The Whole View™

Forrester Research, Inc. *Annual Report 1999*

FORRESTER®

Forrester Research is the leading independent Internet research firm, analyzing technology change and its impact on business, consumers, and society. Forrester's "Whole View" of the Internet economy enables clients to weave together Internet commerce initiatives with eBusiness technology to satisfy customers' changing needs. Clients receive continuous research and analysis through Forrester's eResearch™ Reports, an array of advisory services, bit products, and topical events. Established in 1983, Forrester is headquartered in Cambridge, Mass. Forrester's European Research Center is located in Amsterdam, Netherlands, and its UK Research Centre is located in London.

Financial Highlights

(in thousands, except client companies and per share data)

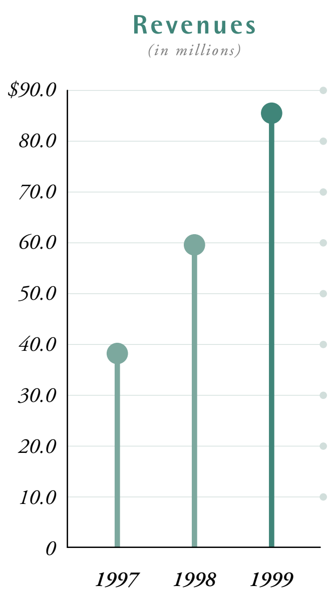
Year Ended December 31,	1997	1998	1999
Revenues	$40,421	$61,567	$87,268
Operating income	$ 6,766	$ 9,182	$13,860
Net income	$ 5,598	$ 7,547	$10,981
Basic net income per common share	$ 0.34	$ 0.44	$ 0.61
Diluted net income per common share	$ 0.32	$ 0.40	$ 0.55
Pro forma diluted net income per common share (1)			$ 0.58

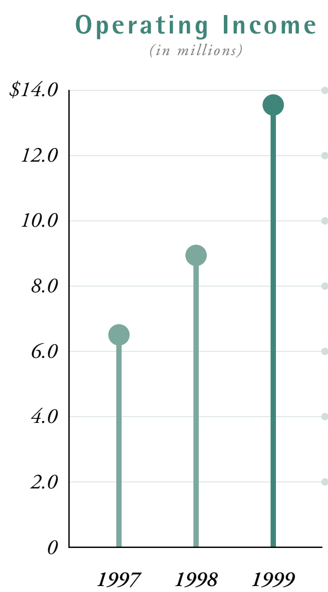
December 31,	1997	1998	1999
Stockholders' equity	$40,505	$53,533	$78,805
Deferred revenue	$27,074	$38,894	$66,233
Agreement value (2)	$46,582	$69,095	$115,772
Client companies (3)	1,029	1,271	1,793

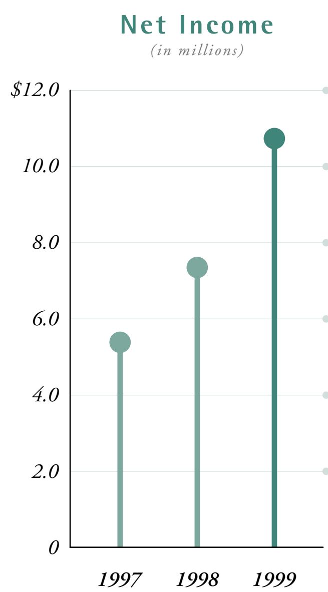
(1) Pro forma diluted net income per common share excludes acquisition-related expenses.

(2) Agreement value, as measured by the Company, represents the total revenues recognizable from all core research and advisory service contracts in force at a given time, without regard to how much revenue has already been recognized.

(3) Client companies represents the total number of companies with which Forrester conducts business at a given point in time. The Company may provide multiple services to more than one business unit of the client company.







DEAR FELLOW SHAREHOLDER,

1999 was a pivotal year for our company. In 1999, we transformed our entire business model and launched a number of new initiatives that greatly contributed to our fast growth and positioned us for the future.

eResearch Wave I

In the first quarter of 1999, Forrester completely reinvented the way we deliver our product to our clients and the way they consume our research. We call this new packaging eResearch, and it has three important elements:

- **A new format.** We redesigned all of our research so it appears in electronic format first and hard copy later. This perfectly matches our product to our Web site, increasing its flexibility and value to our clients.

- **A new "lens" packaging.** Prior to eResearch, all of our research was packaged in what we called services — rigid streams of research that effectively prevented our clients from accessing cross sections of our coverage. Lens packaging changed all that, making it possible for a Report to appear in lenses simultaneously, according to the relevancy of the research. Lens packaging offers greater flexibility and is much more responsive to our clients' needs.

- **A new organization.** The third innovation of eResearch was the uncoupling of research teams from the structure of research. This has enabled our research staff to think more broadly and be more flexible and adaptable to the marketplace. This new organization has also made it more fun for analysts to do their jobs.

In February of 1999, we successfully transitioned all of our clients to eResearch. Our clients tell me that eResearch is easier to use, more valuable, and better matched to their problems and issues.

As part of eResearch Wave I, Forrester has built a rich technology platform that enables us to innovate and quickly build new digital products that will take advantage of the Internet and its reach.

New Strategy Lenses

During 1999 we launched three new strategy lenses that moved Forrester into untapped markets: European Internet Commerce, Healthcare Online, and Future Of Customer Service. With eResearch, we were able to launch products quickly — in a matter of weeks, instead of the two to four months it used to take — and all three lenses brought new clients to Forrester.

In addition to the strategy lens launches, we also introduced three Technographics® lenses in 1999: Technographics Travel, Technographics Young Consumers, and Technographics Europe. These lenses expanded our ability to produce and analyze the data that improves the decisions of Forrester clients.

Forums

In 1999, Forrester held seven Forums worldwide. These Forums each put Forrester analysts, Forrester clients, and industry-leading thinkers in a room for two days of intensive analysis of the future.

Our Forum series has also become increasingly international: Two of last year's events were held in Amsterdam.

eResearch Wave II

As 1999 progressed, we began to roll out new bit products. Bit products are new ways of conducting research on the Internet and presenting our research via the Web.

In September, Forrester introduced Baseline Research — small, affordable packages of research designed specifically for Internet entrepreneurs. Potential clients can now come to our site, click on the research package, understand its contents, enter their credit card information, and instantly receive the research in PDF documents.

This new channel of selling has made it possible for us to reach growing companies that previously might not have been able to afford Forrester's core research packages. Baseline Research increased the productivity and effectiveness of our sales force — these new clients can now come directly to Forrester and purchase research without going through the typical sales process. Baseline has also taught us how to sell Forrester's research through other channels. We now have an affiliate network of more than 10 companies that sell Forrester's research on their sites.

The second product released in eResearch Wave II was Forrester PowerRankings.™ The PowerRankings product rates the top 10 Web sites across 12 commerce categories to help consumers understand where they should move for the best deals and the best experience on the Internet. PowerRankings brings consumers to forrester.com and provides valuable feedback to many Forrester clients about the efficacy of their Web efforts.

Fletcher Research Acquisition

In the fourth quarter of 1999, Forrester acquired Fletcher Research, a leading Internet research company in the UK. Fletcher was founded by former McKinsey consultants, and what most attracted us to the company was the high quality of the people and the successful electronic products they had built and launched in the UK market — UK Internet AdWatch™ and UK Internet User Monitor.™

The acquisition of Fletcher, soon to be renamed the Forrester UK Research Centre, is our first step in building research organizations throughout Europe. You can expect to see the emergence of Forrester in Germany, Italy, France, and other countries over the next several years.

Now Or Never

In the fourth quarter of 1999, HarperCollins published a book written by Forrester's Mary Modahl. The book — *Now or Never: How Companies Must Change Today to Win the Battle for Internet Consumers* — outlines how companies will win in the Internet economy over the next two to three years. It moves Forrester's ideas into the hands of a new audience that may not have heard of Forrester, and it expands the influence of the company into new markets. Mary's book has received great reviews, reaching Amazon.com's top 10 business books in the first quarter of 2000.

Financial Results

All of this has added up to amazing financial achievements for Forrester in 1999. Revenue grew 42% from $61.6 million to $87.3 million. Net income grew 46% from $7.5 million to $11.0 million. Deferred revenue grew 70%, from $38.9 million to $66.2 million. Agreement value went from $69.1 million to $115.8 million, a growth of 68%. Client companies grew 41% from 1,271 to 1,793 in 1999. And Forrester's stock appreciated 57% in 1999, moving from $21.88 to $34.43 by the end of the year.

Behind all of those numbers is a first-rate team working in a fast-growing market to deliver excellent value to our clients. I am very proud of what we all accomplished in 1999.

Looking To 2000 And Beyond

As we move into 2000, Forrester looks quite different than it did even three years ago. In 1996, Forrester analyzed two markets: the market for internal technology, or IT, in large companies, and the new media markets that were then just emerging.

Over the past three years, Forrester has pivoted strongly to define and dominate a new market space — the Internet research business. This market space is currently occupied by four public companies, and Forrester is nearly twice the size of the other three companies combined. In addition, we are the clear profit winner in the Internet research business — earning $11 million. We believe that the Internet research business is growing at more than 50% per year, and it will give Forrester many new opportunities for growth.

In 2000, our drive to innovate will accelerate. Here is what we have planned for the year:

- **We will introduce** the Forrester eBusiness Voyage™ to help Forrester's clients navigate the best path to eBusiness success in the Internet economy.

- **We will enhance** the Forrester PowerRankings product to further help our clients to improve their Web sites and eCommerce efforts.

- **We will launch** Internet Policy & Regulation, a research lens that will analyze government's role in the development of the Internet economy and the impact of technology on government administration and electoral politics.

- **We will open** domestic sales offices in Atlanta, New York City, San Francisco, and Chicago.

- **We will announce** a number of new Technographics and strategy lenses. These will include: lenses that analyze affluent consumers; Euro-view lenses that look at specific regions of Europe; and a lens that analyzes the Technographics of businesses — a way to categorize and analyze the rates at which different companies absorb technologies.

- **We will introduce** an Online Healthcare Forum.

- **We will introduce** other as-yet-unnamed events . . . watch this space.

- **We will strengthen** every facet of our organization by appointing top executives to new, more challenging positions.

eResearch Wave III

Consistent with our eResearch Wave I and eResearch Wave II efforts, there will be an eResearch Wave III effort in 2000. In the context of this effort, Forrester will continue to introduce new electronic products that both gather data and deliver research via the Internet. This is consistent with our long-term drive toward refining the syndication business model — giving Forrester leverage and enabling us to have a wider reach and a higher impact.

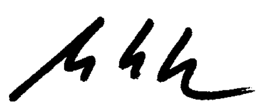
A Personal Note

Forrester has been a dream for me. It has enabled me to live out many of my lifelong aspirations and achieve many of my long-held goals. I believe that Forrester has also been a dream machine for many employees as the company has grown, developed, and gained influence worldwide. I am now turning my sights to new dreams and new amazing places where Forrester can go over the next five years.

Forrester possesses several highly valuable assets. We serve more than 1,700 client companies — representing the most advanced and forward-looking organizations in the world. We have more than one million unique visits to our site each quarter. We have built an important brand in the business research marketplace — one that is associated with rapid change, new technologies, new business models, and business transformation. We have a reputation of high integrity and high quality.

For me, this represents an extraordinary springboard from which Forrester will launch some very big dreams and businesses over the next several years.

Thank you for your continuing support of Forrester.



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The Forrester Executive Team

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

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Chief Operating Officer

Richard C. Belanger
Chief Technology Officer

Joel W. Blenner
Vice President, Sales

John W. Boynton
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Business Development

Stanley H. Dolberg
Vice President,
Research

Emily Nagle Green
Managing Director,
Forrester Research B.V.

Susan Whirty Maffei, Esq.
Chief Financial Officer;
Vice President, Operations;
and General Counsel

Mary Modahl
Vice President,
Marketing

Timothy M. Riley
Vice President,
Strategic Growth

Stuart D. Woodring
Vice President,
Research for Emerging
Internet Economies

If companies watch only the number of visitors to their eCommerce sites,

they could lose sight of why they don't return.

Customer loyalty is no longer a given, especially on the Internet. Options are plentiful, so finding another one is easy. Now more than ever companies need to know their potential customer better than their own CEO. As a result, new questions have to be asked: How are these companies using the Internet? What is their current infrastructure, and how can it be positioned for growth? Do they really know their competition? And most importantly, will their customers come back for answers?

Only Forrester delivers the Whole View of the Web experience — a comprehensive vision of business technology and how it integrates internally within a company and externally with customers to achieve business goals.

We provide an inside-out corporate perspective. Identifying key business drivers. Analyzing technology trends. Evaluating eCommerce strategies. Providing guidance on the back-office needs for supporting eCommerce.

We also look from the outside in, as a customer does. Helping our clients better understand consumer motivations. Defining how technology influences consumer decisions.

The result? Visitors are converted into customers, and random opportunities are replaced by repeated loyalty.

And that's something everyone likes to see.

If a corporation focuses only on the revenue to be made by going direct to the customer,

it could get blind-sided by its channel partners.

Some manufacturers have seized upon the Web as a way to bypass their distributors and resellers and interact directly with customers. There's a lot to like about this phenomenon known as disintermediation. Its promises are alluring: profit increase, cost reduction, greater insight into customer needs, and strength to build relationships and loyalty.

But while potential disintermediators are fantasizing about the potential of a higher-profit Web business, their existing channel partners might be formulating Web strategies that play to their own advantage. Some resellers are using virtual intermediaries to block out manufacturers. And some distributors are pursuing the same strategy — or going direct to customers themselves.

Where do companies turn to make sense of their Net relationships in this disintermediation battle? Forrester Research.

Only Forrester provides the Whole View. eResearch strategy lenses bring industry-specific and regional issues into focus, while issue-specific lenses provide a focused perspective on themes like the Web's impact on distribution channels and relationships.

Forrester clients learn more about the risks and rewards of disintermediation, from the technological ramifications to the best strategies for marketing to customers in the Internet economy.

The result? A better understanding of how to build online relationships and how to leverage channels more effectively.

And that can be a very eye-opening experience.

If businesses only view the Web as a place to sell products,

they might not see the chance to start a beautiful relationship.

For most companies, the Web has evolved quickly — from information source to corporate billboard to revenue engine. And with the major headlines generated by top Web retailers, it's not surprising that many companies view the Web as primarily an online storefront. In fact, 84% of companies say they are under some degree of pressure to generate revenue from the Web.

But if companies are only looking at the Web from a retail perspective, they could miss out on another benefit that is potentially more lucrative and lasting: relationship building.

The Web's biggest impact will more likely come from its effect on a broader set of relationships. Business to business. Business to employee. Customer relationship management. Supply chain integration.

Only Forrester Research translates that impact fluently, because only Forrester provides the Whole View. We're structured to support the full range of Web-related research needs — by continuously weaving Internet commerce initiatives and connective technology together with the consumer. And back again. Because Forrester is the premiere provider and acknowledged leader in Internet research, our clients can be sure they don't miss a thing.

The result? Clearer, more collaborative, and more profitable relationships with customers, partners, and suppliers.

And that brings business relationships into focus.

Only Forrester delivers the Whole View.

Companies come to Forrester because we provide innovative ideas and objective guidance to help businesses thrive on technology change. In a world of doublespeak, hype, and spin control we deliver strategic information straight, with substantial, measurable benefits. We increase our clients' eBusiness Quotient, or eBQ, by giving them the ability to make focused, educated decisions and to identify new markets. In essence, we give our clients the power to win — and retain — customers.

We are able to offer such advantages because Forrester is the proven leader in Internet research, including deep business-to-business and business-to-consumer coverage. Our eResearch has given us the unique ability to market, sell, and deliver our products — and serve our clients — electronically. We leverage our core research model successfully to offer new products, services, and insights. And unlike our competitors, we've focused on every aspect of the Internet economy, since its infancy, from marketing to business development to consumer needs to emerging technologies.

The 1999

Forrester Research, Inc. | *Financial Statements*

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Selected Consolidated Financial Data

(in thousands, except share and per share data)

The selected financial data presented below is derived from the consolidated financial statements of the Company and should be read in connection with those statements which are included herein.

Year Ended December 31,	1995	1996	1997	1998	1999
Consolidated Statement of Income Data:					
Revenues:					
Core research	$10,150	$18,206	$30,431	$ 46,842	$ 64,697
Advisory services and other	4,439	6,757	9,990	14,725	22,571
Total revenues	14,589	24,963	40,421	61,567	87,268
Operating expenses:					
Cost of services and fulfillment	5,486	8,762	13,698	22,038	27,715
Selling and marketing	5,643	8,992	14,248	20,896	31,131
General and administrative	1,389	2,509	4,500	6,688	9,865
Depreciation and amortization	287	618	1,209	2,763	4,003
Costs related to acquisition	—	—	—	—	694
Total operating expenses	12,805	20,881	33,655	52,385	73,408
Income from operations	1,784	4,082	6,766	9,182	13,860
Other income, net	339	634	2,515	2,957	3,710
Income before income tax provision	2,123	4,716	9,281	12,139	17,570
Income tax provision	96	712	3,683	4,592	6,589
Net income	2,027	4,004	$ 5,598	$ 7,547	$ 10,981
Pro forma income tax adjustment	739	1,198			
Pro forma net income	$ 1,288	$ 2,806			
Basic net income per common share	$ 0.17	$ 0.32	$ 0.34	$ 0.44	$ 0.61
Diluted net income per common share	$ 0.17	$ 0.31	$ 0.32	$ 0.40	$ 0.55
Basic pro forma net income per common share	$ 0.11	$ 0.23			
Diluted pro forma net income per common share	$ 0.11	$ 0.22			
Basic weighted average common shares outstanding	12,000	12,384	16,679	17,041	18,028
Diluted weighted average common shares outstanding	12,000	12,852	17,703	18,744	20,067
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$ 7,518	$44,640	$54,914	$ 66,483	$ 98,787
Working capital	$ 991	$31,291	$36,016	$ 45,720	$ 65,366
Deferred revenue	$11,359	$17,816	$27,074	$ 38,894	$ 66,233
Total assets	$15,426	$56,782	$73,536	$100,518	$159,393
Total stockholders' equity	$ 2,047	$33,762	$40,505	$ 53,533	$ 78,805

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

This Annual Report to Stockholders contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expects," "beliefs," "anticipates," "intends," "plans," "estimates," or similar expressions are intended to identify these forward-looking statements. These statements are based on the Company's 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. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

We are a leading independent Internet research firm that conducts research and analysis on the impact of the Internet and emerging technologies on business strategy, consumer behavior and society. Our clients, which include senior management, business strategists, and marketing and technology professionals within large enterprises, use our prescriptive, actionable research to understand and capitalize on the Internet and emerging business models and technologies.

We derive revenues from memberships to our core research and from our advisory services and Forum events. We offer contracts for our products and services that are typically renewable annually and payable in advance. Accordingly, a substantial portion of our billings are initially recorded as deferred revenue. Research revenues are recognized pro rata on a monthly basis over the term of the contract. Our advisory services clients purchase such services together with memberships to our research. Billings attributable to advisory services are initially recorded as deferred revenue and recognized as revenue when performed. Similarly, Forum billings are initially recorded as deferred revenue and are recognized upon completion of each event.

Our operating expenses consist of cost of services and fulfillment, selling and marketing expenses, general and administrative expenses, and depreciation and amortization. Cost of services and fulfillment represent the costs associated with the production and delivery of our products and services and include the costs of salaries, bonuses, and related benefits for research personnel and all associated editorial, travel, and support services. Selling and marketing expenses include salaries, employee benefits, travel expenses, promotional costs, sales commissions, and other costs incurred in marketing and selling our products and services. General and administrative expenses include the costs of the operations, technology, finance, and strategy groups, and our other administrative functions.

We believe that the "agreement value" of contracts to purchase research and advisory services provides a significant measure of our business volume. We calculate agreement value as the total revenues recognizable from all research and advisory service contracts in force at a given time, without regard to how much revenue has already been recognized. Agreement value increased 68% to $115.8 million at December 31, 1999 from $69.1 million at December 31, 1998. No single client accounted for more than 2% of agreement value at December 31, 1999. Our experience is that a substantial portion of client companies renew expiring contracts for an equal or higher level of total research and advisory service fees each year. Approximately 74% and 75% of our client companies with memberships expiring during the years ended December 31, 1999 and 1998, respectively, renewed one or more memberships for our products and services. This renewal rate is not necessarily indicative of the rate of future retention of our revenue base.

Management's Discussion and Analysis of Financial Condition and Results of Operations

(continued)

Results of Operations

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

Year Ended December 31,	1997	1998	1999
Core research	75%	76%	74%
Advisory services and other	25	24	26
Total revenues	100	100	100
Cost of services and fulfillment	34	36	32
Selling and marketing	35	34	36
General and administrative	11	11	11
Depreciation and amortization	3	4	4
Costs related to acquisition	—	—	1
Income from operations	17	15	16
Other income, net	6	5	4
Income before income tax provision	23	20	20
Provision for income taxes	9	8	7
Net income	14%	12%	13%

Years Ended December 31, 1999 and 1998

Revenues. Total revenues increased 42% to $87.3 million in the year ended December 31, 1999 from $61.6 million in the year ended December 31, 1998. Revenues from core research increased 38% to $64.7 million in the year ended December 31, 1999 from $46.8 million in the year ended December 31, 1998. Increases in total revenues and revenues from core research were primarily attributable to an increase in the number of client companies to 1,793 at December 31, 1999 from 1,271 at December 31, 1998, an increase in the sales organization to 153 employees at December 31, 1999 from 92 employees at December 31, 1998 and sales of additional core research to existing clients. No single client company accounted for more than 2% of revenues for the year ended December 31, 1999.

Advisory services and other revenues increased 53% to $22.6 million in the year ended December 31, 1999 from $14.7 million in the year ended December 31, 1998. This increase was primarily attributable to increased demand for Forrester's advisory services programs and Forum events, an increase in the number of events held to eight in the year ended December 31, 1999 from six in the year ended December 31, 1998 and an increase in research staff providing advisory services to 125 employees at December 31, 1999 from 97 at December 31, 1998.

Revenues attributable to customers outside the United States increased 57% to $19.8 million in the year ended December 31, 1999 from $12.6 million in the year ended December 31, 1998. Revenues attributable to customers outside the United States increased as a percentage of total revenues to 22% for the year ended December 31, 1999 from 21% for the year ended December 31, 1998. The increase in international revenues was primarily attributable to the continued expansion of our European headquarters in Amsterdam, Netherlands, including an increase in sales personnel, and our acquisition of London-based Fletcher Research Limited on November 15, 1999. We invoice our international clients, other than clients billed by our subsidiary, Fletcher Research Limited, in US dollars.

Cost of Services and Fulfillment. Cost of services and fulfillment decreased as a percentage of total revenues to 32% in the year ended December 31, 1999 from 36% in the year ended December 31, 1998. These expenses increased 26% to $27.7 million in the year ended December 31, 1999 from $22.0 million in the year ended December 31, 1998. The decrease in expenses as a percentage of revenues reflects a larger revenue base in 1999 and lower production costs resulting from the introduction of our eResearch platform in February 1999. The expense increase in 1999 was principally due to an increase in research analyst staffing and related compensation expenses.

Selling and Marketing. Selling and marketing expenses increased as a percentage of total revenues to 36% in the year ended December 31, 1999 from 34% in the year ended December 31, 1998. These expenses increased 49% to $31.1 million in the year ended December 31, 1999 from $20.9 million in the year ended December 31, 1998. The increase in expenses and the increase in expenses as a percentage of revenues were principally due to the increase in the number of direct sales personnel and related commission and travel expenses.

General and Administrative. General and administrative expenses remained constant as a percentage of total revenues at 11% in the years ended December 31, 1999 and 1998. These expenses increased 48% to $9.9 million in the year ended December 31, 1999 from $6.7 million in the year ended December 31, 1998. The increase in expenses was principally due to staffing increases in our operations, technology, finance, and strategy groups.

Depreciation and Amortization. Depreciation and amortization expenses increased 45% to $4.0 million in the year ended December 31, 1999 from $2.8 million in the year ended December 31, 1998. The increase in these expenses was principally due to purchases of computer equipment, software, office furnishings, and leasehold improvements to support business growth, including our move to our new headquarters in October 1999.

Costs related to acquisition. Costs related to acquisition totaled $694,000 and resulted from our acquisition of Fletcher Research Limited on November 15, 1999, which was accounted for as an immaterial pooling of interests. These one-time, non-recurring costs consisted of legal, accounting, investment banking, printing, filing, and other related fees and expenses incurred in completing this acquisition.

Other Income, Net. Other income, consisting primarily of interest income, increased to $3.7 million in the year ended December 31, 1999 from $3.0 million in the year ended December 31, 1998. The increase was due to interest income from higher cash and marketable securities balances resulting from positive cash flows from operations.

Income Tax Provision. During the year ended December 31, 1999, we recorded a tax provision of $6.6 million, reflecting an effective tax rate of 37.5%. During the year ended December 31, 1998, we recorded a tax provision of $4.6 million reflecting an effective tax rate of 37.8%. The decrease in effective tax rate resulted from a reduction in our effective state tax rate and an increase in our investments in tax-exempt marketable securities, offset by non-deductible acquisition costs.

Years Ended December 31, 1998 and December 31, 1997

Revenues. Total revenues increased 52% to $61.6 million in the year ended December 31, 1998 from $40.4 million in the year ended December 31, 1997. Revenues from core research increased 54% to $46.8 million in the year ended December 31, 1998 from $30.4 million in the year ended December 31, 1997. Increases in total revenues and revenues from core research were primarily attributable to an increase in the number of client companies to 1,271 at December 31, 1998 from 1,029 at December 31, 1997, sales of additional research services to existing clients, and the introduction of five new strategy research services and one new quantitative research service since January 1, 1997.

Management's Discussion and Analysis of Financial Condition and Results of Operations

(continued)

Advisory services and other revenues increased 47% to $14.7 million in the year ended December 31, 1998 from $10.0 million in the year ended December 31, 1997. This increase was primarily attributable to demand for our advisory services and the addition of three new Forum events in 1998.

Revenues attributable to customers outside the United States increased 44% to $12.6 million in the year ended December 31, 1998 from $8.8 million in the year ended December 31, 1997 and decreased as a percentage of total revenues to 21% for the year ended December 31, 1998 from 22% for the year ended December 31, 1997. The increase in international revenues was primarily due to our opening of our European headquarters in Amsterdam, the Netherlands, in April 1998, and the addition of direct international sales personnel. During 1998, we invoiced our international clients in US dollars.

Agreement value grew 48% to $69.1 million at December 31, 1998 from $46.6 million at December 31, 1997. No single client company accounted for more than 3% of agreement value at December 31, 1998 or 3% of revenues for the year ended December 31, 1998.

Cost of Services and Fulfillment. Cost of services and fulfillment increased as a percentage of total revenues to 36% in the year ended December 31, 1998 from 34% in the year ended December 31, 1997. These expenses increased 61% to $22.0 million in the year ended December 31, 1998 from $13.7 million in the year ended December 31, 1997. The increase in expenses and expenses as a percentage of total revenues was principally due to increased analyst staffing for research services and related compensation expenses and the addition of three new Forum events in 1998.

Selling and Marketing. Selling and marketing expenses decreased as a percentage of total revenues to 34% in the year ended December 31, 1998 from 35% in the year ended December 31, 1997. These expenses increased 47% to $20.9 million in the year ended December 31, 1998 from $14.2 million in the year ended December 31, 1997. The decrease as a percentage of total revenues resulted principally from the larger revenue base in 1998. The increase in expenses was principally due to the addition of direct salespersons and increased sales commission expenses associated with increased revenues.

General and Administrative. General and administrative expenses remained constant as a percentage of total revenues at 11% in the years ended December 31, 1998 and December 31, 1997. These expenses increased 49% to $6.7 million in the year ended December 31, 1998 from $4.5 million in the year ended December 31, 1997. The increase in expenses was principally due to staffing increases and costs associated with the opening of our European headquarters.

Depreciation and Amortization. Depreciation and amortization expense increased 129% to $2.8 million in the year ended December 31, 1998 from $1.2 million in the year ended December 31, 1997. The increase in these expenses was principally due to investments in our technology infrastructure and costs associated with the opening of our European headquarters.

Other Income, Net. Other income, consisting primarily of interest income, increased to $3.0 million in the year ended December 31, 1998 from $2.5 million in the year ended December 31, 1997. This increase was due to interest income from higher cash and marketable securities balances resulting from positive cash flows from operations.

Income Tax Provision. During the year ended December 31, 1998, we recorded a tax provision of $4.6 million reflecting an effective tax rate of 37.8%. During the year ended December 31, 1997, we recorded a tax provision of $3.7 million reflecting an effective tax rate of 39.7%. The decrease in effective tax rate resulted from a reduction in our effective state tax rate and an increase in sales through our foreign sales corporation, which we organized in 1998.

Years Ended December 31, 1997 and December 31, 1996

Revenues. Total revenues increased 62% to $40.4 million in the year ended December 31, 1997, from $25.0 million in the year ended December 31, 1996. Revenues from core research increased 67% to $30.4 million in the year ended December 31, 1997 from $18.2 million in the year ended December 31, 1996. Increases in total revenues and revenues from core research were primarily attributable to an increase in the number of client companies to 1,029 at December 31, 1997 from 885 at December 31, 1996, and the introduction of six new strategy research services since January 1, 1996. Revenues from our quantitative research service were not material in 1997.

Advisory services and other revenues increased 48% to $10.0 million in the year ended December 31, 1997 from $6.8 million in the year ended December 31, 1996. This increase was primarily attributable to demand for the partners and strategy review programs and the addition of two new Forum events in 1997.

Revenues attributable to customers outside the United States increased 66% to $8.8 million in the year ended December 31, 1997 from $5.3 million in the year ended December 31, 1996 and also increased as a percentage of total revenues to 22% for the year ended December 31, 1997 from 21% for the year ended December 31, 1996. These increases were due primarily to the addition of direct international sales personnel. During 1997, we invoiced our international clients in US dollars.

Agreement value grew 55% to $46.6 million at December 31, 1997 from $30.0 million at December 31, 1996. No single client company accounted for more than 2% of agreement value at December 31, 1997 or 3% of revenues for the year ended December 31, 1997.

Cost of Services and Fulfillment. Cost of services and fulfillment decreased as a percentage of total revenues to 34% in the year ended December 31, 1997 from 35% in the year ended December 31, 1996. These expenses increased 56% to $13.7 million in the year ended December 31, 1997 from $8.8 million in the year ended December 31, 1996. The increase in expenses in this period was principally due to increased analyst staffing for strategy research services and related compensation expenses. The decrease as a percentage of total revenues was principally due to the larger revenue base.

Selling and Marketing. Selling and marketing expenses decreased as a percentage of total revenues to 35% in the year ended December 31, 1997 from 36% in the year ended December 31, 1996. These expenses increased 58% to $14.2 million in the year ended December 31, 1997, from $9.0 million in the year ended December 31, 1996. The increase in expenses was principally due to the addition of direct salespersons and increased sales commission expenses associated with increased revenues. The decrease as a percentage of total revenues was principally due to increased productivity of our direct sales force.

General and Administrative. General and administrative expenses increased as a percentage of total revenues to 11% in the year ended December 31, 1997 from 10% in the year ended December 31, 1996. These expenses increased 79% to $4.5 million in the year ended December 31, 1997

Management's Discussion and Analysis of Financial Condition and Results of Operations

(continued)

from $2.5 million in the year ended December 31, 1996. The increases in expenses and expenses as a percentage of total revenues were principally due to staffing increases in operations and technology, the addition of a human resources department, and our investment in new internal technology, including new financial systems.

Depreciation and Amortization. Depreciation and amortization expenses increased 95% to $1.2 million in the year ended December 31, 1997 from $618,000 in the year ended December 31, 1996. The increase in these expenses was principally due to purchases of computer equipment, software, office furnishings, and leasehold improvements to support business growth.

Other Income, Net. Other income, consisting primarily of interest income, increased to $2.5 million in the year ended December 31, 1997 from $634,000 in the year ended December 31, 1996. This increase resulted from our higher cash and marketable securities balances resulting from positive cash flows from operations and net proceeds from our initial public offering.

Income Tax Provision. During the year ended December 31, 1997, we recorded a tax provision of $3.7 million reflecting an effective tax rate of 39.7%. During the year ended December 31, 1996, we recorded a pro forma tax provision of $1.9 million reflecting an effective tax rate of 40.5%. The decrease in effective tax rate resulted from a reduction in our effective state tax rate and an increase in our investments in tax-exempt marketable securities.

Results of Quarterly Operations

The following tables set forth a summary of our unaudited quarterly operating results for each of our eight most recently ended fiscal quarters. We have derived this information from our unaudited interim consolidated financial statements, which, in the opinion of our management, have been prepared on a basis consistent with our financial statements contained elsewhere in this prospectus and include all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation in accordance with generally accepted accounting principles when read in conjunction with our consolidated financial statements and related notes included elsewhere in this prospectus. Historically, our total revenues, operating profit, and net income in the fourth quarter have reflected the significant positive contribution of revenues attributable to advisory services performed and Forum events held in the fourth quarter. As a result, we have historically experienced a decline in total revenues, operating profit, and net income from the quarter ended December 31 to the quarter ended March 31. Our quarterly operating results are not necessarily indicative of future results of operations.

	Three Months Ended *(in thousands, except per share amounts)*							
	Mar. 31, 1998	Jun. 30, 1998	Sep. 30, 1998	Dec. 31, 1998	Mar. 31, 1999	Jun. 30, 1999	Sep. 30, 1999	Dec. 31, 1999
Core research	$10,469	$11,202	$12,354	$12,816	$12,978	$14,773	$17,026	$19,919
Advisory services and other	2,662	3,841	2,716	5,506	4,951	4,898	4,955	7,768
Total revenues	13,131	15,043	15,070	18,322	17,929	19,671	21,981	27,687
Cost of services and fulfillment	4,829	5,782	5,212	6,215	6,612	6,424	6,909	7,770
Selling and marketing	4,766	5,078	5,194	5,857	6,192	7,276	7,854	9,809
General and administrative	1,557	1,642	1,647	1,843	2,041	2,213	2,504	3,107
Depreciation and amortization	531	648	760	824	873	1,048	973	1,109
Costs related to acquisition	—	—	—	—	—	—	—	694
Income from operations	1,448	1,893	2,257	3,583	2,211	2,710	3,741	5,198
Other income, net	715	715	765	762	860	895	864	1,092
Income before income tax provision	2,163	2,608	3,022	4,345	3,071	3,605	4,605	6,290
Income tax provision	821	991	1,148	1,631	1,167	1,370	1,750	2,302
Net income	$1,342	$1,617	$1,874	$2,714	$1,904	$2,235	$2,855	$3,988
Basic net income per common share	$0.08	$0.10	$0.11	$0.16	$0.11	$0.13	$0.16	$0.21
Diluted net income per common share	$0.07	$0.09	$0.10	$0.14	$0.10	$0.12	$0.14	$0.18

	As a Percentage of Revenues							
	Mar. 31, 1998	Jun. 30, 1998	Sep. 30, 1998	Dec. 31, 1998	Mar. 31, 1999	Jun. 30, 1999	Sep. 30, 1999	Dec. 31, 1999
Core research	80%	74%	82%	70%	72%	75%	77%	72%
Advisory services and other	20	26	18	30	28	25	23	28
Total revenues	100	100	100	100	100	100	100	100
Cost of services and fulfillment	37	38	35	34	37	33	31	28
Selling and marketing	36	34	34	32	35	37	36	35
General and administrative	12	11	11	10	11	11	11	11
Depreciation and amortization	4	4	5	5	5	5	5	4
Costs related to acquisition	—	—	—	—	—	—	—	3
Income from operations	11	13	15	20	12	14	17	19
Other income, net	5	5	5	4	5	4	4	4
Income before income tax provision	16	18	20	24	17	18	21	23
Income tax provision	6	7	8	9	6	7	8	9
Net income	10%	11%	12%	15%	11%	11%	13%	14%

Management's Discussion and Analysis of Financial Condition and Results of Operations

(continued)

Liquidity and Capital Resources

We have financed our operations through funds generated from operations. Memberships for research, which constituted approximately 74% of our revenues for the year ended December 31, 1999, are generally annually renewable and are payable in advance. We generated $31.9 million and $14.3 million in cash from operating activities during the years ended December 31, 1999 and 1998, respectively.

In 1999, we used $39.1 million of cash in investing activities, consisting primarily of $8.9 million for net purchases of property and equipment, $1.0 million for a minority investment in an Internet-based marketing research firm, and $29.8 million for net purchases of marketable securities. We regularly invest excess funds in short- and intermediate-term interest-bearing obligations of investment grade.

We had $13.4 million of cash and cash equivalents and $85.3 million of marketable securities at December 31, 1999. 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 to invest in our infrastructure over the next 12 months. We believe that our current cash and marketable securities balances and cash flows from operations will satisfy working capital, financing activities, and capital expenditure requirements for at least the next two years.

Year 2000 Readiness Disclosure

As of the date of this filing, we have not incurred any significant business disruptions as a result of year 2000 issues. However, while no such occurrence has developed, year 2000 issues that may arise related to key suppliers and service providers may not become apparent immediately. We have received assurances of year 2000 compliance from key suppliers. We have also received assurances from key service providers such as financial institutions, our payroll service provider, and our retirement plan administrator as to their year 2000 readiness. We can provide no assurance that we will not be adversely affected by these suppliers and service providers due to noncompliance in the future.

Report of Independent Public Accountants

To the Stockholders of
Forrester Research, Inc.:

We have audited the accompanying consolidated balance sheets of Forrester Research, Inc. (a Delaware corporation), and subsidiaries as of December 31, 1998 and 1999 and the related consolidated statements of income, stockholders' equity and comprehensive income, and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Forrester Research, Inc., and subsidiaries as of December 31, 1998 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Boston, Massachusetts
January 28, 2000 (except with
respect to the matters discussed in
Note 8, as to which the date is
February 28, 2000)

Consolidated Balance Sheets

December 31, 1998 and 1999

(in thousands, except share data)

ASSETS

	1998	1999
Current assets:		
Cash and cash equivalents	$ 10,414	$ 13,445
Marketable securities	56,070	85,342
Accounts receivable, net of allowance for doubtful accounts of approximately $400 and $580 in 1998 and 1999, respectively	21,158	36,988
Deferred commissions	2,124	4,850
Prepaid income taxes	334	1,187
Prepaid expenses and other current assets	2,605	4,142
Total current assets	92,705	145,954
Property and Equipment, at Cost:		
Computers and equipment	5,707	9,165
Computer software	2,766	2,701
Furniture and fixtures	1,249	5,348
Leasehold improvements	2,917	1,903
Total property and equipment	12,639	19,117
Less — accumulated depreciation and amortization	4,826	7,498
Property and equipment, net	7,813	11,619
Other Assets	—	1,820
Total assets	$100,518	$159,393
Current Liabilities:		
Accounts payable	$ 1,434	$ 2,702
Customer deposits	264	716
Accrued expenses	5,051	9,447
Accrued income taxes	933	617
Deferred revenue	38,894	66,233
Deferred income taxes	409	873
Total current liabilities	46,985	80,588
Commitments (Note 6)		
Stockholders' Equity:		
Preferred stock, $.01 par value Authorized — 500,000 shares Issued and outstanding — none	—	—
Common stock, $.01 par value Authorized — 125,000,000 shares Issued and outstanding — 17,308,350 and 19,408,064 shares in 1998 and 1999, respectively	173	194
Additional paid-in capital	39,548	54,771
Retained earnings	13,494	24,434
Accumulated other comprehensive income (loss)	318	(594)
Total stockholders' equity	53,533	78,805
Total liabilities and stockholders' equity	$100,518	$159,393

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

Consolidated Statements of Income

For the Years Ended December 31, 1997, 1998 and 1999

(in thousands, except per share data)

	1997	1998	1999
Revenues:			
Core research	$30,431	$46,842	$64,697
Advisory services and other	9,990	14,725	22,571
Total revenues	40,421	61,567	87,268
Operating expenses:			
Cost of services and fulfillment	13,698	22,038	27,715
Selling and marketing	14,248	20,896	31,131
General and administrative	4,500	6,688	9,865
Depreciation and amortization	1,209	2,763	4,003
Costs related to acquisition (Note 2)	—	—	694
Total operating expenses	33,655	52,385	73,408
Income from operations	6,766	9,182	13,860
Other income, net	2,515	2,957	3,710
Income before income tax provision	9,281	12,139	17,570
Income tax provision	3,683	4,592	6,589
Net income	$ 5,598	$ 7,547	$10,981
Basic net income per common share	$ 0.34	$ 0.44	$ 0.61
Diluted net income per common share	$ 0.32	$ 0.40	$ 0.55
Basic weighted average common shares outstanding	16,679	17,041	18,028
Diluted weighted average common shares outstanding	17,703	18,744	20,067

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

Consolidated Statements of Stockholders' Equity and Comprehensive Income

For the Years Ended December 31, 1997, 1998 and 1999

	Common Stock Number of Shares	Common Stock $.01 Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (loss)	Total Stockholders' Equity	Comprehensive Income
Balance, December 31, 1996	16,600	166	33,188	349	59	33,762	
Issuance of common stock under stock option plans, including tax benefit	140	2	848	—	—	850	
Issuance of common stock under employee stock purchase plan	44	—	293	—	—	293	
Net income	—	—	—	5,598	—	5,598	$ 5,598
Unrealized gain on marketable securities, net of tax provision	—	—	—	—	2	2	2
Total comprehensive income							$ 5,600
Balance, December 31, 1997	16,784	168	34,329	5,947	61	40,505	
Issuance of common stock under stock option plans, including tax benefit	457	4	4,562	—	—	4,566	
Issuance of common stock under employee stock purchase plan	67	1	657	—	—	658	
Net income	—	—	—	7,547	—	7,547	$ 7,547
Unrealized gain on marketable securities, net of tax provision	—	—	—	—	89	89	89
Cumulative translation adjustment	—	—	—	—	168	168	168
Total comprehensive income							7,804
Balance, December 31, 1998	17,308	173	39,548	13,494	318	53,533	
Issuance of common stock related to acquisition (Note 2)	804	8	—	(41)	—	(33)	
Issuance of common stock under stock option plans, including tax benefit	1,184	12	13,846	—	—	13,858	
Issuance of common stock under employee stock purchase plan	112	1	1,377	—	—	1,378	
Net income	—	—	—	10,981	—	10,981	$10,981
Unrealized loss on marketable securities	—	—	—	—	(563)	(563)	(563)
Cumulative translation adjustment	—	—	—	—	(349)	(349)	(349)
Total comprehensive income							$10,069
Balance, December 31, 1999	19,408	$194	$54,771	$24,434	$(594)	$78,805	

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

Consolidated Statements of Cash Flows

For the Years Ended December 31, 1997, 1998 and 1999

(in thousands)

	1997	1998	1999
Cash flows from operating activities:			
Net income	$ 5,598	$ 7,547	$ 10,981
Adjustments to reconcile net income to net cash provided by operating activities —			
Depreciation and amortization	1,209	2,763	4,003
Loss on disposals of property and equipment	—	—	105
Deferred income taxes	(315)	288	464
Accretion of discount on marketable securities	(474)	(55)	(50)
Changes in assets and liabilities —			
Accounts receivable	(3,092)	(9,965)	(15,036)
Deferred commissions	(27)	(756)	(2,726)
Prepaid income taxes	(520)	186	(853)
Prepaid expenses and other current assets	(823)	(1,415)	(1,610)
Accounts payable	73	171	1,103
Customer deposits	139	(15)	452
Accrued expenses	460	1,400	3,875
Accrued income taxes	798	2,341	4,716
Deferred revenue	9,258	11,820	26,521
Net cash provided by operating activities	12,284	14,310	31,945
Cash flows from investing activities:			
Purchases of property and equipment	(3,226)	(6,087)	(8,892)
Proceeds related to disposals of property and equipment	—	—	1,056
Cash acquired in acquisition	—	—	355
Purchase of non-marketable investment	—	—	(1,000)
Increase in other assets	—	—	(835)
Purchases of marketable securities	(365,872)	(313,236)	(466,628)
Proceeds from sales and maturities of marketable securities	329,433	304,482	436,843
Net cash used in investing activities	(39,665)	(14,841)	(39,101)
Cash flows from financing activities:			
Proceeds from issuance of common stock under stock option plans and employee stock purchase plan	741	3,193	10,192
Net cash provided by financing activities	741	3,193	10,192
Effect of exchange rate changes on cash and cash equivalents	—	10	(5)
Net (decrease) increase in cash and cash equivalents	(26,640)	2,672	3,031
Cash and cash equivalents, beginning of year	34,382	7,742	10,414
Cash and cash equivalents, end of year	$ 7,742	$ 10,414	$ 13,445
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	$ 3,720	$ 1,117	$ 2,217
Supplemental disclosure of noncash financing activities:			
Increase in additional paid-in capital and decrease in accrued income taxes related to the tax benefit on the exercises of incentive and nonqualified stock options	$ 402	$ 2,031	$ 5,044

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

Notes to Consolidated Financial Statements

(1) Operations and Significant Accounting Policies

Forrester Research, Inc., (the Company) is a leading independent Internet research firm that conducts research and analysis on the impact of the Internet and emerging technologies on business strategy, consumer behavior, and society. The Company is incorporated under the laws of the State of Delaware and grants credit to its customers with locations throughout the world.

The accompanying consolidated financial statements reflect the application of certain significant accounting policies as described below and elsewhere in the accompanying financial statements and notes.

Principles of Consolidation. The accompanying financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances have been eliminated in consolidation.

Management Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Revenue Recognition. The Company generally invoices its core research, advisory, and other services when an order is received. The gross amount is recorded as accounts receivable and deferred revenue when the client is obligated to pay the invoice. Core research, which represents the distribution of research reports as well as data research, is recorded as revenue ratably over the term of the agreement. Advisory and other services are recognized during the period in which the services are performed.

Deferred Commissions. Commissions incurred in acquiring new or renewal contracts are deferred and charged to operations as the related revenue is recognized. The Company evaluates the recoverability of deferred commissions at each balance sheet date.

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

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

	1997	1998	1999
Basic weighted average common shares outstanding	16,679	17,041	18,028
Weighted average common equivalent shares	1,024	1,703	2,039
Diluted weighted average common shares outstanding	17,703	18,744	20,067

As of December 31, 1997, 1998 and 1999, 222,172, 879,780 and 672,000 options, respectively, were outstanding but not included in the diluted weighted average common share calculation as the effect would have been anti-dilutive.

Depreciation and Amortization. The Company provides for depreciation and amortization, computed using the straight-line method, by charges to income in amounts that allocate the costs of these assets over their estimated useful lives as follows:

	Estimated Useful Life
Computers and equipment	3 to 5 Years
Computer software	3 Years
Furniture and fixtures	7 Years
Leasehold improvements	Life of lease

Product Development. All costs associated with the development of new products and services are expensed as incurred.

Concentration of Credit Risk. Statement of Financial Accounting Standards (SFAS) No. 105, *Disclosure of Information About Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk*, requires disclosure of any significant off-balance-sheet and credit risk concentrations. The Company has no significant off-balance-sheet concentration of credit risk such as foreign exchange contracts, option contracts, or other foreign hedging arrangements. Financial instruments that potentially subject the Company to concentrations of credit risk are principally cash equivalents, marketable securities, and accounts receivable. The Company places its investments in highly rated institutions. No single customer accounted for greater than 10% of revenues or accounts receivable in any of the periods presented.

Financial Instruments. SFAS No. 107, *Disclosures About Fair Value of Financial Instruments*, requires disclosure about the fair value of financial instruments. Financial instruments consist of cash equivalents, marketable securities, accounts receivable, and accounts payable. The estimated fair value of these financial instruments approximates their carrying value. The fair market value of marketable securities is based on market quotes. The Company's cash equivalents and marketable securities are generally investment-grade corporate bonds and obligations of the federal government or municipal issuers.

Foreign Currency. The functional currency of the Company's wholly owned subsidiaries in the United Kingdom and the Netherlands are the local currency. The financial statements of the subsidiaries are translated to United States dollars using period-end exchange rates for assets and liabilities and average exchange rates during the corresponding period for revenues and expenses. Translation gains and losses as a result of this translation are accumulated as a component of accumulated other comprehensive income (loss). Net gains and losses resulting from foreign exchange transactions are included in the consolidated statements of operations and were not significant during the periods presented.

Comprehensive Income. SFAS No. 130, *Reporting Comprehensive Income*, requires disclosure of the components of comprehensive income, which is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner

Notes to Consolidated Financial Statements

(continued)

sources. Comprehensive income is disclosed in the accompanying statements of stockholders' equity and comprehensive income. The components of accumulated other comprehensive income as of December 31, 1998 and 1999 are as follows (in thousands):

	1998	1999
Unrealized gain (loss) on marketable securities, net of taxes	$150	$(413)
Cumulative translation adjustment	168	(181)
Total accumulated other comprehensive income (loss)	$318	$(594)

Capitalized Software Costs. In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. SOP No. 98-1 requires certain computer software costs associated with internal-use software to be expensed as incurred until certain capitalization criteria are met. The Company adopted SOP No. 98-1 beginning January 1, 1999. SOP No. 98-1 had no effect upon adoption. The net book value of capitalized internal use software costs at December 31, 1998 and 1999 was approximately $1,920,000 and $3,420,000, respectively.

Organizational Costs. In April 1998, the AICPA issued SOP No. 98-5, *Reporting on the Costs of Start-Up Activities*, which requires that all nongovernmental entities expense the costs of start-up activities, including organizational costs, as those costs are incurred. The Company has historically recorded all such costs as expenses in the period incurred.

New Accounting Standards. In December 1999, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements*. SAB No. 101 is effective for all periods beginning after December 15, 1999. Adoption of SAB No. 101 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133 is effective for all periods beginning after June 15, 2000 and establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. Adoption of SFAS No. 133 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

(2) Acquisition

On November 15, 1999, the Company acquired 100% of the outstanding shares of Fletcher Research Limited (Fletcher). The transaction has been accounted for as a pooling of interests. However, Fletcher's historical financial position and results of operations were not material to the Company's financial position and results of operations. Accordingly, the historical financial statements of the Company have not been restated. The Company incurred approximately $694,000 of various costs including legal, accounting, investment banking, printing, filing, and other fees and expenses related to this transaction, which has been separately stated in the accompanying consolidated statement of income for the year ended December 31, 1999.

(3) Cash, Cash Equivalents, and Marketable Securities

The Company considers all short-term, highly liquid investments with maturities of 90 days or less from the original date of purchase to be cash equivalents.

The Company accounts for investments in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Under SFAS No. 115, securities purchased in order to be held for indefinite periods of time and not intended at the time of purchase to be held until maturity are classified as available-for-sale securities. At December 31, 1998 and 1999, these securities consisted of investments in federal and state government obligations and corporate obligations, which were recorded at fair market value, with any unrealized gains and losses reported as a separate component of other accumulated comprehensive income (loss). There were no held-to-maturity or trading securities at December 31, 1998 and 1999.

At December 31, 1998 and 1999, marketable securities consisted of the following (in thousands):

	1998	1999
U.S. Treasury notes	$ 3,560	$ 7,911
Federal agency obligations	15,126	13,531
State and municipal bonds	12,336	19,415
Corporate obligations	25,048	44,485
	$56,070	$85,342

The following table summarizes the maturity periods of marketable securities as of December 31, 1999:

	Less than 1 Year	1 to 5 Years	Total
U.S. Treasury notes	$ 999	$ 6,912	$ 7,911
Federal agency obligations	1,500	12,031	13,531
State and municipal bonds	1,509	17,906	19,415
Corporate obligations	42,478	2,007	44,485
	$46,486	$38,856	$85,342

Gross realized gains and losses on sales of marketable securities for the years ended December 31, 1998 and 1999, which were calculated based on specific identification, were not material.

(4) Investment in Greenfield Online

In May 1999, the Company invested $1.0 million in a holding company that is the majority shareholder of Greenfield Online, Inc., an Internet-based marketing research firm. As a result of this investment, the Company effectively owns approximately a 3.4% interest in Greenfield Online, Inc. This investment is being accounted for using the cost method and, accordingly, is being valued at cost unless a permanent impairment in its value occurs or the investment is liquidated. As of December 31, 1999, the Company has determined that a permanent impairment has not occurred.

During the year ended December 31, 1999, the Company charged approximately $220,000 to cost of services and fulfillment related to services provided by Greenfield Online.

Notes to Consolidated Financial Statements

(continued)

(5) Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. SFAS No. 109 prescribes an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities.

Income before income tax provision consists of the following (in thousands):

	1997	1998	1999
Domestic	$9,281	$12,239	$16,811
Foreign	—	(100)	759
Total	$9,281	$12,139	$17,570

The components of the income tax provisions for the years ended December 31, 1997, 1998 and 1999 are as follows (in thousands):

	1997	1998	1999
Current—			
Federal	$3,045	$3,800	$5,497
State	953	504	628
	3,998	4,304	6,125
Deferred—			
Federal	(244)	255	415
State	(71)	33	49
	(315)	288	464
Income tax provision	$3,683	$4,592	$6,589

A reconciliation of the federal statutory rate to the Company's effective tax rate for the years ended December 31, 1997, 1998 and 1999 is as follows:

	1997	1998	1999
Income tax provision at federal statutory rate	34.0%	34.0%	35.0%
Increase (decrease) in tax resulting from—			
State tax provision, net of federal benefit	4.5	4.4	3.7
Non-deductible costs related to acquisition	—	—	1.1
Non-deductible expenses	0.6	0.8	0.6
Tax-exempt interest income	(1.1)	(0.8)	(1.7)
Benefit of foreign sales corporation	—	(0.8)	(0.6)
Other, net	1.7	0.2	(0.6)
Effective income tax rate	39.7%	37.8%	37.5%

Deferred income taxes as of December 31, 1998 and 1999 are related to the following temporary differences (in thousands):

	1998	1999
Non-deductible reserves and accruals	$ 360	$ 622
Depreciation and amortization	38	323
Deferred commissions	(807)	(1,818)
	$(409)	$ (873)

The Company and George F. Colony, who was the sole stockholder of the Company prior to its initial public offering, have entered into an indemnification agreement relating to their respective income tax liabilities. Mr. Colony will continue to be liable for personal income taxes on the Company's income for all periods prior to the time the Company ceased to be an S corporation, while the Company will be liable for all income taxes subsequent to the time it ceased to be an S corporation. The agreement generally provides that the Company will indemnify Mr. Colony for any increase in his taxes (including interest and penalties) resulting from adjustments initiated by taxing authorities and from payments to him under the agreement and Mr. Colony will pay to the Company an amount equal to any decrease in his tax liability resulting from adjustments initiated by taxing authorities. The agreement also provides that, if the Company is determined to have been a C corporation for tax purposes at any time it reported its income as an S corporation, Mr. Colony will make a capital contribution to the Company in an amount necessary to hold the Company harmless from any taxes and interest arising from such determination up to the amount of distributions made by the Company to Mr. Colony prior to the termination of the Company's S corporation election less any taxes and interest attributable to such distributions.

(6) Commitments

The Company leases its office space and certain office equipment under operating leases. At December 31, 1999, approximate future minimum rentals due are as follows (in thousands):

2000	$ 4,955
2001	4,780
2002	5,029
2003	5,918
2004	6,210
Thereafter	11,474
Total minimum lease payments	$38,366

Rent expense was approximately $983,000, $1,463,000 and $2,760,000 for the years ended December 31, 1997, 1998, and 1999, respectively.

(7) 401(k) Plan

The Company has a 401(k) savings plan covering substantially all eligible employees. The plan is a qualified defined contribution plan in accordance with Section 401(k) of the Internal Revenue Code of 1986. Effective January 1, 1998, the Company elected to match 50% of employee contributions, up to 3% of each employee's annual salary. Company matching contributions will vest ratably over a period of four years. The Company's matching contributions totaled approximately $424,000 and $521,000 for the years ended December 31, 1998 and 1999, respectively.

Notes to Consolidated Financial Statements

(continued)

(8) Stockholders' Equity

Increase in Authorized Shares and Stock Split. On February 7, 2000, the Company increased the number of authorized shares of common stock from 25,000,000 to 125,000,000 and effected a two-for-one stock split as a 100% stock dividend. The Company has retroactively restated all share and per share amounts for the periods presented to effect this stock split.

Public Offering. Also in February 2000, the Company issued 626,450 shares of common stock in a public offering that generated net proceeds to the Company of approximately $22,600,000.

Preferred Stock. The Company has authorized 500,000 shares of $.01 par value preferred stock. The Board of Directors has full authority to issue this stock and to fix the voting powers, preferences, rights, qualifications, limitations, or restrictions thereof, including dividend rights, conversion rights, redemption privileges, and liquidation preferences, and the number of shares constituting any series or designation of such series.

(9) Stock Option Plans

In February 1996, the Company adopted the Forrester Research, Inc. 1996 Equity Incentive Plan, which has been subsequently amended (the Plan). The Plan provides for the issuance of incentive stock options (ISOs) and nonqualified stock options (NSOs) to purchase up to 10,500,000 shares of common stock. Under the terms of the Plan, ISOs may not be granted at less than fair market value on the date of grant (and in no event less than par value). ISO grants to holders of 10% of the combined voting power of all classes of Company stock must be granted at an exercise price not less than 110% of the fair market value at the date of grant. Options generally vest ratably over three years and expire after 10 years. Options granted under the Plan immediately vest upon certain events, as defined.

In September 1996, the Company adopted the 1996 Stock Option Plan for Non-Employee Directors (the Directors' Plan), which provides for the issuance of options to purchase up to 300,000 shares of common stock. Under the Directors' Plan, each non-employee director shall be awarded options to purchase 12,000 shares of common stock, at an exercise price equal to the fair market value of the common stock upon his or her election as a director. These options vest in three equal annual installments commencing on the date of grant. In addition, each non-employee director will also receive an option to purchase 8,000 shares of common stock, at an exercise price equal to the fair market value of the common stock, each year immediately following the Company's annual stockholders' meeting. These options will vest in three equal installments on the first, second and third anniversaries of the date of grant. The Compensation Committee (the Committee) of the Board of Directors also has the authority under the Directors' Plan to grant options to non-employee directors in such amounts and on such terms as set forth in the Directors' Plan as it shall determine at the time of grant.

Stock option activity under the Plan and under the Directors' Plan from December 31, 1996 to December 31, 1999 was as follows (in thousands, except per share data):

	Number of Shares	Exercise Price per Share	Weighted Average Exercise Price per Share
Outstanding at December 31, 1996	1,566	$2.75 — $ 6.50	4.14
Granted	668	8.78 — 14.60	11.26
Exercised	(140)	2.70 — 6.50	3.19
Canceled	(56)	2.75 — 11.00	7.09
Outstanding at December 31, 1997	2,038	2.75 — 14.60	6.50
Granted	2,964	9.57 — 19.88	12.74
Exercised	(458)	2.75 — 14.60	5.54
Canceled	(447)	2.75 — 19.85	9.04
Outstanding at December 31, 1998	4,097	2.75 — 19.88	10.85
Granted	4,414	0.81 — 33.88	14.31
Exercised	(1,184)	2.75 — 19.85	7.46
Canceled	(870)	5.50 — 22.88	15.13
Outstanding at December 31, 1999	6,457	$0.81 — $33.88	$13.28
Exercisable at December 31, 1999	1,226	$0.81 — $23.94	$10.19
Exercisable at December 31, 1998	855	$2.75 — $14.60	$ 6.36
Exercisable at December 31, 1997	726	$2.75 — $11.00	$ 5.28

The following table summarizes information about stock options outstanding and exercisable at December 31, 1999 (in thousands, except per share data):

Range of exercise prices	Number Outstanding at December 31, 1999	Number Exercisable at December 31, 1999	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price per Share
$ 0.81	89	89	9.64	$ 0.81
2.75	114	114	6.14	2.75
5.50 - 6.50	218	218	6.69	6.04
8.78 - 10.75	1,252	376	7.88	9.65
11.00 - 13.35	2,845	136	8.87	11.69
13.50 - 16.44	275	106	8.48	15.02
16.53 - 19.88	787	179	8.75	18.91
$20.03 - 23.35	571	-	8.50	21.46
23.50 - 27.88	291	8	9.85	23.94
28.00 - 33.88	15	-	9.95	33.88
	6,457	1,226	8.55	$13.28

The weighted average remaining contractual life of options outstanding at December 31, 1997, 1998 and 1999 was 8.6, 8.7, and 8.6 years, respectively. As of December 31, 1997, 1998 and 1999, options available for future grant under the Plan and the Directors' Plan were approximately 3,621,000, 1,105,000, and 2,261,000, respectively.

Notes to Consolidated Financial Statements

(continued)

SFAS No. 123, *Accounting for Stock-Based Compensation*, requires the measurement of the fair value of stock options or warrants to be included in the statement of income or disclosed in the notes to financial statements. The Company has determined that it will continue to account for stock-based compensation for employees under Accounting Principles Board Opinion No. 25 and elect the disclosure-only alternative under SFAS No. 123. The Company has computed the value of options granted during the years ended December 31, 1997, 1998 and 1999 using the Black-Scholes option pricing model prescribed by SFAS No. 123, using the following assumptions:

	1997	1998	1999
Risk-free interest rate	6.32%	5.28%	5.54%
Expected dividend yield	—	—	—
Expected lives	7.5 years	5 years	5 years
Expected volatility	59%	40%	55%

The weighted average grant date fair value of options granted under the Plan and the Directors' Plan during the years ended December 31, 1997, 1998 and 1999 were $7.58, $12.74, and $22.49, respectively.

If compensation cost for the Company's stock option plans had been determined consistent with SFAS No. 123, net income for the years ended December 31, 1997, 1998 and 1999 would have been approximately as follows (in thousands, except per share data):

Years Ended December 31,	1997	1998	1999
As reported —			
Net income	$5,598	$7,547	$10,981
Basic net income per common share	$ 0.34	$ 0.44	$ 0.61
Diluted net income per common share	$ 0.32	$ 0.40	$ 0.55
Pro forma —			
Net income	$3,833	$4,569	$ 2,902
Basic net income per common share	$ 0.23	$ 0.27	$ 0.16
Diluted net income per common share	$ 0.22	$ 0.24	$ 0.14

In January 1998, the Company's founder and principal shareholder granted certain key employees options to purchase 2,000,000 shares of his common stock. The options have an exercise price of $9.57 and vest as follows: one-thirty-sixth of the total number of options granted monthly through January 28, 1999; and one-third of the total number of options granted on and after each of January 28, 2000, and January 28, 2001. As of December 31, 1999, approximately 697,000 options remained outstanding, of which 30,000 were exercisable.

(10) Employee Stock Purchase Plan

In September 1996, the Company adopted the 1996 Employee Stock Purchase Plan (the Stock Purchase Plan), which provides for the issuance of up to 400,000 shares of common stock. The Stock Purchase Plan is administered by the Committee. With certain limited exceptions, all employees of the Company who have completed six months or more of continuous service in the employ of the Company and whose customary employment is more than 30 hours per week, including officers and directors who are employees, are eligible to participate in the Stock Purchase Plan. Purchase periods under the Stock Purchase Plan are generally six months in length and commence on each successive July 1 and January 1. During each purchase period under the Stock

Purchase Plan, the maximum number of shares of common stock that may be purchased by an employee is limited to the number of shares equal to $12,500 divided by the fair market value of a share of common stock on the first day of the purchase period. An employee may elect to have up to a maximum of 10% deducted from his or her regular salary for the purpose of purchasing shares under the Stock Purchase Plan. The price at which the employee's shares are purchased is the lower of (a) 85% of the closing price of the common stock on the day that the purchase period commences or (b) 85% of the closing price of the common stock on the day that the purchase period terminates. Shares purchased by employees under the Stock Purchase Plan are as follows:

Purchase Period Ended	Shares Purchased	Purchase Price
June 30, 1997	43,166	$ 6.80
December 31, 1997	29,770	$ 9.67
June 30, 1998	37,626	$ 9.83
December 31, 1998	25,030	$17.27
June 30, 1999	8,570	$10.61
December 31, 1999	49,316	$10.89

(11) Segment and Enterprise Wide Reporting

The Company adopted SFAS No. 131, *Disclosures About Segments of an Enterprise and Related Information*, in the fiscal year ended December 31, 1998. SFAS No. 131 establishes selected standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS No. 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are defined as components of an enterprise about which separate discrete financial information is evaluated regularly by the chief operating decision-maker, or decision-making group, in deciding how to allocate resources and assess performance. The Company's chief decision-making group, as defined under SFAS No. 131, is the Executive Team, consisting of Mr. Colony and the executive officers. To date, the Company has viewed its operations and managed its business as principally one segment, research services. As a result, the financial information disclosed herein materially represents all of the financial information related to the Company's principal operating segment. Foreign assets represent less than 2% of total consolidated assets for all periods presented.

Net revenues by geographic destination and as a percentage of total revenues for the years ended December 31, 1997, 1998 and 1999 are as follows (in thousands):

	1997	1998	1999
United States	$31,653	$48,922	$67,477
Europe	4,892	7,374	12,242
Other	3,876	5,271	7,549
	$40,421	$61,567	$87,268
United States	78%	79%	77%
Europe	12	12	14
Other	10	9	9
	100%	100%	100%

Notes to Consolidated Financial Statements

(continued)

(12) Certain Balance Sheet Accounts

Accrued Expenses. Accrued expenses as of December 31, 1998 and 1999 consist of the following (in thousands):

	1998	1999
Payroll and related	$2,951	$4,763
Other	2,100	4,684
	$5,051	$9,447

Allowance for Doubtful Accounts. A roll-forward of the allowance for doubtful accounts as of and for the years ended December 31, 1997, 1998 and 1999 is as follows (in thousands):

	1997	1998	1999
Balance, beginning of period	$200	$325	$400
Provision for doubtful accounts	399	375	904
Addition arising from acquisition (Note 2)	—	—	80
Write-offs	(274)	(300)	(804)
Balance, end of period	$325	$400	$580

(13) Summary Selected Quarterly Financial Data (Unaudited)

The following is a summary of selected quarterly financial data for the years ended December 31, 1998 and 1999 (in thousands, except per share data):

Quarter Ended	March 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31, 1998
Revenues	$13,131	$15,043	$15,070	$18,322
Income from operations	$ 1,448	$ 1,893	$ 2,257	$ 3,583
Net income	$ 1,342	$ 1,617	$ 1,874	$ 2,714
Basic net income per common share	$ 0.08	$ 0.10	$ 0.11	$ 0.16
Diluted net income per common share	$ 0.07	$ 0.09	$ 0.10	$ 0.14

Quarter Ended	March 31, 1999	June 30, 1999	Sept. 30, 1999	Dec. 31, 1999
Revenues	$17,929	$19,671	$21,981	$27,687
Income from operations	$ 2,211	$ 2,710	$ 3,741	$ 5,198
Net income	$ 1,904	$ 2,235	$ 2,855	$ 3,988
Basic net income per common share	$ 0.11	$ 0.13	$ 0.16	$ 0.21
Diluted net income per common share	$ 0.10	$ 0.12	$ 0.14	$ 0.18

Company Information

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Board of Directors

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President and Chief
Operating Officer,
Forrester Research, Inc.

Henk W. Broeders
Executive Director,
Cap Gemini N.V.

George F. Colony
Chairman of the Board and
Chief Executive Officer,
Forrester Research, Inc.

Robert M. Galford
Executive Vice President
and Chief People Officer,
Digitas, Inc.

George R. Hornig
Managing Director,
Credit Suisse First Boston

Michael H. Welles
Vice President of News
Operations, Individual.com

Executive Officers

Richard C. Belanger
Chief Technology Officer

Joel W. Blenner
Vice President, Sales

William M. Bluestein, Ph.D.
President and Chief
Operating Officer

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Vice President,
Business Development

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Chief Executive Officer

Stanley H. Dolberg
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Emily Nagle Green
Managing Director,
Forrester Research B.V.

Susan Whirty Maffei, Esq.
Chief Financial Officer;
Vice President, Operations;
and General Counsel

Mary Modahl
Vice President, Marketing

Timothy M. Riley
Vice President,
Strategic Growth

Stuart D. Woodring
Vice President, Research for
Emerging Internet Economies

Annual Meeting

The Company's annual meeting of stockholders will be held at 10 a.m. EST on May 9, 2000, at the offices of Ropes & Gray, One International Place, Boston, MA.

Investor Relations

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Independent Public Accountants

Arthur Andersen LLP
Boston, MA

Legal Counsel

Ropes & Gray
Boston, MA

Stock Listing and Trading Symbol

The Company's common stock is listed on the Nasdaq National Market System under the trading symbol "FORR." The approximate number of stockholders of record as of March 15, 2000 was 49.

The following table represents the ranges of high and low sale prices of the Company's common stock for the fiscal years ended December 31, 1998 and December 31, 1999:

	1999		1998	
	High	Low	High	Low
First Quarter	$24.44	$14.63	$17.94	$ 9.25
Second Quarter	19.25	10.94	21.88	14.38
Third Quarter	20.50	10.50	21.31	14.75
Fourth Quarter	36.44	19.00	22.00	11.88

Dividends

The Company did not declare or pay any cash dividends during the fiscal years ended December 31, 1998 and December 31, 1999. The Company anticipates that future earnings, if any, will be retained for the development of its business, and the Company does not anticipate paying any cash dividends on its common stock in the foreseeable future.

Form 10-K

A copy of the Company's report on Form 10-K (excluding exhibits) can be obtained without charge by writing or telephoning the Company's investor relations department at its Cambridge headquarters.

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