FORRESTER RESEARCH INC
Form 10-Q
November 06, 2009

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FORM 10-Q

(MARK ONE)

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2009

OR

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

COMMISSION FILE NUMBER: 000-21433

FORRESTER RESEARCH, INC.

(Exact name of registrant as specified in its charter)

DELAWARE	04-2797789
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

400 TECHNOLOGY SQUARE CAMBRIDGE, MASSACHUSETTS (Address of principal executive offices)	02139 (Zip Code)

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

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

Yes þ No o

Indicate by check mark whether the registrant 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 o No o

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 o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Small reporting company o

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

Yes o No þ

As of November 4, 2009, 22,461,558 shares of the registrant s common stock were outstanding.

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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

FORRESTER RESEARCH, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands)

	SEPTEMBER 30, 2009 (UNAUDITED)	DECEMBER 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 108,177	$ 129,478
Short-term investments	162,055	83,951
Accounts receivable, net	36,404	64,226
Deferred commissions	6,365	9,749
Deferred income tax assets, net	9,037	7,947
Prepaid expenses and other current assets	10,112	15,553
Total current assets	332,150	310,904
Long-term assets:		
Long-term investments	9,950	46,500
Property and equipment, net	6,957	6,759
Goodwill, net	66,999	67,424
Deferred income tax assets, net	7,460	8,523
Non-marketable investments	5,064	7,000
Intangible assets, net	6,464	7,138
Other assets	548	703
Total long-term assets	103,442	144,047
Total assets	$ 435,592	$ 454,951
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 1,952	$ 3,532
Accrued expenses	23,892	27,527
Deferred revenue	93,541	113,844
Total current liabilities	119,385	144,903
Non-current liabilities	6,552	6,551

Stockholders equity:				
Preferred stock, $.01 par value				
Authorized 500 shares				
Issued and outstanding-none				
Common stock, $.01 par value				
Authorized 125,000 shares				
Issued 29,289 and 29,146 shares as of September 30, 2009 and December 31, 2008, respectively				
Outstanding 22,466 and 23,045 shares as of September 30, 2009 and December 31, 2008, respectively		293		291
Additional paid-in capital		322,707		315,149
Retained earnings		123,776		110,693
Treasury stock, at cost 6,823 and 6,101 shares as of September 30, 2009 and December 31, 2008, respectively		(136,084)		(120,851)
Accumulated other comprehensive loss		(1,037)		(1,785)
Total stockholders equity		309,655		303,497
Total liabilities and stockholders equity	$	435,592	$	454,951

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

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FORRESTER RESEARCH, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share data)

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2009	2008	2009	2008
	(UNAUDITED)			
Revenues:				
Research services	$ 38,893	$ 40,326	$ 116,968	$ 114,136
Advisory services and other	14,988	19,180	54,898	63,818
Total revenues	53,881	59,506	171,866	177,954
Operating expenses:				
Cost of services and fulfillment	19,234	21,806	63,306	65,848
Selling and marketing	18,084	20,282	56,536	60,119
General and administrative	7,099	7,529	20,468	22,945
Reorganization costs			3,141	
Depreciation	1,075	1,012	3,311	2,998
Amortization of intangible assets	439	282	1,751	476
Total operating expenses	45,931	50,911	148,513	152,386
Income from operations	7,950	8,595	23,353	25,568
Other income:				
Other income, net	460	1,447	2,182	5,221
(Impairments) gains from marketable and non-marketable investments, net	(732)	26	(1,683)	2,136
Net income before income tax provision	7,678	10,068	23,852	32,925
Income tax provision	3,378	3,680	10,769	12,864
Net income	$ 4,300	$ 6,388	$ 13,083	$ 20,061
Basic net income per common share	$ 0.19	$ 0.28	$ 0.58	$ 0.87
Diluted net income per common share	$ 0.19	$ 0.27	$ 0.57	$ 0.85
Basic weighted average common shares outstanding	22,561	23,163	22,736	23,056
Diluted weighted average common shares outstanding	22,809	23,793	22,953	23,655

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

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

	NINE MONTHS ENDED SEPTEMBER 30,	
	2009	2008
	(UNAUDITED)	
Cash flows from operating activities:		
Net income	$ 13,083	$ 20,061
Adjustments to reconcile net income to net cash provided by operating activities-		
Depreciation	3,311	2,998
Amortization of intangible assets	1,751	476
Gains on sales of marketable investments		(2,057)
Impairments (gains) from non-marketable investments, net	1,683	(79)
Deferred income taxes	225	2,961
Non-cash stock-based compensation	4,921	3,973
Increase in provision for doubtful accounts	320	494
Unrealized loss on foreign currency and other, net	125	
Tax benefit from exercises of employee stock options		(2,244)
Amortization of premiums on marketable investments	838	626
Changes in assets and liabilities, net of acquisition-		
Accounts receivable	28,401	34,518
Deferred commissions	3,385	2,134
Prepaid expenses and other current assets	5,611	2,290
Accounts payable	(2,050)	(1,056)
Accrued expenses	(3,797)	(4,721)
Deferred revenue	(21,338)	(16,951)
Net cash provided by operating activities	36,469	43,423
Cash flows from investing activities:		
Acquisition of JupiterResearch		(23,398)
Acquisition of Forrester Middle East FZ-LLC	(752)	
Purchases of property and equipment	(3,464)	(2,730)
Proceeds from non-marketable investments		250
Decrease in other assets	438	344
Purchases of marketable investments	(530,345)	(966,671)
Proceeds from sales and maturities of marketable investments	487,339	1,028,902
Net cash (used in) provided by investing activities	(46,784)	36,697
Cash flows from financing activities:		
Proceeds from issuance of common stock under stock option plans and employee stock purchase plan	2,721	17,246
Tax benefits related to stock options		2,244
Acquisition of treasury stock	(15,233)	(26,086)

Net cash used in financing activities	(12,512)	(6,596)
Effect of exchange rate changes on cash and cash equivalents	1,526	(1,818)
Net (decrease) increase in cash and cash equivalents	(21,301)	71,706
Cash and cash equivalents, beginning of period	129,478	53,163
Cash and cash equivalents, end of period	$ 108,177	$ 124,869
Supplemental disclosure of cash flow information:		
Cash paid for income taxes	$ 8,306	$ 7,819

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

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FORRESTER RESEARCH, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) for reporting on Form 10-Q. Accordingly, certain information and footnote disclosures required for complete financial statements are not included herein. It is recommended that these financial statements be read in conjunction with the consolidated financial statements and related notes that appear in the Forrester Research, Inc. (Forrester) Annual Report on Form 10-K for the year ended December 31, 2008. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation of the financial position, results of operations, and cash flows as of the dates and for the periods presented have been included. The results of operations for the three and nine months ended September 30, 2009 may not be indicative of the results for the year ending December 31, 2009, or any other period.

NOTE 2 REORGANIZATION

On February 9, 2009, Forrester announced a reduction of its workforce by approximately 50 positions in response to conditions and demands of the market and a slower economy. Additionally, Forrester identified certain leased office space that was no longer required to support the ongoing business. As a result, Forrester recorded a reorganization charge of approximately $3.1 million in the three months ended March 31, 2009. Approximately 44% of the terminated employees were members of the sales force, while 38% and 18% held research and administrative roles, respectively.

The activity related to the February 9, 2009 reorganization during the nine months ended September 30, 2009 is as follows (in thousands):

	Total Charge	Cash Payments	Accrued as of September 30, 2009
Workforce reduction	$ 2,872	$ 2,767	$ 105
Facility consolidation	269	43	226
Total	$ 3,141	$ 2,810	$ 331

The accrued costs related to the February 9, 2009 reorganization are expected to be paid in the following periods (in thousands):

	2009	2010	2011	Accrued as of September 30, 2009
Workforce reduction	$ 105	$	$	$ 105
Facility consolidation	46	156	24	226
Total	$ 151	$ 156	$ 24	$ 331

NOTE 3 ACQUISITIONS

JupiterResearch

On July 31, 2008, Forrester acquired all of the outstanding capital stock of JUPR Holdings, Inc. (Holdings), the parent company of JupiterResearch, LLC (JupiterResearch). JupiterResearch provided business professionals with syndicated

research, analysis, and advice backed by proprietary data. The acquisition supported the Company s role-based strategy, added greater depth and breadth to the marketing and strategy syndicated product

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offering, increased the number of client companies and was expected to reduce operating expenses of the combined entity through economies of scale. The total consideration was $22.0 million which consisted of initial cash consideration of $23.0 million less a working capital adjustment of $1.0 million which was received in the fourth quarter of 2008. The aggregate purchase price of $22.6 million consisted of $22.0 million in cash for the acquisition of all outstanding shares of Holdings common stock, $398,000 of direct acquisition costs and $154,000 for severance related to 14 employees of JupiterResearch terminated as a result of the acquisition, of which $8,000 was paid during the year ended December 31, 2008 and the remainder was paid during the three months ended March 31, 2009. The results of JupiterResearch s operations have been included in Forrester s consolidated financial statements since July 31, 2008 and the Company has not furnished pro forma financial information relating to the acquisition because such information is not material.

Forrester Middle East FZ-LLC

On January 22, 2009, Forrester acquired all of the outstanding share capital of Forrester Middle East FZ-LLC (FME), a Dubai, UAE based reseller of Forrester s products that also offered consulting services to local customers, to expand the Company s direct geographical presence in the area. The total consideration was approximately $1.1 million of which approximately $561,000 was paid on the acquisition date, $266,000 was paid in the three months ended June 30, 2009 and $266,000 will be due in the fourth quarter of 2009, subject to a downward adjustment based on certain contractual provisions. The preliminary purchase price allocation resulted in an allocation of approximately $1.1 million to intangible assets, principally customer relationships to be amortized over 7 years according to the expected cash flows to be received from the underlying asset, and $22,000 to the net liabilities acquired. The results of FME s operations have been included in Forrester s consolidated financial statements since January 22, 2009 and the Company has not furnished pro forma financial information relating to the acquisition because such information is not material.

NOTE 4 INTANGIBLE ASSETS

A summary of Forrester s amortizable intangible assets as of September 30, 2009 is as follows:

	GROSS CARRYING AMOUNT	ACCUMULATED AMORTIZATION	NET CARRYING AMOUNT
	(IN THOUSANDS)		
Amortizable intangible assets:			
Customer relationships	$ 28,517	$ 22,073	$ 6,444
Research content	3,560	3,560	
Registered trademarks	803	803	
Non-compete agreement	80	60	20
Total	$ 32,960	$ 26,496	$ 6,464

Amortization expense related to identifiable intangible assets was approximately $439,000 and $282,000 during the three months ended September 30, 2009 and 2008, respectively, and approximately $1.8 million and $476,000 during the nine months ended September 30, 2009 and 2008, respectively. Estimated amortization expense related to identifiable intangible assets that will continue to be amortized is as follows:

	AMOUNTS (IN THOUSANDS)
Remaining three months ending December 31, 2009	$ 328
Year ending December 31, 2010	1,096
Year ending December 31, 2011	981

Year ending December 31, 2012		851
Year ending December 31, 2013		739
Year ending December 31, 2014		644
Thereafter		1,825
Total	$	6,464

NOTE 5 MARKETABLE INVESTMENTS

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The following table summarizes the Company s marketable investments excluding the Right from UBS discussed below (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
September 30, 2009				
State and municipal obligations, short-term	$ 47,479	$ 616	$	$ 48,095
UBS ARS	32,025		(1,812)	30,213
Federal agency and corporate obligations, short-term (1)	98,931	499		99,430
Total short-term investments	$ 178,435	$ 1,115	$ (1,812)	$ 177,738
Non-UBS ARS	11,000		(1,050)	9,950
Total short and long-term investments	$ 189,435	$ 1,115	($2,862)	$ 187,688
December 31, 2008				
State and municipal obligations, short-term	$ 70,455	$ 701	$	$ 71,156
Federal agency and corporate obligations, short-term (2)	83,550	64	(86)	83,528
Total short-term investments	$ 154,005	$ 765	$ (86)	$ 154,684
UBS ARS	35,500		(6,887)	28,613
Non-UBS ARS	11,000			11,000
Total short and long-term investments	$ 200,505	$ 765	($6,973)	$ 194,297

(1) Approximately $17.5 million included in cash and cash equivalents at September 30, 2009.

(2) Approximately $70.7 million included in cash and cash equivalents at December 31, 2008.

The following table summarizes the maturity periods of the short- and long-term investments in the Company s portfolio as of September 30, 2009, excluding the Right (as defined below) from UBS.

	FY 2009	FY 2010	FY 2011	FY 2012	Total
		(in thousands)			
Non-ARS state and municipal obligations	$ 8,859	$30,577	$ 8,659	$	$ 48,095
UBS ARS	30,213				30,213
Non-UBS ARS	9,950				9,950
Federal agency and corporate obligations	40,376	24,328	25,116	9,610	99,430
Total short and long-term	$89,398	$54,905	$33,775	$9,610	$187,688

In February 2008, certain auction rate securities (ARS) that Forrester holds experienced failed auctions that limited the liquidity of these securities. Based on current market conditions, it is likely that auction failures will continue. The actual contractual maturities of these investments were they not to reset would occur at various dates between 2009 and 2041 with $150,000 maturing in one to five years, $600,000 maturing in five to ten years and $42.3 million maturing after ten years.

In 2007, Forrester owned an approximately 1.2% ownership interest in comScore, Inc. (comScore), a provider of infrastructure services which utilizes proprietary technology to accumulate comprehensive information on consumer buying behavior. In June 2007, comScore (NASDAQ: SCOR) completed an initial public offering in which Forrester s ownership interest was converted to approximately 126,000 shares. In December 2007, Forrester sold approximately 20,000 shares. In February 2008, Forrester sold an additional 20,000 shares and the remaining 86,000 shares were sold in May 2008 resulting in gains of approximately $387,000 and $1.7 million, respectively.

Fair Value

The Company measures certain financial assets at fair value on a recurring basis, including cash equivalents, available-for-sale securities and trading securities. The fair value of these financial assets was determined based on three levels of inputs, of which the first two are considered observable and the last unobservable as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs other than Level 1 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 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following table represents the Company s fair value hierarchy for its financial assets (cash equivalents and investments) measured at fair value on a recurring basis as of September 30, 2009 (in thousands):

	Level 1	**Level 2**	**Level 3**	**Total**
Money market funds (1)	$ 29,346	$	$	$ 29,346
Federal agency and corporate obligations (2)		99,430		99,430
State and municipal obligations		48,095	40,163	88,258
UBS Put Right			1,812	1,812
Total	$ 29,346	$ 147,525	$ 41,975	$ 218,846

(1) Included in cash and cash equivalents at September 30, 2009.

(2) Approximately $17.5 million included in cash and cash equivalents at September 30, 2009.

Level 3 assets consist of municipal bonds with an auction reset feature (ARS) whose underlying assets are principally student loans which are substantially backed by the federal government. Since the auctions for these securities have continued to fail since February 2008, these investments are not currently trading and therefore do not have a readily determinable market value. Accordingly, the estimated fair value of the ARS no longer approximates par value. A large portion of these ARS are held by UBS AG (UBS), one of the Company s investment advisors. In November 2008, the Company accepted an offer (the Right) from UBS entitling the Company to sell at par value ARS originally purchased from UBS (approximately $32.0 million par value at September 30, 2009) (UBS ARS) at anytime during a two-year period from June 30, 2010 through July 2, 2012. Although the Company expects to sell its UBS ARS under the Right, if the Right is not exercised before July 2, 2012, it will expire and UBS will have no further rights or obligation to buy the Company s UBS ARS. The Company has valued the UBS ARS and Right using a discounted cash flow model based on Level 3 assumptions. The assumptions used in valuing the UBS ARS and the put option include estimates of, based on data available as of September 30, 2009, interest rates, timing and amount of cash flows, credit and liquidity premiums, expected holding periods of the UBS ARS, loan rates per the UBS ARS

Rights offering and bearer risk associated with UBS s financial ability to repurchase the UBS ARS beginning June 30, 2010. The combined fair value of the Right and the UBS ARS is equal to the par value of the UBS ARS. The Company intends to exercise the Right from UBS on June 30, 2010 and as a result has classified these ARS as short-term investments as of September 30, 2009.

The Company s other investment advisor provided a valuation at par based on the limited market activity, which Forrester considered to be a Level 3 input in addition to the underlying credit rating of the Company s other ARS, which was generally related to municipalities. In addition to the valuation at par Forrester completed a valuation of the securities using a discounted cash flow approach including estimates of interest rates, timing and amount of cash flows, credit and liquidity premiums and expected holding periods of the ARS. Forrester relied most heavily on this

approach, which resulted in an unrealized loss recorded in other comprehensive income of approximately $1.1 million principally due to the steady decline in market activity. Forrester believes that the loss is temporary due to the underlying credit rating of the ARS and the Company has the intent and ability to hold the ARS until a full recovery has occurred. As the funds associated with the ARS may not be accessible for in excess of twelve months because of continued failed auctions or the inability to find a buyer outside of the auction process, the Company s other ARS have been classified as long-term investments.

The following table provides a summary of changes in fair value of the Company s Level 3 financial assets as of September 30, 2009 (in thousands):

	UBS Put Option	**ARS**
Balance at December 31, 2008	$ 6,887	39,613
Sales/Maturities		(3,475)
Total gains or (losses):		
Included in other comprehensive income		(1,050)
Included in earnings	(5,075)	5,075
Balance at September 30, 2009	$ 1,812	$ 40,163

NOTE 6 NON-MARKETABLE INVESTMENTS

In June 2000, Forrester committed to invest $20.0 million in two technology-related private equity investment funds with capital contributions required to be funded over an expected period of five years. During the three and nine months ended September 30, 2008 Forrester contributed $13,000 and $38,000 to these investment funds, respectively. During the three and nine months ended September 30, 2009 no additional contributions were made. Total cumulative contributions are approximately $19.6 million to date. One of these investments is being accounted for using the cost method and, accordingly, is valued at cost unless an other than temporary impairment in its value occurs or the investment is liquidated. The other investment is being accounted for using the equity method as the investment is a limited partnership and Forrester has an ownership interest in the limited partnership in excess of 5% and, accordingly, Forrester records its share of the investee s operating results each period. During the three and nine months ended September 30, 2008, gross distributions of approximately $38,000 and $288,000, respectively, were recorded and resulted in gains of $26,000 and $160,000, respectively, in the consolidated statements of income. There were no distributions during the three and nine months ended September 30, 2009. During the three and nine months ended September 30, 2009, Forrester recorded impairments of approximately $268,000 and $1.2 million, respectively, which were included in the consolidated statements of income. During the three months ended September 30, 2008 there were no impairments recorded. During the nine months ended September 30, 2008, the Company recorded impairments of $74,000. During each of the three and nine months ended in both September 30, 2008 and 2009, fund management charges of approximately $84,000 and $252,000, respectively, were included in other income, net in the consolidated statements of income. Fund management charges are recorded as a reduction of the investment s carrying value.

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

In December 2003, Forrester committed to invest an additional $2.0 million over an expected capital contribution period of 2 years in an annex fund of one of the two private equity investment funds. The annex fund investment is

outside of the scope of the previously mentioned bonus plan. As of September 30, 2009, Forrester had contributed

$2.0 million to this fund. This investment is being accounted for using the equity method as the investment is a limited partnership and Forrester has an ownership interest in the limited partnership in excess of 5% and, accordingly, Forrester records its share of the investee s operating results each period. During the three and nine months ended September 30, 2009, Forrester recorded impairments of approximately $464,000 and $468,000, respectively, which were included in the consolidated statements of income. During the three months ended September 30, 2008 there were no impairments recorded. During the nine months ended September 30, 2008, the Company recorded impairments of $4,000.

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

NOTE 7 NET INCOME PER COMMON SHARE

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

	THREE MONTHS ENDED SEPTEMBER 30,		**NINE MONTHS ENDED SEPTEMBER 30,**	
	2009	**2008**	**2009**	**2008**
	(IN THOUSANDS)			
Basic weighted average common shares outstanding	22,561	23,163	22,736	23,056
Weighted average common equivalent shares	248	630	217	599
Diluted weighted average common shares outstanding	22,809	23,793	22,953	23,655
Common equivalent shares excluded from the diluted weighted average share calculation as the effect would have been anti-dilutive	2,247	934	1,995	1,456

NOTE 8 STOCKHOLDERS EQUITY

Comprehensive Income

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

	September 30, 2009	**December 31, 2008**
Unrealized gain on marketable investments, net of taxes	$ 38	$ 365
Cumulative translation adjustment	(1,075)	(2,150)
Total accumulated other comprehensive loss	$ (1,037)	$ (1,785)

The components of total comprehensive income for the three and nine months ended September 30, 2009 and 2008 are as follows (in thousands):

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2009	2008	2009	2008
Net income	$ 4,300	$ 6,388	$ 13,083	$ 20,061
Unrealized gain (loss) on marketable investments, net of taxes	48	(325)	(330)	(3,475)
Cumulative translation adjustment	1,211	(1,711)	1,078	(1,005)
Total comprehensive income	$ 5,559	$ 4,352	$ 13,831	$ 15,581

Stock Plans

The following table summarizes stock option activity under all stock plans for the nine months ended September 30, 2009 (in thousands, except per share and average life data):

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (In Years)	Aggregate Intrinsic Value
Outstanding as of December 31, 2008	2,934	$ 25.16	6.63	$ 13,230
Granted	447	24.79		
Exercised	(100)	18.09		
Cancelled	(116)	27.88		
Outstanding as of September 30, 2009	3,165	$ 25.23	6.50	$ 10,079
Exercisable as of September 30, 2009	2,045	$ 24.44	5.34	$ 8,950

Stock-Based Compensation

Forrester recognizes the fair value of stock-based compensation in net income over the requisite service period of the individual grantee, which generally equals the vesting period. Forrester recorded approximately $1.4 million and $1.3 million of stock-based compensation in the accompanying consolidated statements of income for the three months ended September 30, 2009 and 2008, respectively, and $4.9 million and $4.0 million for the nine months ended September 30, 2009 and 2008, respectively, included in the following expense categories (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Cost of services and fulfillment	$ 733	$ 678	$ 2,481	$ 2,094

Selling and marketing	274	247	884	723
General and administrative	423	344	1,556	1,156
	$ 1,430	$ 1,269	$ 4,921	$ 3,973

On July 1, 2009, Forrester granted to its employees restricted stock units for a total of 93,296 shares of stock. The vesting of the restricted stock units is subject to performance criteria and will vest at 100% or 40% on April 1, 2012, or the restricted stock units could be forfeited, depending on whether specified revenue growth and pro forma operating margin targets related to full year 2011 performance are achieved. As of September 30, 2009, expense was recognized assuming 100% vesting for the three month period then ended.

On April 1, 2008, Forrester issued to its employees options to purchase 370,000 shares of common stock. These options were subject to performance criteria and would vest only if certain pro forma operating profit targets related to full year 2008 performance were achieved. The vesting of these options was over 24, 36 or 48 months, or the options could be forfeited, depending on the actual pro forma operating profit achieved for 2008. At the time of grant, operating performance was expected to result in the options vesting over 48 months. The actual pro forma operating profit for 2008 resulted in accelerated vesting of the options over 24 months and the expense related to

these options was recognized on a graded basis. Based on historical exercise patterns for options with similar vesting and the expected vesting period at the time of grant, Forrester used an expected option term of 2 years for the year one vest, 3 years for the year two vest, 4 years for the year three vest and 5 years for the year four vest to value these options.

On April 2, 2007, Forrester issued to its employees options to purchase 293,600 shares of common stock. These options were subject to performance criteria and would vest only if certain pro forma operating margin targets related to full year 2007 performance were achieved. The vesting of these options was over 24 or 36 months, or the options could be forfeited, depending on the actual pro forma operating margin achieved for 2007. At the time of grant, operating performance was expected to result in the options vesting over 36 months. The actual pro forma operating margin for 2007 resulted in the options vesting over 36 months and the expense related to these options was recognized on a graded basis. Based on historical exercise patterns for options with similar vesting and the expected vesting period at the time of grant, Forrester used an expected option term of 2 years for the year one vest, 3 years for the year two vest and 4 years for the year three vest to value these options.

On April 3, 2006, Forrester issued to its employees options to purchase 587,500 shares of common stock. These options were subject to performance criteria and would vest only if certain pro forma operating margin targets related to full year 2006 performance were achieved. The vesting of these options was over 24 or 36 months, or the options could be forfeited, depending on the actual pro forma operating margin achieved for 2006. At the time of grant, operating performance was expected to result in the options vesting over 36 months. The actual pro forma operating margin for 2006 resulted in accelerated vesting of the options over 24 months and the expense related to these options was recognized on a graded basis. Based on historical exercise patterns for options with similar vesting and the expected vesting period at the time of grant, Forrester used an expected option term of 2 years for the year one vest, 3 years for the year two vest and 4 years for the year three vest to value these options.

Forrester utilized the Black-Scholes valuation model for estimating the fair value of the stock-based compensation. The options granted under the stock plans and shares subject to purchase under the employee stock purchase plan were valued using the following assumptions:

	3 Months Ended September 30, 2009		3 Months Ended September 30, 2008	
	Stock Plans	**Employee Stock Purchase Plan**	**Stock Plans**	**Employee Stock Purchase Plan**
Average risk-free interest rate	2.01%	0.28%	3.09%	2.00%
Expected dividend yield	None	None	None	None
Expected life	3.5 Years	0.5 Years	3.5 Years	0.5 Years
Expected volatility	44%	44%	35%	35%
Weighted average fair value at grant date	$8.57	$6.92	$9.54	$7.56

	9 Months Ended September 30, 2009		9 Months Ended September 30, 2008	
	Stock Plans	**Employee Stock Purchase Plan**	**Stock Plans**	**Employee Stock Purchase Plan**
Average risk-free interest rate	1.85%	0.29%	2.60%	2.50%
Expected dividend yield	None	None	None	None
Expected life	3.5 Years	0.5 Years	3.5 Years	0.5 Years
Expected volatility	44%	44%	35%	35%
Weighted average fair value at grant date	$8.37	$6.83	$7.99	$7.32

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The dividend yield of zero is based on the fact that Forrester has never paid cash dividends and has no present intention to pay cash dividends. 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 Forrester s stock-based awards does not correspond with the terms 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.

Based on Forrester s historical experience as well as management s expectations for the next year, a forfeiture rate of 10% was used to determine current period expense. Forrester evaluated various employee groups and determined that the forfeiture experience and expectations were not materially different amongst employee groups and therefore concluded that one forfeiture rate was appropriate. Forrester will record additional expense if the actual forfeiture rate is lower than estimated and will record recovery of prior expense if the actual forfeiture rate is higher than estimated.

The total intrinsic value of stock options exercised during the three and nine months ended September 30, 2009 was $215,000 and $588,000, respectively. The total intrinsic value of stock options exercised during the three and nine months ended September 30, 2008 was $3.4 million and $10.1 million, respectively. The unamortized fair value of stock options as of September 30, 2009 was $5.5 million, with a weighted average remaining recognition period of 1.36 years.

NOTE 9 STOCK REPURCHASE

Through April 2009, the Board of Directors authorized an aggregate $200 million to purchase common stock under the stock repurchase program, including an additional $50 million authorized in April 2009. The shares repurchased may be used, among other things, in connection with Forrester s employee equity incentive and purchase plans. As of September 30, 2009, Forrester had repurchased approximately 6.8 million shares of common stock at an aggregate cost of approximately $136.1 million.

NOTE 10 TAXES

Forrester provides for income taxes on an interim basis according to management s estimate of the effective tax rate expected to be applicable for the full fiscal year ending December 31, 2009. Certain items such as adjustments to the Company s tax expense related to the prior fiscal year, changes in tax rates, and tax benefits related to disqualifying dispositions of incentive stock options are treated as discrete items and are recorded in the period in which they arise.

NOTE 11 OPERATING SEGMENT AND ENTERPRISE WIDE REPORTING

Forrester manages its business within three principal client groups (Client Groups), with each client group responsible for writing relevant research for the roles within the client organizations on a worldwide basis. The three client groups are: Information Technology Client Group (IT), Technology Industry Client Group (TI), and the Marketing and Strategy Client Group (M&S). All of the Client Groups generate revenues through sales of similar research and advisory and other service offerings targeted at specific roles within their targeted clients. Each of the Client Groups consists of a sales force responsible for selling to clients located within the Client Group s target client base and research personnel focused primarily on issues relevant to particular roles and to the day-to-day responsibilities of persons within the roles. The results of JupiterResearch (see Note 3) are included in the M&S Client Group since the date of acquisition. Amounts included in the Other segment primarily relate to the operations of the events sales and production departments. Revenue reported in the Other operating segment consists primarily of sponsorships and event tickets to Forrester events.

Forrester evaluates reportable segment performance and allocates resources based on direct margin. Direct margin, as presented below, is defined as operating income excluding certain selling and marketing expenses, client services, non-cash stock-based compensation expense, general and administrative expenses, depreciation expense,

amortization of intangibles and reorganization costs. The accounting policies used by the reportable segments are the same as those used in the consolidated financial statements.

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

The following tables present information about reportable segments.

	IT	TI	M&S	Other	Consolidated
Three months ended September 30, 2009					
Revenue	$ 22,133	$ 16,074	$ 15,674	$	$ 53,881
Direct Margin	10,565	8,600	6,682	(895)	24,952
Corporate expenses					(16,563)
Amortization of intangible assets					(439)
Income from operations					$ 7,950
Three months ended September 30, 2008					
Revenue	$ 24,851	$ 17,809	$ 15,407	$ 1,439	$ 59,506
Direct Margin	11,391	9,520	5,323	228	26,462
Corporate expenses					(17,585)
Amortization of intangible assets					(282)
Income from operations					$ 8,595

	IT	TI	M&S	Other	Consolidated
Nine months ended September 30, 2009					
Revenue	$ 68,892	$ 49,795	$ 46,714	$ 6,465	$ 171,866
Direct Margin	32,553	26,579	17,647	1,659	78,438
Corporate expenses					(53,334)
Amortization of intangible assets					(1,751)
Income from operations					$ 23,353
Nine months ended September 30, 2008					
Revenue	$ 74,314	$ 52,015	$ 42,067	$ 9,558	$ 177,954
Direct Margin	32,715	27,141	14,617	4,096	78,569
Corporate expenses					(52,525)
Amortization of intangible assets					(476)
Income from operations					$ 25,568

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

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2009	2008	2009	2008
	(IN THOUSANDS)			
United States	$ 37,709	$ 42,901	$ 121,427	$ 127,652
Europe (excluding United Kingdom)	7,120	7,301	22,757	23,472
United Kingdom	3,525	3,593	10,781	10,294
Canada	3,195	3,461	10,217	9,854
Other	2,332	2,250	6,684	6,682
	$ 53,881	$ 59,506	$ 171,866	$ 177,954

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2009	2008	2009	2008
United States	70%	72%	71%	72%
Europe (excluding United Kingdom)	13	12	13	13
United Kingdom	7	6	6	6
Canada	6	6	6	5
Other	4	4	4	4
	100%	100%	100%	100%

NOTE 12 SUBSEQUENT EVENTS EVALUATION

Management has reviewed and evaluated material subsequent events from the balance sheet date of September 30, 2009 through the financial statements issue date of November 6, 2009. All appropriate subsequent event disclosures, if any, have been made in notes to our unaudited interim consolidated financial statements.

NOTE 13 STOCK OPTION INVESTIGATION; RESTATEMENT OF HISTORICAL FINANCIAL STATEMENTS

During the three and nine months ended September 30, 2008, the Company incurred expenses of $487,000 and $1.1 million related to the stock option investigation and restatement of the Company s historical financial statements, respectively. During the three and nine months ended September 30, 2009, there were no expenses incurred related to the stock option investigation and restatement of the Company s historical financial statements.

NOTE 14 RECENT ACCOUNTING PRONOUNCEMENTS

Adopted Accounting Pronouncements

Effective July 1, 2009, the Company adopted *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles* (ASC 105). This standard establishes only two levels of U.S. generally accepted accounting principles (GAAP), authoritative and nonauthoritative. The FASB Accounting Standards Codification (the Codification) became the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification became nonauthoritative. The Company began using the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the third quarter of fiscal 2009. As the Codification was not intended to change or alter existing GAAP, it did not have any impact on the Company s consolidated financial statements.

Effective April 1, 2009, the Company adopted three accounting standard updates which were intended to provide additional application guidance and enhanced disclosures regarding fair value measurements and impairments of securities. They also provide additional guidelines for estimating fair value in accordance with fair value accounting. The first update, as codified in ASC 820-10-65, provides additional guidelines for estimating fair value in accordance with fair value accounting. The second accounting update, as codified in ASC 320-10-65, changes accounting requirements for other-than-temporary-impairment (OTTI) for debt securities by replacing the current requirement that a holder have the positive intent and ability to hold an impaired security to recovery in order to conclude an impairment was temporary with a requirement that an entity conclude it does not intend to sell an impaired security and it will not be required to sell the security before the recovery of its amortized cost basis. The third accounting update, as codified in ASC 825-10-65, increases the frequency of fair value disclosures. These updates were effective for fiscal years and interim periods ended after June 15, 2009. The adoption of these accounting updates did not have any impact on the Company s consolidated financial statements.

Effective April 1, 2009, the Company adopted a new accounting standard for subsequent events, as codified in ASC 855-10. The update modifies the names of the two types of subsequent events either as recognized subsequent events (previously referred to in practice as Type I subsequent events) or non-recognized subsequent events (previously referred to in practice as Type II subsequent events). In addition, the standard modifies the definition of subsequent

events to refer to events or transactions that occur after the balance sheet date, but before the financial statements are issued (for public entities) or available to be issued (for nonpublic entities). It also requires the disclosure of the date through which subsequent events have been evaluated. The update did not result in significant changes in the practice of subsequent event disclosures, and therefore the adoption did not have any impact on the Company s consolidated financial statements.

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Effective January 1, 2009, the Company adopted an accounting standard update regarding the determination of the useful life of intangible assets. As codified in ASC 350-30-35, this update amends the factors considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under intangibles accounting. It also requires a consistent approach between the useful life of a recognized intangible asset under prior business combination accounting and the period of expected cash flows used to measure the fair value of an asset under the new business combinations accounting (as currently codified under ASC 850). The update also requires enhanced disclosures when an intangible asset s expected future cash flows are affected by an entity s intent and/or ability to renew or extend the arrangement. The adoption did not have any impact on the Company s consolidated financial statements.

In February 2008, the FASB issued an accounting standard update that delayed the effective date of fair value measurements accounting for all non-financial assets and non-financial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually), until the beginning of the first quarter of fiscal 2009. These include goodwill and other non-amortizable intangible assets. The Company adopted this accounting standard update effective January 1, 2009. The adoption of this update to non-financial assets and liabilities, as codified in ASC 820-10, did not have any impact on the Company s consolidated financial statements.

Effective January 1, 2009, the Company adopted a new accounting standard update regarding business combinations. As codified under ASC 805, this update requires an entity to recognize the assets acquired, liabilities assumed, contractual contingencies, and contingent consideration at their fair value on the acquisition date. It further requires that acquisition-related costs be recognized separately from the acquisition and expensed as incurred; that restructuring costs generally be expensed in periods subsequent to the acquisition date; and that changes in accounting for deferred tax asset valuation allowances and acquired income tax uncertainties after the measurement period be recognized as a component of provision for taxes. The adoption did not have a material impact on the Company s consolidated financial statements.

New Accounting Pronouncements

In September 2009, the FASB issued Update No. 2009-13, *Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force* (ASU 2009-13). It updates the existing multiple-element revenue arrangements guidance currently included under ASC 605-25, which originated primarily from the guidance in EITF Issue No. 00-21, Revenue Arrangements with Multiple Deliverables (EITF 00-21). The revised guidance primarily provides two significant changes: 1) eliminates the need for objective and reliable evidence of the fair value for the undelivered element in order for a delivered item to be treated as a separate unit of accounting, and 2) eliminates the residual method to allocate the arrangement consideration. In addition, the guidance also expands the disclosure requirements for revenue recognition. ASU 2009-13 will be effective for the first annual reporting period beginning on or after June 15, 2010, with early adoption permitted provided that the revised guidance is retroactively applied to the beginning of the year of adoption. The Company is currently assessing the future impact of this new accounting update to its consolidated financial statements.

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

OVERVIEW

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as expects, believes, anticipates, intends, plans, estimates, or sim expressions are intended to identify these forward-looking statements. These statements include, but are not limited to, statements about the adequacy of our liquidity and capital resources and the success of and demand for our research and advisory products and services. These statements are based on our current plans and expectations and involve risks and uncertainties that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual future activities and results to differ include, among others, our ability to respond to business and economic conditions, particularly in light of the global economic downturn, technology spending, market trends, competition, the ability to attract and retain professional staff, possible variations in our quarterly operating results, any cost

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savings related to reductions in force and associated actions, risks associated with our ability to offer new products and services and our dependence on renewals of our membership-based research services and on key personnel. These risks are described more completely in our Annual Report on Form 10-K for the year ended December 31, 2008. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

We derive revenues from memberships to our research product offerings and from our advisory services and events. 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 are initially recorded as deferred revenue and are recognized as revenue when the customer receives the agreed upon deliverable. Event billings are also initially recorded as deferred revenue and are recognized as revenue upon completion of each event. Consequently, changes in the number and value of client contracts, both net decreases as well as net increases, impact our revenues and other results over a period of several months.

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

Reorganization costs relate to severance and related benefits costs incurred in connection with the termination of positions and to lease loss costs.

The Company s results of operations for the three and nine months ended September 30, 2009 include the operations of JupiterResearch, acquired July 31, 2008. The results of FME s operations have been included in the Company s results of operations since the date of acquisition, January 22, 2009.

Deferred revenue, agreement value, client retention, dollar retention and enrichment 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. Deferred revenue reflects billings in advance of revenue recognition as of the measurement date. 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. No single client accounted for more than 2% of agreement value at September 30, 2009 or 2008. We calculate client retention as the percentage of client companies with memberships expiring during the most recent twelve-month period who renewed one or more of those memberships during that same period. We calculate dollar retention as a 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. We calculate enrichment as a percentage of the dollar value of client membership contracts renewed during the period to the dollar value of the corresponding expiring contracts. Client retention, dollar retention, and enrichment are not necessarily indicative of the rate of future retention of our revenue base. A summary of our key metrics is as follows:

	As of September 30,		Absolute	Percentage
	2009	2008	Decrease	Decrease
Deferred Revenue (dollars in millions)	$ 93.5	$ 98.1	(4.6)	(5)%

Agreement Value (dollars in millions)	$183.5	$216.2	(32.7)	(15)%
Client Retention	72%	77%	(5)	(6)%
Dollar Retention	82%	87%	(5)	(6)%
Enrichment	97%	108%	(11)	(10)%
Number of clients	2,505	2,718	(213)	(8)%

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The decrease in deferred revenue, agreement value, client retention, dollar retention, enrichment and the number of clients is reflective of the more difficult economic environment.

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, non-cash stock-based compensation, allowance for doubtful accounts, non-marketable investments, goodwill and other intangible assets, taxes and valuation and impairment of marketable investments. Management bases its estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Our critical accounting policies and estimates are described in our Annual Report on Form 10-K for the year ended December 31, 2008.

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RESULTS OF OPERATIONS

The following table sets forth selected items in our statement of income as a percentage of total revenues for the periods indicated:

	THREE MONTHS ENDED SEPTEMBER 30,		NINE MONTHS ENDED SEPTEMBER 30,	
	2009	2008	2009	2008
Research services	72%	68%	68%	64%
Advisory services and other	28	32	32	36
Total revenues	100	100	100	100
Cost of services and fulfillment	36	37	37	37
Selling and marketing	34	34	33	34
General and administrative	13	13	12	13
Reorganization costs			2	
Depreciation	2	2	2	2
Amortization of intangible assets	1		1	
Income from operations	14	14	13	14
Other income, net	1	3	1	3
(Impairments) gains from marketable and non-marketable investments, net	(1)		(1)	1
Net income before income tax provision	14	17	13	18
Income tax provision	6	6	6	7
Net income	8%	11%	7%	11%

THREE MONTHS ENDED SEPTEMBER 30, 2009 AND SEPTEMBER 30, 2008

REVENUES.

	THREE MONTHS ENDED SEPTEMBER 30,		Absolute Increase (Decrease)	Percentage Increase (Decrease)
	2009	2008		
Revenues (in millions)	$ 53.9	$ 59.5	$ (5.6)	(9)%
Revenues from research services (in millions)	$ 38.9	$ 40.3	$ (1.4)	(3)%
Advisory services and other revenues (in millions)	$ 15.0	$ 19.2	$ (4.2)	(22)%
Revenues attributable to customers outside of the United States (in millions)	$ 16.2	$ 16.6	$ (0.4)	(2)%
Revenues attributable to customers outside of the United States as a percentage of total revenues	30%	28%	2	7%
Number of clients (at end of period)	2,505	2,718	(213)	(8)%
Number of research employees (at end of period)	372	410	(38)	(9)%

Number of events	1	2	(1)	(50)%

The decrease in total revenues is principally the result of the global economic slowdown which has resulted in lower client and dollar retention and to a lesser extent the adverse impact of foreign exchange. The decrease in advisory services and other revenues is primarily the result of a softer overall events performance, the global economic slowdown and our objective to drive a higher percentage of our total revenues from research services. In 2008, the Company modified its sales compensation plan for greater alignment with this objective. The decrease in research services is due to the global economic slowdown. The effects of foreign currency translation resulted in an approximately 2% decrease in total revenues in the three months ended September 30, 2009 as compared with the three months ended September 30, 2008. The increase in international revenues as a percentage of total revenues is primarily attributable to revenues declining at a slower rate internationally than in the United States.

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No single client company accounted for more than 2% of revenues during the three months ended September 30, 2009 or 2008.

COST OF SERVICES AND FULFILLMENT.

	THREE MONTHS ENDED SEPTEMBER 30,		Absolute	Percentage
	2009	2008	Decrease	Decrease
Cost of services and fulfillment (in millions)	$19.2	$21.8	$(2.6)	(12)%
Cost of services and fulfillment as a percentage of total revenues	36%	37%	(1)	(3)%
Number of research and fulfillment employees (at end of period)	449	501	(52)	(10)%

The decrease in cost of services and fulfillment in dollars and as a percentage of total revenues is primarily due to decreased compensation and benefits costs resulting from a decrease in the number of research and fulfillment employees as well as to reduced discretionary expense spending.

SELLING AND MARKETING.

	THREE MONTHS ENDED SEPTEMBER 30,		Absolute	Percentage
	2009	2008	Decrease	Decrease
Selling and marketing expenses (in millions)	$18.1	$20.3	$(2.2)	(11)%
Selling and marketing expenses as a percentage of total revenues	34%	34%		
Number of selling and marketing employees (at end of period)	368	415	(47)	(11)%

The decrease in selling and marketing expenses in dollars is primarily due to a decrease in compensation and benefits costs resulting from a decrease in the number of selling and marketing employees as well as to a decrease in sales commissions associated with lower overall performance by sales employees under our sales compensation plan in the three months ended September 30, 2009 as compared with the three months ended September 30, 2008.

GENERAL AND ADMINISTRATIVE.

	THREE MONTHS ENDED SEPTEMBER 30,		Absolute	Percentage
	2009	2008	Decrease	Decrease
General and administrative expenses (in millions)	$ 7.1	$ 7.5	$(0.4)	(5)%
General and administrative expenses as a percentage of total revenues	13%	13%		
Number of general and administrative employees (at end of period)	143	152	(9)	(6)%

The decrease in general and administrative expenses in dollars is primarily due to a decrease in professional services fees associated with the stock option investigation and restatement of our historical financial statements and other non-recurring expenses incurred in the three months ended September 30, 2008.

DEPRECIATION.

THREE MONTHS
ENDED

	SEPTEMBER 30,		Absolute	Percentage
	2009	2008	Increase	Increase
Depreciation expense (in millions)	$ 1.1	$ 1.0	$0.1	10%
Depreciation expense as a percentage of total revenues	2%	2%		

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The increase in depreciation expense is primarily attributable to purchases of leasehold improvements in the first quarter of 2009.

AMORTIZATION OF INTANGIBLE ASSETS. Amortization of intangible assets increased to $439,000 in the three months ended September 30, 2009 from $282,000 in the three months ended September 30, 2008. The increase in amortization expense is attributable to the amortization of intangible assets from the acquisitions of JupiterResearch on July 31, 2008 and Forrester Middle East on January 22, 2009.

OTHER INCOME, NET. Other income, net, consisting primarily of interest income, decreased to $460,000 in the three months ended September 30, 2009 from $1.4 million in the three months ended September 30, 2008. The decrease is primarily due to lower returns on invested capital.

(IMPAIRMENTS) GAINS FROM MARKETABLE AND NON-MARKETABLE INVESTMENTS, NET. Impairments from non-marketable investments totaled $732,000 for the three months ended September 30, 2009 due to a write-down in the value of a portfolio company of one of the private equity investment funds in which the Company has an interest. Gains on distributions from non-marketable investments totaled $26,000 in the three months ended September 30, 2008.

PROVISION FOR INCOME TAXES. During the three months ended September 30, 2009, we recorded an income tax provision of approximately $3.4 million, which reflected an effective tax rate of 44%. During the three months ended September 30, 2008, we recorded an income tax provision of approximately $3.7 million, which reflected an effective tax rate of 37%. The increase in our effective tax rate for fiscal year 2009 resulted primarily from an increase in valuation allowance related to capital loss, a decrease in deductions related to disqualifying dispositions of incentive stock options, and an increase in foreign taxes in 2009 as compared to 2008.

NINE MONTHS ENDED SEPTEMBER 30, 2009 AND SEPTEMBER 30, 2008

REVENUES.

	NINE MONTHS ENDED SEPTEMBER 30,		Absolute Increase	Percentage Increase
	2009	2008	(Decrease)	(Decrease)
Revenues (in millions)	$171.9	$178.0	$ (6.1)	(3)%
Revenues from research services (in millions)	$117.0	$114.1	$ 2.9	3%
Advisory services and other revenues (in millions)	$ 54.9	$ 63.8	$ (8.9)	(14)%
Revenues attributable to customers outside of the United States (in millions)	$ 50.4	$ 50.3	$ 0.1	
Revenues attributable to customers outside of the United States as a percentage of total revenues	29%	28%	1	4%
Number of clients (at end of period)	2,505	2,718	(213)	(8)%
Number of research employees (at end of period)	372	410	(38)	(9)%
Number of events	10	9	1	11%

The decrease in total revenues is principally the result of lower demand for our advisory and other services as explained further below, and the adverse impact of foreign exchange. The effects of foreign currency translation resulted in an approximately 3% decrease in total revenues in the nine months ended September 30, 2009 as compared with the nine months ended September 30, 2008. The increase in international revenues in dollars and as a percentage of total revenues is primarily attributable to revenues declining at a slower rate internationally than in the United States.

The increase in research services revenues is primarily the result of our objective to drive a higher percentage of our total revenues from research services. In 2008, the Company modified its sales compensation plan for greater alignment with this objective. The increase in research services revenues is also due to the acquisition of JupiterResearch in July 2008 and is offset by the adverse impact of foreign exchange.

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The decrease in advisory services and other revenues is reflective of a decline in the demand for our advisory and consulting services, driven by the global economic slowdown, our objective to drive a higher percentage of our total revenues from research services, the adverse impact of foreign exchange and a softer overall events performance.
No single client company accounted for more than 2% of revenues during the nine months ended September 30, 2009 or 2008.
COST OF SERVICES AND FULFILLMENT.

	NINE MONTHS ENDED SEPTEMBER 30,		Absolute	Percentage
	2009	2008	Decrease	Decrease
Cost of services and fulfillment (in millions)	$63.3	$65.8	$(2.5)	(4)%
Cost of services and fulfillment as a percentage of total revenues	37%	37%		
Number of research and fulfillment employees (at end of period)	449	501	(52)	(10)%

The decrease in cost of services and fulfillment in dollars is primarily due to reduced discretionary expense spending; in particular travel and entertainment and events related expenses.
SELLING AND MARKETING.

	NINE MONTHS ENDED SEPTEMBER 30,		Absolute	Percentage
	2009	2008	Decrease	Decrease
Selling and marketing expenses (in millions)	$56.5	$60.1	$(3.6)	(6)%
Selling and marketing expenses as a percentage of total revenues	33%	34%	(1)	(3)%
Number of selling and marketing employees (at end of period)	368	415	(47)	(11)%

The decrease in selling and marketing expenses in dollars and as a percentage of total revenues is primarily due to a decrease in sales commissions associated with lower sales volume in the nine months ended September 30, 2009 due to the difficult economic environment as well as to reduced discretionary travel and entertainment and events related expenses.
GENERAL AND ADMINISTRATIVE.

	NINE MONTHS ENDED SEPTEMBER 30,		Absolute	Percentage
	2009	2008	Decrease	Decrease
General and administrative expenses (in millions)	$20.5	$22.9	$(2.4)	(10)%
General and administrative expenses as a percentage of total revenues	12%	13%	(1)	(8)%
Number of general and administrative employees (at end of period)	143	152	(9)	(6)%

The decrease in general and administrative expenses in dollars and as a percentage of total revenues is primarily attributable to a decrease in professional services fees associated with the stock option investigation and restatement of our historical financial statements as well as to a reduction in recruiting expenses.
REORGANIZATION COSTS. Reorganization costs of $3.1 million in 2009 primarily related to severance and related benefits costs incurred in connection with the termination of approximately 50 positions, and to facility consolidation costs.

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DEPRECIATION.

	NINE MONTHS ENDED SEPTEMBER 30,		Absolute	Percentage
	2009	2008	Increase	Increase
Depreciation expense (in millions)	$3.3	$3.0	$0.3	10%
Depreciation expense as a percentage of total revenues	2%	2%		

The increase in depreciation expense is primarily attributable to purchases of leasehold improvements in the first quarter of 2009.

AMORTIZATION OF INTANGIBLE ASSETS. Amortization of intangible assets increased to $1.8 million in the nine months ended September 30, 2009 from $476,000 in the nine months ended September 30, 2008. The increase in amortization expense is attributable to the amortization of intangible assets from the acquisitions of JupiterResearch on July 31, 2008 and Forrester Middle East on January 22, 2009.

OTHER INCOME, NET. Other income, net, consisting primarily of interest income, decreased to approximately $2.2 million in the nine months ended September 30, 2009 from approximately $5.2 million in the nine months ended September 30, 2008. The decrease is primarily due to lower returns on invested capital.

(IMPAIRMENTS) GAINS FROM MARKETABLE AND NON-MARKETABLE INVESTMENTS, NET. Impairments from non-marketable investments totaled approximately $1.7 million for the nine months ended September 30, 2009 due to write-downs in the value of several portfolio companies of the two private equity investment funds in which the Company has an interest. Net gains from non-marketable investments totaled approximately $79,000 for the nine months ended September 30, 2008. During the nine months ended September 30, 2008 we sold the remaining 106,000 shares of comScore, receiving proceeds of approximately $2.3 million and recording a gain of approximately $2.0 million related to the sale.

PROVISION FOR INCOME TAXES. During the nine months ended September 30, 2009, we recorded an income tax provision of approximately $10.8 million, which reflected an effective tax rate of 45%. During the nine months ended September 30, 2008, we recorded an income tax provision of approximately $12.9 million, which reflected an effective tax rate of 39%. The increase in our effective tax rate for fiscal year 2009 resulted primarily from an increase in valuation allowance related to capital loss, an increase in foreign taxes, a decrease in deductions related to disqualifying dispositions of incentive stock options, an increase in state taxes, and a decrease in tax exempt interest income as a percentage of total pre-tax income in 2009 as compared to 2008.

LIQUIDITY AND CAPITAL RESOURCES

We have financed our operations primarily through funds generated from operations. Memberships for research services, which constituted approximately 68% of our revenues during the nine months ended September 30, 2009, are annually renewable and are generally payable in advance. We generated cash from operating activities of $36.5 million and $43.4 million during the nine months ended September 30, 2009 and 2008, respectively. The decrease in cash provided from operations is primarily attributable to less cash collections resulting from decreased accounts receivable and deferred revenue and decreased net income.

During the nine months ended September 30, 2009, we used $46.8 million of cash in investing activities, consisting primarily of $43.0 million used in net purchases of marketable investments and $3.5 million of property and equipment purchases. During the nine months ended September 30, 2008, we generated $36.7 million of cash from investing activities, consisting primarily of $62.2 million from net sales of marketable investments, offset by $23.4 million for the purchase of JupiterResearch and $2.7 million of property and equipment purchases. We regularly invest excess funds in short and intermediate-term interest-bearing obligations of investment grade.

We used $12.5 million and $6.6 million of cash in financing activities during the nine months ended September 30, 2009 and 2008, respectively. The increase in cash used in financing activities is primarily attributable to a decrease

in proceeds from exercises of employee stock options offset by a decrease in purchases of our stock pursuant to our stock repurchase program.

Through April 2009, our Board of Directors has authorized an aggregate of $200.0 million to purchase common stock under the stock repurchase program. During the nine months ended September 30, 2009 and 2008, we repurchased approximately 723,000 shares and 902,000 shares of common stock at an aggregate cost of approximately $15.2 million and $26.1 million, respectively. As of September 30, 2009, we had cumulatively repurchased approximately 6.8 million shares of common stock at an aggregate cost of approximately $136.1 million.

As of September 30, 2009, we held approximately $42.0 million of state and municipal bonds with an auction reset feature (auction rate securities or ARS) whose underlying assets are generally student loans which are substantially backed by the federal government. In February 2008, auctions began to fail for these securities. Based on current market conditions, auction failures have continued and, as a result, our ability to liquidate our investment and fully recover the carrying value of our investment in the near term may be limited or not exist. In November 2008, we accepted an offer (the Right) from UBS AG (UBS), one of our investment advisors, entitling us to sell at par ARS originally purchased from UBS (approximately $32.0 million, par value) at anytime during a two-year period from June 30, 2010 July 2, 2012 (UBS ARS). We have the ability and intent to hold our UBS ARS, valued at $30.2 million at September 30, 2009, until a successful auction occurs and the UBS ARS are liquidated at par value or until we are able to sell our UBS ARS under the Right. Based on our expected operating cash flows and our cash resources, we do not anticipate the current lack of liquidity on our ARS investments will affect our ability to execute our current business plan.

As of September 30, 2009, we had cash and cash equivalents of $108.2 million and marketable investments and long-term investments of $172.0 million. We do not have a line of credit and do not anticipate the need for one in the foreseeable future. We plan to continue to introduce new products and services and expect to make minimal investments in our infrastructure during the next 12 months. We believe that our current cash balance, short-term investments, and cash flows from operations will satisfy working capital, financing activities, and capital expenditure requirements for at least the next two years.

As of September 30, 2009, we had future contractual obligations as follows*:

		FUTURE PAYMENTS DUE BY YEAR						
CONTRACTUAL OBLIGATIONS*	TOTAL	2009	2010	2011	2012	2013	2014	Thereafter
				(IN THOUSANDS)				
Operating leases	$ 20,361	$ 2,589	$ 9,486	$ 5,878	$ 1,011	$ 452	$ 348	$ 597

* The above table does not include future minimum rentals to be received under subleases of $62,000 or the remaining $425,000 of capital commitments to the private equity funds described above due to the uncertainty as to

the timing of capital calls made by such funds. The above table also does not include future rentals under the lease agreement for our new corporate headquarters building further described below.

On September 29, 2009, we entered into a build-to-suit net lease (Lease) with BHX, LLC, as trustee of Acorn Park I Realty Trust (Landlord) pursuant to which the Landlord will build a new corporate headquarters building for our Company. Our obligations under the Lease are contingent upon the Landlord obtaining a financing commitment for the construction of the Building on terms and conditions reasonably satisfactory to the Landlord within 60 days of September 29, 2009 and closing the construction loan by January 15, 2010. We will pay for all of the tenant improvements for the Building from available cash. We expect the total cost of the tenant improvements to be approximately $15 million. The initial term of the Lease is 15 years, commencing with the commencement date under the Lease, presently expected to be on or about September 1, 2011. Beginning on the base rent commencement date under the Lease, which will be approximately five and one-half months after the Lease commencement date noted above, we will pay to the Landlord the following approximate annual base rent in equal monthly installments:

Months 1-3 of the first Lease year:	$4,935,798
Month 4 of the first Lease year through the end of the fifth Lease year:	$5,944,586
Lease years 6-10:	$6,322,020
Lease years 11-15:	$6,699,454

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

ITEM 3. 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 do not use derivative financial instruments for speculative or trading purposes.

INTEREST RATE AND MARKET RISK. We maintain an investment portfolio consisting mainly of federal, state and municipal government obligations and corporate obligations. With the exception of the ARSs described below, all investments mature within 3 years. These available-for-sale securities are subject to interest rate risk and will decline in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity (except for 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 expected maturity dates.

Principal amounts by expected maturity in U.S. dollars are as follows (in thousands):

	FAIR VALUE AT SEPTEMBER 30, 2009	**FY 2009**	**FY 2010**	**FY 2011**	**FY 2012**
Cash equivalents	$ 29,345	$ 29,345	$	$	$
Weighted average interest rate	0.28%	0.28%			
State and municipal agency obligations	88,258	49,022	30,577	8,659	
Federal agency and corporate obligations	99,430	40,376	24,328	25,116	9,610
Total Investments	187,688	89,398	54,905	33,775	9,610
Weighted average interest rate	1.54%	0.77%	2.57%	1.82%	1.86%
Total portfolio	$217,033	$118,743	$54,905	$33,775	$9,610
Weighted average interest rate	1.37%	0.65%	2.57%	1.82%	1.86%

Approximately $17.5 million of the federal agency and corporate obligations was reflected in cash and cash equivalents at September 30, 2009 as the original maturities at the time of purchase for these investments was 90 days or less.

At September 30, 2009, we held approximately $40.2 million of municipal bond investments with an auction reset feature (auction rate securities) whose underlying assets are student loans which are substantially backed by the federal government. Since February 2008, these auctions have failed and therefore continue to be illiquid and we will not be able to access these funds until a future auction of these investments is successful or a buyer is found outside of the auction process. As a result, our ability to liquidate our investment and fully recover the carrying value of our

investment in the near term may be limited or not exist. If the issuers are unable to successfully close future auctions and their credit ratings deteriorate, we may in the future be required to record additional losses on these investments.

In November 2008, we accepted an offer (the Right) from UBS AG (UBS), one of our investment advisors, entitling us to sell at par value auction-rate securities originally purchased from UBS (UBS ARS) at anytime during a two-year period from June 30, 2010 through July 2, 2012. If UBS has insufficient funding to buy back the

UBS ARS and the auction process continues to fail, then we may incur further losses on the carrying value of the UBS ARS.

However, we believe that, based on our total cash and investments position and our expected operating cash flows, we are able to hold these securities until there is a recovery in the auctions market, which may be at final maturity. As a result, we do not anticipate that the current illiquidity of these auction rate securities will have a material effect on our cash requirement or working capital.

FOREIGN CURRENCY EXCHANGE. On a global level, we face exposure to movements in foreign currency exchange rates. This exposure may change over time as business practices evolve and could have a material adverse impact on our results of operations. To date, the effect of changes in currency exchange rates has not had a significant impact on our financial position or our results of operations. Accordingly, we have not entered into any hedging agreements. However, we are prepared to hedge against fluctuations that the Euro, the Pound, or other foreign currencies, will have on foreign exchange exposure if this exposure becomes material. As of September 30, 2009, the total assets related to non-U.S. dollar denominated currencies that are subject to foreign currency exchange risk were approximately $66.1 million.

ITEM 4. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures, as such term is defined under Securities Exchange Act Rule 13a-15(e), that are designed to ensure that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and that such information is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosures. In designing and evaluating the disclosure controls and procedures, our management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives and our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Our management, with the participation of our principal executive officer and principal financial officer, has evaluated the effectiveness of our disclosure controls and procedures as of September 30, 2009. Based upon their evaluation and subject to the foregoing, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective as of that date.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There was no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended September 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Through 2009, our Board of Directors has authorized an aggregate $200 million to purchase common stock under our stock repurchase program. The shares repurchased were used, among other things, in connection with Forrester s employee equity incentive and purchase plans. During each of the three months during the quarter ended September 30, 2009, we purchased the following number of shares of our common stock:

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Period	Total Number of Shares Purchased	Average Price Paid Per Share	Maximum Dollar Value that May Yet Be Purchased Under the Stock Repurchase Program (in thousands)
July 1 July 31		$	$ 69,128
August 1 August 31	156,623	$ 23.04	$ 65,520
September 1 September 30	69,600	$ 23.01	$ 63,919
	226,223	$ 23.03	$ 63,919

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

ITEM 6. EXHIBITS

10.1 Lease of Premises at Cambridge Discovery Park, Cambridge, Massachusetts dated as of September 29, 2009 from BHX, LLC, as Trustee of Acorn Park I Realty Trust to Forrester Research, Inc.

10.2 Agreement Regarding Project Rights dated as of September 29, 2009 by BHX, LLC, as Trustee of Acorn Park I Realty Trust and Forrester Research, Inc.

31.1 Certification of the Principal Executive Officer

31.2 Certification of the Principal Financial Officer

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

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

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SIGNATURES

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

FORRESTER RESEARCH, INC.

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

Date: November 6, 2009

By: /s/ Michael A. Doyle
Michael A. Doyle Chief Financial Officer and Treasurer
(principal financial and accounting officer)

Date: November 6, 2009

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Exhibit Index

Exhibit No.	Document
10.1	Lease of Premises at Cambridge Discovery Park, Cambridge, Massachusetts dated as of September 29, 2009 from BHX, LLC, as Trustee of Acorn Park I Realty Trust to Forrester Research, Inc.
10.2	Agreement Regarding Project Rights dated as of September 29, 2009 by BHX, LLC, as Trustee of Acorn Park I Realty Trust and Forrester Research, Inc.
31.1	Certification of the Principal Executive Officer
31.2	Certification of the Principal Financial Officer
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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October 7, 2018

October 1, 2017

October 7, 2018

October 1, 2017
Asset impairment

$
—

$
—

$
9,643

$
1,584

Litigation contingencies

—

—

4,000

—

Spiral menu disposal

—

—

506

—

Reorganization costs

520

—

3,273

—

Other charges

$
520

$
—

$
17,422

$
1,584

In second quarter 2018, the Company determined eight Company-owned restaurants were impaired and recognized a non-cash impairment charge of $9.6 million. In the second quarter of 2017, the Company determined five Company-owned restaurants were impaired and recognized a non-cash impairment charge of $1.6 million. The Company recognized the impairment charges resulting from the continuing and projected future results of these restaurants, primarily through projected cash flows.

6. Borrowings

Borrowings as of October 7, 2018 and December 31, 2017 are summarized below (in thousands):

	October 7, 2018	December 31, 2017
Revolving credit facility and other long-term debt	$220,875	$266,375
Capital lease obligations	10,385	10,938
Total debt	231,260	277,313
Less: Current portion	(774)	(741)
Long-term debt	$230,486	$276,572

On June 30, 2016, the Company entered into a credit facility (the “Credit Facility”), which provides for a $400 million revolving line of credit with a sublimit for the issuance of up to $25 million in letters of credit and swingline loans up to $15 million. On April 13, 2017, the Company entered into the first amendment (the “Amendment”) to the Credit Facility. The Amendment increased the lease adjusted leverage ratio to 5.25x through October 1, 2017 before stepping down to 5.0x through July 15, 2018 and returning to 4.75x thereafter. The Amendment also provides for additional pricing tiers that increase LIBOR spread rates and commitment fees to the extent the Company’s lease adjusted leverage ratio exceeds 4.75x, in addition to revising terms for permitted acquisitions and investments. The Amendment was effective through October 7, 2018 and was cancelable at the Company’s discretion. Upon termination of the Amendment, the terms of the Credit Facility executed on June 30, 2016 remain effective.

The Credit Facility matures on June 30, 2021. As of October 7, 2018, the Company had outstanding borrowings under the Credit Facility of $220.0 million, in addition to amounts issued under letters of credit of $7.6 million, which reduced the amount available under the facility but were not recorded as debt. As of December 31, 2017, the Company had outstanding borrowings under the Credit Facility of $265.5 million, in addition to amounts issued under letters of credit of $7.6 million.

Loan origination costs associated with the Credit Facility are included as deferred costs in Other assets, net in the accompanying condensed consolidated balance sheets. Unamortized debt issuance costs were $1.8 million and $2.4 million as of October 7, 2018 and December 31, 2017.

7. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The carrying amounts of the Company’s cash and cash equivalents, accounts receivable, and accounts payable approximate fair value due to the short term nature or maturity of the instruments.

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The following tables present the Company's assets measured at fair value on a recurring basis as of October 7, 2018 and December 31, 2017 (in thousands):

	October 7, 2018	Level 1	Level 2	Level 3
Assets:				
Investments in rabbi trust	$ 8,792	$ 8,792	$ —	$ —
Total assets measured at fair value	$ 8,792	$ 8,792	$ —	$ —

	December 31, 2017	Level 1	Level 2	Level 3
Assets:				
Investments in rabbi trust	$ 9,292	$ 9,292	$ —	$ —
Total assets measured at fair value	$ 9,292	$ 9,292	$ —	$ —

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Assets and liabilities recognized or disclosed at fair value on the consolidated financial statements on a nonrecurring basis include items such as property, plant and equipment, goodwill, and other intangible assets. These assets are measured at fair value if determined to be impaired.

As of October 7, 2018 and December 31, 2017, the Company measured non-financial assets for impairment using continuing and projected future cash flows, as discussed in Note 5, Other Charges, which were based on significant inputs not observable in the market and thus represented a level 3 fair value measurement.

Disclosures of Fair Value of Other Assets and Liabilities

The Company's liabilities under its Credit Facility and capital leases are carried at historical cost in the accompanying condensed consolidated balance sheets. Both the Credit Facility and the Company's capital lease obligations are considered to be level 2 instruments. The carrying value of the Credit Facility approximates fair value as the interest rate on this instrument approximates current market rates. For disclosure purposes, the Company estimated the fair value of the capital lease obligations using discounted cash flow analysis based on market rates obtained from independent third parties for similar types of debt.

The following table presents the carrying value and estimated fair value of the Company's capital lease obligations as of October 7, 2018 and December 31, 2017 (in thousands):

	October 7, 2018		December 31, 2017	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Capital lease obligations	$ 10,385	$ 10,633	$ 10,938	$ 11,563

8. Commitments and Contingencies

In the normal course of business, there are various claims in process, matters in litigation, and other contingencies. These include employment-related claims and claims alleging illness, injury, or other food quality, health, or operational issues. Evaluating contingencies related to litigation is a complex process involving subjective judgment on the potential outcome of future events, and the ultimate resolution of litigated claims may differ from our current analysis. We review the adequacy of accruals and disclosures pertaining to litigation matters each quarter in consultation with legal counsel, and we assess the probability and range of possible losses associated with contingencies for potential accrual in the consolidated financial statements. While it is not possible to predict the outcome of these claims with certainty, management is of the opinion that adequate provision for potential losses associated with these matters has been made in the financial statements.

During the forty weeks ended October 7, 2018, the Company recorded $4.0 million of litigation contingencies for employment-related claims. Refer to Note 5, Other Charges.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis of Financial Condition and Results of Operations provides a narrative of our financial performance and condition that should be read in conjunction with the accompanying condensed consolidated financial statements. All comparisons under this heading between 2018 and 2017 refer to the twelve and forty week periods ending October 7, 2018 and October 1, 2017, unless otherwise indicated.

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Overview

Red Robin Gourmet Burgers, Inc., a Delaware corporation, together with its subsidiaries ("Red Robin," "we," "us," "our" or the "Company"), primarily develops, operates, and franchises full-service restaurants with 574 locations in North America. As of October 7, 2018, the Company operated 485 Company-owned restaurants located in 39 states and two Canadian provinces. The Company also had 89 franchised full-service restaurants in 16 states as of October 7, 2018. The Company operates its business as one operating and one reportable segment.

The following summarizes the operational and financial highlights during the twelve and forty weeks ended October 7, 2018:

- Financial performance.

Restaurant revenue decreased $10.9 million, or 3.6%, to $290.2 million for the twelve weeks ended October 7, 2018, as compared to the twelve weeks ended October 1, 2017, primarily due to a $9.9 million, or 3.4%, decrease in comparable restaurant revenue, a $1.5 million decrease from closed restaurants, and a $0.4 million unfavorable foreign currency exchange impact, partially offset by a $0.9 million increase in revenue from newly opened restaurants. Restaurant revenue decreased $11.6 million, or 1.1% to $1.0 billion for the forty weeks ended October 7, 2018, as compared to the forty weeks ended October 1, 2017, primarily due to a $21.1 million, or 2.1% decrease in comparable restaurant revenue and a $3.8 million decrease from closed restaurants, partially offset by a $12.8 million increase in revenue from newly opened restaurants and a $0.5 million favorable foreign currency exchange impact.

Restaurant operating costs, as a percentage of restaurant revenue, increased 170 basis points to 83.2% for the twelve weeks ended October 7, 2018, as compared to 81.5% for the twelve weeks ended October 1, 2017. For the forty weeks ended October 7, 2018, restaurant operating costs, as a percentage of revenue, increased 140 basis points to 81.1%, as compared to 79.7% for the same period in 2017. The increases were due to higher food and beverage costs, other operating costs, and occupancy costs, as a percentage of restaurant revenue, offset by a decrease in labor costs as a percentage of restaurant revenue.

Net income was $1.7 million for the twelve weeks ended October 7, 2018 compared to $2.7 million net income for the twelve weeks ended October 1, 2017. Diluted earnings per share were $0.13 for the twelve weeks ended October 7, 2018, as compared to diluted earnings per share of $0.21 for the twelve weeks ended October 1, 2017. Excluding the impact of $0.03 per diluted share for reorganization costs, net income per diluted share for the twelve weeks ended October 7, 2018 was $0.16. Net income was $4.2 million for the forty weeks ended October 7, 2018 compared to $21.2 million for the forty weeks ended October 1, 2017. Diluted earnings per share were $0.32 for the forty weeks ended October 7, 2018, as compared to diluted earnings per share of $1.63 for the same period in 2017. Excluding the impact of $0.55 per diluted share for asset impairment, $0.23 per diluted share for litigation contingencies, $0.18 per diluted share for reorganization costs, and $0.03 per diluted share for the disposal of spiral menus, net income per diluted share for the forty weeks ended October 7, 2018 was $1.31. Excluding the impact of $0.08 per diluted share for asset impairment, net income per diluted share for the forty weeks ended October 1, 2017 was $1.71. For the full year 2018, we expect earnings per diluted share to range from $1.60 to $1.80.

- Marketing. Our Red Robin Royalty™ loyalty program operates in all our U.S. and Canadian Company-owned Red Robin restaurants and has been rolled out to most of our franchised restaurants. We engage our guests through Red Robin Royalty with offers designed to increase frequency of visits as a key part of our overall marketing strategy. We also inform enrolled guests early about new menu items to generate awareness and trial of these offerings. Our media buying approach is concentrated on generating significant reach and frequency while on-air. In addition, we use digital, social, and earned media to target and more effectively reach specific segments of our guest base.

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Restaurant Data

The following table details restaurant unit data for our Company-owned and franchised locations for the periods indicated:

	Twelve Weeks Ended		Forty Weeks Ended	
	October 7, 2018	October 1, 2017	October 7, 2018	October 1, 2017
Company-owned:				
Beginning of period	484	472	480	465
Opened during the period	2	7	8	16
Acquired from franchisees	—	—	—	—
Closed during the period	(1)	—	(3)	(2)
End of period	485	479	485	479
Franchised:				
Beginning of period	88	86	86	86
Opened during the period	1	—	3	1
Sold or closed during the period	—	—	—	(1)
End of period	89	86	89	86
Total number of restaurants	574	565	574	565

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Results of Operations

Operating results for each fiscal period presented below are expressed as a percentage of total revenues, except for the components of restaurant operating costs, which are expressed as a percentage of restaurant revenue.

This information has been prepared on a basis consistent with our audited 2017 annual financial statements, with the exception of changes made due to the adoption of Topic 606, and, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the information for the periods presented. Our operating results may fluctuate significantly as a result of a variety of factors, and operating results for any period presented are not necessarily indicative of results for a full fiscal year.

	Twelve Weeks Ended		Forty Weeks Ended	
	October 7, 2018	October 1, 2017	October 7, 2018	October 1, 2017
Revenues:				
Restaurant revenue	98.4 %	98.5 %	98.4 %	98.4 %
Franchise royalties, fees, and other revenues	1.6	1.5	1.6	1.6
Total revenues	100.0	100.0	100.0	100.0
Costs and expenses:				
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
Cost of sales	23.8	23.8	23.9	23.4
Labor	35.3	35.3	34.7	35.1
Other operating	15.0	13.8	13.9	13.0
Occupancy	9.2	8.6	8.7	8.2
Total restaurant operating costs	83.2	81.5	81.1	79.7
Depreciation and amortization	7.4	7.0	7.1	6.8
Selling, general, and administrative	9.8	11.1	10.8	11.3
Pre-opening costs	0.1	0.5	0.2	0.5
Other charges	0.2	—	1.7	0.2
Income from operations	0.6	1.3	0.4	3.0
Interest expense, net and other	0.8	0.7	0.8	0.7
Income before income taxes	(0.2)	0.7	(0.3)	2.2
Income tax (benefit) provision	(0.7)	(0.2)	(0.7)	0.2
Net income	0.6 %	0.9 %	0.4 %	2.0 %

Certain percentage amounts in the table above do not total due to rounding as well as restaurant operating costs being expressed as a percentage of restaurant revenue and not total revenues.

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Revenues

(Revenues in thousands)	Twelve Weeks Ended			Forty Weeks Ended		
	October 7, 2018	October 1, 2017	Percent Change	October 7, 2018	October 1, 2017	Percent Change
Restaurant revenue	$290,218	$301,100	(3.6)%	$1,015,312	$1,026,902	(1.1)%
Franchise and other revenue	4,659	4,600	1.3 %	16,472	16,737	(1.6)%
Total revenues	$294,877	$305,700	(3.5)%	$1,031,784	$1,043,639	(1.1)%
Average weekly sales volumes in Company-owned restaurants[(1)]	$49,995	$52,877	(5.5)%	$52,482	$54,640	(3.9)%
Total operating weeks	5,805	5,686	2.1 %	19,346	18,803	2.9 %
Restaurant revenue per square foot	$98	$101	(3.0)%	$340	$348	(2.3)%

(1) Calculated using constant currency rates. Using historical currency rates, the average weekly sales per unit for the twelve and forty weeks ended October 1, 2017 for Company-owned restaurants was $52,955 and $54,614. The Company calculates non-GAAP constant currency average weekly sales per unit by translating prior year local currency average weekly sales per unit to U.S. dollars based on current quarter average exchange rates. The Company considers non-GAAP constant currency average weekly sales per unit to be a useful metric to investors and management as they facilitate a more useful comparison of current performance to historical performance.

Restaurant revenue for the twelve weeks ended October 7, 2018, which comprises primarily food and beverage sales, decreased $10.9 million, or 3.6%, as compared to third quarter 2017. The decrease was due to a $9.9 million, or 3.4% decrease in comparable restaurant revenue, a $1.5 million decrease from closed restaurants, and a $0.4 million unfavorable foreign currency exchange impact, offset by a $0.9 million increase in revenue from newly opened restaurants. The comparable restaurant revenue decrease was driven by a 1.5% decrease in average guest check and a 1.9% decrease in guest counts. The decrease in average guest check resulted from a 3.0% decrease in menu mix offset by a 1.5% increase in pricing. The decrease in menu mix is the result of our differentiated strategy to drive traffic growth through everyday affordability. We are focusing on opportunities to improve our service execution, which we believe will drive increased guest counts and comparable restaurant revenue.

Restaurant revenue for the forty weeks ended October 7, 2018 decreased $11.6 million, or 1.1% as compared to the same period in 2017. The decrease was due to a $21.1 million, or 2.1%, decrease in comparable sales and a $3.8 million decrease from closed restaurants, offset by a $12.8 million increase in revenue from newly opened restaurants and a $0.5 million favorable foreign currency exchange impact. The comparable restaurant revenue decrease was driven by a 1.5% decrease in average guest check and a 0.6% decrease in guest counts. The decrease in average guest check resulted from a 2.5% decrease in menu mix offset by a 1.0% increase in pricing.

Average weekly sales volumes represent the total restaurant revenue for all Company-owned Red Robin restaurants for each time period presented, divided by the number of operating weeks in the period. Comparable restaurant revenues include those restaurants that are in the comparable base at the end of each period presented. New restaurants are restaurants that are open but not included in the comparable category because they have not operated for five full quarters. Fluctuations in average weekly net sales volumes for Company-owned restaurants reflect the effect of comparable restaurant revenue changes as well as the performance of new and acquired restaurants during the period and the average square footage of our restaurants.

Franchise and other revenue increased $0.1 million for the twelve weeks ended October 7, 2018 compared to the twelve weeks ended October 1, 2017. Franchise and other revenue decreased $0.3 million for the forty weeks ended October 7, 2018 compared to the forty weeks ended October 1, 2017, primarily due to a decrease in gift card breakage. Our franchisees reported a comparable restaurant revenue decrease of 0.6% for the twelve weeks ended October 7, 2018 compared to the twelve weeks ended October 1, 2017 and remained flat for the forty weeks ended October 7, 2018 compared to the forty weeks ended October 1, 2017.

Cost of Sales

Twelve Weeks Ended	Forty Weeks Ended

(In thousands, except percentages)	October 7, 2018	October 1, 2017	Percent Change	October 7, 2018	October 1, 2017	Percent Change
Cost of sales	$69,003	$71,642	(3.7)%	$242,392	$240,152	0.9 %
As a percent of restaurant revenue	23.8 %	23.8 %	— %	23.9 %	23.4 %	0.5 %

Cost of sales, which comprises food and beverage costs, is variable and generally fluctuates with sales volume. Cost of

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sales as a percentage of restaurant revenue remained flat for the twelve weeks ended October 7, 2018 as compared to the same period in 2017. For the forty weeks ended October 7, 2018, cost of sales as a percentage of revenue increased 50 basis points as compared to the forty weeks ended October 1, 2017. The increase was mainly driven by the higher tavern mix and lower non-alcoholic beverage mix, and the higher cost of steak fries.

Labor

(In thousands, except percentages)	Twelve Weeks Ended			Forty Weeks Ended		
	October 7, 2018	October 1, 2017	Percent Change	October 7, 2018	October 1, 2017	Percent Change
Labor	$102,322	$106,205	(3.7)%	$351,813	$360,146	(2.3)%
As a percent of restaurant revenue	35.3 %	35.3 %	— %	34.7 %	35.1 %	(0.4)%

Labor costs include restaurant-level hourly wages and management salaries as well as related taxes and benefits. For the twelve weeks ended October 7, 2018, labor as a percentage of restaurant revenue remained flat compared to the same period in 2017. For the forty weeks ended October 7, 2018, labor as a percentage of restaurant revenue decreased 40 basis points compared to the same period in 2017. The decrease was primarily driven by labor model changes, partially offset by increases in minimum wage rates in certain jurisdictions and management salaries.

Other Operating

(In thousands, except percentages)	Twelve Weeks Ended			Forty Weeks Ended		
	October 7, 2018	October 1, 2017	Percent Change	October 7, 2018	October 1, 2017	Percent Change
Other operating	$43,612	$41,454	5.2 %	$141,305	$133,575	5.8 %
As a percent of restaurant revenue	15.0 %	13.8 %	1.2 %	13.9 %	13.0 %	0.9 %

Other operating costs include costs such as equipment repairs and maintenance costs, restaurant supplies, utilities, restaurant technology, and other miscellaneous costs. For the twelve weeks ended October 7, 2018, other operating costs as a percentage of restaurant revenue increased 120 basis points as compared to the same period in 2017. The increase was primarily due to higher costs of equipment repairs and maintenance and third-party delivery fees, partially offset by a decrease in janitorial costs. For the forty weeks ended October 7, 2018, other operating costs as a percentage of revenue increased 90 basis points. The increases were primarily due to higher costs of restaurant supplies, restaurant technology, and third-party delivery fees, partially offset by a decrease in janitorial costs.

Occupancy

(In thousands, except percentages)	Twelve Weeks Ended			Forty Weeks Ended		
	October 7, 2018	October 1, 2017	Percent Change	October 7, 2018	October 1, 2017	Percent Change
Occupancy	$26,629	$25,868	2.9 %	$88,099	$84,127	4.7 %
As a percent of restaurant revenue	9.2 %	8.6 %	0.6 %	8.7 %	8.2 %	0.5 %

Occupancy costs include fixed rents, property taxes, common area maintenance charges, general liability insurance, contingent rents, and other property costs. Occupancy costs incurred prior to opening our new restaurants are included in pre-opening costs. For the twelve and forty weeks ended October 7, 2018, occupancy costs as a percentage of restaurant revenue increased 60 basis points and 50 basis points over the prior year. The increases were primarily driven by an increase in fixed rents, property taxes, and general liability insurance costs. Our fixed rents for the twelve weeks ended October 7, 2018 and October 1, 2017 were $17.7 million and $17.4 million, an increase of $0.3 million due to nine net additional locations opened since third quarter 2017. Our fixed rents for the forty weeks ended October 7, 2018 and October 1, 2017 were $58.9 million and $57.1 million, an increase of $1.8 million due to 15 net additional locations opened since the fourth quarter of 2016.

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Depreciation and Amortization

(In thousands, except percentages)	Twelve Weeks Ended			Forty Weeks Ended		
	October 7, 2018	October 1, 2017	Percent Change	October 7, 2018	October 1, 2017	Percent Change
Depreciation and amortization	$21,819	$21,258	2.6 %	$73,335	$70,475	4.1 %
As a percent of total revenues	7.4 %	7.0 %	0.4 %	7.1 %	6.8 %	0.3 %

Depreciation and amortization includes depreciation on capital expenditures for restaurants and corporate assets as well as amortization of acquired franchise rights, leasehold interests, and certain liquor licenses. For the twelve weeks ended October 7, 2018, depreciation and amortization expense increased $0.6 million, or 2.6%, over the prior year. For the forty weeks ended October 7, 2018, depreciation and amortization expense increased $2.9 million or 4.1% over the prior year. The increases were primarily related to new restaurants opened and new restaurant technology implemented since third quarter 2017.

Selling, General, and Administrative

(In thousands, except percentages)	Twelve Weeks Ended			Forty Weeks Ended		
	October 7, 2018	October 1, 2017	Percent Change	October 7, 2018	October 1, 2017	Percent Change
Selling, general, and administrative	$28,780	$33,714	(14.6)%	$110,715	$117,965	(6.1)%
As a percent of total revenues	9.8 %	11.1 %	(1.3)%	10.7 %	11.3 %	(0.6)%

Selling, general, and administrative costs include all corporate and administrative functions. Components of this category include marketing and advertising costs; corporate, regional, and franchise support salaries and benefits; travel; professional and consulting fees; corporate information systems; legal expenses; office rent; training; and board of directors expenses.

Selling, general, and administrative costs in the twelve weeks ended October 7, 2018 decreased $4.9 million or 14.6% as compared to the same period in 2017. The decrease was primarily due to decreases in local marketing, incentive compensation, and salaries related to the reorganization in first quarter 2018. For the forty weeks ended October 7, 2018, selling, general, and administrative costs decreased $7.3 million or 6.1%. The decrease was primarily due to decreases in incentive compensation, salaries related to the reorganization in first quarter 2018, and professional services.

Pre-opening Costs

(In thousands, except percentages)	Twelve Weeks Ended			Forty Weeks Ended		
	October 7, 2018	October 1, 2017	Percent Change	October 7, 2018	October 1, 2017	Percent Change
Pre-opening costs	$387	$1,503	(74.3)%	$2,093	$4,735	(55.8)%
As a percent of total revenues	0.1 %	0.5 %	(0.4)%	0.2 %	0.5 %	(0.3)%

Pre-opening costs, which are expensed as incurred, comprise the costs of labor, hiring, and training the initial work force for our new restaurants; occupancy costs incurred prior to opening; travel expenses for our training teams; the cost of food and beverages used in training; licenses and marketing; supply costs; and other direct costs related to the opening of new restaurants. Our pre-opening costs fluctuate from period to period, depending upon, but not limited to, the number of restaurant openings, the size of the restaurants being opened, and the location of the restaurants. Pre-opening costs for any given quarter will typically include expenses associated with restaurants opened during the quarter as well as expenses related to restaurants opening in subsequent quarters.

Pre-opening costs decreased $1.1 million for the twelve weeks ended October 7, 2018, and decreased $2.6 million for the forty weeks ended October 7, 2018. The decreases were primarily due to fewer restaurant openings during the twelve and forty week periods ended October 7, 2018 as compared to the same periods in 2017.

Interest Expense, Net and Other

Interest expense, net and other was $2.3 million for the twelve weeks ended October 7, 2018, a increase of $0.3 million, or 12.9%, from the same period in 2017. Interest expense, net and other was $8.1 million for the forty weeks ended October 7, 2018, an increase of $0.6 million, or 8.3%, from the same period in 2017. The increase was primarily related to recognizing a loss on the Company’s deferred compensation plan assets during first quarter 2018

compared to a gain in the same period a year ago. Our weighted average interest rate was 4.4% and 4.1% for the twelve and forty weeks ended October 7, 2018, as compared to 3.5% and 3.6% for the twelve weeks and forty weeks ended October 1, 2017.

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Provision for Income Taxes

The effective tax rate for the twelve weeks ended October 7, 2018 was a 448.3% benefit, compared to a 34.1% benefit for the twelve weeks ended October 1, 2017. The effective tax rate for the forty weeks ended October 7, 2018 and October 1, 2017 was a 221.2% benefit and a 9.4% expense. The change in both the twelve and forty week effective tax rates are primarily due to the decrease in income as well as the decrease in the federal statutory rate from 35% to 21% in the first quarter of 2018.

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Liquidity and Capital Resources

Cash and cash equivalents increased $2.7 million to $20.4 million at October 7, 2018, from $17.7 million at the beginning of the fiscal year. We expect to continue to reinvest available cash flows from operations to pay down debt, maintain existing restaurants and infrastructure, repurchase our common stock, develop new restaurants, and execute our long-term strategic initiatives.

Cash Flows

The table below summarizes our cash flows from operating, investing, and financing activities for each period presented (in thousands):

	Forty Weeks Ended	
	October 7, 2018	October 1, 2017
Net cash provided by operating activities	$88,780	$121,564
Net cash used in investing activities	(39,577)	(60,919)
Net cash used in financing activities	(45,657)	(58,138)
Effect of exchange rate changes on cash	(892)	745
Net change in cash and cash equivalents	$2,654	$3,252

Operating Cash Flows

Net cash flows provided by operating activities decreased $32.8 million to $88.8 million for the forty weeks ended October 7, 2018. The decrease was primarily driven by a a $17.0 million decrease in cash generated from restaurant operations, a $14.4 million increase in payments to vendors, a $7.5 million increase in bonus payout, and a $3.3 million increase in reorganization costs, partially offset by a $5.4 million returned vendor deposit, a $1.9 million decrease in income taxes paid, and a $1.7 million decrease in corporate salaries.

Investing Cash Flows

Net cash flows used in investing activities decreased $21.3 million to $39.6 million for the forty weeks ended October 7, 2018, as compared to $60.9 million for the same period in 2017. The decrease is primarily due to decreased investment in new restaurant openings and restaurant remodels.

The following table lists the components of our capital expenditures, net of currency translation effect, for the forty weeks ended October 7, 2018 (in thousands):

	Forty Weeks Ended October 7, 2018
Investment in technology infrastructure and other	$20,705
New restaurants	9,650
Restaurant maintenance capital and other	9,487
Total capital expenditures	$39,842

Financing Cash Flows

Cash used in financing activities decreased $12.5 million to $45.7 million for the forty weeks ended October 7, 2018, as compared to the same period in 2017. The decrease primarily resulted from a $14.0 million decrease in net repayments made on long-term debt and a $0.7 million decrease in debt issuance costs offset by a $1.9 million decrease in net cash proceeds received from the exercise of employee stock options and purchase plan and $0.3 million cash used to repurchase the Company's common stock.

Credit Facility

On June 30, 2016, the Company entered into a credit facility (the “Credit Facility”), which provides for a $400 million revolving line of credit with a sublimit for the issuance of up to $25 million in letters of credit and swingline loans up to $15 million. On April 13, 2017, the Company entered into a first amendment (the “Amendment”) to the Credit Facility. The Amendment increased the lease adjusted leverage ratio to 5.25x through October 1, 2017 before stepping down to 5.0x through July 15, 2018 and returning to 4.75x thereafter. The Amendment also provides for

additional pricing tiers that increase LIBOR spread rates and commitment fees to the extent the Company’s lease adjusted leverage ratio exceeds 4.75x, in addition to revising terms for permitted acquisitions and investments. The Amendment was effective through October 7, 2018 and was

cancelable at the Company's discretion. Upon termination of the Amendment, the terms of the Credit Facility executed on June 30, 2016 remain effective. As of October 7, 2018, the Company's lease adjusted leverage ratio was 4.03x.
The Credit Facility matures on June 30, 2021. Borrowings under the Credit Facility are secured by first priority liens and security interests in substantially all of the Company's assets, including the capital stock of certain Company subsidiaries. Borrowings are available for financing activities including restaurant construction costs, working capital, and general corporate purposes, including, among other uses, to refinance certain indebtedness, permitted acquisitions, and redemption of capital stock. We do not believe any of our lenders will be unable to fulfill their lending commitments under our Credit Facility. Loan origination costs associated with the Credit Facility are included as deferred costs in Other assets, net in the accompanying condensed consolidated balance sheets. As of October 7, 2018, the Company had outstanding borrowings under the Credit Facility of $220.0 million, in addition to amounts issued under letters of credit of $7.6 million, which reduce the amount available under the Credit Facility but are not recorded as debt.

Covenants. We are subject to a number of customary covenants under our Credit Facility, including limitations on additional borrowings, acquisitions, stock repurchases, sales of assets, and dividend payments. As of October 7, 2018, we were in compliance with all debt covenants.

Debt Outstanding. Total debt and capital lease obligations outstanding decreased $46.1 million to $231.3 million at October 7, 2018, from $277.3 million at December 31, 2017, primarily due to net repayments of $45.5 million on the Credit Facility during the forty weeks ended October 7, 2018.

Share Repurchase. On August 9, 2018, the Company's board of directors authorized an increase to the Company's share repurchase program of approximately $21 million to a total of $75 million of the Company's common stock. The share repurchase authorization was effective as of August 9, 2018, and will terminate upon completing repurchases of $75 million of common stock unless otherwise terminated by the board. Pursuant to the repurchase program, purchases may be made from time to time at the Company's discretion and the Company is not obligated to acquire any particular amount of common stock.

We typically maintain current liabilities in excess of our current assets which results in a working capital deficit. We are able to operate with a working capital deficit because restaurant sales are primarily conducted on a cash or credit card basis. Rapid turnover of inventory results in limited investment in inventories, and cash from sales is usually received before related payables for food, supplies, and payroll become due. In addition, receipts from the sale of gift cards are received well in advance of related redemptions. Rather than maintain higher cash balances that would result from this pattern of operating cash flows, we typically utilize operating cash flows in excess of those required for currently-maturing liabilities to pay for capital expenditures, debt repayment, or to repurchase stock. When necessary, we utilize our revolving credit facility to satisfy short-term liquidity requirements. We believe our future cash flows generated from restaurant operations combined with our remaining borrowing capacity under the Credit Facility will be sufficient to satisfy any working capital deficits and our planned capital expenditures.

Inflation

The primary inflationary factors affecting our operations are food, labor costs, energy costs, and materials used in the construction of new restaurants. A large number of our restaurant personnel are paid at rates based on the applicable minimum wage, and increases in the minimum wage rates have directly affected our labor costs in recent years. Many of our leases require us to pay taxes, maintenance, repairs, insurance, and utilities, all of which are generally subject to inflationary increases. We believe labor cost inflation along with food cost inflation due primarily to potatoes and ground beef had a negative impact on our financial condition and results of operations during the forty weeks ended October 7, 2018. Uncertainties related to fluctuations in costs, including energy costs, commodity prices, annual indexed or potential minimum wage increases, and construction materials make it difficult to predict what impact, if any, inflation may continue to have on our business, but it is anticipated inflation will have a negative impact on labor costs for the remainder of 2018.

Seasonality

Our business is subject to seasonal fluctuations. Historically, sales in most of our restaurants have been higher during the summer months and winter holiday season and lower during the fall season. As a result, our quarterly and annual operating results and comparable restaurant revenue may fluctuate significantly as a result of seasonality.

Accordingly, results for any one quarter or year are not necessarily indicative of results to be expected for any other quarter or for any year, and comparable restaurant sales for any particular future period may decrease.

Off Balance Sheet Arrangements

Except for operating leases, primarily restaurant leases entered into in the normal course of business, we do not have any material off balance sheet arrangements.

Contractual Obligations

There were no material changes outside the ordinary course of business to our contractual obligations since the filing of Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Critical Accounting Policies and Estimates

Critical accounting policies and estimates are those we believe are both significant and that require us to make difficult, subjective, or complex judgments, often because we need to estimate the effect of inherently uncertain matters. We base our estimates and judgments on historical experiences and various other factors we believe to be appropriate under the circumstances. Actual results may differ from these estimates, including our estimates of future restaurant level cash flows, which are subject to the current economic environment, and we might obtain different results if we use different assumptions or conditions. We had no significant changes in our critical accounting policies and estimates which were disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Recently Issued and Recently Adopted Accounting Standards

See Note 1, Basis of Presentation and Recent Accounting Pronouncements, of Notes to Condensed Consolidated Financial Statements of this report.

Forward-Looking Statements

Certain information and statements contained in this report are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the "PSLRA") codified at Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. This statement is included for purposes of complying with the safe harbor provisions of the PSLRA. Forward-looking statements include statements regarding our expectations, beliefs, intentions, plans, objectives, goals, strategies, future events, or performance and underlying assumptions and other statements which are other than statements of historical facts. These statements may be identified, without limitation, by the use of forward-looking terminology such as "anticipate," "assume," "believe," "estimate," "expect," "intend," "plan," "project," "may," "will," "would," and similar expressions. Certain forward-looking sta are included in this Quarterly Report on Form 10-Q, principally in the sections captioned "Financial Statements" and "Management's Discussion and Analysis of Financial Condition and Results of Operations". Forward-looking statements in this report include, among other things: our financial performance, including anticipated revenues, earnings per share, and outlook, and comparable restaurant revenue; our marketing strategy and promotions; expected uses for available cash flow; capital investments; beliefs about the ability of our lenders to fulfill their lending commitments under our Credit Facility and about the sufficiency of future cash flows to satisfy any working capital deficit and planned capital expenditures; the anticipated effects of inflation on labor and commodity costs for 2018; and the effect of the adoption of new accounting standards on our financial and accounting systems.

Forward-looking statements are subject to a number of risks and uncertainties that could cause actual results to differ materially from those we express in these forward-looking statements. These risks and uncertainties include, but are not limited to, the following: the effectiveness of our business improvement initiatives, including the effectiveness of our affordability, service improvement, and off-site initiatives; the ability to fulfill planned expansion; the effectiveness of our marketing campaigns; uncertainty regarding general economic and industry conditions; concentration of restaurants in certain markets; changes in consumer disposable income, consumer spending trends and habits; the effectiveness of our information technology and new technology systems, including cyber security with respect to those systems; regional mall and lifestyle center traffic trends or other trends affecting traffic at our restaurants; increased competition and discounting in the casual-dining restaurant market; costs and availability of food and beverage inventory; changes in commodity prices, particularly ground beef; changes in labor and energy costs; the success of our refranchising efforts; limitations on the Company's ability to execute stock repurchases due to lack of available share or acceptable stock price levels or other market or Company-specific conditions; our ability to attract qualified managers and team members; changes in the availability under our Credit Facility or other access to capital; minimum wage increases; changes in health care and insurance costs; costs and other effects of legal claims by team members, franchisees, customers, vendors, stockholders, including relating to fluctuations in our stock price, and others, including settlement of those claims; effectiveness of management strategies and decisions; weather conditions and related events in regions where our restaurants are operated; changes in accounting standards policies and practices or related interpretations by auditors or regulatory entities; and other risk factors described from time to

time in our SEC reports, including the Company’s most recent Annual Report on Form 10-K for the fiscal year ended December 31, 2017, filed with the SEC on February 27, 2018.

Although we believe the expectations reflected in our forward-looking statements are based on reasonable assumptions, such expectations may prove to be materially incorrect due to known and unknown risks and uncertainties. All forward-looking statements speak only as of the date made. All subsequent written and oral forward-looking statements attributable to us, or persons acting on our behalf, are expressly qualified in their entirety by the cautionary statements. Except as required by law,

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we undertake no obligation to update any forward-looking statement to reflect events or circumstances arising after the date on which it is made or to reflect the occurrence of anticipated or unanticipated events or circumstances.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

There has been no material change in the interest rate risk, foreign currency exchange risk, or commodity price risk since the filing of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

We continue to monitor our interest rate risk on an ongoing basis and may use interest rate swaps or similar instruments in the future to manage our exposure to interest rate changes related to our borrowings as the Company deems appropriate. As of October 7, 2018, we had $220.0 million of borrowings subject to variable interest rates. A 1.0% change in the effective interest rate applied to these loans would have resulted in pre-tax interest expense fluctuation of $2.2 million on an annualized basis.

The Company's restaurant menus are highly dependent upon a few select commodities, including ground beef, poultry, and potatoes. We may or may not have the ability to increase menu prices, or vary menu items, in response to food commodity price increases. A 1.0% increase in food costs would negatively impact cost of sales by approximately $3.2 million on an annualized basis.

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ITEM 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), is recorded, processed, summarized, and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the management of the Company ("Management"), including the Company's Chief Executive Officer (CEO) and Chief Financial Officer (CFO), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, Management recognizes that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives. The Company's CEO and CFO have concluded that, based upon the evaluation of disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) under the Exchange Act), the Company's disclosure controls and procedures were effective as of the end of the period covered by this report.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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PART II — OTHER INFORMATION

ITEM 1. Legal Proceedings

For a description of our legal proceedings, see Note 8, Commitments and Contingencies, of Notes to Condensed Consolidated Financial Statements of this report.

ITEM 1A. Risk Factors

A description of the risk factors associated with our business is contained in Item 1A, "Risk Factors," of our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 filed with the SEC on February 27, 2018. There have been no material changes to our Risk Factors disclosed in our 2017 Annual Report on Form 10-K.

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ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the twelve weeks ended October 7, 2018, the Company did not have any sales of securities in transactions that were not registered under the Securities Act of 1933, as amended, that have not been reported in a Current Report on Form 8-K. On August 9, 2018, the Company's board of directors authorized an increase to the Company's share repurchase program of approximately $21 million to a total of $75 million of the Company's common stock. The increased share repurchase authorization became effective on August 9, 2018, and will terminate upon completing repurchases of $75 million of common stock unless otherwise terminated by the board. Purchases under the repurchase program may be made in open market or privately negotiated transactions, and may include transactions pursuant to a repurchase plan administered in accordance with Rules 10b5-1 and 10b-18 under the Securities Exchange Act of 1934, as amended. Purchases may be made from time to time at the Company's discretion and the timing and amount of any share repurchases will be determined based on share price, market conditions, legal requirements, and other factors. The repurchase program does not obligate the Company to acquire any particular amount of common stock, and the Company may suspend or discontinue the repurchase program at any time.

Period[1]	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet be Purchased Under the Plan (in thousands)
9/10/18-10/7/18	8,600	$ 39.13	8,600	$ 74,585
Pursuant to Publicly Announced Plans or Programs[2]	8,600			

(1) The reported periods conform to the Company's fiscal calendar composed of thirteen 28-day periods.

(2) Since February 11, 2016, when the share repurchase program was originally authorized, the Company has purchased 940,034 shares for a total of $46.1 million. Prior to the increase in the share repurchase authorization, the program had a remaining authorized purchase limit of $53.9 million as of October 7, 2018 and on August 9, 2018. The table below provides a summary of the Company's purchases of its own common stock during the third quarter 2018.

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ITEM 6. Exhibits

Exhibit Number	Description
10.1	Red Robin Gourmet Burgers, Inc. Executive Change in Control Severance Plan dated August 14, 2018. Incorporated by reference to Exhibit 10.1 to our Quarterly Report on Form 10-Q filed on August 22, 2018.
10.2	Amended and Restated Employment Agreement by and between Red Robin Gourmet Burgers, Inc. and Denny Marie Post, dated August 20, 2018. Incorporated by reference to Exhibit 10.2 to our Quarterly Report on Form 10-Q filed on August 22, 2018.
10.3	Amended and Restated Employment Agreement by and between Red Robin Gourmet Burgers, Inc. and Guy J. Constant, dated August 20, 2018. Incorporated by reference to Exhibit 10.3 to our Quarterly Report on Form 10-Q filed on August 22, 2018.
10.4	Amended and Restated Employment Agreement by and between Red Robin Gourmet Burgers, Inc. and Jonathan A. Muhtar, dated August 20, 2018. Incorporated by reference to Exhibit 10.4 to our Quarterly Report on Form 10-Q filed on August 22, 2018.
10.5	Amended and Restated Employment Agreement by and between Red Robin Gourmet Burgers, Inc. and Carin L. Stutz, dated August 20, 2018. Incorporated by reference to Exhibit 10.5 to our Quarterly Report on Form 10-Q filed on August 22, 2018.
10.6	Amended and Restated Employment Agreement by and between Red Robin Gourmet Burgers, Inc. and Michael L. Kaplan, dated August 20, 2018. Incorporated by reference to Exhibit 10.6 to our Quarterly Report on Form 10-Q filed on August 22, 2018.
31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certifications of Chief Executive Officer and Chief Financial Officer
101	The following financial information from the Quarterly Report on Form 10-Q of Red Robin Gourmet Burgers, Inc. for the quarter ended October 7, 2018, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at October 7, 2018 and December 31, 2017; (ii) Condensed Consolidated Statements of Operations for the twelve and forty weeks ended October 7, 2018 and October 1, 2017; (iii) Condensed Consolidated Statements of Comprehensive Income for the twelve and forty weeks ended October 7, 2018 and October 1, 2017; (iv) Condensed Consolidated Statements of Cash Flows for the forty weeks ended October 7, 2018 and October 1, 2017; and (v) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text.

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SIGNATURE

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

	RED ROBIN GOURMET BURGERS, INC.	
	(Registrant)	
November 7, 2018	By:	/s/ Guy J. Constant
(Date)		Guy J. Constant (Chief Financial Officer)

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