approximately \$964,000 related to this distribution agreement.

On November 30, 2003, Forrester acquired the assets of GigaGroup. The acquisition increased the number of client companies and allows Forrester to sell Giga research and services in France, Belgium, Netherlands, Luxemburg, Switzerland, Italy, Spain and Portugal. The aggregate purchase price of \$4,124,000 consisted of \$2,866,000 in cash, \$118,000 of direct acquisition costs, \$521,000 of outstanding accounts receivable due to Forrester and the contribution of the equity investment in GigaGroup valued at \$619,000. Prior to the acquisition, the equity investment of \$1,215,000 was accounted for using the cost method and, accordingly, was valued at cost unless a permanent impairment in its value occurred or the investment was liquidated. In connection with the acquisition, an impairment of \$596,000 to the carrying value of the investment was included in impairments of non-marketable investments in the consolidated financial statements and, as such, the remaining value of the investment of \$619,000 was included in the purchase price.

Forrester elected to treat the acquisition of GigaGroup as an asset purchase for income tax purposes and, as such, the goodwill and intangible assets are deductible for income tax purposes.

The results of GigaGroup's operations have been included in Forrester's consolidated financial statements since December 1, 2003. GigaGroup's historical financial position and results of operations prior to the date of acquisition were not material to Forrester's financial position and results of operations.

The following table summarizes the estimated fair values of the GigaGroup assets acquired and liabilities assumed at the date of acquisition. Forrester is continuing to finalize certain estimates and appraisals related to the purchase price allocation and expects to finalize the purchase accounting in 2004.

	NOVEMBER 30, 2003
	(IN THOUSANDS)
Assets:	
Accounts receivable	\$ 548
Goodwill	3,767
Intangible assets	1,990
Other assets	91
Total assets	<u>\$6,396</u>
Liabilities:	
Accrued expenses	\$1,215
Deferred revenue	1,057
Total liabilities	<u>\$2,272</u>
Net assets acquired	<u>\$4,124</u>

The acquired intangible asset is being amortized using an accelerated method according to the expected cash flows to be received from the underlying asset over its life as follows:

	ASSIGNED VALUE	USEFUL LIFE
	(IN THOUSANDS)	
Amortized intangible asset:		
Customer relationships	\$1,990	5 years
Subtotal	<u>\$1,990</u>	

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Amortization expense during the three and six months ended June 30, 2004 related to the intangible asset acquired from GigaGroup was \$234,000 and \$489,000, respectively.

NOTE 3 — INTANGIBLE ASSETS

A summary of Forrester's amortizable intangible assets as of June 30, 2004 is as follows:

	<u>GROSS CARRYING AMOUNT</u>	<u>ACCUMULATED AMORTIZATION</u>	<u>NET CARRYING AMOUNT</u>
	(IN THOUSANDS)		
Amortized intangible assets:			
Customer relationships	\$19,960	\$10,229	\$9,731
Research content	2,444	2,444	—
Registered trademarks	570	570	—
Subtotal	<u>\$22,974</u>	<u>\$13,243</u>	<u>\$9,731</u>

Amortization expense related to identifiable intangible assets was approximately \$1,384,000 and \$2,608,000 during the three months ended June 30, 2004 and 2003, respectively, and \$3,728,000 and \$3,532,000 during the six months ended June 30, 2004 and 2003, respectively. Estimated amortization expense related to identifiable intangible assets that will continue to be amortized is as follows:

	<u>AMOUNTS (IN THOUSANDS)</u>
Six-months ending December 31, 2004	\$2,715
Year ending December 31, 2005	3,496
Year ending December 31, 2006	2,062
Year ending December 31, 2007	1,228
Year ending December 31, 2008	230
Total	<u>\$9,731</u>

NOTE 4 – REORGANIZATION COSTS

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 a 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, Forrester provided for additional severance and related benefits costs of \$240,000.

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 these 2004 reorganizations during the six months ended June 30, 2004 is as follows:

	<u>Total Charges</u>	<u>Non-Cash Charges</u>	<u>Cash Payments</u>	<u>Accrued as of June 30, 2004</u>
	(IN THOUSANDS)			
Workforce reduction	\$2,196	—	\$1,700	\$ 496
Facility costs	4,693	—	185	4,508
Depreciable assets	1,861	1,861	—	—
Total	<u>\$8,751</u>	<u>\$1,861</u>	<u>\$1,885</u>	<u>\$5,004</u>

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

	<u>TOTAL</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>
				(IN THOUSANDS)			
Facility costs	\$4,508	\$393	\$1,145	\$1,226	\$1,211	\$168	\$365

In connection with reorganizations of its workforce prior to 2004, Forrester consolidated its office space. As a result of those consolidations, Forrester has aggregate accrued facility consolidation costs of \$1.5 million as of June 30, 2004. The activity related to these costs during the six months ended June 30, 2004 is as follows:

	<u>Accrued as of December 31, 2003</u>	<u>Cash Payments</u>	<u>Accrued as of June 30, 2004</u>
		(IN THOUSANDS)	
Facility costs	\$2,806	\$1,339	\$1,467

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

	<u>TOTAL</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
		(IN THOUSANDS)		
Facility costs	\$1,467	\$462	\$835	\$170

NOTE 5 — NET (LOSS) INCOME PER COMMON SHARE

Basic and diluted net loss per common share for the three and six months ended June 30, 2004 and basic net income per share for the three and six months ended June 30, 2003 were computed by dividing the net (loss) income 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, 2003 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:

	<u>THREE MONTHS ENDED JUNE 30,</u>		<u>SIX MONTHS ENDED JUNE 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
			(IN THOUSANDS)	
Basic weighted average common shares outstanding	22,074	22,515	22,165	22,627
Weighted average common equivalent shares	—	203	—	192
Diluted weighted average shares outstanding	<u>22,074</u>	<u>22,718</u>	<u>22,165</u>	<u>22,819</u>

During the three and six month periods ended June 30, 2003, approximately 3,124,000 and 3,194,000 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 (LOSS) INCOME

The components of total comprehensive (loss) income for the three and six months ended June 30, 2004 and 2003 are as follows:

	<u>THREE MONTHS ENDED JUNE 30,</u>		<u>SIX MONTHS ENDED JUNE 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
			(IN THOUSANDS)	
Unrealized (loss) gain on marketable securities, net of taxes	\$ (915)	\$728	\$ (732)	\$ 294
Cumulative translation adjustment	95	(52)	(159)	7
Total other comprehensive (loss) income	\$ (820)	\$676	\$ (891)	\$ 301
Reported net (loss) income	(2,348)	141	(2,605)	1,918
Total comprehensive (loss) income	<u>\$(3,168)</u>	<u>\$817</u>	<u>\$(3,496)</u>	<u>\$2,219</u>

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NOTE 7 — 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 June 30, 2004 and 2003, Forrester contributed approximately \$600,000 and \$900,000 to these investment funds, respectively. During the six months ended June 30, 2004 and 2003, Forrester contributed approximately \$1.2 million and \$2.2 million to these investment funds, respectively, resulting in total cumulative contributions of approximately \$17.1 million as of June 30, 2004. 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. The carrying value of the investment funds as of June 30, 2004 was approximately \$11.7 million. During the three months ended June 30, 2004 and 2003, one of the private equity investment funds distributed publicly-listed common stock to Forrester. The distribution of the common stock resulted in a gain of \$57,000 and \$419,000 in the consolidated statement of income for the three and six months ended June 30, 2004 and 2003, respectively. During the three and six months ended June 30, 2003, Forrester recorded net impairments to these investments of approximately \$561,000 and \$891,000, respectively, which were included in the consolidated statement of income. During the three months ended June 30, 2004 and 2003, fund management charges of approximately \$84,000 and \$121,000 were included in other income, net in the consolidated statements of income, respectively. During the six months ended June 30, 2004 and 2003, fund management charges of approximately \$168,000 and \$242,000 were included in other income, net in the consolidated statement of income, respectively, bringing the total cumulative fund management charges paid by Forrester to approximately \$1.8 million. 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.

In July 2000, Forrester invested \$1.6 million to purchase preferred shares of ComScore Networks, Inc. ("comScore"), a provider of infrastructure services which utilizes proprietary technology to accumulate comprehensive information on consumer buying behavior, resulting in approximately a 1.2% ownership interest. This investment is being accounted for using the cost method and, accordingly, is valued at cost unless a permanent impairment in its value occurs or the investment is liquidated. In June 2003, Forrester determined that its investment in comScore had been permanently impaired due to an additional round of financing at a significantly lower valuation. As a result, Forrester recorded a write-down of \$130,000 in the consolidated statement of income.

In December 2003, Forrester committed to invest an additional \$2.0 million over an expected period of two years in an annex fund of one of the two private equity investment funds. The annex fund investment is outside of the scope of the previously mentioned bonus plan. During the three months ended June 30, 2004, Forrester contributed \$600,000 to this annex fund. This investment 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 carrying value of this investment at June 30, 2004 is \$600,000.

As of June 30, 2004, Forrester held an approximately 1.1% ownership interest in Greenfield Online, Inc. ("Greenfield"), an Internet-based market research firm. This investment is accounted for as a cost basis investment and valued at approximately \$267,000 as of June 30, 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. 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 for which net proceeds of approximately \$256,000 were received. Accordingly, in the period ending September 30, 2004, a gain of approximately \$678,000 will be recognized. The remaining shares are subject to a lock-up agreement for 180 days subsequent to the offering. The remaining investment will be classified as available-for-sale, and stated at fair market value with any unrealized gains and losses reported as a component of accumulated other comprehensive income (loss).

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.

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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 8 – OTHER ASSETS

Other assets consist primarily of capitalized third-party survey costs which are being amortized over their expected period of benefit.

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. As of June 30, 2004, Forrester had repurchased approximately 2,530,000 shares of common stock at an aggregate cost of approximately \$41.5 million.

During the three months ended March 31, 2004, Forrester entered into a structured stock repurchase agreement giving Forrester the right to acquire shares of Forrester's common stock in exchange for an up-front net payment of \$1.5 million. The \$1.5 million up-front net payment was recorded in stockholders' equity as a reduction of additional paid-in capital. Upon expiration of this agreement in May 2004, Forrester received approximately \$1.6 million in cash which was recorded as an increase to additional paid-in capital in the accompanying consolidated balance sheet.

During the three-months ended December 31, 2003, Forrester entered into a similar agreement in exchange for an up-front net payment of \$2.0 million. Upon expiration of this agreement in February 2004, Forrester received 119,000 shares which was recorded as treasury stock.

NOTE 10 — SEGMENT AND ENTERPRISE WIDE REPORTING

Forrester's operations are managed 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. All of the Operating Groups generate revenues through sales of the same research, advisory and other service offerings. Each of the Operating Groups is comprised 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. Because the three Operating Groups have similar economic characteristics, production processes, and classes of clients, provide similar products and services, and use similar distribution methods, they are aggregated for presentation in Forrester's consolidated financial statements. Accordingly, the financial information disclosed in the consolidated statements of income for the three and six months ended June 30, 2004 and 2003 represents the aggregation of the Operating Groups.

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

	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
	(IN THOUSANDS)			
United States	\$23,788	\$24,019	\$44,863	\$41,644
Europe (excluding United Kingdom)	4,409	3,064	8,747	5,375
United Kingdom	3,298	3,205	6,224	5,212
Canada	1,613	1,867	3,222	2,791
Other	1,813	1,823	3,594	3,438
	<u>\$34,921</u>	<u>\$33,978</u>	<u>\$66,650</u>	<u>\$58,460</u>
	THREE MONTHS ENDED JUNE 30,		SIX MONTHS ENDED JUNE 30,	
	2004	2003	2004	2003
United States	68%	71%	67%	71%
Europe (excluding United Kingdom)	13	9	13	9
United Kingdom	9	9	9	9
Canada	5	6	5	5
Other	5	5	6	6
	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

NOTE 11 — RECENT ACCOUNTING PRONOUNCEMENTS

In March 2004, the Financial Accounting Standards Board (“FASB”) issued a proposed Statement, “Share-Based Payment”, that addresses the accounting for share-based payments transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise’s equity instruments or that may be settled by the issuance of such equity instruments. The proposed statement would eliminate the ability to account for share-based compensation transactions using APB Opinion No. 25, “Accounting for Stock Issued to Employees”, and would generally require that such transactions be accounted for using a fair value-based method. As discussed in Note 1, Forrester currently accounts for share-based compensation transactions using APB Opinion No. 25. If this Statement is issued, the adoption of this pronouncement will have a material negative impact on Forrester’s consolidated financial position and results of operations, the level of which Forrester is currently assessing.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expects," "believes," "anticipates," "intends," "plans," "estimates," or similar expressions are intended to identify these forward-looking statements. These statements include, but are not limited to, statements about the potential success of WholeView 2 and other product offerings, the ability to achieve all of the anticipated benefits from the acquisition of Giga Information Group, the amount of the charge and any cost savings related to reductions in force and associated actions, and our ability to achieve success as the economy improves. 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 charges 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 are a leading independent technology research firm that conducts research and analysis on the impact of technologies on business, consumers, and society. We provide our clients with an integrated perspective on technology and business, which we call the WholeView. This approach provides companies with the strategies, data, and product evaluations they need to win customers, identify new markets, and gain competitive operational advantages. Our products and services primarily are targeted to benefit the senior management, business strategists, and marketing and technology professionals at companies with revenues of \$1 billion-plus who use our prescriptive, executable research to understand and capitalize on business models and emerging technologies.

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. Contracts for our research products are available through our Research, Data, or Community offerings and 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. Advisory services are available through our Data, Consulting, and Community offerings to supplement and complement 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 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. Depreciation expense represents the depreciation of our fixed assets over their estimated useful lives. Amortization of intangible assets represents amortization of our identifiable intangible assets acquired from our acquisitions.

In February 2003, we acquired Giga Information Group, Inc. ("Giga"), a global technology advisory firm, pursuant to a cash tender offer and second step merger. The results of Giga's operations have been included in our consolidated financial statements since February 28, 2003.

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 increased approximately 3% to \$119.5 million as of June 30, 2004 from \$116.0

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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, 2003, 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; however, the amount 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. 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, 2004, deferred revenues and deferred commissions totaled \$63.9 million and \$5.5 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 \$1.3 million as of June 30, 2004. 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 companies and equity investment funds that totaled approximately \$12.3 million as of June 30, 2004. As of June 30, 2004, our investments were in companies that were not publicly traded, and, therefore, because no established market for these securities existed, the estimate of the fair value of our investments required significant judgment. We have a policy in place to 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. We did not record any impairment charges during the three and six months ended June 30, 2004 and we recorded impairment charges of \$272,000 and \$572,000 during the three and six months ended June 30, 2003, respectively. 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, 2004, we had goodwill and identified intangible assets with finite lives related to our acquisitions that totaled approximately \$56.9 million and \$9.7 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, we obtain an independent appraisal 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, 2004, 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 are 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 \$40.6 million as of June 30, 2004. 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

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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 reduced.

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,	
	2004	2003	2004	2003
Research services	66%	76%	69%	76%
Advisory services and other	34	24	31	24
Total revenues	100	100	100	100
Cost of services and fulfillment	41	42	41	41
Selling and marketing	33	32	34	32
General and administrative	11	11	11	12
Depreciation	3	5	3	6
Amortization of intangible assets	4	8	6	6
Reorganization costs	19	—	13	—
Integration costs	—	2	—	1
(Loss) income from operations	(11)	(1)	(8)	2
Other income, net	1	2	2	4
Non-marketable investment gains (impairments), net	—	(1)	—	(1)
(Loss) income before income tax (benefit) provision	(10)	—	(6)	5
Income tax (benefit) provision	(3)	—	(2)	1
Net (loss) income	(7)%	—%	(4)%	3%

THREE MONTHS ENDED JUNE 30, 2004 AND JUNE 30, 2003

REVENUES. Total revenues increased 3% to \$34.9 million in the three months ended June 30, 2004 from \$34.0 million in the three months ended June 30, 2003. The increase in revenue is primarily attributable to improving economic conditions and to the timing of the acquisition of GigaGroup. GigaGroup's results of operations have been included in our consolidated financial statements since November 30, 2003.

Revenues from research services decreased 11% to \$23.0 million in the three months ended June 30, 2004 from \$25.9 million in the three months ended June 30, 2003 and comprised 66% and 76% of total revenues during the three months ended June 30, 2004 and 2003, respectively. The decrease in research revenues in dollars and as a percentage of total revenues is primarily attributable to shifting customer demand towards our advisory services. No single client company accounted for more than 3% of revenues during the three months ended June 30, 2004 or 2003.

Advisory services and other revenues increased 46% to \$11.9 million in the three months ended June 30, 2004 from \$8.1 million in the three months ended June 30, 2003. During the three months ended June 30, 2004, we held three events as compared to four events held during the three months ended June 30, 2003. The increase in advisory services and other revenues is primarily attributable to increased demand for advisory services, as well as an increase in events revenues from event sponsorships by third parties.

Revenues attributable to customers outside the United States increased 11% to \$11.1 million in the three months ended June 30, 2004 from \$10.0 million in the three months ended June 30, 2003. Revenues attributable to customers outside the United States increased as a percentage of total revenues to 32% during the three months ended June 30, 2004 from 29% during the three months ended June 30, 2003. The increase in international revenues in dollars and as a percentage of total revenues is primarily attributable to the timing of the acquisition of GigaGroup. We invoice our international clients in U.S. dollars, British pounds sterling, and the euro. The effect of changes in currency exchange rates has historically not had a significant impact on our net income.

COST OF SERVICES AND FULFILLMENT. Cost of services and fulfillment decreased as a percentage of total revenues to 41% in the three months ended June 30, 2004 from 42% in the three months ended June 30, 2003. These

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expenses increased 1% to \$14.4 million in the three months ended June 30, 2004 as compared to \$14.3 million in the three months ended June 30, 2003. The decrease in expense as a percentage of revenue is primarily attributable to increased revenues resulting from customer demand shifting towards advisory services resulting in a reallocation of our existing resources to meet these demands. The increase in expenses is primarily attributable to increased compensation costs resulting from increased incentive-based advisory services performed and to increased survey costs.

SELLING AND MARKETING. Selling and marketing expenses increased as a percentage of total revenues to 33% in the three months ended June 30, 2004 from 32% in the three months ended June 30, 2003. These expenses increased 5% to \$11.6 million in the three months ended June 30, 2004 from \$11.0 million in the three months ended June 30, 2003. The increase in expenses and expenses as a percentage of total revenues is primarily attributable to increased compensation and related office expenses from the opening of our office in France in connection with the acquisition of GigaGroup in December 2003.

GENERAL AND ADMINISTRATIVE. General and administrative expenses remained constant at 11% as a percentage of total revenues during the three months ended June 30, 2004 and June 30, 2003. These expenses increased 5% to \$4.0 million in the three months ended June 30, 2004 from \$3.8 million in the three months ended June 30, 2003. The increase in expenses is primarily attributable to increases in compensation costs and professional fees.

DEPRECIATION. Depreciation expense decreased 44% to \$1.0 million in the three months ended June 30, 2004 from \$1.8 million in the three months ended June 30, 2003. The decrease is primarily attributable to computer and software assets purchased prior to 2002 becoming fully depreciated and to the write-off of certain depreciable assets in connection with the office vacancies during the three months ended June 30, 2004.

AMORTIZATION OF INTANGIBLE ASSETS. Amortization of intangible assets decreased to \$1.4 million in the three months ended June 30, 2004 from \$2.6 million in the three months ended June 30, 2003. This decrease is primarily attributable to the research content and registered trademarks that were acquired in connection with the Giga acquisition and amortized using an accelerated method becoming fully amortized during the three months ended June 30, 2004.

OTHER INCOME, NET. Other income, net, consisting primarily of interest income, decreased 19% to \$662,000 during the three months ended June 30, 2004 from \$819,000 during the three months ended June 30, 2003. The decrease is primarily attributable to declines in interest income resulting from lower cash and investment balances available for investment coupled with lower returns on invested capital.

REORGANIZATION COSTS. Reorganization costs in the three months ended June 30, 2004 consisted primarily of lease losses and fixed-asset write-offs in connection with the office vacancies and related subleases.

NON-MARKETABLE INVESTMENTS GAINS (IMPAIRMENTS), NET. Net gains on non-marketable investments totaled \$57,000 during the three months ended June 30, 2004 resulting from a distribution from one of our investments as compared to net impairments of \$272,000 during the three months ended June 30, 2003.

PROVISION FOR INCOME TAXES. During the three months ended June 30, 2004, we recorded an income tax benefit of \$1.2 million, which reflected an effective tax rate of 33.5%. During the three months ended June 30, 2003, we recorded an income tax provision of \$64,000 reflecting an effective tax rate of 31%. The increase in our effective tax rate for fiscal year 2004 resulted primarily from our tax-exempt investment income comprising a smaller percentage of our estimated total pre-tax income in 2004 as compared to 2003.

SIX MONTHS ENDED JUNE 30, 2004 AND JUNE 30, 2003

REVENUES. Total revenues increased 14% to \$66.7 million in the six months ended June 30, 2004 from \$58.5 million in the six months ended June 30, 2003. The increase in revenue is primarily attributable to improving economic conditions and to the timing of the acquisitions of Giga and GigaGroup. Giga and GigaGroup's results of operations have been included in our consolidated financial statements since March 1, 2003 and November 30, 2003, respectively.

Revenues from research services increased 4% to \$46.0 million in the six months ended June 30, 2004 from \$44.4 million in the six months ended June 30, 2003 and comprised 69% and 76% of total revenues during the six months ended June 30, 2004 and 2003, respectively. Increases in revenues from research services were primarily attributable to improving economic conditions and to the timing of the acquisitions of Giga and GigaGroup. The decrease in revenues from research services as a percentage of total revenue is primarily attributable to shifting

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customer demand towards our advisory services. No single client company accounted for more than 3% of revenues during the six months ended June 30, 2004 or 2003.

Advisory services and other revenues increased 46% to \$20.6 million in the six months ended June 30, 2004 from \$14.1 million in the six months ended June 30, 2003. During the six months ended June 30, 2004, we held four events, as compared to seven events held during the six months ended June 30, 2003. The increase in advisory services and other revenues is primarily attributable to increased demand for advisory services as well as an increase in events revenue due to third-party event sponsorships.

Revenues attributable to customers outside the United States increased 29% to \$21.8 million in the six months ended June 30, 2004 from \$16.8 million in the six months ended June 30, 2003. Revenues attributable to customers outside the United States increased as a percentage of total revenues to 33% during the six months ended June 30, 2004 compared to 29% during the six months ended June 30, 2003. The increase in international revenues is primarily attributable to the timing of the acquisition of GigaGroup. We invoice our customers in U.S. dollars, British pounds sterling, and the euro. The effect of changes in currency exchange rates has historically not had a significant impact on our net income.

COST OF SERVICES AND FULFILLMENT. Cost of services and fulfillment remained at 41% as a percentage of total revenues during the six months ended June 30, 2004 and June 30, 2003. These expenses increased 15% to \$27.5 million in the six months ended June 30, 2004 from \$23.9 million in the six months ended June 30, 2003. The consistency in expense as a percentage of revenue is primarily attributable to increased revenues resulting from customer demand shifting towards advisory services resulting in a reallocation of our existing resources to meet those demands. The increase in expenses is primarily attributable to increased compensation costs resulting from increased incentive-based advisory services performed and to increased survey costs.

SELLING AND MARKETING. Selling and marketing expenses increased as a percentage of total revenues to 34% in the six months ended June 30, 2004 from 32% in the six months ended June 30, 2003. These expenses increased 21% to \$22.7 million in the six months ended June 30, 2004 from \$18.8 million in the six months ended June 30, 2003. The increase in expenses and in expenses as a percentage of total revenues is primarily attributable to increased compensation and related office expenses primarily attributable to the timing of the acquisitions of Giga and GigaGroup.

GENERAL AND ADMINISTRATIVE. General and administrative expenses decreased as a percentage of total revenues to 11% in the six months ended June 30, 2004 from 12% in the six months ended June 30, 2003. These expenses increased 5% to \$7.4 million in the six months ended June 30, 2004 from \$7.1 million in the six months ended June 30, 2003. The decrease in expenses as a percentage of revenues is primarily attributable to an increased revenue base. The increase in expenses is primarily attributable to annual increases in compensation costs and professional fees.

DEPRECIATION. Depreciation expense decreased 42% to \$2.1 million in the six months ended June 30, 2004 from \$3.5 million in the six months ended June 30, 2003. The decrease is primarily attributable to computer and software assets purchased prior to 2002 becoming fully depreciated and to the write-off of certain depreciable assets in connection with the offices vacancies during the three months ended June 30, 2004.

AMORTIZATION OF INTANGIBLE ASSETS. Amortization of intangible assets increased to \$3.7 million in the six months ended June 30, 2004 from \$3.5 million in the six months ended June 30, 2003. This increase in amortization expense is the result of the timing of the acquisitions of Giga and GigaGroup.

OTHER INCOME, NET. Other income, consisting primarily of interest income, decreased 37% to \$1.5 million during the six months ended June 30, 2004 from \$2.4 million during the six months ended June 30, 2003. The decrease is primarily attributable to declines in interest income resulting from lower cash and investment balances available for investment coupled with lower returns on invested capital.

REORGANIZATION COSTS. Reorganization costs in the six months ended June 30, 2004 consisted primarily of costs associated with lease losses and fixed-asset write-offs resulting from office vacancies in the three months ended June 30, 2004 and related benefits costs in connection with the elimination of approximately 17 positions in the three months ended March 31, 2004.

NON-MARKETABLE INVESTMENTS GAINS (IMPAIRMENTS), NET. Net gains on non-marketable investments totaled \$57,000 during the six months ended June 30, 2004 resulting from a distribution from one of our investments as compared to net impairments of \$572,000 during the six months ended June 30, 2003.

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PROVISION FOR INCOME TAXES. During the six months ended June 30, 2004, we recorded a tax benefit of \$1.3 million, which reflected an effective tax rate of 33.5%. During the six months ended June 30, 2003, we recorded an income tax provision of \$862,000 reflecting an effective tax rate of 31%. The increase in our effective tax rate for fiscal year 2004 resulted primarily from our tax-exempt investment income comprising a smaller percentage of our estimated total pre-tax income in 2004 as compared to 2003.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations primarily through funds generated from operations. Memberships for research services, which constituted approximately 69% of our revenues during the six months ended June 30, 2004, are annually renewable and are generally payable in advance. We generated cash from operating activities of \$9.7 million and \$4.9 million during the six months ended June 30, 2004 and 2003, respectively.

During the six months ended June 30, 2004, we generated \$20.9 million of cash from investing activities, consisting primarily of \$23.8 million received from net sales of marketable securities, offset by \$2.2 million for purchases of non-marketable investments and \$1.3 million for purchases of property and equipment. We regularly invest excess funds in short and intermediate-term interest-bearing obligations of investment grade.

In the first quarter of 2003, we acquired Giga pursuant to a cash tender offer and second step merger. The aggregate purchase price was \$62,510,000 in cash which consisted of \$60,347,000 for the acquisition of all outstanding shares of Giga common stock; \$981,000 of direct acquisition costs; and \$1,182,000 for severance related to 27 employees terminated as a result of the acquisition.

As part of the acquisition of Giga, we acquired an equity investment in GigaGroup S.A. ("GigaGroup"). In November 2003, we acquired the assets of GigaGroup for a total purchase price of \$4.1 million, consisting of \$2.9 million in cash, \$118,000 in direct acquisition costs, \$521,000 of outstanding accounts receivable due to us, and the contribution of the equity investment in GigaGroup valued at \$619,000.

In June 2000, we committed to invest \$20.0 million in two private equity investment funds over a period of up to five years. As of June 30, 2004, we had contributed approximately \$17.1 million to the funds. The timing and amount of future contributions are entirely within the discretion of the investment funds. 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. To date, we have not paid any bonuses under this plan.

In December 2003, we committed to invest an additional \$2.0 million over an expected period of 2 years in an annex fund of one of the private equity investment funds. The annex fund investment is outside of the scope of the previously mentioned bonus plan. The timing of this additional investment is within the discretion of the fund. As of June 30, 2004, we had contributed \$600,000 to this annex fund.

As of June 30, 2004, we held an approximately 1.1% ownership interest in Greenfield Online, Inc. ("Greenfield"), an Internet-based market research firm. This investment is accounted for as a cost basis investment and valued at approximately \$267,000 as of June 30, 2004. In July 2004, Greenfield (NASDAQ: SRVY) completed an initial public offering in which our ownership interest was converted to approximately 136,000 shares. Upon consummation of the offering, we received a conversion payment of approximately \$463,000, and participated in the offering by selling approximately 21,000 shares for which we received net proceeds of approximately \$256,000. Accordingly, in the period ending September 30, 2004, we will recognize a gain of approximately \$678,000. The remaining shares are subject to a lock-up agreement for 180 days subsequent to the offering. The remaining investment will be classified as available-for-sale, and stated at fair market value with any unrealized gains and losses reported as a component of accumulated other comprehensive income (loss).

During the six months ended June 30, 2004, we used \$6.8 million of cash in financing activities, consisting of \$9.2 million for the repurchases of our common stock, offset by \$2.4 million in proceeds from the exercise of employee stock options and the issuance of common stock under our employee stock purchase plan.

In October 2001, we announced a program authorizing the repurchase of up to \$50 million of our common stock. The shares repurchased may be used, among other things, in connection with our employee stock option and stock purchase plans and for potential acquisitions. As of June 30, 2004, we had repurchased approximately 2.5 million shares of common stock at an aggregate cost of approximately \$41.5 million.

During the three months ended March 31, 2004, we entered into a structured stock repurchase agreement giving us the right to acquire shares of our common stock in exchange for an up-front net payment of \$1.5 million. The \$1.5

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impact on our financial results. Historically, our primary exposure has been related to non-U.S. dollar-denominated operating expenses in 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 June 30, 2004, the total assets related to non-US dollar denominated currencies that are subject to foreign currency exchange risk were approximately \$17.4 million.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), as of June 30, 2004. Based on such evaluation, our principal executive officer and principal financial officer have concluded that as of such date, our disclosure controls and procedures were designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in applicable SEC rules and forms and were effective.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING. There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2004 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

In October 2001, we announced a program authorizing the repurchase of up to \$50 million of our common stock (“the stock repurchase program”). During each of the three months ended June 30, 2004, we purchased the following shares of our common stock under the stock repurchase program:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value that May Yet Be Purchased Under the Stock Repurchase Program
				(In Thousands)
April 1 – April 30	—	\$ —	2,363,520	\$ 11,513
May 1 – May 31	128,600	\$17.73	2,492,120	\$ 9,233
June 1 – June 30	38,800	\$18.32	2,530,920	\$ 8,522
Total	167,400	\$17.86	2,530,920	\$ 8,522

All purchases of our common stock were made under the stock repurchase program.

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

Our Annual Meeting of Stockholders was held on May 11, 2004. At this meeting, Henk W. Broeders and George R. Hornig were re-elected as Class II Directors. Below are the votes by which each such director was elected:

	Total Vote For Directors	Total Vote Withheld From Directors
Henk W. Broeders	20,354,726	400,154
George R. Hornig	20,354,226	400,654

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31.1 Certification of the Principal Executive Officer

31.2 Certification of the Principal Financial Officer

32.1 Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

We filed a Current Report on Form 8-K on April 8, 2004 and a Current Report on form 8-K/A on April 9, 2004 disclosing under Item 4 the change in our certifying accountant.

We filed a Current Report on Form 8-K on April 28, 2004 furnishing under Item 12 our first quarter press release which included our results of operations and financial condition for the first quarter.

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: August 6, 2004

By: /s/ Warren Hadley

Warren Hadley

Chief Financial Officer and Treasurer

(principal financial and accounting officer)

Date: August 6, 2004

Exhibit Index

<u>Exhibit No.</u>	<u>Document</u>
31.1	Certification of the Principal Executive Officer
31.2	Certification of the Principal Financial Officer
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.1

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER

I, George F. Colony, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Forrester Research, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ GEORGE F. COLONY

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

Date: August 6, 2004

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER

I, Warren Hadley, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Forrester Research, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ WARREN HADLEY

Warren Hadley
Chief Financial Officer and Treasurer
(Principal financial and accounting
officer)

Date: August 6, 2004

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Executive Officer of Forrester Research, Inc. (the "Company"), does hereby certify that to the undersigned's knowledge:

- 1) the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2004 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ George F. Colony

George F. Colony
Chairman of the Board of Directors and Chief
Executive Officer

Dated: August 6, 2004

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
SECTION 1350, CHAPTER 63 OF TITLE 18, UNITED STATES CODE,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 1350, Chapter 63 of Title 18, United States Code, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned, as Chief Executive Officer of Forrester Research, Inc. (the "Company"), does hereby certify that to the undersigned's knowledge:

- 1) the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2004 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2) the information contained in the Company's Quarterly Report on Form 10-Q for the three months ended June 30, 2004 fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Warren Hadley

Warren Hadley
Chief Financial Officer and Treasurer

Dated: August 6, 2004