Forrester Research | Annual Report 2000

FORRESTER®

Helping business thrive on technology change

Helping business

thrive

on technology change

As leading analysts of emerging technology, **Forrester Research** provides objective analysis of technology change and its impact on business, consumers, and society. Global 3,500 companies and their partners and suppliers depend on Forrester's unique "Whole View" – a comprehensive selection of research that matches the challenges of eBusiness – to help them understand their customers, plan strategies, and select the right technologies. In addition to our written research and data, clients have access to Forrester analyst insights through Advisory Services, Events, and interactive Assessment Tools. Established in 1983, Forrester is headquartered in Cambridge, Mass., with sales offices and research centers around the world.

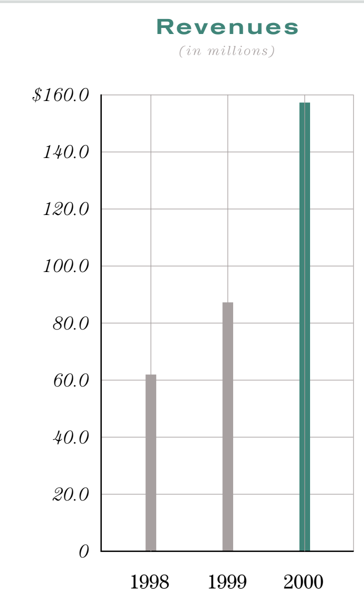
Financial Highlights

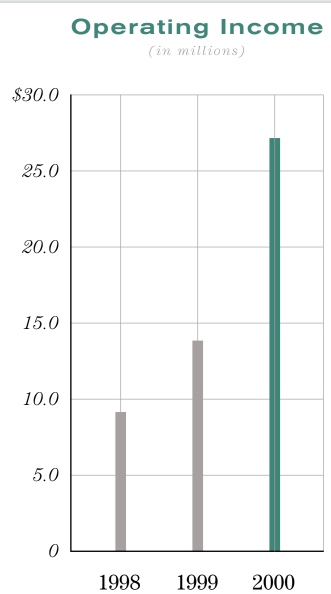
(in thousands, except client companies and per share data)

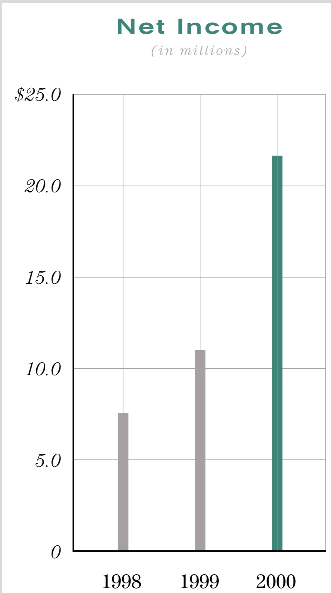
Year Ended December 31,	1998	1999	2000
Revenues	$61,567	$ 87,268	$157,147
Operating income	$ 9,182	$ 13,860	$ 27,144
Net income	$ 7,547	$ 10,981	$ 21,614
Basic net income per common share	$ 0.44	$ 0.61	$ 1.03
Diluted net income per common share	$ 0.40	$ 0.55	$ 0.88
Pro forma diluted net income per common share(1)		$ 0.58	

December 31,	1998	1999	2000
Stockholders' equity	$53,533	$ 78,805	$176,928
Deferred revenue	$38,894	$ 66,233	$102,527
Agreement value(2)	$69,095	$115,772	$187,824
Client companies(3)	1,271	1,793	2,378

(1) Pro forma diluted net income per common share excludes acquisition-related expenses.
(2) Agreement value 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 contracts for core research and advisory services in force at a given point in time. Forrester may provide multiple services to more than one business unit of a client company.







Dear fellow **shareholder,**

In 2000 Forrester stayed focused on its mission of helping business thrive on technology change. Along with our clients, Forrester itself thrived, significantly advancing in four areas:

- **Globalization** — We continued to expand outside the US.
- **The Idea Factory** — We introduced innovative, breakthrough ideas.
- **New Products** — We launched new products covering rapidly evolving markets.
- **Events** — We expanded our Events business.

Globalization

Forrester broadened its market and geographic reach in 2000. Our UK Research Centre's clients nearly doubled, and UK revenue grew 137%. In the fourth quarter of 2000, Forrester acquired FORIT GmbH, the "Forrester of Germany," with offices in Frankfurt and Zurich. The newly christened Research Center Deutschland is our first center to produce research in a language other than English. In the fourth quarter of 2000, we opened an office in Tokyo, expanded our presence in Australia, and, in Canada, debuted the Toronto Research Centre.

For the year, 26% of Forrester's business was outside the US. Our long-term goal is to have 50% of our business be international. Our international visibility was incredible this year: Forrester analysts were quoted in the press more than 30,000 times, with 40% of the quotes appearing in Europe and the Far East.

Why are we globalizing? Forrester's target clients are drawn from the largest 3,500 companies in the world — organizations with greater than $1 billion in revenue. Most of these companies operate worldwide, and our ability to deliver research nationally, regionally, and globally matches up with their requirements. The technology economy is borderless — that is why Forrester is becoming borderless.

The Idea Factory

Forrester analysts ask tough questions about technology and business. The result is insightful research that provokes companies to act and to change. Here are a few examples:

- We predicted that the Internet would enable a new way for companies to organize — eBusiness networks. Our analysis showed how vertically integrated companies would be replaced in the future by networks of tightly integrated specialists. We outlined how our clients could support and participate in this emerging structural change.

- We spent five months creating an in-depth analysis of eCommerce integrators (eCIs), ranking the top 40 companies in that business. We helped our clients understand how to differentiate eCIs, and we analyzed techniques for combining the best efforts of multiple integration vendors.

- We pioneered the concept of smarter TV — that the television industry would bifurcate into traditional broadcast content and interactive user-selected content. Our analysts said that a new model of TV would grow to exist in parallel with old TV, and it would use programming, networks, and devices in innovative, revolutionary ways.

Forrester's idea flow helps our clients see their businesses through new optics. They may not always agree with our viewpoint. But our ideas push them to think, to discuss, to ponder, and to apply scenarios to their specific companies.

New Products

The year 2000 saw Forrester introduce a number of new products in Strategy Research, Technographics®, and the Assessment Tools category. Strategy launches included: Automotive, Telecom, Canada, Financial Services UK, Media UK, Net Policy & Regulation, Retail UK, B2B Europe, Financial Services Europe, Media Europe, Mobile Commerce Europe, Retail Europe, B2C Germany, Financial Services Germany, Consumer Packaged Goods, and Telecom Europe. Technographics launched an Affluent North American Market Focus and Business Technographics North America, as well as Technographics Europe.

Continuing with our drive to build innovative Assessment Tools — Internet-based tools for solving problems — we introduced a customizable research product called eBusiness TechRankings™. TechRankings was sparked by our clients' cries for help when trying to select the best emerging software products, reduce their "time to decision," and stay on top of changes in the products and vendors they rely on. TechRankings uses a new research methodology performed in partnership with Doculabs, Inc., a leading software evaluation company, to produce objective, thorough, and continually updated rankings of the vendors and products in emerging-technology categories. TechRankings was the most significant new product launch for the company since Consumer Technographics was introduced in 1998.

In 2000 we debuted eResearch 2.0, an update of our electronic packaging, pricing, and formats for our research. eResearch 2.0 enhanced the value of our research in three ways: 1) personalization is much improved — our clients now quickly and easily find the research they need; 2) modular packaging and pricing allows clients to match their research needs precisely with our products; and 3) substantially all registered users of our research have unlimited access to our analysts for research inquiries. In simple terms, eResearch 2.0 lets our clients make a direct match between Forrester's value and the problems they are solving.

Events

We continued to expand our Events business last year, with emphasis on new international Events. In 2000, we held 14 Forums and Summits: 10 in the US and four in Europe. They covered B2B technology leadership, finance and technology, retail and marketing, executive strategy, healthcare, media, interactive channels, young consumers, and consumer packaged goods.

Other 2000 Achievements

In addition to our initiatives and new products, Forrester made operational leaps forward in 2000. These include:

- Adding 261 qualified and motivated new Forresterites. Hiring is only the first step, of course. In 2000 we rolled out new development programs to ensure that our people continue to grow and learn over the years they will spend with the company.

- The opening of five new domestic offices, including the San Francisco Research Center and four new sales centers in the US. Our ability to work and communicate across states, countries, and oceans continues to develop.

The 2001 Plan

Building on our year 2000 efforts, we will focus on four areas in 2001:

- Helping large companies transform to become eBusinesses.
- Offering regional, national, and global research.
- Introducing new products.
- Strengthening our Whole View of eBusiness.

Helping Large Companies Transform

The early Internet years were a phony war. There was a lot of noise and hype around dot-coms, but substantive economic restructuring didn't happen. Over the next five to seven years the real war will be waged — a battle in which large corporations will use systems to increase revenue, decrease costs, and win market share. The success of Global 3,500 companies will rest on how they use technology to delight and service customers, synchronize sales channels, reduce costs, and reform or eliminate inefficient processes.

Every company of scale worldwide will have to transform to become an eBusiness — whether they sell insurance, mutual funds, newspapers, tires, or cars. This will be the primary business challenge of the decade. In 2001, Forrester will intensify its focus on helping large companies navigate this transformation.

Regional, National, And Global Research

To help global companies transform, Forrester must maintain a broad outlook. While we are strongly positioned in North America and Europe, we plan to build our presence in Asia in 2001. Forrester expects eBusiness in Asia to begin accelerating in 2003 — we plan to be on the ground doing research when this transformation hits.

We aren't flag planters, plunking down operations that have little or no connection to each other. We want to deliver a complete view of the worldwide technology economy — so that our clients can make decisions that work at all of their locations. For example, you can't help a Global 3,500 company transform its supply chain worldwide unless you have the knowledge and analysis of cross-border, business-to-business regulatory issues.

New Products And The Whole View

In 2001 we will launch new products in all five of our product and service categories: Strategy Research, Technographics, Assessment Tools, Advisory Services, and Events. We are continuously looking for new ways to strengthen our existing product lines. In addition, we're always studying new markets to enter with groundbreaking offerings.

All of our launches for 2001 will center around strengthening and widening what we call the Whole View of eBusiness. Forrester helps companies connect four parts of their organizations: 1) customers; 2) strategy; 3) technology; and 4) partnerships. We believe that any company that wants to be an effective eBusiness must harmonize these four elements; Forrester's research can help companies do that. No other research company worldwide offers Global 3,500 companies this holistic view of eBusiness.

What It Means

Global 3,500 companies claim to welcome change — in theory. In reality, the combination of capitalism's creative destruction and the dynamic force of technology create a hellish environment for companies to survive in. All of the efforts that I've outlined above are directed at helping our clients thrive on technology change. When we walk through the front door of Forrester every morning, we are all thinking about how our clients can use technology to get ahead — how they can use it to decrease their costs, create greater efficiency, have a more intimate and valuable connection to their customers, and create new products. I find it highly motivating and challenging — it's what we are about.

For me, the Forrester adventure has never been more interesting and more fun. In 2000 Bill Bluestein took over as president and chief operating officer of Forrester, and he's executed his job very well. My role is now centered around four aspects of the business: 1) developing themes, ideas, and people in research; 2) working with our investors; 3) developing long-term strategy; and 4) working directly with our clients. In addition, I am always devoted to teaching and maintaining the company's values — 4C2Q1S — our commitment to clients, communication, consistency, creativity, quality, quickness, and service.

Many people ask me if I'm surprised by Forrester's success — whether I really thought that the company would do this well when I founded it more than 17 years ago. I have a two-part answer to the question. The first answer is no, I'm not surprised, because I always believed that there would be high demand for objective, relevant technology research. But I guess I am surprised at how successful we have been in attracting so many fantastic people to work at Forrester. If there is one secret to our success, it has been the skilled, committed, smart, and creative people who have built the company. Every day I feel blessed working with this amazing group, and I feel very, very lucky that they have chosen to center their careers at Forrester.

Even though Forrester has had tremendous growth, we've just departed on our voyage. I see technology change as a pervasive, inexorable force worldwide over the next 50 years. Technology change will affect the way we raise our families, the way we play, the way we learn, the way communities are built, the way we treat disease, the way democracy works, and the way the dialogue of society develops. The PC and the Web are primitive tools — we will look back on them as the sharpened sticks and stone axes of prehistory technology. As advanced biological, information, and network systems enter the economy, Forrester's ability to explain and analyze their best uses will increase the demand for our products and services. The technology economy and Forrester are just getting going.

Please drop me a message at gcolony@forrester.com if you want to talk. And thank you for being part of Forrester.

Best wishes,

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

The Forrester executive team

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

Timothy M. Riley — Vice President, Strategic Growth

Richard C. Belanger — Chief Technology Officer

Emily Nagle Green — Vice President, International

Stanley H. Dolberg — Vice President, Research

Joel M. Blenner — Vice President, Sales

Mary Modahl — Vice President, Marketing

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

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

The best business plan:

focus on the facts.

As the stock market gyrated wildly and the dot-com boom went bust, the Internet economy's harsh unpredictability froze many companies in their tracks. But consumers didn't stand still — they spent $6.1 billion online in December alone.[1] Armed with the power that they've discovered online — convenience, confidence, and control — consumers will continue to push eCommerce despite the changing landscape.

Understanding how consumers think about and use technology can make the difference between a misguided product launch and a winning strategy. Long-term success rests on knowing how consumers make decisions. The attitudes and experiences that drive them are just as important as their demographics. Some use the Internet to research a purchase but choose to buy it offline. Others go online with a specific purchase in mind and don't hesitate to enter credit card information to close the deal. What distinguishes these two groups of consumers? Age? Wealth? Technology optimism? Peer groups? The more you know about consumers, the less likely you are to lose them to a nimbler, better informed competitor that's acting on data and insight rather than chance and past successes.

[1] According to the National Retail Federation/Forrester Online Retail Index

"Forrester has played a key role in [our] eBusiness transformation, dating back to the creation of [our eBusiness organization]. We fully value the insight that Forrester offers to help shape our strategies as well as strengthen [our] leadership position in the automotive eBusiness arena."

President Of A Major Automotive Manufacturer's eBusiness

More than data, we provide fact-based perspective.

Forrester looks at the facts and sees what's happening. Just because companies grow insecure about their Internet initiatives doesn't mean that consumers will slow down. Booming economy or slowing economy, consumers are not about to give back the power they've gained from using technology and the Internet. Companies must continue to deliver products, services, and information in ways that customers want to receive them. To help, Forrester analyzes data through the perspective of our unique Technographics Segmentation Models to reveal how consumers and businesses use and think about technology. It's a fact: We give clients the insight they need to stay focused, make better decisions, and thrive.

Michael E. Gazala
Group Director

Technology makes you

rethink

the way you do business. Continuously.

The popularity of the Internet led to eCommerce. Then came eBusiness, with a push to reinvent long-standing business models and support the many facets of eCommerce. Now, eMarketplaces have emerged as an irreplaceable efficiency for business-to-business (B2B) online trade. What's next?

Plenty. Technology change is relentless, especially where the Internet is concerned. The more interactivity becomes embedded in business culture, the more companies seek to maximize its true potential. In fact, 87% of the businesses surveyed by Forrester say that the Internet is important to their purchasing strategies.[2] But while the Net can propel your company forward, it is also merciless in exposing the areas where your company may have fallen behind technologically. How do business executives ever get ahead of the constant change? By looking ahead. They see what's coming, prepare internally, and then use the right technology at the right time.

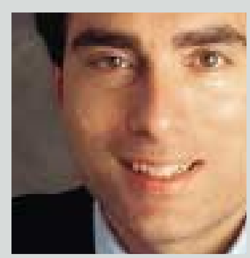
[2] According to the January 2001 National Association of Purchasing Management/Forrester Research Report On eBusiness

"We've turned to Forrester for expertise in advising Fortune-class companies on how to organize, fund, and launch a new eBusiness entity in the B2B marketplace."

VP Of An International B2B Service Provider

With every change in technology, Forrester is there.

Forrester delivers unparalleled research for building business strategies. We take a thorough understanding of the market today and then look ahead to what's on the horizon. We tell clients what our analysis means and what actions to take. This lets them anticipate, rather than react, to what's coming. For many, the next big thing will be eBusiness networks — a new environment in which firms will form relationships quickly, share information broadly, and create value by making assets fully available online and in real time.



Bruce D. Temkin
Group Director

The first thing emerging eBusiness leaders

learn

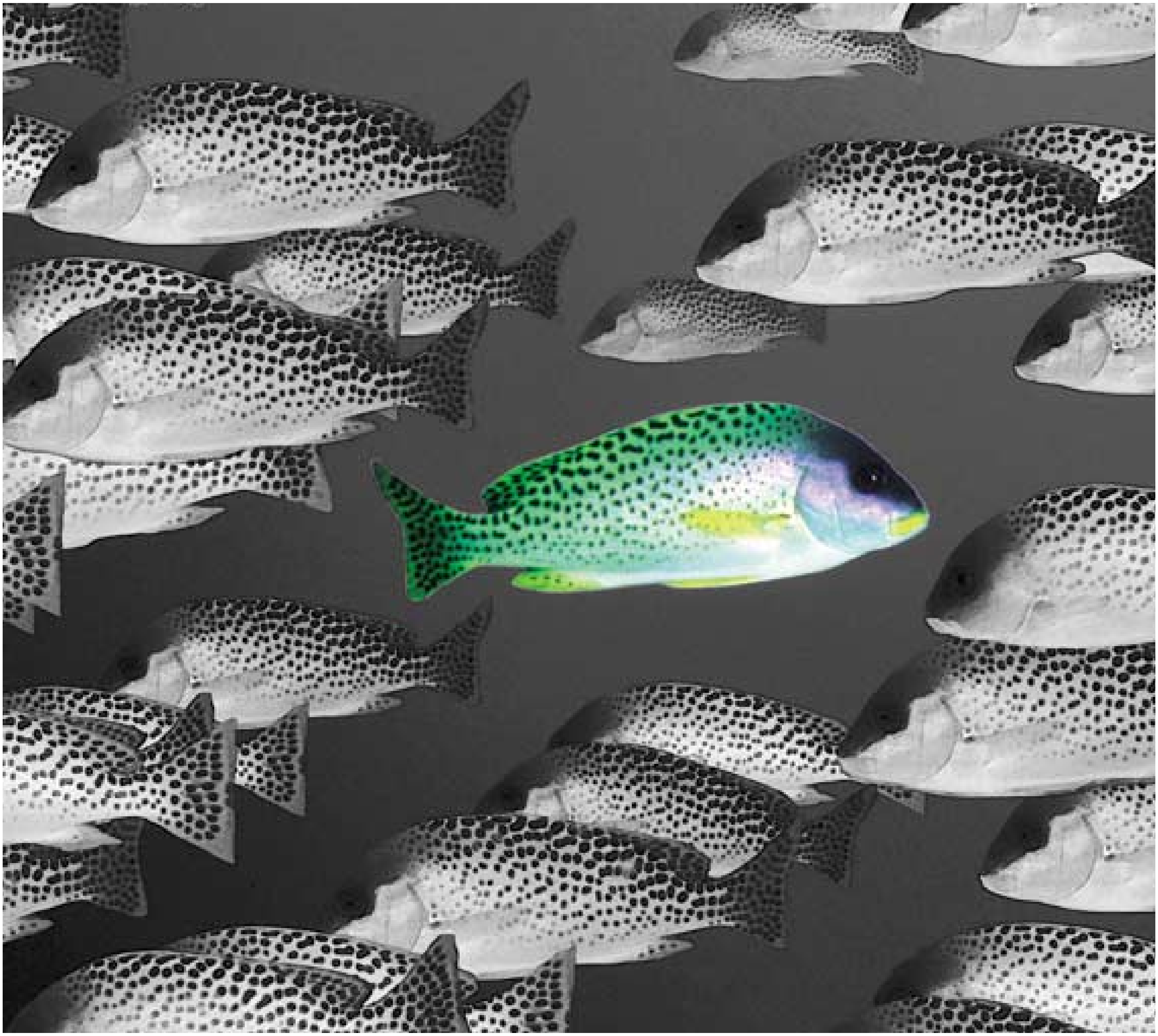
is what they don't know – technology.

For years, companies have relied on their IT groups to build or buy their way to more efficient customer service or inventory management. So what's different about eBusiness?

In the eBusiness arena — where companies are forced to adopt new technologies that lead to competitive differentiation — choices must be made under pressure with little time for research and without the option to custom-build. It's the eBusiness executives who must make crucial technology-selection decisions. Unfortunately, objective and accurate information to help make such decisions is rare. Technology vendors and service providers have deeply influenced the media, using self-promotion to sway the criteria behind many evaluation methodologies. eBusiness executives need someone they can trust to give them the power to make the right decision.

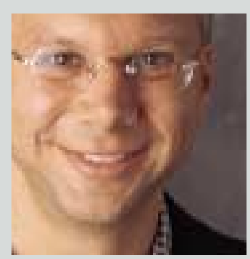
"TechRankings is more objective – it's based on open and startlingly accurate criteria. Personally, I think it has leapfrogged Forrester in front of other analysts."

Industry Strategist of a Commerce Platform Vendor



We give clients straight answers – and incisive questions – about emerging technology.

We make our clients powerful by giving them the information and insight they need to thrive. One of the Goliaths we took on in 2000 was eBusiness technology selection. We created a new kind of research based on hands-on product evaluation and a fanatical devotion to objectivity. We then extended the power of this research database with an interactive tool kit to help clients pick the right technology products for their eBusiness initiatives. TechRankings is next-generation research that gives clients the facts they need to make smart selections — and the tools to custom-rank the vendors according to their unique needs.



Ted Schadler
Group Director

What it means to

thrive.

Technology and business are no longer separate entities operating under the same roof. They have become inseparable for success. Companies that take advantage of the opportunities accompanying the right new technologies will dominate their markets. Those that follow the wrong technology shifts will fall behind.

Forrester delivers unbiased, straightforward insight into which changes to follow and which to ignore. Only Forrester has the Whole View — the resources and range of research to explain comprehensively how business and technology integrate internally and externally. With the Whole View, Forrester clients have a full-perspective advantage.

Thriving is long term and continuous. Each short-term goal that's satisfied must somehow fit into the company's future picture. Leading decision-makers feel this reality every day. They come to us because only **Forrester provides the knowledge and ideas needed to find the best solutions today for tomorrow's strategies.**

The Forrester Research

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Selected Consolidated Financial Data

(in thousands, except per share data)

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

Year Ended December 31,	1996	1997	1998	1999	2000
Consolidated Statement of Income Data:					
Revenues:					
Core research	$18,206	$30,431	$ 46,842	$ 64,697	$120,477
Advisory services and other	6,757	9,990	14,725	22,571	36,670
Total revenues	24,963	40,421	61,567	87,268	157,147
Operating expenses:					
Cost of services and fulfillment	8,762	13,698	22,038	27,715	45,470
Selling and marketing	8,992	14,248	20,896	31,131	57,957
General and administrative	2,509	4,500	6,688	9,865	18,632
Depreciation and amortization	618	1,209	2,763	4,003	7,944
Costs related to acquisition	—	—	—	694	—
Total operating expenses	20,881	33,655	52,385	73,408	130,003
Income from operations	4,082	6,766	9,182	13,860	27,144
Other income, net	634	2,515	2,957	3,710	6,893
Income before income tax provision	4,716	9,281	12,139	17,570	34,037
Income tax provision	712	3,683	4,592	6,589	12,423
Net income	4,004	$ 5,598	$ 7,547	$ 10,981	$ 21,614
Pro forma income tax adjustment	1,198				
Pro forma net income	$ 2,806				
Basic net income per common share	$ 0.32	$ 0.34	$ 0.44	$ 0.61	$ 1.03
Diluted net income per common share	$ 0.31	$ 0.32	$ 0.40	$ 0.55	$ 0.88
Basic pro forma net income per common share	$ 0.23				
Diluted pro forma net income per common share	$ 0.22				
Basic weighted average common shares outstanding	12,384	16,679	17,041	18,028	20,989
Diluted weighted average common shares outstanding	12,852	17,703	18,744	20,067	24,526
Consolidated Balance Sheet Data:					
Cash, cash equivalents, and marketable securities	$44,640	$54,914	$ 66,483	$ 98,787	$174,739
Working capital	$31,291	$36,016	$ 45,720	$ 65,366	$115,547
Deferred revenue	$17,816	$27,074	$ 38,894	$ 66,233	$102,527
Total assets	$56,782	$73,536	$100,518	$159,393	$303,803
Total stockholders' equity	$33,762	$40,505	$ 53,533	$ 78,805	$176,928

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," "anticipates," "intends," "plans," "estimates," or similar expressions are intended to identify these forward-looking statements. These statements are based on Forrester'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. Forrester 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 emerging-technology research firm that conducts research and analysis on the impact of emerging technologies on business, consumers, 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 emerging business models and technologies.

We derive revenues from memberships to our core research and from our advisory services and Forum and Summit events. For our products and services, we offer contracts that are typically renewable annually and payable in advance. Accordingly, a substantial portion of our billings are initially recorded as deferred revenue. Research revenues are recognized ratably on a monthly basis over the term of the contract. Our advisory services clients purchase such services 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 and Summit 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 they include the costs of salaries, bonuses, and related benefits for research personnel and all associated editorial, travel, and support services. Selling and marketing expenses include salaries, employee benefits, travel expenses, promotional costs, sales commissions, and other costs incurred in marketing and selling our products and services. General and administrative expenses include the costs of the technology, operations, finance, and strategy groups and our other administrative functions.

We believe that the "agreement value" of contracts to purchase research and advisory services provides a significant measure of our business volume. We calculate agreement value as the total revenues recognizable from all research and advisory service contracts in force at a given time, without regard to how much revenue has already been recognized. Agreement value increased 62% to $187.8 million at December 31, 2000 from $115.8 million at December 31, 1999. No single client accounted for more than 2% of agreement value at December 31, 2000. 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% of our client companies with memberships expiring during the years ended December 31, 2000 and 1999 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.

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,	1998	1999	2000
Core research	76%	74%	77%
Advisory services and other	24	26	23
Total revenues	100	100	100
Cost of services and fulfillment	36	32	29
Selling and marketing	34	36	37
General and administrative	11	11	12
Depreciation and amortization	4	4	5
Costs related to acquisition	—	1	—
Income from operations	15	16	17
Other income, net	5	4	5
Income before income tax provision	20	20	22
Provision for income taxes	8	7	8
Net income	12%	13%	14%

Years Ended December 31, 2000 and 1999

Revenues. Total revenues increased 80% to $157.1 million in the year ended December 31, 2000 from $87.3 million in the year ended December 31, 1999. Revenues from core research increased 86% to $120.5 million in the year ended December 31, 2000 from $64.7 million in the year ended December 31, 1999. Increases in total revenues and revenues from core research were primarily attributable to an increase in the number of client companies to 2,378 at December 31, 2000 from 1,793 at December 31, 1999, an increase in the sales organization to 267 employees at December 31, 2000 from 153 employees at December 31, 1999, and sales of additional core research products to existing clients. No single client company accounted for more than 2% of revenues for the year ended December 31, 2000.

Advisory services and other revenues increased 62% to $36.7 million in the year ended December 31, 2000 from $22.6 million in the year ended December 31, 1999. This increase was primarily attributable to increased demand for Forrester's advisory services programs, the increase in research staff providing advisory services to 207 employees at December 31, 2000 from 125 at December 31, 1999, and the increase in the number of events held to eleven in the year ended December 31, 2000 from eight in the year ended December 31, 1999.

Revenues attributable to customers outside the United States increased 108% to $41.1 million in the year ended December 31, 2000 from $19.8 million in the year ended December 31, 1999. Revenues attributable to customers outside the United States increased as a percentage of total revenues to 26% for the year ended December 31, 2000 from 22% for the year ended December 31, 1999. The increase in international revenues was primarily attributable to the continued expansion of our European headquarters in Amsterdam, Netherlands, and our UK Research Centre in London, England, the increase in sales personnel at each location, and our acquisition of FORIT GmbH in Frankfurt, Germany, on October 9, 2000. We invoice our international clients in US dollars, except for those billed by our UK Research Centre, which invoices clients in British pounds sterling. To date, the effect of changes in the currency exchange rate have not had a significant impact on our results of operations.

Cost of Services and Fulfillment. Costs of services and fulfillment decreased as a percentage of total revenues to 29% in the year ended December 31, 2000 from 32% in the year ended December 31, 1999. These expenses increased 64% to $45.5 million in the year ended December 31, 2000 from $27.7 million in the year ended December 31, 1999. The decrease in expenses as a percentage of revenues reflects a larger revenue base in 2000, proportionally lower production costs resulting from the leverage of our eResearch platform, and increased analyst productivity. The expense increase in 2000 reflects an increase in research analyst staffing and related compensation expenses, increased survey costs related to our Technographics® and TechRankings™ offerings, and increased expenditures related to the increase in the number of events hosted during the year.

Selling and Marketing. Selling and marketing expenses increased as a percentage of total revenues to 37% in the year ended December 31, 2000 from 36% in the year ended December 31, 1999. These expenses increased 86% to $58.0 million in the year ended December 31, 2000 from $31.1 million in the year ended December 31, 1999. The increase in expenses and 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 increased as a percentage of total revenues to 12% in the year ended December 31, 2000 from 11% in the year ended December 31, 1999. These expenses increased 89% to $18.6 million in the year ended December 31, 2000 from $9.9 million in the year ended December 31, 1999. The increase in expenses and expenses as a percentage of revenues were principally due to increased staffing in our technology, operations, finance, and strategy groups and related compensation and recruiting expenses, as well as travel costs to integrate operations.

Depreciation and Amortization. Depreciation and amortization expenses increased 98% to $7.9 million in the year ended December 31, 2000, including $261,000 related to the amortization of goodwill, from $4.0 million in the year ended December 31, 1999. The increase in these expenses was principally due to purchases of computer equipment, software, and leasehold improvements to support business growth.

Other Income, Net. Other income, consisting primarily of interest income, increased to $6.9 million in the year ended December 31, 2000 from $3.7 million in the year ended December 31, 1999. The increase was principally due to additional interest income from higher cash and marketable securities balances resulting from positive cash flows from operations of $70.4 million, proceeds of $22.7 million from our public offering in February 2000, and $21.8 million from proceeds of stock option exercises and our employee stock purchase plan during the year ended December 31, 2000. Other income also includes a one-time $950,000 write-down of a non-marketable investment during the fourth quarter.

Income Tax Provision. During the year ended December 31, 2000, we recorded a tax provision of $12.4 million, reflecting an effective tax rate of 36.5%. During the year ended December 31, 1999, we recorded a tax provision of $6.6 million reflecting an effective tax rate of 37.5%. The decrease in our effective tax rate resulted primarily from an increase in our investments in tax-exempt marketable securities and a reduction in our effective state tax rate.

Years Ended December 31, 1999 and December 31, 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. During 1999, we invoiced our international clients in US dollars, except for those billed by Fletcher Research Limited.

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 reflected a larger revenue base in 1999 and lower production costs resulting from the introduction of our eResearch platform in March 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 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 December 31, 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 technology, operations, 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 principally due to additional 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 primarily 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.

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, Netherlands, in April 1998 and the addition of direct international sales personnel. During 1998, we invoiced our international clients in US dollars.

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 were 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 this 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 principally due to additional 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 primarily from a reduction in our effective state tax rate and an increase in sales through our foreign sales corporation, which we organized in 1998.

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 annual report 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 annual report. 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

(dollars in thousands, except per share amounts)

	Mar. 31, 1999	Jun. 30, 1999	Sep. 30, 1999	Dec. 31, 1999	Mar. 31, 2000	Jun. 30, 2000	Sep. 30, 2000	Dec. 31, 2000
Core research	$12,978	$14,773	$17,026	$19,919	$23,759	$28,011	$32,270	$36,438
Advisory services and other	4,951	4,898	4,955	7,768	7,058	10,269	7,867	11,476
Total revenues	17,929	19,671	21,981	27,687	30,817	38,280	40,137	47,914
Cost of services and fulfillment	6,612	6,424	6,909	7,770	9,295	11,674	11,294	13,208
Selling and marketing	6,192	7,276	7,854	9,809	12,214	14,323	14,785	16,635
General and administrative	2,041	2,213	2,504	3,107	3,780	4,703	4,729	5,420
Depreciation and amortization	873	1,048	973	1,109	1,432	1,750	1,984	2,778
Costs related to acquisition	—	—	—	694	—	—	—	—
Income from operations	2,211	2,710	3,741	5,198	4,096	5,830	7,345	9,873
Other income, net	860	895	864	1,092	1,454	1,972	2,157	1,310
Income before income tax provision	3,071	3,605	4,605	6,290	5,550	7,802	9,502	11,183
Income tax provision	1,167	1,370	1,750	2,302	2,081	2,926	3,563	3,853
Net income	$1,904	$2,235	$2,855	$3,988	$3,469	$4,876	$5,939	$7,330
Basic net income per common share	$0.11	$0.13	$0.16	$0.21	$0.17	$0.23	$0.28	$0.34
Diluted net income per common share	$0.10	$0.12	$0.14	$0.18	$0.15	$0.20	$0.24	$0.30

As a Percentage of Revenues

	Mar. 31, 1999	Jun. 30, 1999	Sep. 30, 1999	Dec. 31, 1999	Mar. 31, 2000	Jun. 30, 2000	Sep. 30, 2000	Dec. 31, 2000
Core research	72%	75%	77%	74%	77%	73%	80%	76%
Advisory services and other	28	25	23	26	23	27	20	24
Total revenues	100	100	100	100	100	100	100	100
Cost of services and fulfillment	37	33	31	28	30	31	28	29
Selling and marketing	35	37	36	35	40	37	37	37
General and administrative	11	11	11	11	12	12	12	12
Depreciation and amortization	5	5	5	4	5	5	5	5
Costs related to acquisition	—	—	—	3	—	—	—	—
Income from operations	12	14	17	19	13	15	18	17
Other income, net	5	4	4	4	5	5	6	5
Income before income tax provision	17	18	21	23	18	20	24	22
Income tax provision	6	7	8	9	7	7	9	8
Net income	11%	11%	13%	14%	11%	13%	15%	14%

Liquidity and Capital Resources

We have financed our operations during these periods primarily through funds generated from operations. Memberships for core research, which constituted approximately 77% of our revenues for the year ended December 31, 2000, are annually renewable and are generally payable in advance. We generated $70.0 million and $31.9 million in cash from operating activities during the years ended December 31, 2000 and 1999, respectively.

Included in cash from operations during the year ended December 31, 2000 is a deferred tax benefit of $13.6 million resulting primarily from stock option exercises during the year. These exercises generated a tax deduction of approximately $80.3 million for Forrester. Approximately $34.3 million of this tax deduction will eliminate current year taxable income and be carried back to obtain a refund of certain taxes paid in prior years. The remaining $46.0 million of this tax deduction will be carried forward to offset future taxable income. The offset of these deferred tax benefits have been recorded as an increase to additional paid-in capital within stockholders' equity.

During the year ended December 31, 2000, we used $112.2 million of cash in investing activities, consisting of $14.9 million for the acquisition of FORIT GmbH, $18.0 million for purchases of property and equipment, and $79.3 million for net purchases of marketable securities and other non-marketable investments. We regularly invest excess funds in short- and intermediate-term interest-bearing obligations of investment grade.

During the year ended December 31, 2000, we generated $44.5 million from financing activities, consisting of $22.7 million of net proceeds from our public offering of common stock in February 2000 and $21.8 million in proceeds from exercises of employee stock options and proceeds from our employee stock purchase plan.

As of December 31, 2000, we had cash and cash equivalents of $15.8 million and $158.9 million in marketable securities. We do not have a line of credit and do not anticipate the need for one in the foreseeable future. We plan to continue to introduce new products and services, to open additional offices in and outside of the United States, and to invest in our infrastructure over the next 12 months. We believe that our current cash balance, marketable securities, and cash flows from operations will satisfy working capital, financing activities, and capital expenditure requirements for at least the next two years.

In June 2000, we committed to invest $20.0 million in two private equity investment funds. We have adopted a cash bonus plan to pay bonuses, after the return of our invested capital, measured by the proceeds of a portion of the share of net profits from these investments, if any, to certain key employees, subject to the terms and conditions of the plan. The payment of such bonuses would result in compensation expense with respect to the amounts so paid. To date, we have contributed approximately $4.0 million to the funds. The timing and amount of future contributions are entirely within the discretion of the investment funds.

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

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, 1999 and 2000, 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, 2000. These financial statements are the responsibility of Forrester's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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, 1999 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

Arthur Andersen LLP

Boston, Massachusetts
January 24, 2001 (except with
respect to the matter discussed in
Note 9, as to which the date is
March 16, 2001)

Consolidated Balance Sheets

December 31, 1999 and 2000 (in thousands)

ASSETS

	1999	2000
Current assets:		
Cash and cash equivalents	$ 13,445	$ 15,848
Marketable securities	85,342	158,891
Accounts receivable, net of allowance for doubtful accounts of approximately $580 and $1,293 in 1999 and 2000, respectively	36,988	49,923
Deferred commissions	4,850	7,873
Prepaid income taxes	1,187	3,632
Prepaid expenses and other current assets	4,142	6,255
Total current assets	145,954	242,422
Long-term assets:		
Property and equipment, net of accumulated depreciation of approximately $7,498 and $14,204 in 1999 and 2000, respectively	11,619	22,128
Goodwill and other intangible assets, net of accumulated amortization of approximately $261 in 2000 (Note 2)	—	15,358
Deferred income taxes	—	16,968
Other assets	1,820	6,927
Total long-term assets	13,439	61,381
Total assets	$159,393	$303,803
Current liabilities:		
Accounts payable	$ 2,702	$ 3,993
Customer deposits	716	1,200
Accrued expenses	9,447	17,384
Accrued income taxes	617	1,771
Deferred revenue	66,233	102,527
Deferred income taxes	873	—
Total current liabilities	80,588	126,875
Commitments (Notes 5 and 7)		
Stockholders' equity:		
Preferred stock, $.01 par value		
Authorized — 500 shares		
Issued and outstanding — none	—	—
Common stock, $.01 par value		
Authorized — 125,000 shares		
Issued and outstanding — 19,408 and 21,812 shares in 1999 and 2000, respectively	194	218
Additional paid-in capital	54,771	131,018
Retained earnings	24,434	46,048
Accumulated other comprehensive loss	(594)	(356)
Total stockholders' equity	78,805	176,928
Total liabilities and stockholders' equity	$159,393	$303,803

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

Consolidated Statements of Income

For the Years Ended December 31, 1998, 1999, and 2000 (in thousands, except per share data)

	1998	1999	2000
Revenues:			
Core research	$46,842	$64,697	$120,477
Advisory services and other	14,725	22,571	36,670
Total revenues	61,567	87,268	157,147
Operating expenses:			
Cost of services and fulfillment	22,038	27,715	45,470
Selling and marketing	20,896	31,131	57,957
General and administrative	6,688	9,865	18,632
Depreciation and amortization	2,763	4,003	7,944
Costs related to acquisition (Note 2)	—	694	—
Total operating expenses	52,385	73,408	130,003
Income from operations	9,182	13,860	27,144
Other income, net	2,957	3,710	6,893
Income before income tax provision	12,139	17,570	34,037
Income tax provision	4,592	6,589	12,423
Net income	$ 7,547	$10,981	$ 21,614
Basic net income per common share	$ 0.44	$ 0.61	$ 1.03
Diluted net income per common share	$ 0.40	$ 0.55	$ 0.88
Basic weighted average common shares outstanding	17,041	18,028	20,989
Diluted weighted average common shares outstanding	18,744	20,067	24,526

(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, 1998, 1999, and 2000 (in thousands)

	Common Stock Number of Shares	Common Stock $.01 Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income
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

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income
	Number of Shares	$.01 Par Value					
Balance, December 31, 1999	19,408	$194	$ 54,771	$24,434	$(594)	$ 78,805	
Issuance of common stock in public offering, net of issuance costs of approximately $65	626	6	22,653	—	—	22,659	
Issuance of common stock under stock option plans, including tax benefit	1,715	17	51,259	—	—	51,276	
Issuance of common stock under employee stock purchase plan, including tax benefit	63	1	2,335	—	—	2,336	
Net income	—	—	—	21,614	—	21,614	$21,614
Unrealized gain on marketable securities, net of tax provision	—	—	—	—	496	496	496
Cumulative translation adjustment	—	—	—	—	(258)	(258)	(258)
Total comprehensive income							$21,852
Balance, December 31, 2000	21,812	$218	$131,018	$46,048	$(356)	$176,928	

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

Consolidated Statements of Cash Flows

For the Years Ended December 31, 1998, 1999, and 2000 (in thousands)

	1998	1999	2000
Cash flows from operating activities:			
Net income	$ 7,547	$ 10,981	$ 21,614
Adjustments to reconcile net income to net cash provided by (used in) operating activities —			
Depreciation and amortization	2,763	4,003	7,944
Write-down of non-marketable investment	—	—	950
Loss on disposals of property and equipment	—	105	376
Deferred income taxes	288	464	13,593
Increase in provision for doubtful accounts	375	904	1,246
Accretion of discount on marketable securities	(55)	(50)	(178)
Changes in assets and liabilities —			
Accounts receivable	(10,340)	(15,940)	(13,817)
Deferred commissions	(756)	(2,726)	(3,023)
Prepaid income taxes	186	(853)	(2,446)
Prepaid expenses and other current assets	(1,415)	(1,610)	(1,924)
Accounts payable	171	1,103	1,931
Customer deposits	(15)	452	459
Accrued expenses	1,400	3,875	6,342
Accrued income taxes	2,341	4,716	1,156
Deferred revenue	11,820	26,521	35,745
Net cash provided by operating activities	14,310	31,945	69,968
Cash flows from investing activities:			
Net cash acquired (paid) in acquisitions (Note 2)	—	355	(14,851)
Purchases of property and equipment	(6,087)	(8,892)	(18,044)
Proceeds related to disposals of property and equipment	—	1,056	—
Purchases of non-marketable investment	—	(1,000)	(6,681)
Decrease in other assets	—	(835)	(45)
Purchases of marketable securities	(313,236)	(466,628)	(354,613)
Proceeds from sales and maturities of marketable securities	304,482	436,843	282,021
Net cash used in investing activities	(14,841)	(39,101)	(112,213)
Cash flows from financing activities:			
Net proceeds from public offering of common stock	—	—	22,659
Proceeds from issuance of common stock under stock option plans and employee stock purchase plan	3,193	10,192	21,825
Net cash provided by financing activities	3,193	10,192	44,484
Effect of exchange rate changes on cash and cash equivalents	10	(5)	164
Net increase in cash and cash equivalents	2,672	3,031	2,403
Cash and cash equivalents, beginning of year	7,742	10,414	13,445
Cash and cash equivalents, end of year	$ 10,414	$ 13,445	$ 15,848

	1998	1999	2000
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	$ 1,117	$ 2,217	$ 95
Supplemental disclosure of non-cash financing activities:			
Increase in additional paid-in capital and decrease in accrued income taxes or increase in deferred income taxes related to the tax benefit associated with the exercise of employee stock options	$ 2,031	$ 5,044	$ 31,787
On October 9, 2000, Forrester acquired FORIT GmbH, as follows —			
Fair value of assets acquired, excluding cash			$ 15,877
Cash paid for acquisition, net of cash acquired			(14,851)
Liabilities assumed			$ 1,026

During fiscal year 1999, Forrester acquired Fletcher Research Limited in a transaction accounted for as a pooling of interests. Due to their immateriality to the financial position and results of operations of Forrester, the historical financial statements were not restated.

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

(1) Operations and Significant Accounting Policies

Forrester Research, Inc. (Forrester) is a leading independent emerging-technology research firm that conducts research and analysis on the impact of emerging technologies on business, consumers, and society. Forrester 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 Forrester and its wholly owned subsidiaries. All significant intercompany balances have been eliminated in consolidation.

Foreign Currency. The functional currencies of Forrester's wholly owned subsidiaries are the respective local currencies. The financial statements of the subsidiaries are translated to US 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 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.

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):

	1998	1999	2000
Basic weighted average common shares outstanding	17,041	18,028	20,989
Weighted average common equivalent shares	1,703	2,039	3,537
Diluted weighted average common shares outstanding	18,744	20,067	24,526

As of December 31, 1998, 1999, and 2000, approximately 880,000, 672,000, and 442,000 options, respectively, were outstanding but not included in the diluted weighted average common share calculation as the effect would have been anti-dilutive.

Revenue Recognition. Forrester generally invoices its core research, advisory, and other services when an order is received. The contract amount is recorded as accounts receivable and deferred revenue when the client is invoiced. Core 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. Forrester evaluates the recoverability of deferred commissions at each balance sheet date.

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

	Estimated Useful Life
Computers and equipment	2 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.

Capitalized Software Costs. Statement of Position (SOP) No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*, requires certain computer software costs associated with internal-use software to be expensed as incurred until certain capitalization criteria are met. Forrester 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, 1999 and 2000 was approximately $3,420,000 and $4,363,000, respectively.

Comprehensive Income. Statement of Financial Accounting Standards (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 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, 1999 and 2000 are as follows (in thousands):

	1999	2000
Unrealized (loss) gain on marketable securities, net of taxes	$(413)	$ 83
Cumulative translation adjustment	(181)	(439)
Total accumulated other comprehensive loss	$(594)	$(356)

Organizational Costs. In accordance with SOP No. 98-5, *Reporting on the Costs of Start-Up Activities*, Forrester charges the costs of all startup activities, including organizational costs, to operations in the period in which those costs are incurred.

Concentration of Credit Risk. 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. Forrester 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 Forrester to concentrations of credit risk are principally cash equivalents, marketable securities, and accounts receivable. Forrester places its investments in highly rated securities. 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. Forrester's cash equivalents and marketable securities are generally investment grade corporate bonds and obligations of the federal government or municipal issuers.

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.

Reclassifications. Certain amounts in the prior year's financial statements have been reclassified to conform with the current year's presentation.

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. The adoption of SAB No. 101 had no impact on Forrester's consolidated financial position or results of operations upon adoption.

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 Forrester's consolidated financial position or results of operations.

In March 2000, the FASB issued interpretation No. 44, *Accounting for Certain Transactions Involving Stock Compensation – an Interpretation of Accounting Principles Board (APB), Opinion No. 25*. The interpretation clarifies the application of APB Opinion No. 25 in certain situations, as defined. The interpretation was effective July 1, 2000, but covers certain events occurring during the period after December 15, 1998, but before the effective date. The adoption of this interpretation did not have a material effect on the accompanying financial statements.

In July 2000, the Emerging Issues Task Force reached a consensus on Issue No. 00-15, *Classification in the Statement of Cash Flows of the Income Tax Benefit Received by a Company Upon Exercise of a Nonqualified Employee Stock Option*, which requires that stock option income tax benefits be classified as cash from operations in the statement of cash flows. Prior period consolidated statements of cash flows have been restated to conform to this presentation.

(2) Acquisitions

On October 15, 2000, Forrester acquired 100% of the outstanding shares of FORIT GmbH (FORIT) for $15.0 million in cash and the assumption of approximately $1.0 million in liabilities. FORIT is a provider of technology research to companies primarily located in Germany, Switzerland, and Austria. The acquisition was accounted for under the purchase method, and accordingly, FORIT's results of operations are included within the consolidated results of Forrester since the date of acquisition. The purchase price was allocated to the assets acquired and the liabilities assumed based upon estimated fair values at the date of acquisition.

The excess of purchase price over the fair values of the net assets acquired was approximately $15.6 million and was recorded as goodwill and other intangible assets, which is being amortized on a straight-line basis as follows (in thousands):

	Amount	Life
Customer base	$ 900	7 years
Research content	$ 600	3 years
Assembled workforce	$ 100	7 years
Goodwill	$14,019	20 years

FORIT's historical financial position and results of operations since the date of acquisition were not material to Forrester's financial position and results of operations.

On November 15, 1999, Forrester 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 Forrester's financial position and results of operations. Accordingly, the historical financial statements of Forrester have not been restated. Forrester incurred approximately $694,000 of various costs including legal, accounting, investment banking, printing, filing, and other fees and expenses related to this transaction, which have been separately stated in the accompanying consolidated statement of income for the year ended December 31, 1999.

(3) Cash, Cash Equivalents, and Marketable Securities

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

Forrester 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, 1999 and 2000, 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 accumulated other comprehensive loss. There were no held-to-maturity or trading securities at December 31, 1999 and 2000.

At December 31, 1999 and 2000, marketable securities consisted of the following (in thousands):

	1999	2000
U.S. Treasury notes	$ 7,911	$ 6,990
Federal agency obligations	13,531	22,697
State and municipal bonds	19,415	100,454
Corporate obligations	44,485	28,750
	$85,342	$158,891

The following table summarizes the maturity periods of marketable securities as of December 31, 2000:

	Less than 1 Year	1 to 2 Years	3 to 5 Years	Total
U.S. Treasury notes	$ 6,990	$ —	$ —	$ 6,990
Federal agency obligations	22,697	—	—	22,697
State and municipal bonds	52,241	41,855	6,358	100,454
Corporate obligations	15,706	13,044	—	28,750
	$97,634	$54,899	$6,358	$158,891

Gross realized gains and losses on sales of marketable securities for the years ended December 31, 1999 and 2000, which were calculated based on specific identification, were not material.

(4) Property and Equipment

At December 31, 1999 and 2000, property and equipment consisted of the following (in thousands):

	1999	2000
Computers and equipment	$ 9,165	$ 20,440
Computer software	5,348	7,751
Furniture and fixtures	2,701	3,289
Leasehold improvements	1,903	4,852
Total property and equipment	19,117	36,332
Less – accumulated depreciation and amortization	(7,498)	(14,204)
Property and equipment, net	$11,619	$ 22,128

(5) Non-marketable Investments

In July 2000, Forrester invested $1.6 million to purchase preferred shares of comScore Networks, Inc. (comScore), a provider of infrastructure services which utilizes proprietary technology to accumulate comprehensive information on consumer buying behavior, resulting in approximately a 1.2% ownership interest. This investment is being accounted for using the cost method and, accordingly, is being valued at cost unless a permanent impairment in its value occurs or the investment is liquidated. As of December 31, 2000, Forrester has determined that a permanent impairment has not occurred.

In June 2000, Forrester committed to invest $20.0 million in two private equity investment funds over a period of up to five years. Forrester has adopted a cash bonus plan to pay bonuses, after the return of our invested capital, from the proceeds of a portion of our 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, Forrester has contributed approximately $4.0 million to the private equity investment funds. These investments are being accounted for using the cost method and, accordingly, are being valued at cost unless a permanent impairment in their value occurs or the investments are liquidated. As of December 31, 2000, Forrester has determined that a permanent impairment has not occurred.

In March 2000, Forrester invested $1.0 million to purchase common shares of Doculabs, Inc. (Doculabs), a privately held and independent technology research firm, resulting in approximately a 3.9% ownership interest. 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, 2000, Forrester has determined that a permanent impairment has not occurred. Forrester also has an option, which it has exercised in 2001, to purchase an additional $2.0 million of Doculab's common shares. The number of shares issuable upon exercise of the option vary according to Doculabs' valuation as of December 31, 2000, as determined pursuant to the purchase documents.

During the year ended December 31, 2000, Forrester charged approximately $300,000 to the cost of services and fulfillment related to services provided by Doculabs.

In May 1999, Forrester invested $1.0 million in a holding company that is the majority shareholder of Greenfield Online, Inc. (Greenfield), an Internet-based marketing research firm. As a result of this investment, Forrester effectively owned approximately a 3.4% ownership interest in Greenfield. In March 2000 and June 2000, Forrester entered into additional Note and Warrant Agreements with Greenfield. Pursuant to these agreements, Forrester loaned Greenfield an aggregate of $216,000 bearing interest at 10% per annum. Forrester also received warrants to purchase additional equity in Greenfield. In August 2000, and concurrent with an additional round of financing in which Forrester did not participate, the notes, related accrued interest, and warrants were all converted into common stock such that Forrester's effective ownership interest in Greenfield was approximately 3.1%.

Forrester has determined that as of December 31, 2000, its ownership interest in Greenfield has been impaired due to its decision not to participate in an additional round of financing at a significantly lower valuation. As a result of this new valuation, Forrester recorded a one-time charge of $950,000 to other income in the accompanying statement of income for the period ended December 31, 2000 in order to reflect the permanent impairment of this investment.

During the years ended December 31, 1999 and 2000, Forrester charged approximately $220,000 and $399,000, respectively, to the cost of services and fulfillment related to services provided by Greenfield.

(6) Income Taxes

Forrester 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):

	1998	**1999**	**2000**
Domestic	$12,239	$16,811	$31,570
Foreign	(100)	759	2,467
Total	$12,139	$17,570	$34,037

The components of the income tax provisions (benefits) for the years ended December 31, 1998, 1999, and 2000 are as follows (in thousands):

	1998	**1999**	**2000**
Current —			
Federal	$3,800	$5,497	$11,031
State	504	628	1,463
Foreign	—	—	968
	4,304	6,125	13,462
Deferred —			
Federal	255	415	(471)
State	33	49	(139)
Foreign	—	—	(429)
	288	464	(1,039)
Income tax provision	$4,592	$6,589	$12,423

A reconciliation of the federal statutory rate to Forrester's effective tax rate for the years ended December 31, 1998, 1999, and 2000 is as follows:

	1998	1999	2000
Income tax provision at federal statutory rate	34.0%	35.0%	35.0%
Increase (decrease) in tax resulting from —			
State tax provision, net of federal benefit	4.4	3.7	3.3
Non-deductible costs related to acquisition	—	1.1	—
Non-deductible expenses	0.8	0.6	0.6
Tax-exempt interest income	(0.8)	(1.7)	(3.1)
Benefit of foreign sales corporation	(0.8)	(0.6)	—
Other, net	0.2	(0.6)	0.7
Effective income tax rate	37.8%	37.5%	36.5%

Deferred income taxes as of December 31, 1999 and 2000 are related to the following temporary differences (in thousands):

	1999	2000
Non-deductible reserves and accruals	$ 622	$ 2,041
Depreciation and amortization	323	563
Deferred commissions	(1,818)	(2,874)
Net operating loss and other carryforwards	—	17,238
	$ (873)	$16,968

Forrester has aggregate net operating loss carryforwards for federal, state, and foreign tax purposes of approximately $47.2 million. These net operating losses will expire between 2015 and 2020. The utilization of these net operating loss carryforwards may be limited pursuant to Internal Revenue Code Section 382 as a result of ownership changes.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Although realization is not assured, based upon the level of historical taxable income of Forrester and projections for Forrester's future taxable income over the periods during which the deferred tax assets are deductible, management believes it is more likely than not that Forrester will realize the benefits of these deductible differences. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

(7) Commitments

Forrester leases its office space and certain office equipment under operating leases. At December 31, 2000, approximate future minimum rentals due are as follows (in thousands):

2001	$ 9,034
2002	8,975
2003	9,955
2004	10,379
2005	10,538
Thereafter	13,770
Total minimum lease payments	$62,651

Aggregate rent expenses were approximately $1,463,000, $2,760,000, and $6,428,000 for the years ended December 31, 1998, 1999, and 2000, respectively.

(8) Stockholders' Equity

Increase in Authorized Shares and Stock Split. On February 7, 2000, Forrester 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. Forrester has retroactively restated all share and per share amounts for the periods presented to give effect to this stock split.

Public Offering. In February 2000, Forrester issued 626,450 shares of common stock in a public offering that generated net proceeds to Forrester of approximately $22,659,000.

Preferred Stock. Forrester 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, Forrester 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 non-qualified stock options (NSOs) to purchase up to 13,500,000 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 Forrester 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 to four years and expire after 10 years. Options granted under the Plan immediately vest upon certain events, as defined.

In September 1996, Forrester 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 12,500 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 Forrester'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 of the Board of Directors (the Compensation Committee) 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, 1997 to December 31, 2000 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, 1997	2,038	$ 2.75 —$14.60	$ 6.50
Granted	2,964	9.57 — 19.88	12.74
Exercised	(457)	2.75 — 14.60	5.54
Canceled	(448)	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
Granted	1,763	24.64 — 75.50	34.80
Exercised	(1,715)	0.81 — 23.94	11.31
Canceled	(227)	9.57 — 75.50	20.11
Outstanding at December 31, 2000	6,278	$ 2.75 —$70.84	$19.65
Exercisable at December 31, 2000	1,462	$ 2.75 —$33.88	$13.45
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

On March 16, 2001, Forrester granted approximately 875,000 stock options under the Plan at an exercise price of $25.16 per share.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2000 (in thousands, except per share data):

Range of exercise prices	Number Outstanding at December 31, 2000	Number Exercisable at December 31, 2000	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price Per Share
$ 2.75	34	34	5.14	$ 2.75
5.50 — 6.50	68	68	5.70	6.13
8.78 — 11.00	744	342	6.85	9.68
11.47 — 12.88	2,275	528	7.89	11.69
13.35 — 17.47	266	128	7.80	15.77
17.69 — 19.88	391	174	7.68	19.34
20.03 — 23.94	771	183	8.07	22.38
24.64 — 29.47	1,021	—	8.74	25.47
30.69 — 38.69	149	5	9.19	34.41
41.47 — 49.94	370	—	9.48	47.90
51.41 — 61.38	145	—	9.50	57.96
62.22 — 70.84	44	—	9.60	63.73
	6,278	1,462	8.05	$19.65

The weighted average remaining contractual life of stock options outstanding at December 31, 1998, 1999, and 2000 was 8.7, 8.6, and 8.1 years, respectively. As of December 31, 1998, 1999, and 2000, options available for future grant under the Plan and the Directors' Plan were approximately 1,105,000, 2,261,000, and 4,025,000, respectively.

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. Forrester 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. Forrester has computed the value of options granted during the years ended December 31, 1998, 1999, and 2000 using the Black-Scholes option pricing model prescribed by SFAS No. 123, and the following assumptions:

	1998	**1999**	**2000**
Risk-free interest rate	5.28%	5.54%	6.22%
Expected dividend yield	—	—	—
Expected lives	5 years	5 years	3 years
Expected volatility	40%	55%	64%

If compensation cost for Forrester's stock option plans had been determined consistent with SFAS No. 123, net income for the years ended December 31, 1998, 1999, and 2000 would have been approximately as follows (in thousands, except per share data):

Years Ended December 31,	**1998**	**1999**	**2000**
As reported —			
Net income	$7,547	$10,981	$21,614
Basic net income per common share	$ 0.44	$ 0.61	$ 1.03
Diluted net income per common share	$ 0.40	$ 0.55	$ 0.88
Pro forma —			
Net income	$4,569	$ 2,902	$ 9,093
Basic net income per common share	$ 0.27	$ 0.16	$ 0.43
Diluted net income per common share	$ 0.24	$ 0.14	$ 0.37

In January 1998, Forrester'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, 2000, approximately 808,000 options remained outstanding, of which 141,000 were exercisable.

(10) 401(k) Plan

Forrester 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, Forrester elected to match 50% of employee contributions, up to 3% of each employee's annual salary. Forrester matching contributions will vest ratably over a period of four years. Forrester's matching contributions totaled approximately $521,000 and $813,000 for the years ended December 31, 1999 and 2000, respectively.

(11) Segment and Enterprisewide Reporting

Forrester 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. Forrester's chief decision-making group, as defined under SFAS No. 131, is the Executive Team, consisting of George F. Colony and the executive officers. To date, Forrester 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 Forrester's principal operating segment. Foreign-based assets comprised approximately $2.6 million and $32.2 million of total consolidated assets for the periods ended December 31, 1999 and 2000, respectively.

Net revenues by geographic destination and as a percentage of total revenues for the years ended December 31, 1998, 1999, and 2000 are as follows (dollars in thousands):

	1998	1999	2000
United States	$48,922	$67,477	$116,077
United Kingdom	4,321	6,897	13,719
Europe (excluding United Kingdom)	3,053	5,345	12,671
Canada	2,711	3,571	6,747
Other	2,560	3,978	7,933
	$61,567	$87,268	$157,147
United States	79%	78%	74%
United Kingdom	7	8	9
Europe (excluding United Kingdom)	5	6	8
Canada	4	4	4
Other	5	4	5
	100%	100%	100%

(12) Employee Stock Purchase Plan

In September 1996, Forrester 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 Compensation Committee. With certain limited exceptions, all employees of Forrester who have completed six months or more of continuous service in the employ of Forrester 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, 1998	37,626	$ 9.83
December 31, 1998	25,030	$17.27
June 30, 1999	38,570	$10.61
December 31, 1999	49,316	$10.89
June 30, 2000	34,238	$27.94
December 31, 2000	28,575	$42.55

(13) Certain Balance Sheet Accounts

Accrued Expenses. Accrued expenses as of December 31, 1999 and 2000 consist of the following (in thousands):

	1999	2000
Payroll and related	$4,763	$ 8,320
Other	4,684	9,064
	$9,447	$17,384

Allowance for Doubtful Accounts. A roll-forward of the allowance for doubtful accounts as of and for the years ended December 31, 1998, 1999, and 2000 is as follows (in thousands):

	1998	1999	2000
Balance, beginning of period	$ 325	$ 400	$ 580
Provision for doubtful accounts	375	904	1,246
Additions arising from acquisitions (Note 2)	—	80	47
Write-offs	(300)	(804)	(580)
Balance, end of period	$ 400	$ 580	$1,293

(14) Summary Selected Quarterly Financial Data (Unaudited)

The following is a summary of selected quarterly financial data for the years ended December 31, 1999 and 2000 (in thousands, except per share data):

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

Quarter Ended	March 31, 2000	June 30, 2000	Sept. 30, 2000	Dec. 31, 2000
Revenues	$30,817	$38,279	$40,137	$47,914
Income from operations	$ 4,096	$ 5,830	$ 7,345	$ 9,873
Net income	$ 3,469	$ 4,876	$ 5,939	$ 7,330
Basic net income per common share	$ 0.17	$ 0.23	$ 0.28	$ 0.34
Diluted net income per common share	$ 0.15	$ 0.20	$ 0.24	$ 0.30

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Sales Offices
> Atlanta
> Austin
> Chicago
> Los Angeles
> Melbourne
> New York
> Sydney
> Toronto
> Tokyo
> Zurich

Board Of Directors

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

Henk W. Broeders
Chairman, Executive Board
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
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Private Equity Group
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William M. Bluestein, Ph.D.
President and Chief
Operating Officer

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

Stanley H. Dolberg
Vice President, Research

Emily Nagle Green
Vice President, International

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

Annual Meeting

Forrester's annual meeting of stockholders will be held at 10 a.m. EST on May 8, 2001, at the offices of Ropes & Gray, One International Place, Boston, MA.

Investor Relations

Requests for financial information should be sent to:
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Investor Relations Manager
400 Technology Square
Cambridge, MA 02139 USA
Tel: +1 617/613-5872
Fax: +1 617/613-5000
Email:
investorrelations@forrester.com

Transfer Agent

BankBoston, N.A.
c/o EquiServe
Canton, MA
Tel: +1 781/575-2000

Independent Public Accountants

Arthur Andersen LLP
Boston, MA

Legal Counsel

Ropes & Gray
Boston, MA

Stock Listing And Trading Symbol

Forrester'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 8, 2001, was 55.

The following table represents the ranges of high and low sale prices of Forrester's common stock for the fiscal years ended December 31, 1999, and December 31, 2000.

	1999		2000	
	High	Low	High	Low
First Quarter	$24.44	$14.63	$65.13	$22.84
Second Quarter	$19.25	$10.94	$81.50	$31.00
Third Quarter	$20.50	$10.50	$73.25	$43.38
Fourth Quarter	$36.44	$19.00	$62.88	$35.06

Dividends

Forrester did not declare or pay any cash dividends during the fiscal years ended December 31, 1999, and December 31, 2000. Forrester anticipates that future earnings, if any, will be retained for the development of its business, and Forrester does not anticipate paying any cash dividends on its common stock in the foreseeable future.

Form 10-K

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

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