FORRESTER RESEARCH, INC.
Form 10-K
March 11, 2015
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# UNITED STATES SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the fiscal year ended December 31, 2014**

**or**

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)**

**OF THE SECURITIES EXCHANGE ACT OF 1934**
**For the transition period from to**
**Commission File Number 000-21433**

# Forrester Research, Inc.

*(Exact name of registrant as specified in its charter)*

| | |
|---|---|
| **Delaware** | **04-2797789** |
| *(State or other jurisdiction* | *(I.R.S. Employer* |
| *of incorporation or organization)* | *Identification Number)* |
| **60 Acorn Park Drive** | **02140** |
| **Cambridge, Massachusetts** | *(Zip Code)* |
| *(Address of principal executive offices)* | |

**Registrant s telephone number, including area code:**

**(617) 613-6000**

**Securities registered pursuant to Section 12(b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| **Common Stock, $.01 Par Value** | **Nasdaq Global Select Market** |

**Securities to be registered pursuant to Section 12(g) of the Act:**

**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ

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 requirement for the past 90 days. Yes þ No ¨

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

| | | | |
|---|---|---|---|
| Large accelerated filer ¨ | Accelerated filer þ | Non-accelerated filer ¨<br>(Do not check if a smaller reporting company) | Smaller reporting company ¨ |

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

The aggregate market value of the registrant s common stock held by non-affiliates of the registrant as of June 30, 2014 (based on the closing price as quoted by the Nasdaq National Market as of such date) was approximately $397,000,000.

As of March 6, 2015, 18,050,000 shares of the registrant s common stock were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant s Proxy Statement related to its 2015 Annual Stockholders Meeting to be filed subsequently Part III of this Form 10-K.

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*This Annual Report on Form 10-K 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. Reference is made in particular to our statements about possible acquisitions, our plans for international expansion, future dividends, future share repurchases, future growth rates, anticipated increases in our sales force and headcount, the transitioning of project consulting, and the adequacy of our cash, marketable investments and cash flows to satisfy our working capital and capital expenditures. These statements are based on our current plans and expectations and involve risks and uncertainties. Important factors that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements are discussed below under Risk Factors. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.*

# PART I

## General

Forrester Research, Inc. is an independent research company that provides pragmatic and forward-thinking advice to global leaders in business and technology. Our products and services are targeted to specific roles, including senior management in business strategy, marketing, and technology management principally at $1 billion-plus (revenue) companies who collaborate with us to accelerate achievement of their business goals.

Research serves as the foundation for all our solutions and consists primarily of annual memberships to our RoleView™ research and data subscription offerings that provide access to our core research and data on a wide range of business and technology issues critical to the success of the individuals in the roles we serve. In addition to our RoleView and data offerings, we also provide a portfolio of products and services that allow our clients to interact directly with analysts and their peers and explore in greater detail the issues and topics covered by RoleView research and our data offerings on a role and client-specific basis.

We were incorporated in Massachusetts on July 7, 1983 and reincorporated in Delaware on February 16, 1996.

Our Internet address is www.forrester.com. We make available free of charge, on or through the investor information section of our website, annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC.

## Industry Background

Enterprises and their employees struggle to remain both competitive and cost-efficient in an increasingly complex global business environment. Developing comprehensive and coordinated business strategies is difficult because as the economy and technology change, consumers and businesses adopt new methods of buying and selling, and markets grow increasingly dynamic.

Consequently, companies and the professionals who are in the roles we serve rely on external sources of expertise that provide independent business advice spanning a variety of areas including but not limited to technology, business strategy, and customer behavior. We believe there is a need for objective research that is thematic, prescriptive, and executable, and that provides a comprehensive perspective on the knowledge and skills required to succeed in today s rapidly changing business environment.

## Forrester s Strategy

In 2014, Forrester refined its role-based strategy by pivoting the focus of its research and advisory products and services to address our clients and prospects opportunities and challenges in the age of the customer . We undertook this change to accelerate growth and increase differentiation. Our products and services are now designed to help large organizations win, serve, and retain increasingly empowered customers.

Information technology is moving from being a tool for managing and lowering operating costs to a tool for generating market opportunities and revenue. Given this shift, today s technology management professionals have two agendas a traditional IT agenda of running internal systems and an important, newer business technology agenda that applies technology, systems, and processes to win, serve and retain customers. Driven by the Company s new strategy, we: 1) help our clients stay current with dynamic customers, 2) advise marketing and strategy executives as they seek to win those customers, and 3) work with technology management executives as they build technologies for customers. Importantly, these three areas of focus are highly interrelated in the large organizations that Forrester serves, creating the opportunity for synergy across our entire line of products and services. In addition, the market that we have chosen to serve is unique, increasing our competitive differentiation.

We organize our products and services to best serve organizations and their leaders in key roles, such as the chief information officer, chief marketing officer and other technology and marketing and strategy professionals. Forrester s role-centric solutions provide clients with more relevant fact-based insights, allowing them to make better informed and justified decisions faster, to understand and manage the business dynamics most important to win, serve, and retain customers, and to help clients link their knowledge of customers, marketing efforts, and technology into a coherent plan. Simply stated, we work with business and technology leaders to develop customer-obsessed strategies that drive growth.

We seek to maintain and enhance our position as a leading global research and advisory firm and to capitalize on demand for our offerings by:

*Identifying and Defining New Business Models, Technologies, and Markets.* We seek to differentiate ourselves from other research firms by delivering pragmatic and forward-thinking research and analysis on the impact of technology on business models, business practices, and technology infrastructure. We believe that our research methodology and our creative culture allow us to identify and analyze rapid shifts in business and consumer use of technology before these changes appear on the horizons of most users, vendors, and other research firms. Our early identification of these shifts enables us to help our clients capitalize on emerging business models and technologies.

*Leveraging our RoleView Research and Data Products.* Our business model, technology platform, research methodologies, and rich longitudinal data allow us to sell existing products and to introduce new products and services without incurring significant incremental costs. We intend to continue to use our business model, technology platform, research methodologies, and data to both increase sales of our existing data and RoleView research products and introduce innovative new products. Our other offerings complement, enhance and supplement our RoleView research and data subscription offerings, and many are designed to address the specific needs and problems of our clients and the professionals in the roles we serve. We also may acquire, through acquisition or license from third parties, new products and services that complement and support our strategy and existing offerings.

*Global Research and Product Organizations; Using Targeted, Global Client-Centric Sales Channels.* We reorganized our fulfillment organization at the end of 2013 into a single, global research organization and product organization to better support our client base by facilitating better research collaboration and quality, promoting a more uniform client experience and improved customer satisfaction, and encouraging innovation. During 2013 we also established a dedicated consulting organization to provide research-based project consulting services to our clients, allowing our analysts to spend additional time on writing research and providing shorter-term advisory services. In February 2015 we announced a further refinement of our fulfillment organization to better align personnel to demand for our products and services by reallocating investment in 2015 to planned sales expansion and to delivery areas seeing the greatest client demand.

We sell our products and services directly through a global sales force with sales personnel focusing on the needs of professionals in the roles we serve. Our sales force, managed by a chief sales officer with global sales management responsibility, operates out of various locations in North America, Europe, Asia and Australia. We also sell our products and services through independent sales representatives in select international locations.

*Growing Our Client Base Worldwide and Increasing Sales to Existing Clients.* We believe that our products and services can be successfully marketed and sold to new client companies worldwide and to new roles

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and additional units and divisions within our existing client companies. We believe that within our client base of over 2,400 client companies as of December 31, 2014 there is opportunity both to sell additional products and services to current users as well as to deliver our RoleView research and product portfolio to a greater number of professionals. We intend to continue to expand our coverage of global markets as the growing impact of technology on business innovation creates demand for external sources of objective research.

*Developing and Retaining Outstanding Research Professionals.* The knowledge and experience of our research analysts and consultants are critical elements of our ability to provide high-quality products and services. We employ outstanding research professionals and consultants from varied backgrounds and a wide range of industries. We believe that our culture, which emphasizes client service, courage, collaboration, integrity and quality, helps us to develop and retain high-caliber research and consulting professionals. We provide a competitive compensation structure, as well as recognition and rewards for excellent individual and team performance.

**Forrester s Solution**

Our broad range of expertise on the impact of technology on business, consumer and customer behavior, and on marketing and strategy enables us to offer our clients the best available and most relevant research and insights on changing business models, best practices, technology investments, business practices, implementation advice, and customer trends. Our solution provides our clients with:

*A Unified Set of Services to Help our Clients and to Make their Leaders Successful in their Roles.* We offer clients a comprehensive set of products and services to obtain access to the research, data, analysts, consultants and peer insights they need to be successful in their professional roles, including, for example, to:

- Assess potential new markets, competitors, products and services, and go-to-market strategies.
- Anticipate technology-driven business model shifts.
- Understand trends in consumer behavior and how to capitalize on those trends for marketing and sales purposes.
- Educate, inform, and align strategic decision-makers in their organizations.
- Navigate technology purchase and implementation challenges and optimize technology investments.
- Capitalize on emerging technologies.

*Expertise on Emerging Technologies.* We started our business in 1983 and have a long history of, and extensive experience in, identifying trends and providing research and executable advice on the impact of technology on business. Our research analysts have many years of industry experience, are frequent speakers at business and technology conferences, and are often quoted in the media. They enjoy direct access to the leaders and decision-makers within large enterprises and technology vendors. We provide our research analysts with training to ensure that they have the skills to challenge conventional viewpoints and provide prescriptive, executable insight and research to our clients.

**Products and Services**

We offer our clients a selection of engagement opportunities that are organized for and directed toward the multiple professional roles we cover.

***RoleView™ Research***

Our primary syndicated research product, RoleView, provides clients with access to our core syndicated research designed to inform their strategic decision-making. Our various RoleView research offerings, including IT RoleView, M&S RoleView, and TI RoleView, each consists of a library of cross-linked documents that interconnect our reports, data, product rankings, best practices, evaluation tools, and research archives. RoleView research access is provided through role-based websites that facilitate client access to research and tools that are most relevant to their professional roles, including community tools that allow interaction between and among clients and our analysts. Through this access structure, each of our RoleView research offerings addresses the

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interplay of an individual client s responsibilities and goals, business demands, and organizational and technology capabilities.

Our RoleView research products include The Forrester Wave™. The Forrester Wave provides a detailed analysis of vendors technologies and services based on transparent, fully accessible criteria, and measurement of characteristics weighted by us. The Forrester Wave includes an Excel spreadsheet that allows clients to compare products and get in-depth data and analysis about each one and tools to develop a custom shortlist based on the client s unique requirements. The Forrester Wave is our primary mechanism for evaluating enterprise technologies.

Clients subscribing to our RoleView research products may choose between two membership levels:

*RoleView Member Licenses.* RoleView Member Licenses include access to the written research, as well as Inquiry with analysts, one Event seat, and access to Forrester Webinars. Inquiry enables clients to contact our analysts for quick feedback on projects they may have underway, to discuss ideas and models in the research, or for answers to questions about unfolding industry events. Typically, Inquiry sessions are 30 minute phone calls, scheduled upon client request, or e-mail responses coordinated through our research specialists. Events bring together executives and other participants for one or multi-day conferences to network with their peers and to hear business leaders discuss the issues and solutions most pertinent to their roles and responsibilities. Forrester Webinars are hour-long Web-based conferences on selected topics of interest to particular professional roles that typically are held several times a week. They consist of an analyst-led presentation followed by questions from participants. Members may access the analyst Web presentation and participate in the subsequent forum for questions and discussion among all attendees. Webinars are also made available for member download.

*RoleView Reader Licenses.* RoleView Reader Licenses provide access to our written research.

Both Member and Reader clients receive access to our research specialists, who provide additional information about our research, methodologies, coverage areas, and sources. The research specialists are available to help clients navigate our website, find relevant information, and put clients in contact with the appropriate analyst for inquiries.

***Forrester® Leadership Boards***

Our Forrester Leadership Boards are exclusive peer groups for executives and other senior leaders at large organizations worldwide. Clients may participate in one or more Forrester Leadership Boards. Memberships are available to the Chief Information Officer (CIO) Group, the Chief Marketing Officer (CMO) Group and several Councils for the technology and marketing roles we cover. In addition to a Member license to access the appropriate RoleView research offering, members of our Forrester Leadership Boards receive access to the following:

A private forum for members to test their thinking with peers through local and national meetings, one-to-one and group peer exchanges, and virtual community activities.

Advisors to challenge members thinking with insights drawn from peers, our research, and our analyst community.

Membership-generated content that includes next and best practices as well as role-specific maturity benchmark data.

***Data Products & Services***

Our Data products and services focus on consumers and business users attitudes about and behavior toward technology, including ownership, future purchases, and adoption trends. These products incorporate extensive survey research designed and analyzed by our staff. Our data products are designed to provide fact-based customer insights to our clients. Clients can leverage our data products and services or choose to have us conduct data analysis on their behalf. Our data products and services include:

*Forrester s Customer Experience (CX) Index.* In 2014 we introduced our CX Index as a stand-alone set of products and services. The CX Index, which uses Forrester s rigorous customer experience methodology, is a framework for assessing and measuring customer experience quality. This unique framework provides useful and actionable information for hundreds of brands, including a customer experience score, quantitative information about the score, and the most important drivers to improve the customer experience score, along with prioritization and simulations tools and a summary of insights provided by a Forrester analyst. We offer three packages of the Forrester CX Index, including a brand package that focuses exclusively on customer perception of the specific brand, an industry package that provides a benchmark of a particular brand s CX Index scores against its competitors, and an add-on best-in-class package that offers deep insights on what distinguishes leading brands. For brands not included in our standard offering, we offer a custom survey approach to build a CX Index scorecard and driver analysis.

*Consumer Technographics® Data & Services.* Consumer Technographics delivers both primary data and quantitative research, based on surveys of over 400,000 individuals in North America, Europe, Asia Pacific, and Latin America. Marketing and strategy professionals rely on our Consumer Technographics data for unique insights into how technology impacts the way consumers select, purchase, use, and communicate about products and services. We combine respondent data sets from our Consumer Technographics surveys into multiple offerings including: Global Technographics, North American Technographics, European Technographics, Asia Pacific Technographics, and Latin America Technographics. Additionally, clients may have access to a Technographics data advisor to help them use the data effectively to meet their specific business needs.

*Business Technographics.* Business Technographics is an ongoing quantitative research program that provides comprehensive, in-depth assessments of what motivates businesses to choose certain technologies and vendors over others. The offering also measures and reports on the current information consumption patterns of key influencers for large technology purchases. We annually survey more than 60,000 business and technology executives as well as information workers at small, medium and large enterprises in North American, European, and other global markets. Our surveys reveal these firms technology adoption, trends, budgets, business organization, decision processes, purchase plans, brand preferences, and primary influences in the purchasing process. Business Technographics clients may also have access to a dedicated data advisor to assist in utilizing appropriate data to achieve desired outcomes.

***Forrester Consulting***

Our research-based advisory and project consulting services leverage our RoleView research, Technographics and CX Index data to deliver focused insights and recommendations that assist clients in developing and executing technology and business strategy, informing critical decisions and reducing business risk. Our consulting services help clients with challenges addressed in our published research, such as leading customer experience transformations, digital business transformation, and business technology transformations. We help business and technology professionals conduct maturity assessments, prioritize best practices, develop strategies, build business cases, select technology vendors, and structure organizations. We help marketing professionals at technology vendors develop content marketing strategies, create marketing collateral, and develop sales tools.

***Forrester Events***

We host multiple events in various locations in North America, Europe and Asia throughout the year. Events build upon our research and data products and services to bring together executives and other participants serving or interested in the particular professional role(s) on which an event focuses. Event participants come together to network with their peers, meet with Forrester analysts, and hear business leaders discuss business and technology issues of interest or significance to the professional roles in attendance and the impact of technology on the professionals and their businesses.

**Sales and Marketing**

We sell our products and services through our direct sales force in various locations in North America, Europe, Asia, and Australia. Our Premier group focuses on coordinated account management for selling to our

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largest clients, and all of our other direct sales resources operate through geographic segments in North America, Europe and Asia Pacific that focus on selling to and servicing customers and prospects within the particular geographies. We also sell our products and services through independent sales representatives in select international locations. We employed 510 sales personnel as of December 31, 2014, an increase of 5% from 485 as of December 31, 2013. We also sell certain of our research products directly online through our website.

For information on our operating segments and our international operations, see Note 10 of the Notes to Consolidated Financial Statements included herein.

Our marketing activities are designed to increase awareness of the Forrester brand and further our reputation as a leader in role-based business and technology research. We actively promote brand awareness via our website, Forrester Events, extensive worldwide press relations, and direct mail campaigns. We also employ an integrated direct marketing strategy that uses Internet, mail, and telephone channels for identifying and attracting high-quality sales leads. We encourage our analysts to increase our visibility by having their research ideas selectively distributed through various Internet, print, and television outlets. In addition, we support an active social media strategy whereby our analysts blog regularly with respect to the roles they serve. Other activities, including Twitter, LinkedIn, Facebook, and similar tools interconnect and cross-promote the analysts blogs and research content.

As of December 31, 2014, our research was delivered to more than 2,400 client companies. No single client company accounted for more than 2% of our 2014 revenues.

**Pricing and Contracts**

We report our revenue from client contracts in two categories of revenue: (1) research services and (2) advisory services and events. We classify revenue from subscriptions to our RoleView Research, Forrester Leadership Boards and Data Products and Services as research services revenue. We classify revenue from Forrester Consulting and Forrester Events as advisory services and events revenue.

Contract pricing for annual memberships for research only is principally a function of the number of licensed users at the client. Pricing of contracts for research and advisory services is a function of the number of licensed users, and the amount and type of advisory services. We track the agreement value of contracts to purchase research and advisory services as a significant business indicator. We calculate agreement value as the total revenues recognizable from all research and advisory service contracts in force at a given time (but not including advisory-only contracts), without regard to how much revenue has already been recognized. Agreement value increased 7% to $231.7 million at December 31, 2014 from $216.5 million at December 31, 2013.

**Research Analysts and Methodology**

We employ a structured methodology in our research that enables us to identify and analyze business technology trends, markets, and audiences and ensures consistent research quality and recommendations across all coverage areas. We seek to provide relevant research that will contribute to the success of our clients in their professional roles.

We ascertain the issues important to our clients and technology users through thousands of interactions and surveys with vendors and business, marketing, and technology professionals, and accordingly, the majority of our research is focused on helping our clients grow their business. We use the following primary research inputs:

- Confidential interviews with early adopters and mainstream users of new technologies.
- In-depth interviews with business technology vendors and suppliers of related services.
- Ongoing briefings with vendors to review current positions and future directions.
- Continuous dialogue with our clients to identify business and technology opportunities in the marketplace.

Our Consumer Technographics, Business Technographics and CX Index data products combine our qualitative research methodology with traditional survey research methodologies such as correlation, frequency distribution, cross-tabulation, and multivariate statistics to produce research reports, quantitative survey data, and data briefs. Third-party data vendors are frequently used for data collection and tabulation.

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The Forrester Wave combines in-depth product test results and user interviews with market and strategic analysis to score attributes of emerging and other technologies. We then apply this research and strategic analysis to determine the weighting of each attribute and create interactive spreadsheets, databases, and reports.

Collaboration among analysts is an integral part of our process, leading to higher-quality research and a unified perspective. All RoleView research begins either with a client or vendor catalyst or with discussion sessions among analysts to generate ideas for research. Analysts test ideas throughout the research process at both informal and regularly scheduled research meetings and using social media technologies. Our reports are consistent in format, and we require our analysts to write in a structure that combines graphics with easy-to-read text to deliver concise, decisive, relevant, and objective research to our clients.

**Competition**

We believe that the principal competitive factors in our industry include the following:

- Quality of research and analysis and related services.
- The ability to offer products and services that meet the changing needs of organizations and executives for research and analysis.
- Customer service.
- Independent analysis and opinions.
- Timely delivery of information.
- The ability to leverage new technologies.
- Price.

We believe that we compete favorably with respect to each of these factors. We believe that our age of the customer focused role-based strategy, including the diversity of roles we support and the ways in which we support them, as well as our research focus on the business technology agenda, emerging technologies and on winning, serving, and retaining customers, are significant competitive advantages. Additionally, we believe that in addition to our age of the customer focused role-based strategy, our research methodology, data products and services, easy-to-read formats, and portfolio of complementary product offerings distinguish us from our competitors.

We compete principally in the market for research and advisory services and their application for client success, with an emphasis on the impact of technology on our clients business models and customer markets. Our principal direct competitors include other providers of research and advisory services, such as Gartner, as well as providers of peer networking services and Internet and digital media measurement services. In addition, our indirect competitors include the internal planning and marketing staffs of our current and prospective clients, as well as other information providers such as electronic and print publishing companies, survey-based general market research firms, marketing agencies, and general business consulting firms. Our indirect competitors could choose to compete directly against us in the future. In addition, there are relatively few barriers to entry into our market, and new competitors could readily seek to compete against us in one or more market segments addressed by our research. Increased competition could adversely affect our operating results through pricing pressure and loss of market share. There can be no assurance that we will be able to continue to compete successfully against existing or new competitors.

**Employees**

As of December 31, 2014, we employed a total of 1,351 persons, including 518 research and consulting staff and 510 sales personnel.

Our culture emphasizes certain key values including client service, courage, collaboration, integrity and quality that we believe are critical to our future growth. We promote these values through training and frequent recognition for achievement. We encourage teamwork and promote and recognize individuals who foster these values. New employees participate in a three-day training process that focuses on our role-based strategy, our products and services, corporate culture, values and goals.

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**Item 1A. Risk Factors**

We operate in a rapidly changing and competitive environment that involves risks and uncertainties, certain of which are beyond our control. These risks and uncertainties could have a material adverse effect on our business and our results of operations and financial condition. These risks and uncertainties include, but are not limited to:

*A Decline in Renewals or Demand for Our Membership-Based Research Services.* Our success depends in large part upon retaining (on both a client company and dollar basis) and enriching existing memberships for our research products and services. Future declines in client retention, dollar retention, and enrichment, or if we are unable to generate demand for and new sales of our membership-based research products and services due to competition or otherwise, could have an adverse effect on our results of operations and financial condition.

*Demand for Our Advisory and Consulting Services.* Advisory and consulting services revenues comprised 27% of our total revenues in 2014 and 26% in 2013. Consulting engagements generally are project-based and non-recurring. A decline in our ability to fulfill existing or generate new project consulting engagements could have an adverse effect on our results of operations and financial condition.

*Our Business may be Adversely Affected by the Economic Environment.* Our business is in part dependent on technology spending and is impacted by economic conditions. The economic environment may materially and adversely affect demand for our products and services. If conditions in the United States and the global economy were to lead to a decrease in technology spending, or in demand for our research and advisory services, this could have an adverse effect on our results of operations and financial condition.

*Our International Operations Expose Us to a Variety of Operational Risks which Could Negatively Impact Our Results of Operations.* We have clients in approximately 60 countries and approximately 26% of our revenue comes from international sales. Our operating results are subject to the risks inherent in international business activities, including challenges in staffing and managing foreign operations, changes in regulatory requirements, compliance with numerous foreign laws and regulations, differences between U.S. and foreign tax rates and laws, fluctuations in currency exchange rates, difficulty of enforcing client agreements, collecting accounts receivable, and protecting intellectual property rights in international jurisdictions. Furthermore, we rely on local independent sales representatives in some international locations. If any of these arrangements are terminated by our representatives or us, we may not be able to replace the arrangement on beneficial terms or on a timely basis, or clients sourced by the local sales representative may not want to continue to do business with us or our new representative.

*Ability to Develop and Offer New Products and Services.* Our future success will depend in part on our ability to offer new products and services. These new products and services must successfully gain market acceptance by anticipating and identifying changes in client requirements and changes in the technology industry and by addressing specific industry and business organization sectors. The process of internally researching, developing, launching and gaining client acceptance of a new product or service, or assimilating and marketing an acquired product or service, is risky and costly. We may not be able to introduce new, or assimilate acquired, products or services successfully. Our failure to do so would adversely affect our ability to maintain a competitive position in our market and continue to grow our business.

*Loss of Key Management.* Our future success will depend in large part upon the continued services of a number of our key management employees. The loss of any one of them, in particular George F. Colony, our founder, Chairman of the Board and Chief Executive Officer, could adversely affect our business.

*We have undergone a substantial internal reorganization.* Beginning in 2013, we began to transition the provision of consulting services from our research personnel to consultants in our dedicated consulting organization and have hired additional consulting employees to build out this organization. At the same time, we have hired and continue to increase the number of our quota carrying sales employees. We have incurred material expenses in connection with these actions. If we do not realize anticipated benefits from these actions, our results of operations and financial condition could be adversely effected.

*The Ability to Attract and Retain Qualified Professional Staff.* Our future success will depend in large measure upon the continued contributions of our senior management team, research analysts, consultants, and experienced sales and marketing personnel. Thus, our future operating results will be largely dependent upon our

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ability to retain the services of these individuals and to attract additional professionals from a limited pool of qualified candidates. Our future success will also depend in part upon the effectiveness of our sales leadership in hiring and retaining sales personnel and in improving sales productivity. We experience competition in hiring and retaining professionals from developers of Internet and emerging-technology products, other research firms, management consulting firms, print and electronic publishing companies and financial services companies, many of which have substantially greater ability, either through cash or equity, to attract and compensate professionals. If we lose professionals or are unable to attract new talent, we will not be able to maintain our position in the market or grow our business.

*Failure to Anticipate and Respond to Market Trends.* Our success depends in part upon our ability to anticipate rapidly changing technologies and market trends and to adapt our research to meet the changing information needs of our clients. The technology and commerce sectors that we analyze undergo frequent and often dramatic changes. The environment of rapid and continuous change presents significant challenges to our ability to provide our clients with current and timely analysis, strategies and advice on issues of importance to them. Meeting these challenges requires the commitment of substantial resources. Any failure to continue to provide insightful and timely analysis of developments, technologies, and trends in a manner that meets market needs could have an adverse effect on our market position and results of operations.

*We May be Subject to Network Disruptions or Security Breaches that Could Damage Our Reputation and Harm Our Business and Operating Results.* We may be subject to network disruptions or security breaches caused by computer viruses, illegal break-ins or hacking, sabotage, acts of vandalism by third parties or terrorism. Our security measures or those of our third party service providers may not detect or prevent such security breaches. Any such compromise of our information security could result in the unauthorized publication of our confidential business or proprietary information, cause an interruption in our operations, result in the unauthorized release of customer or employee data, result in a violation of privacy or other laws, expose us to a risk of litigation or damage our reputation, which could harm our business and operating results.

*Competition.* We compete in the market for research products and services with other independent providers of similar services. We may also face increased competition from Internet-based research firms. Some of our competitors have substantially greater financial, information-gathering, and marketing resources than we do. In addition, our indirect competitors include the internal planning and marketing staffs of our current and prospective clients, as well as other information providers such as electronic and print publishing companies, survey-based general market research firms and general business consulting firms. Our indirect competitors may choose to compete directly against us in the future. In addition, there are relatively few barriers to entry into our market, and new competitors could readily seek to compete against us in one or more market segments addressed by our products and services. Increased competition could adversely affect our operating results through pricing pressure and loss of market share.

*Failure to Enforce and Protect our Intellectual Property Rights.* We rely on a combination of copyright, trademark, trade secret, confidentiality and other contractual provisions to protect our intellectual property. Unauthorized third parties may obtain or use our proprietary information despite our efforts to protect it. The laws of certain countries do not protect our intellectual property to the same extent as the laws of the United States and accordingly we may not be able to protect our intellectual property against unauthorized use or distribution, which could adversely affect our business.

*Fluctuations in Our Operating Results.* Our revenues and earnings may fluctuate from quarter to quarter based on a variety of factors, many of which are beyond our control, and which may affect our stock price. These factors include, but are not limited to:

- Trends in technology and research and advisory services spending in the marketplace and general economic conditions.
- The timing and size of new and renewal memberships for our research services from clients.
- The utilization of our advisory services by our clients.
- The timing of revenue-generating events sponsored by us.
- The introduction and marketing of new products and services by us and our competitors.

The hiring and training of new analysts, consultants, and sales personnel.

Changes in demand for our research and advisory services.

Fluctuations in currency exchange rates.

As a result, our operating results in future quarters may be below the expectations of securities analysts and investors, which could have an adverse effect on the market price for our common stock. Factors such as announcements of new products, services, offices, acquisitions or strategic alliances by us, our competitors, or in the research and professional services industries generally, may have a significant impact on the market price of our common stock. The market price for our common stock may also be affected by movements in prices of stocks in general.

*Taxation Risks*. We operate in numerous jurisdictions around the world. A portion of our income is generated outside of the United States and is taxed at rates significantly less than rates applicable to income generated in the U.S. or in other jurisdictions in which we do business. Our effective tax rate in the future, and accordingly our results of operations and financial position, could be adversely affected by changes in applicable tax law or if more of our income becomes taxable in jurisdictions with higher tax rates.

*Concentration of Ownership.* Our largest stockholder is our Chairman and CEO, George F. Colony, who owns approximately 44% of our outstanding stock. This concentration of ownership enables Mr. Colony to strongly influence or effectively control matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation, adoption or amendment of equity plans and approval of significant transactions such as mergers, acquisitions, consolidations and sales or purchases of assets. This concentration of ownership may also limit the liquidity of our stock. As a result, efforts by stockholders to change the direction, management or ownership of Forrester may be unsuccessful, and stockholders may not be able to freely purchase and sell shares of our stock.

*Any Weakness Identified in Our System of Internal Controls by Us and Our Independent Registered Public Accounting Firm Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 Could Have an Adverse Effect on Our Business.* Section 404 of the Sarbanes-Oxley Act of 2002 requires that companies evaluate and report on their systems of internal control over financial reporting. In addition, our independent registered public accounting firm must report on its evaluation of those controls. There can be no assurance that no weakness in our internal control over financial reporting will occur in future periods, or that any such weakness will not have a material adverse effect on our business or financial results, including our ability to report our financial results in a timely manner.

## Item 1B. *Unresolved Staff Comments*

We have not received written comments from the Securities and Exchange Commission that remain unresolved.

## Item 2. *Properties*

Our corporate headquarters building is comprised of approximately 190,000 square feet of office space in Cambridge, Massachusetts, substantially all of which is currently occupied by the Company. This facility accommodates research, marketing, sales, consulting, technology, and operations personnel. The lease term of this facility expires February 28, 2027.

We also rent office space in San Francisco, New York City, Dallas, McLean, Virginia, Amsterdam, Frankfurt, London, Paris, New Delhi, and Singapore. Our San Francisco lease is for approximately 19,000 square feet, with a term that expires June 30, 2016. Our New York lease is for approximately 15,200 square feet, with an initial term until January 31, 2021, with the right to terminate in 2017 with prior notice and payment of designated early termination fees and charges. The London lease is for approximately 17,800 square feet, with a term that expires September 24, 2021. We also lease office space on a relatively short-term basis in various other locations in North America, Europe, Asia, and Australia.

We believe that our existing facilities are adequate for our current needs and that additional facilities are available for lease to meet future needs.

**Item 3.** ***Legal Proceedings***

We are not currently a party to any material legal proceedings.

**Item 4.** ***Mine Safety Disclosures***

Not applicable.

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## PART II

**Item 5.** ***Market For Registrant s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities***

Our common stock is listed on the Nasdaq Global Select Market under the symbol FORR . During 2013, quarterly dividends of $0.15 per common share were declared and paid in each of the four quarters during the year. During 2014, quarterly dividends of $0.16 per common share were declared and paid in each of the four quarters during the year. In February 2015 our Board of Directors declared an increase in our regular quarterly dividend to $0.17 per share that is payable on March 18, 2015. We intend to continue paying regular quarterly cash dividends; however, the actual declaration of any such future dividends, and the establishment of the per share amount and payment dates for any such future dividends are subject to the discretion of the Board of Directors.

As of March 6, 2015 there were approximately 34 stockholders of record of our common stock. On March 6, 2015 the closing price of our common stock was $37.20 per share.

The following table represents the ranges of high and low sale prices of our common stock for the years ended December 31, 2014 and December 31, 2013:

| | 2014 | | 2013 | |
|---|---|---|---|---|
| | **High** | **Low** | **High** | **Low** |
| First Quarter | $ 39.97 | $ 34.98 | $ 31.76 | $ 24.88 |
| Second Quarter | $ 39.79 | $ 34.09 | $ 37.41 | $ 33.01 |
| Third Quarter | $ 39.89 | $ 36.77 | $ 39.77 | $ 32.15 |
| Fourth Quarter | $ 41.65 | $ 36.75 | $ 41.36 | $ 36.14 |

Through 2014, our Board of Directors authorized an aggregate $410.0 million to purchase common stock under our stock repurchase program including $25.0 million authorized in April 2014, $25.0 million authorized in July 2013 and $50.0 million authorized in February 2013. As of December 31, 2014 we had repurchased approximately 14.4 million shares of common stock at an aggregate cost of $402.2 million.

During 2013 the Company retired 11.7 million shares of treasury stock. These retired shares are now included in the Company s pool of authorized but unissued shares. The retired stock had a carrying value of approximately $303.0 million.

During the quarter ended December 31, 2014 we repurchased the following shares of our common stock under the stock repurchase program:

| **Period** | **Total Number of Shares Purchased (1)** | **Average Price Paid per Share** | **Maximum Dollar Value that May Yet be Purchased Under the Stock Repurchase Program (In thousands)** |
|---|---|---|---|
| October 1 October 31 | 85,132 | $ 38.77 | |
| November 1 November 30 | 35,703 | $ 39.38 | |
| December 1 December 31 | 47,900 | $ 39.70 | |
| | 168,735 | | $ 7,783 |

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

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The following graph contains the cumulative stockholder return on our common stock during the period from December 31, 2009 through December 31, 2014 with the cumulative return during the same period for the Russell 2000 and the S&P 600 Small Cap Information Technology Index, and assumes that the dividends, if any, were reinvested.

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**Item 6.** ***Selected Consolidated Financial Data***

The selected financial data presented below is derived from our consolidated financial statements and should be read in connection with those statements.

| | Years Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (In thousands, except per share amounts) | | | | |
| **Consolidated Statement of Income Data** | | | | | |
| Research services | $ 207,517 | $ 202,843 | $ 203,091 | $ 191,495 | $ 168,597 |
| Advisory services and events | 104,545 | 94,807 | 89,940 | 91,840 | 82,261 |
| Total revenues | 312,062 | 297,650 | 293,031 | 283,335 | 250,858 |
| Income from operations | 18,213 | 21,833 | 30,760 | 36,716 | 30,882 |
| Other income and gains (losses) on investments, net | 176 | (1,841) | 1,394 | 231 | 3,550 |
| Net income | $ 10,865 | $ 13,024 | $ 26,296 | $ 21,991 | $ 20,832 |
| Basic income per common share | $ 0.58 | $ 0.62 | $ 1.17 | $ 0.97 | $ 0.93 |
| Diluted income per common share | $ 0.57 | $ 0.61 | $ 1.15 | $ 0.95 | $ 0.90 |
| Basic weighted average shares outstanding | 18,713 | 20,861 | 22,500 | 22,666 | 22,478 |
| Diluted weighted average shares outstanding | 19,007 | 21,353 | 22,929 | 23,164 | 23,063 |

| | As of December 31, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (In thousands) | | | | |
| **Consolidated Balance Sheet Data** | | | | | |
| Cash, cash equivalents and marketable investments | $ 104,535 | $ 155,145 | $ 242,656 | $ 227,603 | $ 216,034 |
| Working capital | 26,298 | 78,991 | 155,278 | 158,370 | 146,014 |
| Total assets | 332,707 | 402,202 | 488,015 | 487,110 | 450,747 |
| Deferred revenue | 144,568 | 152,903 | 150,495 | 148,004 | 131,357 |
| Total liabilities | 191,105 | 197,540 | 190,808 | 196,960 | 178,406 |
| Cash dividends declared | 11,962 | 12,394 | 12,588 | | 68,414 |

The following items impact the comparability of our consolidated data:

Cash dividends in 2014, 2013 and 2012 represent quarterly dividends of $0.16, $0.15 and $0.14 per common share declared and paid during 2014, 2013 and 2012, respectively. Cash dividends in 2010 represent a special dividend of $3.00 per common share declared and paid in the fourth quarter of 2010.

The 2013 other income and gains (losses) on investments, net amount includes a $1.9 million loss for the sale of the Company s entire portfolio of auction rate securities.

The 2012 net income amount includes a $5.9 million deferred income tax benefit resulting from the settlement of a tax audit at the Company s German subsidiary.

**Item 7.** ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

**Overview**

We derive revenues from memberships to our research and data products and services, performing advisory services and consulting projects, and hosting events. We offer contracts for our research products that are typically renewable annually and payable in advance. Research revenues are recognized as revenue ratably over the term of the contract. Accordingly, a substantial portion of our billings are initially recorded as deferred

revenue. Clients purchase advisory services independently and/or to supplement their memberships to our research. Billings attributable to advisory services and consulting projects are initially recorded as deferred revenue. Advisory service revenues, such as workshops, speeches and advisory days, are recognized when the customer receives the agreed upon deliverable. Consulting project revenues, which generally are short-term in nature and based upon fixed-fee agreements, are recognized as the services are provided. Event billings are also initially recorded as deferred revenue and are recognized as revenue upon completion of each event.

Our primary operating expenses consist of cost of services and fulfillment, selling and marketing expenses and general and administrative expenses. Cost of services and fulfillment represents the costs associated with the production and delivery of our products and services, including salaries, bonuses, employee benefits and stock-based compensation expense for research and consulting personnel and all associated editorial, travel, and support services. Selling and marketing expenses include salaries, sales commissions, bonuses, employee benefits, stock-based compensation expense, travel expenses, promotional costs and other costs incurred in marketing and selling our products and services. General and administrative expenses include the costs of the technology, operations, finance, and human resources groups and our other administrative functions, including salaries, bonuses, employee benefits, and stock-based compensation expense. Overhead costs such as facilities and annual fees for cloud-based information technology systems are allocated to these categories according to the number of employees in each group.

Deferred revenue, agreement value, client retention, dollar retention, enrichment and number of clients are metrics we believe are important to understanding our business. We believe that the amount of deferred revenue, along with the agreement value of contracts to purchase research and advisory services, provide a significant measure of our business activity. We define these metrics as follows:

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

*Agreement value* the total revenues recognizable from all research and advisory service contracts in force at a given time (but not including advisory-only contracts), without regard to how much revenue has already been recognized. No single client accounted for more than 2% of agreement value at December 31, 2014.

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

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

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

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

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

| | As of December 31, | | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| | 2014 | 2013 | | |
| Deferred revenue | $ 144.6 | $ 152.9 | $ (8.3) | (5%) |
| Agreement value | $ 231.7 | $ 216.5 | $ 15.2 | 7% |

| | | | | |
|---|---|---|---|---|
| Client retention | 76% | 73% | 3 | 4% |
| Dollar retention | 88% | 86% | 2 | 2% |
| Enrichment | 97% | 97% | | |
| Number of clients | 2,431 | 2,471 | (40) | (2%) |

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| | As of December 31, 2013 | 2012 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Deferred revenue | $ 152.9 | $ 150.5 | $ 2.4 | 2% |
| Agreement value | $ 216.5 | $ 220.4 | $ (3.9) | (2%) |
| Client retention | 73% | 77% | (4) | (5%) |
| Dollar retention | 86% | 90% | (4) | (4%) |
| Enrichment | 97% | 95% | 2 | 2% |
| Number of clients | 2,471 | 2,462 | 9 | |

Deferred revenue at December 31, 2014 decreased 5% compared to the prior year. When including the amount of future invoicing for contracts at December 31, 2014, the combined amount of deferred revenue and future invoicing decreased 6% compared to the prior year. The decrease in deferred revenue and future invoicing was due to (1) the difference in foreign currency rates in 2014 compared to 2013 that resulted in a 2% decrease, and (2) a shift in the timing of the contract renewal date of approximately $10 million of contracts from December 2014 to January 2015 that resulted in an approximate 4% decrease. Deferred revenue at December 31, 2013 increased 2% compared to the prior year. However when including the amount of future invoicing for contracts at December 31, 2013, the combined amount of deferred revenue and future invoicing was flat compared to the prior year. The change in deferred revenue plus future invoicing for both 2014 and 2013 is reflective of the fact that contract bookings and revenue have grown at essentially the same rates during 2014 and 2013. Agreement value increased 7% at December 31, 2014 compared to the prior year and decreased 2% at December 31, 2013 compared to the prior year. The increase in the growth rate of agreement value in 2014 is due to increased demand for our products combined with an improvement in client and dollar retention rates during 2014. Client retention and dollar retention rates have improved steadily during 2014 compared to 2013 levels. The 2013 rates were at multi-year lows due in part to the negative effects from the challenges associated with the implementation of a sales reorganization in early 2012, high sales employee attrition during 2013 and 2012, a difficult selling environment in Europe and weaker demand for our data subscription products in 2013, in part due to the phasing out of our standalone Tech Marketing Navigator data product.

**Critical Accounting Policies and Estimates**

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

We consider the following accounting policies to be those that require the most subjective judgment or that involve uncertainty that could have a material impact on our financial statements. If actual results differ significantly from management s estimates and projections, there could be a material effect on our financial statements. This is not a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by GAAP, with no need for management s judgment in its application. There are also areas in which management s judgment in selecting any available alternative would not produce a materially different result. For a discussion of our other accounting policies, see Note 1 of the Notes to Consolidated Financial Statements beginning on page F-7.

*Revenue Recognition*. We generate revenues from licensing memberships to our research (including our data subscription products), performing advisory services and consulting projects and hosting events. We execute contracts that govern the terms and conditions of each arrangement. Revenues are recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, services have been provided to the customer, and collectability is reasonably assured. Our contracts may include either a single product or service or a combination of multiple products and services. Revenues from contracts that contain multiple products or services are allocated among the separate units of accounting based on their relative selling prices; however, the amount recognized is limited to the amount that is not contingent on future performance conditions. For example, when a discount off of list price is provided in a multiple element contract, the discount is applied ratably to the research and data products only (which commence delivery on the first day of the contract), as the undelivered products in the contract (advisory services or events) would be refundable to the customer at list price if not delivered. We obtain the selling prices of our products and services based upon an analysis of standalone sales of these products and services during the year. Research services revenues are recognized ratably over the term of the contract. Advisory services revenues, such as workshops, speeches and advisory days, are recognized when the customer receives the agreed upon deliverable and consulting project revenues are recognized as the services are provided. Reimbursed out-of-pocket expenses are recorded as advisory services revenue. Event revenues are recognized upon completion of the event.

Annual subscriptions to our RoleView research include access to all or a designated portion of our research, and depending on the type of license, membership in one or more of our Forrester leadership boards, unlimited phone or email analyst inquiry, unlimited participation in Forrester Webinars, and the right to attend one event. Contracts for RoleView research are accounted for as two units of accounting: 1) the event ticket and 2) the remaining research services that are delivered throughout the contract period. Arrangement consideration is allocated to each element based upon its relative selling price, which is determined based on standalone sales of event tickets and the estimated selling price of the remaining research services. Annual subscriptions to our data subscription products include access to designated survey data products and access to a data advisor, which are delivered throughout the year, and are accounted for as one unit of accounting and recognized ratably as research services revenue over the membership period. Beginning in February 2013, we discontinued our policy of offering our clients a service guarantee. Service guarantees had provided our clients the right to cancel their contracts prior to the end of the contract term and receive a refund for unused products or services. Furthermore, our revenue recognition determines the timing of commission expenses, as commissions are earned during the month a contract is booked and are deferred and recognized as expense as the related revenue is recognized. We evaluate the recoverability of deferred commissions at each balance sheet date.

*Stock-Based Compensation.* Stock-based compensation is recognized as an expense based upon the fair value of the award at the time of grant. The determination of the fair value of stock-based compensation requires significant judgment and the use of estimates, particularly surrounding assumptions such as stock price volatility, expected option lives, dividend yields and forfeiture rates. These estimates involve inherent uncertainties and the application of management judgment. As a result, if circumstances change and we use different assumptions, our stock-based compensation expense could be materially different in the future.

Expected volatility is based, in part, on the historical volatility of our common stock as well as management s expectations of future volatility over the expected term of the awards granted. The development of an expected life assumption involves projecting employee exercise behaviors (expected period between stock option vesting dates and stock option exercise dates). Expected dividend yields are based on expectations of current and future dividends, if any. We are also required to estimate future forfeitures of stock-based awards for recognition of compensation expense. We will record additional expense if the actual forfeitures are lower than estimated and will record a recovery of prior recognized expense if the actual forfeitures are higher than estimated. The actual expense recognized over the vesting period will only be for those awards that vest. If our actual forfeiture rate is materially different from our estimates, or if our estimates of forfeitures are modified in a future period, the actual stock-based compensation expense could be significantly different from what we have recorded in the current period.

*Non-Marketable Investments.* We hold minority interests in technology-related investment funds with a book value of $3.8 million at December 31, 2014. These investment funds are not publicly traded, and, therefore, because no established market for these securities exists, the estimate of the fair value of our investments requires significant judgment. Investments that are accounted for using the cost method are valued at cost unless an other-than-temporary impairment in their value occurs. For investments that are accounted for using the equity method, we record our share of the investee s operating results each period. We review the fair value of our investments on a regular basis to evaluate whether an other-than-temporary impairment in the investment has occurred. We record impairment charges when we believe that an investment has experienced a decline in value that is other-than-temporary. 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, Intangible Assets and Other Long-Lived Assets.* As of December 31, 2014, we had $80.1 million of goodwill and intangible assets with finite lives recorded on our Consolidated Balance Sheet. Goodwill is required to 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 compare each of our reporting unit s carrying value to the reporting unit s fair value. Determining the reporting unit s fair value requires us to make estimates of market conditions and operational performance. Absent an event that indicates a specific impairment may exist, we have selected November 30 as the date to perform the annual goodwill impairment test. The annual assessment of goodwill can be based on either a quantitative or qualitative assessment, or a combination of both. We completed the annual goodwill impairment testing as of November 30, 2014 utilizing a qualitative assessment and concluded that the fair values of each of our reporting units more likely than not continues to exceed their respective carrying values. Future events could cause us to conclude that impairment indicators exist and that goodwill associated with our acquired businesses is impaired. Any resulting impairment loss could have a material adverse impact on our results of operations.

In connection with our new organizational structure, goodwill was allocated to our new reporting units (which are our three business segments) on a relative fair value basis. The Research and Products reporting units were allocated $77.4 million and $2.6 million of goodwill, respectively, as of January 1, 2014 while the Project Consulting reporting unit was allocated zero goodwill. We performed an interim quantitative impairment test and concluded that the fair values of the Research and Products reporting units substantially exceeded their respective carrying values.

Intangible assets with finite lives as of December 31, 2014 consist primarily of acquired customer relationships and were valued according to the future cash flows they are estimated to produce. These assigned values are amortized on a basis which best matches the periods in which the economic benefits are expected to be realized. Tangible assets with finite lives consist of property and equipment, which are depreciated over their estimated useful lives. We continually evaluate whether events or circumstances have occurred that indicate that the estimated remaining useful life of our intangible and long-lived tangible assets may warrant revision or that the carrying value of these assets may be impaired. To compute whether intangible 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 their estimated fair value.

*Income Taxes.* We recognize deferred tax assets and liabilities using enacted tax rates for the effect of temporary differences between book and tax bases of assets and liabilities as well as operating loss carryforwards (from acquisitions). Such amounts are adjusted as appropriate to reflect changes in the tax rates expected to be in effect when the temporary differences reverse. We record a valuation allowance to reduce our deferred taxes to an amount we believe is more likely than not to be realized. We consider future taxable income and prudent and feasible tax planning strategies in assessing the need for a valuation allowance.

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As a global company, we use significant judgment to calculate and provide for income taxes in each of the tax jurisdictions in which we operate. In the ordinary course of our business, there are transactions and calculations undertaken whose ultimate tax outcome cannot be certain. Some of these uncertainties arise as a consequence of transfer pricing for transactions with our subsidiaries and potential challenges to nexus and credit estimates. We estimate our exposure to unfavorable outcomes related to these uncertainties and record a liability based on the probability for such outcomes in accordance with current accounting guidelines.

Although we believe our estimates are reasonable, no assurance can be given that the final tax outcome will not be different from what is reflected in our historical income tax provisions, returns, and accruals. Such differences, or changes in estimates relating to potential differences, could have a material impact on our income tax provision and operating results in the period in which such a determination is made.

**Results of Operations for the years ended December 31, 2014, 2013 and 2012**

The following table sets forth our Consolidated Statements of Income as a percentage of total revenues for the years noted.

| | | Years Ended December 31, | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| Revenues: | | | |
| Research services | 66.5% | 68.1% | 69.3% |
| Advisory services and events | 33.5 | 31.9 | 30.7 |
| Total revenues | 100.0 | 100.0 | 100.0 |
| Operating expenses: | | | |
| Cost of services and fulfillment | 40.4 | 39.3 | 38.0 |
| Selling and marketing | 37.1 | 36.0 | 34.6 |
| General and administrative | 12.4 | 12.9 | 12.6 |
| Depreciation | 3.0 | 3.1 | 3.0 |
| Amortization of intangible assets | 0.7 | 0.8 | 0.8 |
| Reorganization costs | 0.6 | 0.6 | 0.5 |
| Income from operations | 5.8 | 7.3 | 10.5 |
| Other income, net | 0.2 | 0.2 | 0.5 |
| Gains (losses) on investments, net | (0.1) | (0.8) | |
| Income before income taxes | 5.9 | 6.7 | 11.0 |
| Income tax provision | 2.4 | 2.3 | 2.0 |
| Net income | 3.5% | 4.4% | 9.0% |

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**2014 compared to 2013**

***Revenues***

| | 2014 | 2013 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| | (dollars in millions) | | | |
| Revenues | $ 312.1 | $ 297.7 | $ 14.4 | 5% |
| Revenues from research services | $ 207.5 | $ 202.8 | $ 4.7 | 2% |
| Revenues from advisory services and events | $ 104.5 | $ 94.8 | $ 9.7 | 10% |
| Revenues attributable to customers outside of the U.S. | $ 79.6 | $ 78.7 | $ 0.9 | 1% |
| Percentage of revenue attributable to customers outside of the U.S. | 26% | 26% | | |
| Number of clients (at end of period) | 2,431 | 2,471 | (40) | (2%) |
| Number of events | 15 | 15 | | |

The 5% increase in revenues during 2014 compared to 2013 was driven by a 10% increase in advisory services and events revenues while research services revenues increased 2% during the period. Foreign exchange fluctuations had an insignificant effect on total revenue growth during 2014. While revenues from customers outside of the U.S. increased 1% during 2014 compared to the prior year, the percentage of revenues attributable to customers outside of the U.S. decreased by less than one percentage point during 2014 compared to the prior year. Foreign exchange fluctuations had an effect of decreasing foreign revenue growth in 2014 by approximately 1% compared to the prior year. We continued to experience stronger growth during 2014 in the U.S. region compared to outside of the U.S. Growth in the Asia Pacific region and Canada was partially offset by a revenue decline (on a constant currency basis) in the European region. The general economic conditions in Europe as well as sales leadership challenges have contributed to a difficult selling environment in that region.

Research services revenues are recognized as revenue primarily on a ratable basis over the term of the contracts, which are generally twelve-month periods. Research services revenues increased 2% during 2014 compared to the prior year, which is essentially consistent with the related contract bookings growth during this period. Revenues from our data subscription products declined by approximately $1.2 million in 2014 compared to 2013, the majority of which was due to the phasing out of our Tech Marketing Navigator product that began in 2013. The decline in data subscription revenues was offset by growth in our research product revenues.

Revenue from advisory services and events increased 10% during 2014 as compared to the prior year. The increase was driven by strong growth in advisory and consulting revenues due primarily to strong demand for both advisory and consulting services and an increase in consulting headcount as we completed the build out of a dedicated consulting organization that began in 2013. Events revenues were flat during 2014 as compared to 2013.

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

***Cost of Services and Fulfillment***

| | 2014 | 2013 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Cost of services and fulfillment (dollars in millions) | $ 126.2 | $ 117.1 | $ 9.1 | 8% |
| Cost of services and fulfillment as a percentage of total revenues | 40.4% | 39.3% | 1.1 | 3% |
| Number of research and fulfillment employees (at end of period) | 604 | 562 | 42 | 7% |

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The increase in cost of services and fulfillment expenses during 2014 compared to the prior year is primarily due to a $7.8 million increase in compensation and benefit costs resulting from an increase in the number of employees (consisting of consulting and product specialist employees) and annual merit increases, partially offset by lower incentive bonus expense. We hired additional consulting employees during 2013 and 2014 to build out a dedicated consulting organization to provide research-based project consulting services to our clients, allowing our analysts to spend additional time on writing research and providing shorter-term advisory services. In addition, 2014 includes increased costs for stock compensation and travel and entertainment (primarily for billable expenses for consulting projects).

***Selling and Marketing***

| | 2014 | 2013 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Selling and marketing expenses (dollars in millions) | $ 115.8 | $ 107.1 | $ 8.7 | 8% |
| Selling and marketing expenses as a percentage of total revenues | 37.1% | 36.0% | 1.1 | 3% |
| Selling and marketing employees (at end of period) | 563 | 548 | 15 | 3% |

The increase in selling and marketing expenses during 2014 compared to the prior year is primarily due to an $8.6 million increase in compensation and benefit costs resulting from an increase in sales employees, annual merit increases and increased commission costs resulting from a higher number of sales employees achieving their sales plan, partially offset by lower incentive bonus expense.

Subject to the business environment, we intend to expand our quota carrying sales force by approximately 9% to 11% in 2015 as compared to 2014. Any resulting increase in contract bookings of our research services would generally be recognized over a twelve-month period, which typically results in an increase in selling and marketing expense as a percentage of revenues during periods of sales force expansion.

***General and Administrative***

| | 2014 | 2013 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| General and administrative expenses (dollars in millions) | $ 38.6 | $ 38.3 | $ 0.3 | 1% |
| General and administrative expenses as a percentage of total revenues | 12.4% | 12.9% | (0.5) | (4%) |
| General and administrative employees (at end of period) | 184 | 178 | 6 | 3% |

The increase in general and administrative expenses during 2014 compared to the prior year is primarily due to a $0.7 million increase in compensation and benefits costs resulting from increased headcount and annual merit increases, partially offset by lower incentive bonus expense, and higher stock compensation costs of $0.7 million. These increases were partially offset by lower professional services expenses in 2014 due primarily to lower accounting and legal costs.

***Depreciation***

Depreciation expense during 2014 was essentially consistent with the prior year. There was a decrease in depreciation during 2014 due to certain assets becoming fully depreciated during 2014 and this decrease was offset by an increase in depreciation resulting from a $0.4 million immaterial out-of-period adjustment recorded during 2014 to correct an understatement error of depreciation expense of approximately $0.2 million in each of 2013 and 2012.

***Amortization of Intangible Assets***

Amortization expense remained essentially consistent during 2014 as compared to the prior year.

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***Reorganization Costs***

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

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

On February 11, 2015, we announced a reduction in our workforce of approximately 50 positions or 4% of our employees across various geographies and functions, in order to reallocate investment in 2015 to planned sales expansion and to delivery areas seeing the greatest client demand. Overall we expect to increase our headcount by 7% at the end of 2015 compared to 2014 levels. We expect to incur pre-tax expenses of $3.5 million to $4.0 million in the first and second quarters of 2015 related principally to cash severance and related benefit costs for terminated employees.

***Income from Operations***

Income from operations declined $4.0 million during 2014 as compared to the prior year and declined to 5.8% of total revenues in 2014 from 7.3% in the prior year. Although revenues increased by $14.4 million in 2014, this was offset by a $17.0 million increase in compensation and benefit costs during 2014 from additional headcount investments in our consulting, product and sales organizations and annual merit increases. We anticipate income from operations as a percentage of total revenues to remain flat in 2015 as compared to 2014, as the projected rate of expense growth in 2015 is expected to equal the projected rate of revenue growth in 2015.

***Other Income, Net***

Other income, net primarily consists of interest income on our investments as well as gains and losses on foreign currency. The decrease in other income, net during 2014 is primarily due to lower interest income earned in 2014 due to lower investment balances, which was partially offset by lower foreign currency losses in 2014 as compared to the prior year.

***Gains (Losses) on Investments, Net***

Gains (losses) on investments, net include our share of equity method investment gains (losses) from our technology-related investment funds and gains (losses) from the sale of marketable securities. In 2014 we realized an approximate $0.4 million loss from our equity method investments primarily from a decrease in the valuation of certain assets within the funds, and realized approximately $0.1 million of gains from other investments. During 2013 we sold our portfolio of auction rate securities (par value $11.0 million) for a realized loss of $1.9 million. In addition, in 2013 we realized an approximate $0.7 million loss from our equity method investments primarily from a decrease in the valuation of certain assets within the funds, and realized approximately $0.1 million of gains from other investments.

***Provision for Income Taxes***

| | 2014 | 2013 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Provision for income taxes (dollars in millions) | $ 7.5 | $ 7.0 | $ 0.5 | 8% |
| Effective tax rate | 40.9% | 34.9% | 6.0 | 17% |

The increase in the effective tax rate during 2014 as compared to the prior year period is primarily due to the following: the inclusion in 2013 of foreign tax credits that did not recur in 2014; an immaterial out-of-period error recorded in 2014 that increased tax expense by $0.5 million; a lower foreign tax rate benefit in 2014 compared to 2013 due to a smaller portion of our income being earned outside of the U.S. during 2014, and higher state taxes due to an ongoing state audit that increased tax expense by $0.1 million in 2014. These increases were partially offset by a benefit from decreasing our valuation allowance on certain foreign net operating losses due to the utilization of a portion of these losses in 2014.

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**2013 compared to 2012**

***Revenues***

| | 2013 | 2012 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| | | (dollars in millions) | | |
| Revenues | $ 297.7 | $ 293.0 | $ 4.7 | 2% |
| Revenues from research services | $ 202.8 | $ 203.1 | $ (0.3) | |
| Revenues from advisory services and events | $ 94.8 | $ 89.9 | $ 4.9 | 5% |
| Revenues attributable to customers outside of the U.S. | $ 78.7 | $ 81.8 | $ (3.1) | (4%) |
| Percentage of revenue attributable to customers outside of the U.S. | 26% | 28% | (2) | (7%) |
| Number of clients (at end of period) | 2,471 | 2,462 | 9 | |
| Number of events | 15 | 15 | | |

The 2% increase in revenues during 2013 compared to 2012 was driven by a 5% increase in advisory services and events revenues while research services revenues were essentially flat during the period. Foreign exchange fluctuations had an insignificant effect on revenue growth during 2013. Revenues from customers outside of the U.S. in 2013 declined by 2% as a percentage of total revenues compared to the prior year period due primarily to a decline in revenues from the European region. The general economic conditions in Europe as well as sales leadership challenges have contributed to a difficult selling environment in that region.

Research services revenues were flat during 2013 compared to the prior year as contract bookings during those periods were essentially flat. Revenues from our data subscription products declined by approximately $2.4 million in 2013 compared to 2012 due primarily to the phasing out of our standalone Tech Marketing Navigator data product in 2013. The decline in data subscription revenues was partially offset by an increase in research product revenue.

Revenues from advisory services and events increased 5% during 2013 as compared to the prior year. The increase during 2013 is due entirely to increased advisory and project consulting revenues, as event revenues were flat in 2013 compared to the prior year. The increase in advisory and project consulting revenues in 2013 as compared to 2012 was generated in the second half of 2013 and was due primarily to both an increase in consulting headcount as we began to build out a dedicated consulting organization in 2013 as well as to increased productivity of our analyst personnel.

***Cost of Services and Fulfillment***

| | 2013 | 2012 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Cost of services and fulfillment (dollars in millions) | $ 117.1 | $ 111.2 | $ 5.9 | 5% |
| Cost of services and fulfillment as a percentage of total revenues | 39.3% | 38.0% | 1.3 | 3% |
| Number of research and fulfillment employees (at end of period) | 562 | 528 | 34 | 6% |

The increase in cost of services and fulfillment expenses during 2013 compared to the prior year is primarily due to a $6.0 million increase in compensation and benefit costs resulting primarily from an increase in the number of employees, an increase in incentive bonus payments and annual merit increases. In addition, 2013 included an increase in facility costs due to new office space in the Asia Pacific region in the second half of 2012 and an increase in service fees for cloud-based information systems. These increases were partially offset by a decrease in professional services fees related to the amount of surveys performed and a decrease in travel and entertainment expenses. We hired additional consulting employees in 2013 in support of our decision to build a dedicated consulting organization to provide research-based project consulting services to our clients, allowing our analysts to spend additional timing on writing research and providing shorter-term advisory services.

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***Selling and Marketing***

| | 2013 | 2012 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Selling and marketing expenses (dollars in millions) | $ 107.1 | $ 101.4 | $ 5.7 | 6% |
| Selling and marketing expenses as a percentage of total revenues | 36.0% | 34.6% | 1.4 | 4% |
| Selling and marketing employees (at end of period) | 548 | 528 | 20 | 4% |

The increase in selling and marketing expenses during 2013 compared to the prior year is primarily due to a $5.2 million increase in compensation and benefits costs resulting from both an increase in sales and marketing employees and annual merit increases. In addition, 2013 included an increase in facility costs due to new office space in the Asia Pacific region in the second half of 2012 and an increase in service fees for cloud-based information systems. These increases were partially offset by a decrease in travel and entertainment expenses.

***General and Administrative***

| | 2013 | 2012 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| General and administrative expenses (dollars in millions) | $ 38.3 | $ 36.9 | $ 1.4 | 4% |
| General and administrative expenses as a percentage of total revenues | 12.9% | 12.6% | 0.3 | 2% |
| General and administrative employees (at end of period) | 178 | 180 | (2) | (1%) |

The increase in general and administrative expenses during 2013 compared to the prior year is primarily due to a $0.8 million increase in compensation and benefits costs due to an increase in incentive bonus payments and annual merit increases. In addition, 2013 included an increase in recruiting costs to support company-wide hiring in 2013 as well as an increase in facility costs due to new office space in the Asia Pacific region in the second half of 2012 and an increase in service fees for cloud-based information systems. These increases were partially offset by a decrease in professional services fees primarily related to a decrease in information technology projects as 2012 included an update to our website and implementation of new customer relationship management software.

***Depreciation***

Depreciation expense increased $0.3 million during 2013 compared to the prior year primarily resulting from the initiation of depreciation for our new website in March 2012.

***Amortization of Intangible Assets***

Amortization expense remained essentially consistent during 2013 as compared to the prior year.

***Reorganization Costs***

During 2013 we incurred $1.9 million of severance and related costs for the elimination of 31 jobs or approximately 2.5% of our workforce worldwide to streamline our operations. Essentially all costs incurred for the reorganization were paid during 2013.

We incurred $1.4 million of severance and related costs during 2012 for the termination of 17 employees related to the sales reorganization and other cost reduction initiatives. Essentially all of these costs were paid during 2012.

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***Income from Operations***

Income from operations declined $8.9 million during 2013 as compared to the prior year and declined to 7.3% of total revenues in 2013 from 10.5% in the prior year. The decrease in both dollars and as a percentage of total revenues during 2013 is due primarily to low revenue growth in 2013 combined with increased compensation costs in 2013 from additional headcount investments in our consulting and sales organizations and annual merit increases.

***Other Income, Net***

Other income, net primarily consists of interest income on our marketable securities as well as gains (losses) on foreign currency. The decrease in other income, net during 2013 is primarily due to lower interest income earned in 2013 due to lower investment balances.

***Gains (Losses) on Investments, Net***

Gains (losses) on investments, net include our share of equity method investment gains (losses) from our technology-related investment funds and gains (losses) from the sale of marketable securities. In 2013 we sold our portfolio of auction rate securities (par value $11.0 million) for a realized loss of $1.9 million. In addition, in 2013 we realized an approximate $0.7 million loss from our equity method investments primarily from a decrease in the valuation of certain assets within the funds, and realized approximately $0.1 million of gains from other investments. During 2012 the valuation of the assets within these funds remained essentially consistent with the 2011 valuations. Gains (losses) from the sale of marketable securities were insignificant in 2012.

***Income Tax Provision***

| | 2013 | 2012 | Absolute Increase (Decrease) | Percentage Increase (Decrease) |
|---|---|---|---|---|
| Provision for income taxes (dollars in millions) | $ 7.0 | $ 5.9 | $ 1.1 | 19% |
| Effective tax rate | 34.9% | 18.2% | 16.7 | 92% |

The increase in the effective tax rate during 2013 as compared to the prior year is primarily due to the inclusion in 2012 of a tax benefit from the settlement of a tax audit by our German subsidiary that resulted in a 21 percentage point reduction in the effective tax rate, and to higher non-deductible expenses in 2013. This increase in the rate in 2013 was partially offset by an increase in the benefit of the foreign tax rate differential on non-U.S earnings due to higher foreign earnings, foreign tax credits realized in 2013 and a lower state rate in 2013 due to changes in income apportionment in 2013.

***Segment Results***

At the end of 2013 we reorganized our fulfillment organization into a single global research organization and a single global product organization to better support our client base by facilitating better research collaboration and quality, promoting a more uniform client experience and improved customer satisfaction, and encouraging innovation. During 2013 we also established a dedicated consulting organization to provide research-based project consulting services to our clients, allowing our research personnel to spend additional time on writing research and providing shorter-term advisory services. As of January 1, 2014 we conformed our internal reporting to match the new organizational structure and as such we are reporting segment information for the newly formed Research, Product and Project Consulting organizations. The 2013 and 2012 segment amounts have been reclassified to conform to the current presentation.

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

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

The Project Consulting segment includes the costs of the consultants that deliver our project consulting services. During 2013 we began to hire dedicated consultants to transition the delivery of project consulting services from research personnel (included in the Research segment) to the new Project Consulting segment. Revenue in this segment includes the project consulting revenue delivered by the consultants in this segment. Revenue and expenses in 2012 include the activity of a pre-existing dedicated consulting team that performed consulting services that were outside of the scope of the consulting delivered by research personnel.

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

| | Products | Research | Project Consulting | Consolidated |
|---|---|---|---|---|
| **Year Ended December 31, 2014** | | | | |
| Research services revenues | $ 207,517 | $ | $ | $ 207,517 |
| Advisory services and events revenues | 20,759 | 48,658 | 35,128 | 104,545 |
| Total segment revenues | 228,276 | 48,658 | 35,128 | 312,062 |
| Segment expenses | 39,466 | 53,307 | 27,236 | 120,009 |
| Contribution margin (loss) | 188,810 | (4,649) | 7,892 | 192,053 |
| Year over year revenue change | 3% | (16%) | 100% | 5% |
| Year over year expense change | 8% | (9%) | 73% | 8% |

| | Products | Research | Project Consulting | Consolidated |
|---|---|---|---|---|
| **Year Ended December 31, 2013** | | | | |
| Research services revenues | $ 202,843 | $ | $ | $ 202,843 |
| Advisory services and events revenues | 19,376 | 57,865 | 17,566 | 94,807 |
| Total segment revenues | 222,219 | 57,865 | 17,566 | 297,650 |
| Segment expenses | 36,384 | 58,685 | 15,700 | 110,769 |
| Contribution margin (loss) | 185,835 | (820) | 1,866 | 186,881 |
| Year over year revenue change | 1% | 2% | 16% | 2% |
| Year over year expense change | | 2% | 20% | 4% |

| | Products | Research | Project Consulting | Consolidated |
|---|---|---|---|---|
| **Year Ended December 31, 2012** | | | | |
| Research services revenues | $ 203,091 | $ | $ | $ 203,091 |
| Advisory services and events revenues | 17,905 | 56,928 | 15,107 | 89,940 |
| Total segment revenues | 220,996 | 56,928 | 15,107 | 293,031 |
| Segment expenses | 36,468 | 57,440 | 13,109 | 107,017 |
| Contribution margin (loss) | 184,528 | (512) | 1,998 | 186,014 |

Product segment revenues increased 3% during 2014 compared to the prior year. Research services revenues increased 2% during 2014 compared to the prior year, which is essentially consistent with the related contract bookings growth during this period. Revenues from our data subscription products declined by approximately $1.2 million in 2014 compared to 2013, the majority of which was due to the phasing out of our Tech Marketing Navigator product that began in 2013. The decline in data subscription revenues was offset by growth in our research product revenues. Events revenues were $12.9 million during 2014 which were flat compared to the prior year. Data advisory revenues increased approximately $1.3 million in 2014 compared to the prior year, representing growth of 20%. Product segment expenses increased 8% during 2014 due primarily to a $3.1 million increase in compensation and benefit costs due to an increase in the number of employees and annual merit increases.

Product segment revenues increased 1% during 2013 compared to the prior year. Research services revenues were flat during 2013 compared to the prior year as contract bookings during those periods were essentially flat. Revenues from our data subscription products declined by approximately $2.4 million in 2013 compared to 2012 due primarily to the phasing out of our standalone Tech Marketing Navigator data product in 2013. The decline in data subscription revenues was partially offset by an increase in research product revenue. Events revenues were $12.9 million during 2013 which were flat compared to the prior year. Data advisory revenues increased approximately $1.5 million in 2013 compared to the prior year, representing growth of 30%. Product segment expenses were flat during 2013 due primarily to a $0.6 million increase in compensation and benefit costs being offset by lower travel and entertainment costs and professional services expenses.

Research segment revenues decreased 16% during 2014 compared to the prior year due to the transition of the performance of project consulting services from personnel in our Research segment to personnel in our Project Consulting segment. Research segment expenses decreased by 9% during 2014 due primarily to a decrease in compensation and benefit costs due to a decrease in the number of employees in the Research segment related to the continued transition in the delivery of project consulting services to the Project Consulting segment.

Research segment revenues increased 2% during 2013 compared to the prior year due primarily to an increase in advisory revenue from increased productivity from our analyst personnel. This increase was partially offset by the start of the transition of the performance of project consulting services from personnel in our Research segment to personnel in our Project Consulting segment. Research segment expenses increased 2% during 2013 due primarily to a $2.2 million increase in compensation and benefit costs which were partially offset by lower travel and entertainment costs and professional services expenses.

Project Consulting segment revenues increased 100% and 16% during 2014 and 2013, respectively, compared to the prior year periods, due primarily to the ongoing transition of the performance of project consulting services from research personnel in our Research segment to consulting personnel, strong demand for certain consulting projects, and increased headcount to deliver the projects. Project Consulting segment expenses increased 73% and 20% during 2014 and 2013, respectively, due primarily to a $10.0 million and $2.1 million increase, respectively, in compensation and benefit costs due to an increase in the number of employees and annual merit increases.

**Liquidity and Capital Resources**

We have historically financed our operations primarily through funds generated from operations. Research services revenues, which constituted approximately 66% of our revenues during 2014, are generally renewable annually and are typically payable in advance. We generated cash from operating activities of $28.8 million and $30.7 million during the years ended December 31, 2014 and 2013, respectively. The $1.9 million decrease in cash provided from operations during 2014 is primarily attributable to a $4.8 million increase in cash paid for income taxes during 2014 and a $2.2 million decrease in net income in 2014 compared to 2013. These decreases in cash were partially offset by a $4.2 million increase in cash generated from accounts receivable and deferred revenue in 2014 compared to 2013, due in part to higher contract bookings during 2014.

During 2014 we generated $24.8 million of cash from investing activities, consisting primarily of $24.7 million in net maturities of marketable investments and $1.5 million of distributions from our non-marketable investments, partially offset by $1.5 million of purchases of property and equipment. Property and

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equipment purchases during 2014 consisted primarily of software. During 2013 we generated $57.6 million of cash from investing activities, consisting primarily of $60.4 million in net maturities of marketable investments partially offset by $3.1 million of purchases of property and equipment. Property and equipment purchases during 2013 consisted primarily of software and leasehold improvements. We regularly invest excess funds in short and intermediate-term interest-bearing obligations of investment grade.

We used $75.9 million of cash from financing activities during 2014 primarily due to $73.2 million of purchases of our common stock. In addition, during 2014 we paid $12.0 million of quarterly dividends consisting of a $0.16 per share dividend each quarter and we received $9.0 million of proceeds from the exercise of stock options and our employee stock purchase plan. We used $113.4 million of cash from financing activities during 2013 primarily due to $118.2 million of purchases of our common stock, of which $75.1 million (including expenses) was purchased through our modified Dutch auction self-tender offer (described below) and $43.1 million was purchased on the open market subsequent to completion of the self-tender offer. In addition, during 2013 we paid $12.4 million of quarterly dividends consisting of a $0.15 per share dividend each quarter and we received $17.4 million of proceeds from the exercise of stock options and our employee stock purchase plan.

On April 3, 2013 we commenced a modified Dutch auction self-tender offer to repurchase up to $130 million of our common stock at a price per share within the range of $32.00 to $36.00. A modified Dutch auction self-tender offer allows stockholders to indicate how many shares and at what price within the company s specified range (in increments of $0.25 per share) they wish to tender. When the tender offer expired, based upon the number of shares tendered and the prices specified by the tendering stockholders, we determined the purchase price, which was the lowest price per share within the range that enabled us to purchase up to $130 million of our common stock. The tender offer expired on May 1, 2013 and we purchased 2,054,732 shares of our common stock on May 7, 2013 at a purchase price of $36.00 per share for an aggregate purchase price of $74.0 million plus $1.1 million of expenses related to the tender offer. We funded the repurchase from cash and marketable securities on hand.

During 2014 our board of directors increased our stock repurchase authorization by $25 million. As of December 31, 2014 our remaining stock repurchase authorization was approximately $7.8 million. In February 2015 our board of directors increased our stock repurchase authorization by an additional $25 million, bringing the total remaining authorization to $28.4 million at the time of the increase. We plan to continue to repurchase our common stock during 2015, as market conditions warrant.

As of December 31, 2014, we had cash and cash equivalents of $49.7 million and marketable investments of $54.9 million. These balances include $33.4 million held outside of the U.S. If these funds outside of the U.S. are needed for operations in the U.S., we would be required to accrue and pay U.S. taxes to repatriate these funds. However, our intent is to permanently reinvest these funds outside of the U.S. and our current plans do not demonstrate a need to repatriate these funds for our U.S. operations. We do not currently have a line of credit and do not presently anticipate the need to access a line of credit in the foreseeable future except in the case of a significant acquisition. We believe that our current cash balance, marketable investments, and cash flows from operations will satisfy working capital, financing activities, and capital expenditure requirements for the next twelve months.

As of December 31, 2014, we had future contractual obligations as follows:

| Contractual Obligations | Total | 2015 | 2016 | 2017 (In thousands) | 2018 | 2019 | Thereafter |
|---|---|---|---|---|---|---|---|
| Operating leases | $ 98,217 | $ 10,628 | $ 9,503 | $ 9,347 | $ 9,104 | $ 8,843 | $ 50,792 |
| Purchase commitments | 4,055 | 4,055 | | | | | |
| | $ 102,272 | $ 14,683 | $ 9,503 | $ 9,347 | $ 9,104 | $ 8,843 | $ 50,792 |

As of December 31, 2014 the total amount of unrecognized tax benefits for uncertain tax positions and the accrual for the related interest, net of the federal benefit, was $2.1 million and was included in non-current liabilities. These amounts were not included in the table above because we are unable to make a reasonably reliable estimate of when a cash settlement, if any, will occur with a tax authority as the timing of examinations and ultimate resolutions of those examinations is uncertain.

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**Off-Balance Sheet Arrangements**

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

**Recent Accounting Pronouncements**

See Note 1 of the Notes to Consolidated Financial Statements for a full description of recent accounting pronouncements including the expected dates of adoption and effects on results of operations and financial condition.

**Item 7A.** ***Quantitative and Qualitative Disclosures 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 have historically not used derivative financial instruments.

The primary objective of our investment activities is to preserve principal and maintain liquidity while at the same time maximizing the income we receive from our investments without significantly increasing risk. To achieve this objective, we maintain our portfolio of cash equivalents and marketable investments in a variety of securities during the course of the year, which may include U.S. government agencies, municipal notes and bonds, corporate notes and bonds, commercial paper, and money market funds. The securities, other than money market funds, are classified as available-for-sale and consequently are recorded on the Consolidated Balance Sheets at fair value with unrealized gains or losses reported as a component of accumulated other comprehensive income (loss) in the Consolidated Balance Sheets. If interest rates rise, the market value of our investments may decline, which could result in a realized loss if we are forced to sell an investment before its scheduled maturity. We have the ability to hold our fixed income investments until maturity (without giving effect to any future acquisitions or mergers). 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 maturity date.

Principal amounts by maturity dates in U.S. dollars (dollars in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2015** | **2016** | **2017** |
| Federal agency and corporate obligations | 21,076 | 16,109 | 17,700 |
| Weighted average interest rates | 0.78% | 0.71% | 1.11% |

*Foreign Currency Exchange.* On a global level, we face exposure to movements in foreign currency exchange rates as we enter into normal business transactions that may be in currencies other than the local currency of our subsidiaries. In addition, transactions and account balances between our U.S. and foreign subsidiaries expose us to currency exchange risk. This exposure may change over time as business practices evolve and could have a material adverse effect on our results of operations. For the years ended December 31, 2014, 2013 and 2012, we incurred foreign currency exchange losses of $0.1 million, $0.4 million and $0.4 million, respectively. Historically, we have not entered into any hedging agreements. However, we may enter into hedging agreements in the future to attempt to mitigate the financial effect of future fluctuations in the euro, British pound or other foreign currencies.

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**Item 8.** ***Consolidated Financial Statements and Supplementary Data***

The financial statements listed in the following Index to Financial Statements are filed as a part of this 2014 Annual Report on Form 10-K.

**FORRESTER RESEARCH, INC.**

**INDEX TO FINANCIAL STATEMENTS**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of

Forrester Research, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, comprehensive income, stockholders equity and cash flows present fairly, in all material respects, the financial position of Forrester Research, Inc. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under item 9A. Our responsibility is to express opinions on these financial statements and on the Company s internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

March 11, 2015

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**FORRESTER RESEARCH, INC.**

**CONSOLIDATED BALANCE SHEETS**

| | December 31, 2014 | December 31, 2013 |
|---|---|---|
| | (In thousands, except per share data) | |
| **ASSETS** | | |
| Current Assets: | | |
| Cash and cash equivalents | $ 49,650 | $ 74,132 |
| Marketable investments (Note 3) | 54,885 | 81,013 |
| Accounts receivable, net (Note 11) | 67,429 | 77,543 |
| Deferred commissions | 13,754 | 12,939 |
| Prepaid expenses and other current assets | 22,277 | 20,762 |
| Total current assets | 207,995 | 266,389 |
| Property and equipment, net (Note 11) | 32,174 | 39,868 |
| Goodwill (Note 2) | 76,683 | 80,001 |
| Intangible assets, net (Note 2) | 3,382 | 5,777 |
| Other assets | 12,473 | 10,167 |
| Total assets | $ 332,707 | $ 402,202 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| Current Liabilities: | | |
| Accounts payable | $ 912 | $ 1,024 |
| Accrued expenses and other current liabilities (Note 11) | 36,217 | 33,471 |
| Deferred revenue | 144,568 | 152,903 |
| Total current liabilities | 181,697 | 187,398 |
| Non-current liabilities (Note 11) | 9,408 | 10,142 |
| Total liabilities | 191,105 | 197,540 |
| Commitments (Note 6) | | |
| Stockholders Equity (Note 7): | | |
| Preferred stock, $0.01 par value | | |
| Authorized 500 shares, issued and outstanding none | | |
| Common stock, $0.01 par value | | |
| Authorized 125,000 shares | | |
| Issued 20,856 and 20,491 in 2014 and 2013, respectively | | |
| Outstanding 18,153 and 19,756 in 2014 and 2013, respectively | 209 | 205 |
| Additional paid-in capital | 124,942 | 109,676 |
| Retained earnings | 117,318 | 118,415 |
| Treasury stock 2,703 and 735 in 2014 and 2013, respectively, at cost | (99,254) | (26,088) |
| Accumulated other comprehensive income (loss) | (1,613) | 2,454 |
| Total stockholders equity | 141,602 | 204,662 |
| Total liabilities and stockholders equity | $ 332,707 | $ 402,202 |

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

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**FORRESTER RESEARCH, INC.**

**CONSOLIDATED STATEMENTS OF INCOME**

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| | (In thousands, except per share data) | | |
| Revenues: | | | |
| Research services | $ 207,517 | $ 202,843 | $ 203,091 |
| Advisory services and events | 104,545 | 94,807 | 89,940 |
| Total revenues | 312,062 | 297,650 | 293,031 |
| Operating expenses: | | | |
| Cost of services and fulfillment | 126,199 | 117,061 | 111,228 |
| Selling and marketing | 115,753 | 107,073 | 101,390 |
| General and administrative | 38,584 | 38,280 | 36,866 |
| Depreciation | 9,325 | 9,268 | 8,921 |
| Amortization of intangible assets | 2,171 | 2,230 | 2,445 |
| Reorganization costs | 1,817 | 1,905 | 1,421 |
| Total operating expenses | 293,849 | 275,817 | 262,271 |
| Income from operations | 18,213 | 21,833 | 30,760 |
| Other income, net | 464 | 592 | 1,300 |
| Gains (losses) on investments, net | (288) | (2,433) | 94 |
| Income before income taxes | 18,389 | 19,992 | 32,154 |
| Income tax provision | 7,524 | 6,968 | 5,858 |
| Net income | $ 10,865 | $ 13,024 | $ 26,296 |
| Basic income per common share | $ 0.58 | $ 0.62 | $ 1.17 |
| Diluted income per common share | $ 0.57 | $ 0.61 | $ 1.15 |
| Basic weighted average common shares outstanding | 18,713 | 20,861 | 22,500 |
| Diluted weighted average common shares outstanding | 19,007 | 21,353 | 22,929 |

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

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**FORRESTER RESEARCH, INC.**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | | (In thousands) | |
| Net income | $ 10,865 | $ 13,024 | $ 26,296 |
| Other comprehensive income (loss), net of taxes: | | | |
| Foreign currency translation | (3,977) | 826 | 7,419 |
| Net change in market value of investments | (90) | 1,040 | (3) |
| Other comprehensive income (loss) | (4,067) | 1,866 | 7,416 |
| Comprehensive income | $ 6,798 | $ 14,890 | $ 33,712 |

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

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**FORRESTER RESEARCH, INC.**

**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**

| | Common Stock | | | | Treasury Stock | | Accumulated | |
|---|---|---|---|---|---|---|---|---|
| | Number of Shares | $.01 Par Value | Additional Paid-in Capital | Retained Earnings | Number of Shares | Cost | Other Comprehensive Income (Loss) | Total Stockholders Equity |
| | | | | | | (In thousands) | | |
| Balance, December 31, 2011 | 30,962 | $ 310 | $ 373,591 | $ 104,077 | 8,215 | $ (181,000) | $ (6,828) | $ 290,150 |
| Issuance of common stock under stock plans, including tax effects | 489 | 5 | 10,374 | | | | | 10,379 |
| Stock-based compensation expense | | | 5,397 | | | | | 5,397 |
| Purchase of common stock | | | | | 943 | (29,843) | | (29,843) |
| Dividends paid on common shares | | | | (12,588) | | | | (12,588) |
| Net income | | | | 26,296 | | | | 26,296 |
| Net change in marketable investments, net of tax | | | | | | | (3) | (3) |
| Foreign currency translation | | | | | | | 7,419 | 7,419 |
| Balance, December 31, 2012 | 31,451 | 315 | 389,362 | 117,785 | 9,158 | (210,843) | 588 | 297,207 |
| Issuance of common stock under stock plans, including tax effects | 724 | 7 | 17,111 | | | | | 17,118 |
| Stock-based compensation expense | | | 6,051 | | | | | 6,051 |
| Purchase of common stock | | | | | 3,261 | (118,210) | | (118,210) |
| Retirement of treasury stock | (11,684) | (117) | (302,848) | | (11,684) | 302,965 | | |
| Dividends paid on common shares | | | | (12,394) | | | | (12,394) |
| Net income | | | | 13,024 | | | | 13,024 |
| Net change in marketable investments, net of tax | | | | | | | 1,040 | 1,040 |
| Foreign currency translation | | | | | | | 826 | 826 |
| Balance, December 31, 2013 | 20,491 | 205 | 109,676 | 118,415 | 735 | (26,088) | 2,454 | 204,662 |
| Issuance of common stock under stock plans, including tax effects | 365 | 4 | 7,822 | | | | | 7,826 |
| Stock-based compensation expense | | | 7,444 | | | | | 7,444 |
| Purchase of common stock | | | | | 1,968 | (73,166) | | (73,166) |
| Dividends paid on common shares | | | | (11,962) | | | | (11,962) |
| Net income | | | | 10,865 | | | | 10,865 |
| Net change in marketable investments, net of tax | | | | | | | (90) | (90) |
| Foreign currency translation | | | | | | | (3,977) | (3,977) |
| Balance, December 31, 2014 | 20,856 | $ 209 | $ 124,942 | $ 117,318 | 2,703 | $ (99,254) | $ (1,613) | $ 141,602 |

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

**FORRESTER RESEARCH, INC.**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| | | (In thousands) | |
| Cash flows from operating activities: | | | |
| Net income | $ 10,865 | $ 13,024 | $ 26,296 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation | 9,325 | 9,268 | 8,921 |
| Amortization of intangible assets | 2,171 | 2,230 | 2,445 |
| Net (gains) losses from investments | 288 | 2,433 | (94) |
| Deferred income taxes | (7,526) | (4,529) | (10,967) |
| Stock-based compensation | 7,444 | 6,051 | 5,397 |
| Amortization of premium on investments | 1,273 | 2,261 | 2,803 |
| Foreign currency losses | 141 | 385 | 405 |
| Changes in assets and liabilities | | | |
| Accounts receivable | 9,140 | (2,930) | 6,959 |
| Deferred commissions | (815) | (3,529) | 2,607 |
| Prepaid expenses and other current assets | 620 | 607 | 6,610 |
| Accounts payable | (82) | 222 | (490) |
| Accrued expenses and other liabilities | 2,171 | 3,547 | 549 |
| Deferred revenue | (6,220) | 1,673 | 1,706 |
| Net cash provided by operating activities | 28,795 | 30,713 | 53,147 |
| Cash flows from investing activities: | | | |
| Purchases of property and equipment | (1,503) | (3,127) | (5,103) |
| Purchases of marketable investments | (35,386) | (44,667) | (91,421) |
| Proceeds from sales and maturities of marketable investments | 60,112 | 105,086 | 91,335 |
| Change in restricted cash | | | 946 |
| Other investing activity | 1,542 | 264 | 167 |
| Net cash provided by (used in) investing activities | 24,765 | 57,556 | (4,076) |
| Cash flows from financing activities: | | | |
| Dividends paid on common stock | (11,962) | (12,394) | (12,588) |
| Repurchases of common stock | (73,166) | (118,210) | (29,843) |
| Proceeds from issuance of common stock under employee equity incentive plans | 8,969 | 17,387 | 11,215 |
| Excess tax benefits from stock-based compensation | 244 | 737 | 345 |
| Payment of deferred acquisition consideration | | (900) | (864) |
| Net cash used in financing activities | (75,915) | (113,380) | (31,735) |
| Effect of exchange rate changes on cash and cash equivalents | (2,127) | 433 | 427 |
| Net increase (decrease) in cash and cash equivalents | (24,482) | (24,678) | 17,763 |
| Cash and cash equivalents, beginning of year | 74,132 | 98,810 | 81,047 |
| Cash and cash equivalents, end of year | $ 49,650 | $ 74,132 | $ 98,810 |
| Supplemental disclosure of cash flow information: | | | |
| Cash paid for income taxes | $ 14,180 | $ 9,358 | $ 7,102 |

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

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**FORRESTER RESEARCH, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**December 31, 2014**

## (1) Summary of Significant Accounting Policies

***Basis of Presentation***

*Principles of Consolidation*

Forrester Research, Inc. ( Forrester or the Company ) is an independent research company that provides pragmatic and forward-thinking advice to global leaders in business and technology. Forrester s products and services are targeted to specific roles, including senior management in business strategy, marketing, and technology management principally at $1 billion-plus revenue companies who collaborate with Forrester to accelerate achievement of their business goals. The accompanying consolidated financial statements include the accounts of Forrester and its wholly-owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

*Management Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Forrester considers the more significant of these estimates to be revenue recognition, stock-based compensation, non-marketable investments, goodwill and intangible assets, and income taxes. On an ongoing basis, management evaluates its estimates. Actual results could differ from these estimates.

*Out-of-Period Errors*

During 2014 the Company recorded $0.3 million of pre-tax expenses ($0.2 million post tax) for out-of-period corrections, of which $0.4 million related to depreciation and $(0.1) million related to other immaterial amounts that related to prior periods. In addition, during 2014 the Company recorded $0.5 million of additional income tax expense for an out-of-period correction. The Company has concluded that these items are immaterial to all current and prior period financial statements.

***Fair Value Measurements***

The Company has certain financial assets recorded at fair value which have been classified as Level 1, 2 or 3 within the fair value hierarchy as described in the accounting standards for fair value measurements.

Level 1 Fair value based on quoted prices in active markets for identical assets or liabilities.

Level 2 Fair value based on inputs other than Level 1 inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Fair value based on unobservable inputs that are supported by little or no market activity and such inputs are significant to the fair value of the assets or liabilities.

The carrying amounts reflected in the Consolidated Balance Sheets for cash, cash equivalents, accounts receivable, accounts payable, and accrued expenses approximate fair value due to their short-term maturities.

***Cash, Cash Equivalents, and Marketable Investments***

Forrester considers all short-term, highly liquid investments with original maturities at the time of purchase of 90 days or less to be cash equivalents.

**FORRESTER RESEARCH, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company s portfolio of investments may at any time include securities of U.S. government agencies, municipal notes, corporate notes and bonds, and money market funds. Forrester accounts for all marketable investments as available-for-sale securities and as such, the marketable investments are carried at fair value, with unrealized gains and losses (not related to credit losses) recorded in accumulated other comprehensive income (loss) in the Consolidated Balance Sheets. Realized gains and losses on securities are included in earnings and are determined using the specific identification method. The Company conducts periodic reviews to identify and evaluate each investment that has an unrealized loss, in accordance with the meaning of other-than-temporary impairment and its application to certain investments, as required under current accounting standards. An unrealized loss exists when the current fair value of an individual security is less than its amortized cost basis. Unrealized losses on available-for-sale securities that are determined to be temporary, and not related to credit loss, are recorded, net of tax, in accumulated other comprehensive income (loss). The determination of whether a loss is considered temporary is based in part on whether the Company intends to sell the security or whether the Company would more likely than not be required to sell the security before the expected recovery of the amortized cost basis. During the years ended December 31, 2014, 2013 and 2012, the Company did not record any other-than-temporary impairment charges on its available-for-sale securities.

***Concentrations of Credit Risk***

Forrester has no significant off-balance sheet or concentration of credit risk such as foreign exchange contracts, option contracts, or other foreign hedging arrangements. Financial instruments that potentially subject Forrester to concentrations of credit risk are principally cash, cash equivalents, marketable investments, and accounts receivable. Forrester places its investments in highly rated securities. No single customer accounted for greater than 3% of revenues or accounts receivable in any of the periods presented.

***Deferred Commissions***

Commissions incurred in acquiring new or renewing existing contracts, which are earned in the month that a contract is booked, are deferred and expensed to operations as the related revenue is recognized. Forrester evaluates the recoverability of deferred commissions at each balance sheet date.

***Goodwill***

Goodwill is not amortized; however, it is required to be tested for impairment annually. Furthermore, testing for impairment is required on an interim basis if an event or circumstance indicates that it is more likely than not an impairment loss has been incurred. An impairment loss would be recognized to the extent that the carrying amount of goodwill exceeds its implied fair value. Absent an event that indicates a specific impairment may exist, the Company has selected November 30 as the date for performing the annual goodwill impairment test. Goodwill impairment charges have not been required for the years ended December 31, 2014, 2013 and 2012. In connection with the Company s new organizational structure, goodwill was allocated to its new reporting units (which are the Company s three business segments) on a relative fair value basis. The Company performed an interim quantitative impairment test and concluded that there was no indication of impairment.

***Impairment of Other Long-Lived Tangible and Intangible Assets***

Forrester continually evaluates whether events or circumstances have occurred that indicate that the estimated remaining useful life of long-lived assets and intangible assets may warrant revision or if events or circumstances indicate 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. Impairment charges have not been required for the years ended December 31, 2014, 2013 and 2012.

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**FORRESTER RESEARCH, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Non-Current Liabilities***

The Company records certain liabilities that are expected to be settled over a period that exceeds one year as non-current liabilities. The Company also records as a non-current liability the portion of the deferred rent liability that is expected to be recognized over a period greater than one year. Non-current deferred rent liability at December 31, 2014 and 2013 was $6.5 million and $6.7 million, respectively, and primarily results from the difference between cash payments and the straight-line recognition of rent expense under the Company s facility leases.

***Foreign Currency***

The functional currency of the majority of Forrester s wholly-owned subsidiaries is their respective local currency. These subsidiary financial statements are translated to U.S. dollars using period-end exchange rates for assets and liabilities and average exchange rates during the corresponding period for revenues and expenses, with translation gains and losses accumulated as a component of accumulated other comprehensive income (loss). Gains and losses related to the remeasurement of monetary assets and liabilities denominated in a currency other than an entity s functional currency are included in other income, net in the Consolidated Statements of Income. For the years ended December 31, 2014, 2013 and 2012, Forrester recorded $0.1 million, $0.4 million and $0.4 million of foreign exchange losses, respectively, in other income, net.

***Accumulated Other Comprehensive Income (Loss)***

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

| | Net Unrealized Gain (Loss) on Marketable Investments | Cumulative Translation Adjustment | Total Accumulated Other Comprehensive Income (Loss) |
|---|---|---|---|
| Balance at December 31, 2011 | $ (1,021) | $ (5,807) | $ (6,828) |
| Foreign currency translation | | 7,419 | 7,419 |
| Unrealized gain on investments before reclassification, net of tax of $7 | 14 | | 14 |
| Reclassification adjustment for net gains realized in net income, net of tax of $12 | (17) | | (17) |
| Balance at December 31, 2012 | (1,024) | 1,612 | 588 |
| Foreign currency translation | | 826 | 826 |
| Unrealized loss on investments before reclassification, net of tax of $41 | (111) | | (111) |
| Reclassification adjustment for net losses realized in net income, net of tax of $691 | 1,151 | | 1,151 |
| Balance at December 31, 2013 | 16 | 2,438 | 2,454 |
| Foreign currency translation | | (3,977) | (3,977) |
| Unrealized loss on investments before reclassification, net of tax of $47 | (84) | | (84) |
| Reclassification adjustment for net gains realized in net income, net of tax of $8 | (6) | | (6) |

| | | | |
|---|---|---|---|
| Balance at December 31, 2014 | $ (74) | $ (1,539) | $ (1,613) |

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

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**FORRESTER RESEARCH, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***Revenue Recognition***

Forrester generates revenues from licensing research (including our data subscription products), performing advisory services and consulting projects and hosting events. Forrester executes contracts that govern the terms and conditions of each arrangement. Revenues are recognized when persuasive evidence of an arrangement exists, the fee is fixed or determinable, services have been provided to the customer, and collectability is reasonably assured. Revenues are presented net of any sales or value added taxes that are collected from customers and remitted to the government. Revenue contracts may include either a single product or service or a combination of multiple products and services. Revenues from contracts that contain multiple products and services are allocated among the separate units of accounting based on their relative selling prices; however, the amount recognized is limited to the amount that is not contingent on future performance conditions. The Company obtains the selling prices of its products and services based on an analysis of standalone sales of these products and services during the year. Research services revenues are recognized ratably over the term of the contract. Advisory services revenues, such as workshops, speeches and advisory days, are recognized when the customer receives the agreed upon deliverable and consulting project revenues, which are short-term in nature and based upon fixed-fee agreements, are recognized as the services are provided. Reimbursed out-of-pocket expenses are recorded as advisory services revenue. Event revenues are recognized upon completion of the event.

Annual subscriptions to our RoleView research include access to all or a designated portion of our research, and depending on the type of license, membership in one or more of our Forrester leadership boards, unlimited phone or email analyst inquiry, unlimited participation in Forrester Webinars, and the right to attend one event. Contracts for RoleView are accounted for as two units of accounting: 1) the event ticket and 2) the remaining research services that are delivered throughout the contract period. Arrangement consideration is allocated to each of these elements based upon their relative selling prices, which is based on standalone sales of event tickets and the estimated selling price of the remaining research services. Annual subscriptions to our data subscription products include access to designated survey data products and access to a data advisor, which are delivered throughout the year, and are accounted for as one unit of accounting and recognized ratably as research services revenue over the membership period. For all contracts entered into through January 2013, clients were offered a service guarantee, which gave them the right to cancel their contracts prior to the end of the contract term and receive a refund for unused products or services. As of February 1, 2013 the Company discontinued its policy of offering all clients a service guarantee.

***Stock-Based Compensation***

The Company recognizes the fair value of stock-based compensation expense over the requisite service period of the individual grantee, which generally equals the vesting period. Cash flows resulting from the tax benefits of tax deductions in excess of the compensation expense recognized for stock-based awards are classified as financing cash flows. The Company is required to estimate future forfeitures of stock-based awards for recognition of compensation expense. The Company will record additional expense if the actual forfeitures are lower than estimated and will record a recovery of prior recognized expense if the actual forfeitures are higher than estimated. The actual expense recognized over the vesting period will only be for those awards that vest. Stock-based compensation expense was recorded in the following expense categories (in thousands):

| | Years Ended December 31, | | |
|---|---|---|---|
| | **2014** | **2013** | **2012** |
| Cost of services and fulfillment | $ 4,316 | $ 3,585 | $ 3,085 |
| Selling and marketing | 1,132 | 1,136 | 894 |
| General and administrative | 1,996 | 1,330 | 1,418 |
| Total | $ 7,444 | $ 6,051 | $ 5,397 |

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**FORRESTER RESEARCH, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The options granted under the equity incentive plan and shares subject to the employee stock purchase plan were valued utilizing the Black Scholes model using the following assumptions and had the following fair values:

| | Years Ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2012 | |
| | Equity Incentive Plans | Employee Stock Purchase Plan | Equity Incentive Plans | Employee Stock Purchase Plan | Equity Incentive Plans | Employee Stock Purchase Plan |
| Average risk-free interest rate | 1.69% | 0.06% | 0.85% | 0.12% | 0.85% | 0.14% |
| Expected dividend yield | 1.8% | 2.0% | 2.1% | 1.9% | 1.7% | 1.7% |
| Expected life | 5.1 Years | 0.5 Years | 4.9 Years | 0.5 Years | 4.5 Years | 0.5 Years |
| Expected volatility | 26% | 24% | 36% | 22% | 40% | 31% |
| Weighted average fair value | $ 7.91 | $ 7.32 | $ 9.21 | $ 6.02 | $ 9.64 | $ 6.90 |

Dividend yields are based on the initiation of a regular quarterly dividend program approved by the board of directors in February 2012. Expected volatility is based, in part, on the historical volatility of Forrester s common stock as well as management s expectations of future volatility over the expected term of the awards granted. The risk-free interest rate used is based on the U.S. Treasury Constant Maturity rate with an equivalent remaining term. Where the expected term of a stock-based award does not correspond with a term for which the interest rates are quoted, Forrester uses the rate with the maturity closest to the award s expected term. The expected term calculation is based upon Forrester s historical experience of exercise patterns. The unamortized fair value of stock-based awards as of December 31, 2014 was $15.8 million, with a weighted average remaining recognition period of 2.5 years.

***Allowance for Doubtful Accounts***

Forrester maintains an allowance for doubtful accounts for estimated losses resulting from the inability of its customers to make contractually obligated payments. When evaluating the adequacy of the allowance for doubtful accounts, the Company makes judgments regarding the collectability of accounts receivable by specifically analyzing historical bad debts, customer concentrations, current economic trends, and changes in the customer payment terms. If the financial condition of the Company s 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 the Company s customers were to improve, the allowances may be reduced accordingly.

***Depreciation and Amortization***

Forrester provides for depreciation and amortization of property and equipment, computed using the straight-line method, over estimated useful lives of assets as follows:

| | Estimated Useful Life |
|---|---|
| Computers and equipment | 3 to 10 Years |
| Computer software | 3 to 5 Years |
| Furniture and fixtures | 7 Years |
| Leasehold improvements | Shorter of asset life or lease term |

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**FORRESTER RESEARCH, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Forrester provides for amortization of intangible assets, computed using an accelerated method according to the expected cash flows to be received from the underlying assets, over the respective lives as follows:

| | Estimated Useful Life |
|---|---|
| Customer relationships | 5 to 11 Years |
| Research content | 1 to 2 Years |
| Technology | 7 Years |
| Trademarks | 1 Year |

***Income Taxes***

Forrester recognizes deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statements and tax basis of assets and liabilities as well as operating loss carryforwards.

Forrester s provision for income taxes is composed of a current and a deferred provision for federal, state and foreign jurisdictions. The current provision is calculated as the estimated taxes payable or refundable on tax returns for the current year. The deferred income tax provision is calculated as the net change during the year in deferred tax assets and liabilities. Valuation allowances are provided if based on the weight of available evidence, it is more likely than not that some or all of the deferred tax asset will not be realized.

Forrester accounts for uncertain tax positions using a more-likely-than-not threshold for recognizing and resolving uncertain tax positions. The evaluation of uncertain tax positions is based on factors including, but not limited to, changes in tax law, the measurement of tax positions taken or expected to be taken in tax returns, the effective settlement of matters subject to audit, new audit activity, and changes in facts or circumstances related to a tax position. The Company evaluates these tax positions on a quarterly basis. The Company also accrues for potential interest and penalties related to unrecognized tax benefits in income tax expense.

***Net Income Per Common Share***

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

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

| | Years Ended December 31, | | |
|---|---|---|---|
| | 2014 | 2013 | 2012 |
| Basic weighted average common shares outstanding | 18,713 | 20,861 | 22,500 |
| Weighted average common equivalent shares | 294 | 492 | 429 |
| Diluted weighted average common shares outstanding | 19,007 | 21,353 | 22,929 |

For the years ended December 31, 2014, 2013 and 2012, options to purchase approximately 0.6 million, 0.7 million and 0.8 million shares, respectively, were outstanding but not included in the diluted weighted average common share calculation as the effect would have been anti-dilutive.

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**FORRESTER RESEARCH, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

***New Accounting Pronouncements***

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

In July 2013, the FASB issued ASU No. 2013-11, Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. The standard addresses the balance sheet presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. The standard requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The adoption of this ASU as of January 1, 2014 did not have a material effect on the Company s financial position.

**(2) Goodwill and Other Intangible Assets**

At the end of 2013 the Company reorganized its fulfillment organization into a single global research organization and a single global product organization to better support its client base by facilitating better research collaboration and quality, promoting a more uniform client experience and improved customer satisfaction, and encouraging innovation. During 2013 the Company also established a dedicated consulting organization to provide research-based project consulting services to its clients, allowing the Company s research personnel to spend additional time on writing research and providing shorter-term advisory services. As of January 1, 2014 the Company conformed its internal reporting to match the new organizational structure and as such is reporting segment information for the newly formed Research, Product and Project Consulting organizations. The goodwill previously allocated to the former Business Technology ( BT ), Marketing and Strategy ( M&S ), and Events segments has been reassigned to the Products, Research and Project Consulting segments based on the relative fair values of the new segments.

A summary of the goodwill by segment and the changes in the carrying amount of goodwill is shown in the following table (in thousands).

| | BT | M&S | Events | Total |
|---|---|---|---|---|
| Balance, December 31, 2012 | $ 43,491 | $ 33,362 | $ 2,101 | $ 78,954 |
| Translation adjustments | 577 | 442 | 28 | 1,047 |
| Balance, December 31, 2013 | $ 44,068 | $ 33,804 | $ 2,129 | $ 80,001 |

| | Products | Research | Project Consulting | Total |
|---|---|---|---|---|
| Balance, January 1, 2014 | $ 2,560 | $ 77,441 | $ | $ 80,001 |
| Translation adjustments | (106) | (3,212) | | (3,318) |
| Balance, December 31, 2014 | $ 2,454 | $ 74,229 | $ | $ 76,683 |

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**FORRESTER RESEARCH, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

As of December 31, 2014, the Company had no accumulated goodwill impairment losses.

A summary of Forrester s intangible assets is as follows (in thousands):

**December 31, 2014**