The Story | The Outlook | The Opportunity

FORRESTER®

Annual Report 2001

Forrester Research is a leading emerging-technology research firm providing data and analysis that define the impact of technology change on business. Forrester's WholeView™ Research, Strategic Services, and Events help Global 3,500 clients understand how technology change affects their customers, strategies, and technology investments. Established in 1983, Forrester is headquartered in Cambridge, Mass.

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

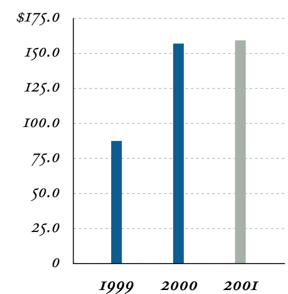
Year Ended December 31,	1999	2000	2001
Revenues	$ 87,268	$157,147	$159,120
Operating income	$ 13,860	$ 27,144	$ 20,617
Net income	$ 10,981	$ 21,614	$ 18,117
Basic net income per common share	$ 0.61	$ 1.03	$ 0.80
Diluted net income per common share	$ 0.55	$ 0.88	$ 0.76
Pro forma diluted net income per share[(1)]	$ 0.58		$ 0.84

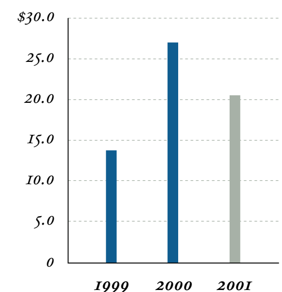
December 31,	1999	2000	2001
Stockholders' equity	$ 78,805	$176,928	$220,398
Deferred revenue	$ 66,233	$102,527	$ 59,930
Agreement value[(2)]	$115,772	$187,824	$116,169
Client companies[(3)]	1,793	2,378	1,542

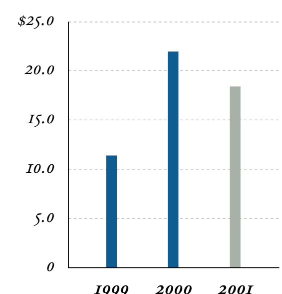
(1) Pro forma diluted net income per common share excludes acquisition-related expenses in 1999 and reorganization costs in 2001.

(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 time. Forrester may provide multiple services to more than one business unit of a client company.







THE STORY

Dear fellow shareholders,

Forrester continued to create insightful research in 2001, helping clients weather short-term technology budget crunches while keeping an eye on emerging technology changes and trends. Despite our continuing focus, three factors slowed Forrester's growth in 2001.

- Global 3,500 companies reduced capital spending on technology.
- Large technology vendors experienced revenue declines and cut research budgets.
- The worldwide recession, coupled with market shocks following September 11, caused budget cutbacks from government planners, investment strategists, and other buyers of research.

Technology change and its absorption by large companies drive Forrester's business. Even with lower absorption in 2001, Forrester did show limited growth. I expect these economic conditions to persist into 2002, then show some improvement in 2003.

The Success Of TechRankings™

Despite the past year's challenges, Forrester launched significant new products, led by TechRankings. This research category speeds the implementation of new systems by helping large corporations decide which vendor to choose in emerging-technology segments.

TechRankings gained traction in 2001 and finished the year with more than 300 clients — making it the most successful launch in Forrester's history. Because of its success, four new categories were launched over the course of the year, focusing on enterprise portals, eProcurement, integration servers, and marketing automation applications.

In 2001, Forrester also launched two new partnership products to enhance the implementation of our Technographics® Research. With Mediamark Research, Inc. (MRI), we created the Technographics/MRI Media Guide. Nielsen//NetRatings was our partner in creating the Nielsen//NetRatings Technographics NetView. In addition, we branded our strategy research — the research we opened our doors with — as TechStrategy™ Research.

Events That Set The Standard

Our Events business in 2001 showed very respectable revenue and attendance despite the travel limitations produced by the recession and September 11. We hosted five Summits and six Forums in North America and four Forums in Europe, covering the automotive, consumer packaged goods, financial services, healthcare, marketing, media, retail, telecom, and travel industries. Our Executive Strategy Forum in November received the highest rating ever by attendees.

Forrester's Events continue to be an important means of exposing our analysis to prospects — Events are a prime marketing venue for our research. In addition, they build the Forrester community, connecting clients with other clients. We believe our market share grew in the events business as a number of players cut back on their events or dropped out of the business entirely in 2001.

Managing The Slowdown

As 2001 unfolded, we actively adjusted the company's expenses and headcount to stay proportional with revenue. While this move was painful, Forrester's financial position has always been conservatively managed. We are dedicated to returning a profit — the lifeblood of Forrester's future and a critical element of shareholder value — and we seek to sustain this fundamental corporate value in periods of fast and slow growth.

Preparing For WholeView™

At midyear 2001, Forrester began to innovate in preparation for the launch of WholeView Research. One advantage of a recession is the room and time it allows for making decisive changes to the business that are difficult to make during high-growth years. First, Forrester reorganized its sales force into vertical alignment with our clients. This move gave the sales force greater insight into client issues and business models, and it more closely linked vertical research teams with sales teams.

A second significant change came late in the year when we reorganized Forrester into four operating groups — North America; Global; Europe; and Asia, MEA, Latin America — each with individual profit-and-loss goals. Operating groups disperse responsibility and decision-making throughout the organization, which increases speed of innovation and ensures that we are responsive and close to our clients.

Providing The WholeView™

Throughout the 1990s, technology was managed by three groups within large companies — IT, marketing, and business strategy units. These organizations typically did not work together, and Forrester delivered research packaged for their exclusive use.

From 1999 to 2001, we began to see the emergence of more holistic behavior in our clients. Large companies recognized that the sweep from back-end systems to front-end systems then out to the customer is too systemic to be managed by discrete departments. Today, the better-managed Global 3,500 companies encourage IT, marketing, and business units to collaborate and plan technology together. This approach yields a rich customer experience, cross-channel integration, and synchronized data.

As the organizational barriers in Forrester's client companies began to fall, it no longer made sense to retain barriers within our research. Our clients now work in a more dynamic, interdependent world, and they require a new type of open, unified research to thrive in that world — WholeView Research.

WholeView Research is:

- **Comprehensive** — helping companies weave the disciplines of IT, strategy, and marketing.
- **Simple** — making the research easy to consume and apply through an integrated, customizable Web experience.
- **Accessible** — encouraging unlimited and direct dialogue with Forrester's research team.

Three business cases inspired us as we planned this innovation in research. The richness of content was sparked by America Online's strategy of building a compelling, open set of content that is attractive to a broad range of customers. WholeView's unified architecture was inspired by Microsoft Office's integrated desktop applications, which offer full suites for one price. Finally, the simplicity was evoked by AT&T's 1998 move to the Digital One Rate in the wireless market — one price, all service.

WholeView Research helps clients:

- **Increase speed.** Clients get the research they need immediately — enabling faster planning and implementation.
- **Improve decisions.** Forrester clients can see every angle of an issue — technology, strategy, and customers. Only by factoring in the full range of issues can companies arrive at the best decisions.
- **Encourage organizational coordination.** WholeView will enable companies to bring together IT, marketing, and business executives to form unified technology planning. WholeView Research is a catalyst for this critical activity.

No Barriers

Just as the barriers among our research products have fallen, we are working to achieve a no-barriers approach in all parts of our internal operation.

We strive to eliminate any barriers that impede the creation of the highest-quality research — even internal ones. The operating groups collaborate intensively — sharing research, new ideas, client data, and best practices. In our worldwide research teams, the traditional originality, rigor, and courage of Forrester's research has been significantly enhanced by this increased collaboration.

Most important, we strive to eliminate all barriers between Forrester and our clients. WholeView features Unlimited Analyst Access, a continuous connection between our analysts and our clients for direct and positive contact — an effort we believe will build long-term, high-value relationships.

Remembering

2001 was also a year of loss. On September 4, Forrester President Bill Bluestein passed away. Bill was my close friend and trusted partner. He worked with me for 10 years building Forrester. He taught generations of Forrester researchers the craft of creating amazing, future-changing analysis. He trained us how to think. He was a natural leader — pushing the company to higher levels of performance, inspiring Forresterites, and helping us to see the right way. We miss him every day, but his clear and incisive voice continues to guide us. Bill's wisdom lives on in the company he created.

Forrester also lost clients and friends in the September 11 tragedy. Like Bill, they and their families are often on our minds and in our memories.

Personal Thoughts

As I look forward, I have never been more optimistic about Forrester's long-term prospects. Technology change is an inexorable force. While there may be recessionary periods in which technology's impact attenuates, in typical times it is a major force on society, individuals, business, education, and government. Because we offer guidance on absorbing and implementing technology, Forrester will thrive.

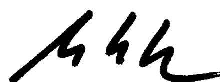
Technology change in this decade will be more intense than it was in the 1990s, just as that decade outstripped the 1980s. The most important business challenge for Global 3,500 companies in the next 10 years will be digital transformation — revamping supply chains, customer connections, channels, and organizations through advancements such as Web services technology. The challenges presented will be formidable and disruptive — and Forrester will be there to help our clients thrive in these changing times.

I am excited about working with a new generation of managers and leaders who stepped up to the challenge in 2001. Their ideas are fresh and their dedication to our clients is strong. Forrester's ability to develop its people remains one of its primary strengths — we are rich in management and leadership talent.

I look forward to 2002 and the years that lie ahead. We have a new organization and a new way to sell — and, most exciting — we've created a product that is directly aligned with our clients' needs.

Thank you for your continued interest and support. Please contact me directly at gcolony@forrester.com if you have any questions or would like to talk.

All the best,



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

From left to right: Robert W. Davidson, Managing Director, Forrester Europe; **Neil Bradford,** Managing Director, Forrester Global; **CarolAnn Shindelar,** Vice President, Marketing; **Stanley H. Dolberg,** Vice President, Strategy; **Timothy J. Moynihan, Esq.,** General Counsel; **Richard C. Belanger,** Chief Technology Officer; **George F. Colony,** Chairman of the Board and Chief Executive Officer; **Warren Hadley,** Chief Financial Officer; **Emily Nagle Green,** Managing Director, Forrester North America; **Tahar Bouhafs,** Managing Director, Forrester Asia, MEA, Latin America; **Timothy M. Riley,** Vice President, Strategic Growth

Since 1983, clients have come to Forrester for our big ideas, keen insight, and ability to assess the impact of technology change on consumers, business strategies, and technology investments.

In 2001, we launched research on the X Internet, the next phase of Internet evolution, which looks beyond today's Web by putting more intelligent software near the user and connecting the Net to the physical world using smart chips. The result? Forrester expects that by 2006, the X Internet will deliver better user experiences — and better business results — than were ever achieved during the dot-com era.

In another area of our 2001 research, we forecasted the economic future of high-tech. We found that, in the most likely scenario, the tech recovery will begin to kick into gear in the third quarter of 2002, pick up momentum throughout the rest of the year, and show double-digit growth (more than 10%) in 2003.

THE OUTLOOK

Where do these predictions intersect? Our research predicts that the future will be filled with billions of low-power, inexpensive chips fueling the X Internet's growth. At the same time, firms will need to satisfy mounting customer demand for lower prices and improved offerings by maximizing Internet technology for dynamic collaboration — a strategy of win-win partnerships that share business activities across a network of allies. In 2006, more than half (54.4 million) of all US households will have access to the Net via a broadband connection. This mass integration of fast, always-on access will drive demand for wireless devices and bring the X Internet to consumers.*

What It Means

The WholeView is crucial to the collaborative thinking our clients will need to adapt to this new technology market. Open access to all of our research categories allows clients to tap into the analysis they need and helps them better understand how one data point or idea influences another.

The scope of this analysis widens exponentially when WholeView clients weave other research methodologies into their decision-making. They can consider how and why technology consumers and business buyers are purchasing technology. WholeView clients can also assess how well the technologies they want to invest in are designed, delivered, and suited for their company's initiatives.

With the WholeView, an IT executive can discuss the X Internet with her CFO to get more funding for the right integration server. A marketing director will better understand not only how to target his audience, but also why the CIO is investing in B2B before B2C applications. And a business strategist can plan initiatives that answer customer demands — and make the most of the technologies her company already owns. Forrester's WholeView Research maintains and propels collaboration, driving decisions with the holistic perspective that must be used in today's business environment.

* Research calls taken from the following reports: "The X Internet," May 2001; "Tech Recovery Update: Coming Off The Bottom," March 19, 2002; "The Collaboration Imperative," May 2001; and "The Digital Consumer Is Here To Stay," June 15, 2001.

Forrester Clients Have The Advantage

The WholeView opens new doors for our clients. With WholeView's broader perspective and deeper insight, Forrester clients can make sharper, more efficient decisions. Their understanding can span departments and disciplines. Each initiative can be planned to satisfy more demands. And WholeView Research helps clients win customers, build smart business partnerships, and stay highly competitive.

In addition to a comprehensive scope of research, a simple way to use it, and unlimited access to our research team, WholeView clients can enhance their relationship with Forrester in a variety of ways.

THE OPPORTUNITY

For customized, one-to-one guidance about a complex challenge, clients can tap into Forrester's Strategic Services. Through a combination of meetings, conference calls, or workshops, analysts help clients with important initiatives, such as framing a market-entry strategy for a new product, selecting a technology, developing an online strategy, building effective IT architecture, or designing a successful Web site. Step by step, clients gain insight into the right direction for their initiatives, which tasks to prioritize, and how to align their teams.

Forrester Events give clients another look at our research about customer trends, business strategy, and technology investments related to a particular industry issue or big idea. After a one- or two-day Forrester Event, attendees are equipped to go back to their teams and explain where a recent trend is going and what actions they can take today.

Unlimited Analyst Access also connects clients to Forrester's WholeView Research. Clients can speak directly with analysts as often as they need to. These 30-minute sessions can be used to gather feedback on an idea, ask about unfolding industry events, or take clients' understanding of the research to a new level.

Forrester Also Benefits

Enhanced collaboration in our research organization lets data and analysis flow seamlessly between groups, resulting in richer content. And WholeView Research provides the wide perspective that companies today must have to thrive. It has never been easier or more appealing to do business with Forrester.

The WholeView establishes Forrester as the one company that helps build collaborative technology organizations — from the ground up and across traditional boundaries of business. The comprehensive research we provide, coupled with open, easy access, drives quick and unified technology planning for project teams, organizations, and business partners. With Forrester's people and research, our clients have the tools they need to make the best business decisions for their companies. And successful clients are our reward.

LOOKING AHEAD

Helping Business Thrive

Forrester's innovation and plans for the future are supported by the major assets of our:

- Solid financial position.
- Wide range of Global 3,500 clients.
- Strong brand built for nearly 20 years in the market.

Additionally — and perhaps most important — our most valuable long-term asset is the market we cover. Technology is a relentless, inexorable force. The business of helping companies use technology change to drive revenue, profit, and market share remains powerful. Although that dynamic was hindered in 2001, it will prove a potent driver of Forrester's future growth.

2001 FORRESTER RESEARCH FINANCIAL STATEMENTS

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Selected Consolidated Financial Data

(in thousands, except per share data)

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

Year Ended December 31,	**1997**	**1998**	**1999**	**2000**	**2001**
Consolidated Statement of Income Data:					
Revenues:					
Core research	$30,431	$ 46,842	$ 64,697	$120,477	$123,695
Advisory services and other	9,990	14,725	22,571	36,670	35,425
Total revenues	40,421	61,567	87,268	157,147	159,120
Operating expenses:					
Cost of services and fulfillment	13,698	22,038	27,715	45,470	49,113
Selling and marketing	14,248	20,896	31,131	57,957	58,334
General and administrative	4,500	6,688	9,865	18,632	16,854
Depreciation and amortization	1,209	2,763	4,003	7,944	11,094
Reorganization costs	—	—	—	—	3,108
Costs related to acquisition	—	—	694	—	—
Total operating expenses	33,655	52,385	73,408	130,003	138,503
Income from operations	6,766	9,182	13,860	27,144	20,617
Other income, net	2,515	2,957	3,710	6,893	6,425
Income before income tax provision	9,281	12,139	17,570	34,037	27,042
Income tax provision	3,683	4,592	6,589	12,423	8,925
Net income	$ 5,598	$ 7,547	$ 10,981	$ 21,614	$ 18,117
Basic net income per common share	$ 0.34	$ 0.44	$ 0.61	$ 1.03	$ 0.80
Diluted net income per common share	$ 0.32	$ 0.40	$ 0.55	$ 0.88	$ 0.76
Basic weighted average common shares outstanding	16,679	17,041	18,028	20,989	22,551
Diluted weighted average common shares outstanding	17,703	18,744	20,067	24,526	23,907
Consolidated Balance Sheet Data:					
Cash, cash equivalents, and marketable securities	$54,914	$ 66,483	$ 98,787	$174,739	$205,182
Working capital	$36,016	$ 45,720	$ 65,366	$115,547	$155,412
Deferred revenue	$27,074	$ 38,894	$ 66,233	$102,527	$ 59,930
Total assets	$73,536	$100,518	$159,393	$303,803	$305,152
Total stockholders' equity	$40,505	$ 53,533	$ 78,805	$176,928	$220,398

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 our current plans and expectations and involve risks and uncertainties that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

We are a leading independent emerging-technology research firm that conducts research and analysis on the impact of emerging technologies on business, consumers, and society. We provide our clients with an integrated perspective on technology and business, which we call the WholeView™. Our approach provides companies with the strategies, data, and product evaluations they need to evolve their business models and infrastructure to embrace broader online markets and to scale their operations. We help our clients develop business strategies that use technology to win customers, identify new markets, and gain competitive operational advantages. Our products and services primarily benefit the senior management, business strategists, and marketing and technology professionals at Global 3,500 companies who use our prescriptive, executable research to understand and capitalize on business models and emerging technologies.

We derive revenues from memberships to our core research and from our Advisory Services and Forum and Summit Events. We offer contracts for our products and services that typically are renewable annually and payable in advance. Accordingly, a substantial portion of our billings is 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 represents 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 decreased 38% to $116.2 million at December 31, 2001 from $187.8 million at December 31, 2000. Agreement value increased 62% 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, 2001. Our historical 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 51%, 74%, and 74% of our client companies with memberships expiring during the years ended December 31, 2001, 2000, and 1999, respectively, renewed one or more memberships for our products and services. These renewal rates are not necessarily indicative of the rate of future retention of our revenue base. The declines in agreement value and renewal rates in 2001 are reflective of the more difficult economic environment and may lead to a decrease in revenue for 2002.

On July 12, 2001, we announced a sales force reorganization and general work force reduction in response to conditions and demands of the market and a slower economy. As a result, we reduced our work force by 111 positions; closed sales offices in Atlanta, Los Angeles, Melbourne, New York, and Zurich; and recorded a reorganization charge of approximately $3.1 million in the quarter ended September 30, 2001. Approximately 66% of the terminated employees had been members of the sales force, while 12% and 22% had held research and administrative roles, respectively. This charge consisted primarily of severance and related expenses from the work force reduction. This charge also included office consolidation costs, such as contractual lease commitments for space that was vacated, the write-off of related leasehold

improvements, and other payments for professional services incurred in connection with the reorganization. Additional depreciable assets that were written off include computer equipment, software, and furniture and fixtures related to employees and locations terminated in connection with the reorganization.

Reorganization costs as of December 31, 2001 are as follows (in thousands):

	Total Charge	Non-Cash Charges	Cash Payments	Accrued as of December 31, 2001
Work force reduction	$2,149	$ —	$2,045	$104
Facility consolidations and other related costs	488	—	370	118
Depreciable assets	471	471	—	—
Total	$3,108	$471	$2,415	$222

A significant portion of the remaining liabilities accrued as of December 31, 2001 are expected to be paid out in the three months ended March 31, 2002.

On January 10, 2002, in response to conditions and demands of the market and a slower economy, we announced the reduction of our work force by approximately 126 positions and expect to record a reorganization charge of approximately $4.0 million to $6.0 million in the quarter ended March 31, 2002. This charge will consist primarily of severance and related expenses from the reduction of the work force, including office consolidations.

Critical Accounting Policies and Estimates

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

We have identified the following policies as critical to our business operations and the understanding of our results of operations. This listing is not a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result. For a detailed discussion on the application of these and other accounting policies, see Note 1 in the Notes to Consolidated Financial Statements in Item 14 of this Annual Report, beginning on page F-20.

- **Revenue recognition.** We generally invoice our core research, advisory, and other services when orders are received. The contract amount is recorded as accounts receivable and deferred revenue when the client is invoiced. Core research is generally 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. Furthermore, our revenue recognition determines the timing of commission expenses that are deferred and expensed to operations as the related revenue is recognized. We evaluate the recoverability of deferred commissions at each balance sheet date. As of December 31, 2001, deferred revenues and deferred commissions totaled $59.9 million and $4.4 million, respectively.

- **Allowance for doubtful accounts.** We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make contractually obligated payments that totaled approximately $966,000 as of December 31, 2001. Management specifically analyzes accounts receivable and historical bad debts, customer concentrations, current economic trends, and changes in our customer payment terms when evaluating the adequacy

of the allowance for doubtful accounts. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

- **Non-marketable investments.** We hold minority interests in companies and equity investment funds that totaled approximately $9.8 million as of December 31, 2001. We record an impairment charge when we believe that an investment has experienced a decline in value that is other than temporary. We recorded impairment charges that totaled approximately $1.0 million in 2000 and $3.2 million in 2001. Future adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.

- **Goodwill and other intangible assets.** We have goodwill and other intangible assets related to the acquisition of our Research Center Deutschland in Frankfurt, Germany, that totaled approximately $14.3 million as of December 31, 2001. We periodically evaluate this acquired business for potential impairment indicators. Our judgments regarding the existence of impairment indicators are based on market conditions and operational performance. As of December 31, 2001, we believe that the carrying value of our goodwill and other intangible assets is not impaired. Future events could cause us to conclude that impairment indicators exist and that goodwill or other intangible assets associated with our acquired business are impaired. Any resulting impairment loss could have a material adverse impact on our financial condition and results of operations.

  We expect to adopt Statement of Financial Accounting Standard (SFAS) No. 142 in the quarter ending March 31, 2002. SFAS No. 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized but instead be measured for impairment at least annually, or when events indicate that there may be an impairment. The extensive effort needed to comply with adopting SFAS No. 142 makes it impracticable to reasonably estimate the financial statement impact, specifically whether there will be any transitional impairment losses realized as a cumulative effect of this change in accounting principle. As of December 31, 2001, we had unamortized goodwill of $13.2 million and unamortized identifiable intangible assets of $1.1 million. Amortization expense related to goodwill and assembled work force was approximately $180,000 in 2000 and $710,000 in 2001. Amortization expense related to other identifiable intangible assets that will continue to be amortized in the future was approximately $80,000 in 2000 and $325,000 in 2001.

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,	**1999**	**2000**	**2001**
Core research	74%	77%	78%
Advisory services and other	26	23	22
Total revenues	100	100	100
Cost of services and fulfillment	32	29	31
Selling and marketing	36	37	37
General and administrative	11	12	10
Depreciation and amortization	4	5	7
Reorganization costs	—	—	2
Costs related to acquisition	1	—	—
Income from operations	16	17	13
Other income, net	4	5	4
Income before income tax provision	20	22	17
Provision for income taxes	7	8	6
Net income	13%	14%	11%

Years Ended December 31, 2001 and December 31, 2000

- **Revenues.** Total revenues increased 1% to $159.1 million in 2001, from $157.1 million in 2000. Revenues from core research increased 3% to $123.7 million in 2001, from $120.5 in 2000. Increases in total revenues and revenues from core research were primarily attributable to sales of additional core research products to existing clients. No single client company accounted for more than 2% of revenues in 2001.

  Advisory services and other revenues decreased 3% to $35.4 million in 2001, from $36.7 million in 2000. This decrease was primarily attributable to the decrease in demand for advisory services in the second half of the year.

  Revenues attributable to customers outside the United States increased 14% to $46.8 million in 2001, from $41.1 million in 2000. Revenues attributable to customers outside the United States increased as a percentage of total revenues to 29% in 2001, from 26% in 2000. The increase in international revenues is primarily attributable to the expansion of our international operations, specifically our European headquarters in Amsterdam, Netherlands; our Research Centers in London, England and Frankfurt, Germany; and our sales office in Tokyo, Japan. 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 currency exchange rates have not had a significant impact on our results of operations.

- **Cost of Services and Fulfillment.** Cost of services and fulfillment increased as a percentage of total revenues to 31% in 2001, from 29% in 2000. These expenses increased 8% to $49.1 million in 2001, from $45.5 million in 2000. The increases in these expenses and in expense as a percentage of revenues were principally due to additional survey costs associated with our TechRankings™ and Technographics® product offerings, and the opening of our Research Center in San Francisco, California.

- **Selling and Marketing.** Selling and marketing expenses remained constant as a percentage of total revenues at 37% in 2001 and 2000. These expenses increased 1% to $58.3 million in 2001, from $58.0 million in 2000. The increase in expenses was principally due to expansion of our international sales offices in Europe and the Asia-Pacific region, offset by cost savings as a result of the July 2001 reorganization.

- **General and Administrative.** General and administrative expenses decreased as a percentage of total revenues to 10% in 2001, from 12% in 2000. These expenses decreased 10% to $16.9 million in 2001, from $18.6 million in 2000. The decreases in expenses and expense as a percentage of revenues were principally due to decreased staffing in our technology, operations, finance, and strategy groups and a related decrease in compensation, travel, and recruiting expenses.

- **Depreciation and Amortization.** Depreciation and amortization expenses increased 40% to $11.1 million in 2001, from $7.9 million in 2000. The increase in these expenses was principally due to previous purchases of computer equipment, software, and leasehold improvements to support business growth in past years. Further, amortization of goodwill related to our October 2000 acquisition of Forit GmbH in Frankfurt, Germany, increased to $1.0 million in 2001, from approximately $260,000 in 2000.

- **Other Income, Net.** Other income decreased to $6.4 million in 2001, from $6.9 million in 2000. Other income in 2001 consisted of $9.1 million of interest income from marketable securities; a gain of approximately $1.7 million realized on the sale of our Internet AdWatch™ product to Evaliant Media Resources, LLC in exchange for Evaliant membership interests; aggregate write-downs of approximately $3.2 million on certain non-marketable investments; and $1.1 million of other miscellaneous non-operating expenses. Other income in 2000 consisted primarily of $8.0 million of interest income from marketable securities, a non-marketable investment write-down of approximately $1.0 million, and approximately $175,000 of other miscellaneous non-operating expenses. We achieved the additional interest income in spite of generally lower yields due to higher cash and marketable securities balances resulting from positive cash flows from operations of $28.7 million and $16.4 million from proceeds of stock option exercises and our employee stock purchase plan during 2001.

- **Income Tax Provision.** During 2001, we recorded a tax provision of $8.9 million, reflecting an effective tax rate of 33.0%. During 2000, we recorded a tax provision of $12.4 million, reflecting an effective tax rate of 36.5%. The decrease in our effective tax rate resulted primarily from an increase in our investments in tax-exempt marketable securities.

Years Ended December 31, 2000 and December 31, 1999

- **Revenues.** Total revenues increased 80% to $157.1 million in 2000, from $87.3 million in 1999. Revenues from core research increased 86% to $120.5 million in 2000, from $64.7 million in 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 in 2000.

  Advisory Services and other revenues increased 62% to $36.7 million in 2000, from $22.6 million in 1999. This increase was primarily attributable to increased demand for our 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 11 in 2000, from eight in 1999.

  Revenues attributable to customers outside the United States increased 108% to $41.1 million in 2000, from $19.8 million in 1999. Revenues attributable to customers outside the United States increased as a percentage of total revenues to 26% in 2000, from 22% in 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 currency exchange rates have not had a significant impact on our results of operations.

- **Cost of Services and Fulfillment.** Cost of services and fulfillment decreased as a percentage of total revenues to 29% in 2000, from 32% in 1999. These expenses increased 64% to $45.5 million in 2000, from $27.7 million in 1999. The decrease in expense 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 2000, from 36% in 1999. These expenses increased 86% to $58.0 million in 2000, from $31.1 million in 1999. The increase in expenses and expense 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 2000, from 11% in 1999. These expenses increased 89% to $18.6 million in 2000, from $9.9 million in 1999. The increase in expenses and expense as a percentage of revenues was 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 2000, including approximately $260,000 related to the amortization of goodwill, from $4.0 million in 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 2000, from $3.7 million in 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 2000. Other income also includes a $1.0 million write-down of a non-marketable investment.

- **Income Tax Provision.** During 2000, we recorded a tax provision of $12.4 million, reflecting an effective tax rate of 36.5%. During 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.

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 in the United States 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 data)							
	Mar. 31, 2000	**Jun. 30, 2000**	**Sep. 30, 2000**	**Dec. 31, 2000**	**Mar. 31, 2001**	**Jun. 30, 2001**	**Sep. 30, 2001**	**Dec. 31, 2001**
Core research	$23,759	$28,011	$32,270	$36,438	$35,352	$32,963	$29,546	$25,834
Advisory services and other	7,058	10,269	7,867	11,476	8,293	13,451	4,864	8,817
Total revenues	30,817	38,280	40,137	47,914	43,645	46,414	34,410	34,651
Cost of services and fulfillment	9,295	11,674	11,294	13,208	12,298	15,138	10,428	11,249
Selling and marketing	12,214	14,323	14,785	16,635	17,745	16,909	12,558	11,122
General and administrative	3,780	4,703	4,729	5,420	4,976	4,790	3,361	3,727
Depreciation and amortization	1,432	1,750	1,984	2,778	2,722	2,777	2,850	2,745
Reorganization costs	—	—	—	—	—	—	3,108	—
Income from operations	4,096	5,830	7,345	9,873	5,904	6,800	2,105	5,808
Other income, net	1,454	1,972	2,157	1,310	1,757	2,148	2,111	409
Income before income tax provision	5,550	7,802	9,502	11,183	7,661	8,948	4,216	6,217
Income tax provision	2,081	2,926	3,563	3,853	2,796	3,266	1,539	1,324
Net income	$ 3,469	$ 4,876	$ 5,939	$ 7,330	$ 4,865	$ 5,682	$ 2,677	$ 4,893
Basic net income per common share	$0.17	$0.23	$0.28	$0.34	$0.22	$0.25	$0.12	$0.21
Diluted net income per common share	$0.15	$0.20	$0.24	$0.30	$0.20	$0.24	$0.11	$0.21

	Three Months Ended (as a percentage of revenues, dollars in thousands)							
	Mar. 31, 2000	**Jun. 30, 2000**	**Sep. 30, 2000**	**Dec. 31, 2000**	**Mar. 31, 2001**	**Jun. 30, 2001**	**Sep. 30, 2001**	**Dec. 31, 2001**
Core research	77%	73%	80%	76%	81%	71%	86%	75%
Advisory services and other	23	27	20	24	19	29	14	25
Total revenues	100	100	100	100	100	100	100	100
Cost of services and fulfillment	30	31	28	29	28	33	30	32
Selling and marketing	40	37	37	37	41	36	37	32
General and administrative	12	12	12	12	11	10	10	11
Depreciation and amortization	5	5	5	5	6	6	8	8
Reorganization costs	—	—	—	—	—	—	9	—
Income from operations	13	15	18	17	14	15	6	17
Other income, net	5	5	6	5	4	4	6	1
Income before income tax provision	18	20	24	22	18	19	12	18
Income tax provision	7	7	9	8	7	7	4	4
Net income	11%	13%	15%	14%	11%	12%	8%	14%

Liquidity and Capital Resources

We have financed our operations during these periods primarily through funds generated from operations. In addition, we received $22.7 million of net proceeds from our public offering of common stock in February 2000, as well as $21.8 million and $16.4 million in proceeds from exercises of employee stock options and our employee stock purchase plan during 2000 and 2001, respectively. Memberships for core research, which constituted approximately 78% of our revenues during 2001, are annually renewable and are generally payable in advance. We generated cash from operating activities $28.7 million in 2001 and $70.0 million in 2000. This decline in cash from operations is primarily the result of the decrease in agreement value to $116.2 million at December 31, 2001 from $187.8 million at December 31, 2000, and is reflected in lower accounts receivable and deferred revenue balances as of December 31, 2001. The decline is also the result of reduced tax benefits from exercises of employee stock options. These declines in key business metrics are reflective of the more difficult economic environment.

Included in cash from operations are deferred tax benefits of $8.4 million in 2001 and $13.6 million in 2000, which resulted primarily from stock option exercises. These exercises generated a cumulative tax deduction of approximately $111.2 million. Approximately $27.7 million of this tax deduction will eliminate current-year taxable income, while $34.3 million was used to eliminate taxable income for 2000 and carried back to obtain a refund of certain taxes paid in prior years. The remaining $49.2 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 2001, we used $43.0 million of cash in investing activities, consisting of $10.0 million for purchases of property and equipment and $33.0 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.

As of December 31, 2001, we had cash and cash equivalents of $17.7 million and $187.4 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 and to invest in our infrastructure during 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 over a period of up to five years. We have adopted a cash bonus plan to pay bonuses, after the return of invested capital, measured by the proceeds of a portion of the share of net profits from these investments, if any, to certain key employees, subject to the terms and conditions of the plan. The payment of such bonuses would result in compensation expense with respect to the amounts so paid. As of December 31, 2001, we had contributed approximately $7.2 million to the funds. Subsequent to December 31, 2001, we contributed an additional $1.7 million. The timing and amount of future contributions are entirely within the discretion of the investment funds.

As of December 31, 2001, we had recorded total write-downs to the private equity funds of $907,000 as a result of the impairment of certain investments within the funds. The timing of the recognition of future 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.

As of December 31, 2001, we had contractual obligations as follows (in thousands):

	Payments Due by Period				
Contractual Obligations	**Total**	**Less than 1 Year**	**1–3 Years**	**4–5 Years**	**After 5 Years**
Operating leases	$48,331	$7,985	$17,366	$16,091	$6,889
Unconditional purchase obligations	1,140	1,140	—	—	—
Total contractual cash obligations	$49,471	$9,125	$17,366	$16,091	$6,889

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

We hold minority interests in companies and equity investment funds having operations or technology in areas within our strategic focus. During 2000 and 2001, we recognized revenues of approximately $71,000 and $102,000, respectively, related to a Partners Program purchased by one of the private equity investment firms. The remaining revenues will be recognized in accordance with our revenue recognition policy through the termination date of the contract in March 2003. We believe that the services sold to the private equity investment firm were at arm's-length fair market value. During 1999, 2000, and 2001, we purchased survey services and data from companies in which we held a minority interest that totaled approximately $220,000, $699,000, and $1,404,000, respectively. We believe that the services received were at arm's-length fair market value.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires all business combinations initiated after June 30, 2001, to be accounted for using the purchase method. SFAS No. 141 also specifies criteria that acquired intangible assets must meet to be recognized and reported apart from goodwill. The adoption of SFAS No. 141 is not expected to have a material effect on Forrester's consolidated financial position or results of operations. SFAS No. 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized but instead be measured for impairment at least annually, or when events indicate that there may be an impairment. In connection with the SFAS No. 142 transitional goodwill impairment evaluation, Forrester is required to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, Forrester must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. Forrester will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it with the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and Forrester must perform the second step of the transitional impairment test. In the second step, Forrester must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as a cumulative effect of a change in accounting principle in the statement of income.

SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Early adoption is permitted for companies with fiscal years beginning after March 15, 2001. Although Forrester expects to adopt SFAS No. 142 in the fiscal quarter ended March 31, 2002, the extensive effort needed to comply with adopting the statement makes it impracticable to reasonably estimate the financial statement impact, specifically whether there will be any transitional impairment losses realized as a cumulative effect of a change in accounting principle. As of December 31, 2001, Forrester had unamortized goodwill of $13.2 million and unamortized identifiable intangible assets of $1.1 million. Amortization expense related to goodwill was approximately $180,000 in 2000 and $710,000 in 2001. Amortization expense related to other identifiable intangible assets was approximately $80,000 in 2000 and $325,000 in 2001.

In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This statement supersedes FASB Statement No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. Under this statement, it is required that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and it broadens the presentation of discontinued operations to include more disposal transactions. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early adoption permitted. Adoption of SFAS No. 144 is not expected to have a material effect on Forrester's consolidated financial position or results of operations.

Quantitative and Qualitative Disclosures About Market Risk

The following discussion about our market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. We do not use derivative financial instruments for speculative or trading purposes.

- **Interest Rate Sensitivity.** We maintain an investment portfolio consisting mainly of federal and state government obligations and corporate obligations with a weighted-average maturity of less than one year. These available-for-sale securities are subject to interest rate risk and will fall in value if market interest rates increase. We have the ability to hold our fixed income investments until maturity. Therefore, we would not expect our operating results or cash flows to be affected to any significant degree by a sudden change in market interest rates on our securities portfolio. The following table provides information about our investment portfolio. For investment securities, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates.

Principal amounts by expected maturity in US dollars (dollars in thousands):

	Fair Value at Dec. 31, 2001	Year Ending Dec. 31, 2002	Year Ending Dec. 31, 2003	Year Ending Dec. 31, 2004	Year Ending Dec. 31, 2005	Year Ending Dec. 31, 2006
Cash equivalents	$ 16,042	$ 16,042	$ —	$ —	$ —	$ —
Weighted average interest rate	1.86%	1.86%	—%	—%	—%	—%
Investments	$187,435	$111,752	$37,162	$18,683	$13,782	$6,056
Weighted average interest rate	3.64%	3.67%	3.21%	3.23%	4.09%	5.83%
Total portfolio	$203,477	$127,794	$37,162	$18,683	$13,782	$6,056
Weighted average interest rate	3.50%	3.44%	3.21%	3.23%	4.09%	5.83%

- **Foreign Currency Exchange.** On a global level, we face exposure to movements in foreign currency exchange rates. This exposure may change over time as business practices evolve and could have a material adverse impact on our financial results. Historically, our primary exposure had been related to non–US dollar denominated operating expenses in Europe, Canada, and Asia, where we sell primarily in US dollars. The introduction of the euro as a common currency for members of the European Monetary Union took place in 1999, and has not, to date, had a significant impact on our financial position or results of operations. To date, we have not entered into any hedging agreements. However, we are prepared to hedge against fluctuations that the euro, or other foreign currencies, will have on foreign exchange exposure if this exposure becomes material. As of December 31, 2001, the total assets related to non–US dollar denominated currencies was approximately $23.8 million.

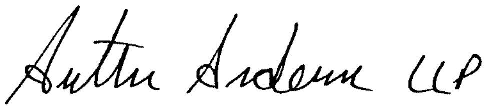
Report of Independent Public Accountants

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, 2000 and 2001, 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, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with 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, 2000 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.



Arthur Andersen LLP

Boston, Massachusetts
January 29, 2002

Consolidated Balance Sheets

(in thousands, except per share data)

ASSETS

Year Ended December 31,	**2000**	**2001**
Current assets:		
Cash and cash equivalents	$ 15,848	$ 17,747
Marketable securities	158,891	187,435
Accounts receivable, net of allowance for doubtful accounts of approximately $1,293 and $966 in 2000 and 2001, respectively	49,923	24,498
Deferred commissions	7,873	4,444
Prepaid income taxes	3,632	559
Prepaid expenses and other current assets	6,255	5,483
Total current assets	242,422	240,166
Long-term assets:		
Property and equipment, net (Note 5)	22,128	21,258
Goodwill and other intangible assets, net (Note 3)	15,358	14,333
Deferred income taxes	16,968	19,387
Other assets	6,927	10,008
Total long-term assets	61,381	64,986
Total assets	$303,803	$305,152
Current liabilities:		
Accounts payable	$ 3,993	$ 2,667
Customer deposits	1,200	498
Accrued expenses	17,384	17,938
Accrued income taxes	1,771	3,721
Deferred revenue	102,527	59,930
Total current liabilities	126,875	84,754
Commitments (Notes 6 and 8)		
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 — 21,812 and 23,053 shares in 2000 and 2001, respectively	218	230
Additional paid-in capital	131,018	156,043
Retained earnings	46,048	64,165
Accumulated other comprehensive loss	(356)	(40)
Total stockholders' equity	176,928	220,398
Total liabilities and stockholders' equity	$303,803	$305,152

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

Consolidated Statements of Income

(in thousands, except per share data)

Year Ended December 31,	1999	2000	2001
Revenues:			
Core research	$64,697	$120,477	$123,695
Advisory services and other	22,571	36,670	35,425
Total revenues	87,268	157,147	159,120
Operating expenses:			
Cost of services and fulfillment	27,715	45,470	49,113
Selling and marketing	31,131	57,957	58,334
General and administrative	9,865	18,632	16,854
Depreciation and amortization	4,003	7,944	11,094
Reorganization costs (Note 2)	—	—	3,108
Costs related to acquisition (Note 3)	694	—	—
Total operating expenses	73,408	130,003	138,503
Income from operations	13,860	27,144	20,617
Other income, net	3,710	6,893	6,425
Income before income tax provision	17,570	34,037	27,042
Income tax provision	6,589	12,423	8,925
Net income	$10,981	$ 21,614	$ 18,117
Basic net income per common share	$ 0.61	$ 1.03	$ 0.80
Diluted net income per common share	$ 0.55	$ 0.88	$ 0.76
Basic weighted average common shares outstanding	18,028	20,989	22,551
Diluted weighted average common shares outstanding	20,067	24,526	23,907

(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, 1999, 2000, and 2001 (in thousands)

	Common Stock		Additional		Accumulated Other	Total	
	Number of Shares	$.01 Par Value	Paid-in Capital	Retained Earnings	Comprehensive Loss	Stockholders' Equity	Comprehensive Income
Balance, December 31, 1998	17,308	$173	$39,548	$13,494	$ 318	$53,533	
Issuance of common stock related to acquisition (Note 3)	804	8	—	(41)	—	(33)	
Issuance of common stock under stock option plans, including tax benefit	1,184	12	13,846	—	—	13,858	
Issuance of common stock under employee stock purchase plan	112	1	1,377	—	—	1,378	
Net income	—	—	—	10,981	—	10,981	$10,981
Unrealized loss on marketable securities	—	—	—	—	(563)	(563)	(563)
Cumulative translation adjustment	—	—	—	—	(349)	(349)	(349)
Total comprehensive income							$10,069
Balance, December 31, 1999	19,408	194	54,771	24,434	(594)	78,805	
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

	Common Stock						
	Number of Shares	$.01 Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity	Comprehensive Income
Balance, December 31, 2000	21,812	$218	$131,018	$46,048	$(356)	$176,928	
Issuance of common stock under stock option plans, including tax benefit	1,146	11	23,092	—	—	23,103	
Issuance of common stock under employee stock purchase plan, including tax benefit	95	1	1,933	—	—	1,934	
Net income	—	—	—	18,117	—	18,117	$18,117
Unrealized gain on marketable securities, net of tax provision	—	—	—	—	214	214	214
Cumulative translation adjustment	—	—	—	—	102	102	102
Total comprehensive income							$18,433
Balance, December 31, 2001	23,053	$230	$156,043	$64,165	$ (40)	$220,398	

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

Consolidated Statements of Cash Flows

(in thousands)

Year Ended December 31,	1999	2000	2001
Cash flows from operating activities:			
Net income	$ 10,981	$ 21,614	$ 18,117
Adjustments to reconcile net income to net cash provided by (used in) operating activities —			
Depreciation and amortization	4,003	7,944	11,094
Write-downs of non-marketable investments (Note 6)	—	950	3,217
Non-cash gain on sale of Internet AdWatch (Note 6)	—	—	(1,664)
Loss on disposals of property and equipment	105	376	254
Tax benefit from exercises of employee stock options	5,044	31,787	8,618
Deferred income taxes	464	(18,194)	(2,416)
Non-cash reorganization costs	—	—	471
Increase in provision for doubtful accounts	904	1,246	885
Accretion of discount on marketable securities	(50)	(178)	—
Changes in assets and liabilities, net of acquisitions —			
Accounts receivable	(15,940)	(13,817)	24,477
Deferred commissions	(2,726)	(3,023)	3,429
Prepaid income taxes	(853)	(2,446)	3,094
Prepaid expenses and other current assets	(1,610)	(1,924)	799
Accounts payable	1,103	1,931	(1,978)
Customer deposits	452	459	(702)
Accrued expenses	3,875	6,342	1,536
Accrued income taxes	(328)	1,156	1,950
Deferred revenue	26,521	35,745	(42,510)
Net cash provided by operating activities	31,945	69,968	28,671
Cash flows from investing activities:			
Net cash acquired (paid) in acquisitions (Note 3)	355	(14,851)	—
Purchases of property and equipment	(8,892)	(18,044)	(10,046)
Proceeds related to disposals of property and equipment	1,056	—	—
Purchases of non-marketable investments (Note 6)	(1,000)	(6,681)	(4,681)
(Decrease) increase in other assets	(835)	(45)	42
Purchases of marketable securities	(466,628)	(354,613)	(222,567)
Proceeds from sales and maturities of marketable securities	436,843	282,021	194,250
Net cash used in investing activities	(39,101)	(112,213)	(43,002)
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	10,192	21,825	16,419
Net cash provided by financing activities	10,192	44,484	16,419
Effect of exchange rate changes on cash and cash equivalents	(5)	164	(189)
Net increase in cash and cash equivalents	3,031	2,403	1,899
Cash and cash equivalents, beginning of year	10,414	13,445	15,848
Cash and cash equivalents, end of year	$ 13,445	$ 15,848	$ 17,747

	1999	2000	2001
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	$ 2,217	$ 95	$ 919

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 1999, Forrester acquired Fletcher Research Limited in a transaction accounted for as a pooling of interests. Due to Fletcher's immateriality to the financial position and results of operations of Forrester, these 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. 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 consolidated 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 generally the respective local currencies. The financial statements of the subsidiaries are translated to United States dollars using period-end exchange rates for assets and liabilities and average exchange rates during the corresponding period for revenues and expenses. Translation gains and losses as a result of this translation are accumulated as a component of accumulated other comprehensive loss. Net gains and losses resulting from foreign exchange transactions are included in other income in the consolidated statements of income 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):

	1999	2000	2001
Basic weighted average common shares outstanding	18,028	20,989	22,551
Weighted average common equivalent shares	2,039	3,537	1,356
Diluted weighted average common shares outstanding	20,067	24,526	23,907

  As of December 31, 1999; December 31, 2000; and December 31, 2001, approximately 672,000, 442,000, and 3,483,000 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 generally 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 expensed 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

- **Long-Lived Assets.** Forrester continually evaluates whether events or circumstances have occurred that indicate that the estimated remaining useful life of long-lived assets and certain identifiable intangible assets and goodwill may warrant revision or that the carrying value of these assets may be impaired. To compute whether assets have been impaired, the estimated future cash flows for the estimated remaining useful life of the assets are compared to the carrying value. To the extent that the future cash flows are less than the carrying value, the assets are written down to the estimated fair value of the asset. To date, Forrester has not recorded any impairments of its long-lived assets.

- **Comprehensive Income.** Comprehensive income 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 loss as of December 31, 2000 and December 31, 2001 are as follows (in thousands):

	2000	2001
Unrealized gain on marketable securities, net of taxes	$ 83	$ 297
Cumulative translation adjustment	(439)	(337)
Total accumulated other comprehensive loss	$(356)	$ (40)

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

- **Organizational Costs.** Forrester charges the costs of all start-up activities, including organizational costs, to operations in the period in which those costs are 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. Capitalized internal use software costs are amortized over three years and are included within property and equipment, net on the accompanying consolidated balance sheet. The net book value of capitalized internal-use software costs at December 31, 2000 and December 31, 2001 was approximately $4,363,000 and $4,011,000, respectively.

- **Concentration of Credit Risk.** 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.** Forrester's 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.

  Forrester does not use derivative financial instruments for speculative or trading purposes.

- **Management Estimates.** The preparation of financial statements in conformity with generally accepted accounting principles in the United States 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. On an ongoing basis, management evaluates its estimates, including those related to revenue recognition, allowance for doubtful accounts, non-marketable investments, and goodwill and other intangible assets. 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 June 2001, the FASB issued SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. SFAS No. 141 also specifies criteria that intangible assets acquired must meet to be recognized and reported apart from goodwill. The adoption of SFAS No. 141 is not expected to have a material effect on Forrester's consolidated financial position or results of operations. SFAS No. 142 requires that goodwill and intangible assets with indefinite lives no longer be amortized but instead be tested for impairment at least annually, or when events indicate that there may be an impairment. In connection with the SFAS No. 142 transitional goodwill impairment evaluation, Forrester is required to perform an assessment of whether there is an indication that goodwill is impaired as of the date of adoption. To accomplish this, Forrester must identify its reporting units and determine the carrying value of each reporting unit by assigning the assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of the date of adoption. Forrester will then have up to six months from the date of adoption to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, an indication exists that the reporting unit goodwill may be impaired and Forrester must perform the second step of the transitional impairment test. In the second step, Forrester must compare the implied fair value of the reporting unit goodwill with the carrying amount of the reporting unit goodwill, both of which would be measured as of the date of adoption. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit to all of the assets (recognized and unrecognized) and liabilities of the reporting unit in a manner similar to a purchase price allocation, in accordance with SFAS No. 141. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill. This second step is required to be completed as soon as possible, but no later than the end of the year of adoption. Any transitional impairment loss will be recognized as a cumulative effect of a change in accounting principle in the statement of income as of January 1, 2002.

  SFAS No. 142 is effective for fiscal years beginning after December 15, 2001. Although Forrester expects to adopt SFAS No. 142 in the fiscal quarter ended March 31, 2002, the extensive effort needed to comply with adopting the statement makes it impracticable to reasonably estimate the financial statement impact, specifically whether there will be any transitional impairment losses realized as a cumulative effect of a change in accounting principle. As of December 31, 2001, Forrester had unamortized goodwill of $13.2 million and unamortized identifiable intangible assets of $1.1 million. Amortization expense related to goodwill and assembled workforce was approximately $180,000 and $710,000, for the fiscal years ended December 31, 2000 and December 31, 2001, respectively. Amortization expense related to other identifiable intangible assets that will continue to be amortized in the future was approximately $80,000 and $325,000, for the fiscal years ended December 31, 2000 and December 31, 2001, respectively.

  In August 2001, the FASB issued SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. This statement supercedes SFAS No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of*, and the accounting and reporting provisions of APB Opinion No. 30, *Reporting the Results of Operations — Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions*. Under this statement, it is required that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and it broadens the presentation of discontinued operations to include more disposal transactions. The provisions of this statement are effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years, with early adoption permitted. Adoption of SFAS No. 144 is not expected to have a material effect on Forrester's consolidated financial position or results of operations.

(2) Reorganization

On July 12, 2001, Forrester announced a sales force reorganization and general work force reduction in response to conditions and demands of the market and a slower economy. As a result, Forrester reduced its work force by 111 positions, closed sales offices in Atlanta, Los Angeles, Melbourne, New York, and Zurich, and recorded a reorganization charge of approximately $3.1 million in the quarter ended September 30, 2001. Approximately 66% of the terminated employees were from the sales force, while 12% and 22% had held research and administrative roles, respectively. This charge consisted primarily of severance and related expenses from the work force reduction. This charge also included office consolidation costs, such as contractual lease commitments for space that was vacated, the write-off of related leasehold improvements, and other payments for professional services incurred in connection with the reorganization.

Additional depreciable assets that were written off include computer equipment, software, and furniture and fixtures related to employees and locations terminated in connection with the reorganization.

Reorganization costs as of December 31, 2001 are as follows (in thousands):

	Total Charge	Non-cash Charges	Cash Payments	Accrued as of December 31, 2001
Work force reduction	$2,149	$ —	$2,045	$104
Facility consolidations and other related costs	488	—	370	118
Depreciable assets	471	471	—	—
Total	$3,108	$471	$2,415	$222

A significant portion of the remaining liabilities accrued as of December 31, 2001, are expected to be paid out in the three months ended March 31, 2002.

(3) 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 was 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 have been 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 prior to the date of acquisition were not material to Forrester's financial position and results of operations.

As of December 31, 2000 and December 31, 2001, goodwill and other intangible assets consisted of the following (in thousands):

	2000	2001
Goodwill	$14,019	$14,019
Other intangible assets	1,600	1,600
Total goodwill and other intangible assets	15,619	15,619
Less accumulated amortization	(261)	(1,286)
Goodwill and other intangible assets, net	$15,358	$14,333

On November 15, 1999, Forrester acquired 100% of the outstanding shares of Fletcher Research Limited (Fletcher). The transaction was 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 were not restated. Forrester incurred approximately $694,000 of various costs including legal, accounting, printing, filing, and other fees and expenses related to this transaction, which were separately stated in the accompanying consolidated statement of income for the year ended December 31, 1999.

(4) 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 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, 2000 and December 31, 2001, 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, 2000 and December 31, 2001.

The aggregate market value, amortized cost, gross unrealized gains, and gross unrealized losses on available-for-sale marketable securities are as follows (in thousands):

	As of December 31, 2000			
	Market Value	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**
U.S. Treasury notes	$ 6,990	$ 6,989	$ 1	$—
Federal agency obligations	22,697	22,698	4	5
State and municipal bonds	100,454	100,414	62	22
Corporate obligations	28,750	28,707	43	0
	$158,891	$158,808	$110	$27

	As of December 31, 2001			
	Market Value	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**
Federal agency obligations	$ 91	$ 57	$ 34	$ —
State and municipal bonds	156,491	156,328	651	488
Corporate obligations	30,853	30,753	237	137
	$187,435	$187,138	$922	$625

The following table summarizes the maturity periods of marketable securities as of December 31, 2001:

	Less than 1 Year	**1 to 2 Years**	**3 to 5 Years**	**Total**
Federal agency obligations	$ —	$ —	$ 91	$ 91
State and municipal bonds	87,119	37,162	32,210	156,491
Corporate obligations	24,633	—	6,220	30,853
	$111,752	$37,162	$38,521	$187,435

Gross realized gains and losses on sales of marketable securities for the years ended December 31, 2000 and 2001, which were calculated based on specific identification, were not material.

(5) Property and Equipment

At December 31, 2000 and December 31, 2001 property and equipment consisted of the following (in thousands):

	2000	2001
Computers and equipment	$ 20,440	$ 23,632
Computer software	7,751	9,784
Furniture and fixtures	3,289	3,436
Leasehold improvements	4,852	7,391
Total property and equipment	36,332	44,243
Less accumulated depreciation and amortization	(14,204)	(22,985)
Property and equipment, net	$ 22,128	$ 21,258

(6) Non-Marketable Investments

In September 2001, Forrester sold its Internet AdWatch product to Evaliant Media Resources, LLC (Evaliant), a privately held international provider of online advertising data, in exchange for membership interests in Evaliant representing approximately 8.3% ownership. Revenues related to the Internet AdWatch product were not material to Forrester's total revenues in any of the periods presented. This transaction resulted in a net gain to Forrester of approximately $1.7 million during the quarter ended September 30, 2001, which was included in other income in the consolidated statement of income. The investment in Evaliant is being accounted for using the cost method and, accordingly, is being valued at cost unless an impairment in its value that is other than temporary occurs or the investment is liquidated. As of December 31, 2001, Forrester determined that no further impairment had occurred.

In March 2000, Forrester invested $1.0 million in the common stock of Doculabs, Inc. (Doculabs), an independent technology research firm. In March 2001, Forrester invested an additional $2.0 million, resulting in approximately a 10.4% ownership interest in Doculabs. This investment is being accounted for using the cost method and, accordingly, is being valued at cost unless an impairment in its value that is other than temporary occurs or the investment is liquidated. In December 2001, Forrester determined that its investment had been impaired. As a result, Forrester recorded a write-down of approximately $1,474,000 during the quarter ended December 31, 2001, which was included in other income in the consolidated statement of income. As of December 31, 2001, Forrester determined that no further impairment had occurred.

During the years ended December 31, 2000 and December 31, 2001, Forrester expensed approximately $300,000 and $1,030,000, respectively, to the cost of services and fulfillment related to services purchased from Doculabs. Management believes that the services received from Doculabs were at arm's-length fair market value.

In July 2000, Forrester invested $1.6 million to purchase preferred shares of comScore Networks, Inc. (comScore), a provider of infrastructure services that uses proprietary technology to accumulate comprehensive information on consumer buying behavior, resulting in approximately a 1.2% ownership interest. This investment is being accounted for using the cost method and, accordingly, is valued at cost unless an impairment in its value that is other than temporary occurs or the investment is liquidated. In September 2001, Forrester determined that its investment in comScore had been impaired due to an additional round of financing at a significantly lower valuation. As a result, Forrester recorded a write-down of approximately $836,000 during the quarter ended September 30, 2001, which was included in other income in the consolidated statement of income. As of December 31, 2001, Forrester determined that no further impairment had occurred.

During the year ended December 31, 2001, Forrester expensed approximately $60,000 to the cost of services and fulfillment related to services purchased from comScore. Management believes that the services received from comScore were at arm's-length fair market value.

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, measured by 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. As of December 31, 2001, Forrester had contributed approximately $7,225,000 to the investment

funds. These investment funds are being accounted for using the equity method. Accordingly, Forrester's pro-rata share of the investment funds' performance is recorded each period as other income in the statement of income. The carrying value of the investment funds as of December 31, 2001 was approximately $5,613,000. During the year ended December 31, 2001, fund management charges of approximately $1,472,000 were included in other income in the consolidated statement of income, including approximately $907,000 due to the impairment of certain investments within the portfolio of one of the private equity funds. During the year ended December 31, 2000, fund management charges of approximately $161,000 were included in other income in the statement of income.

During the years ended December 31, 2000 and December 31, 2001, Forrester recognized revenues of approximately $71,000 and $102,000, respectively, related to a Partners Program purchased by one of the private equity investment firms. Management believes that the services sold to the private equity investment firm were at arm's-length fair market value.

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. 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%.

In December 2000, Forrester determined that its ownership interest in Greenfield had been impaired due to its decision not to participate in an additional round of financing at a significantly lower valuation. As a result, Forrester recorded a write-down of approximately $1.0 million during the quarter ended December 31, 2000, which was included in other income in the consolidated statement of income. As of December 31, 2001, Forrester determined that no further impairment had occurred.

During the years ended December 31, 1999, December 31, 2000, and December 31, 2001, Forrester expensed approximately $220,000, $399,000, and $314,000, respectively, to the cost of services and fulfillment related to services purchased from Greenfield. Management believes that the services provided by Greenfield were at arm's-length fair market value.

In the aggregate, Forrester included net losses of $1,111,000 and $3,782,000 in other income in the consolidated statements of income related to non-marketable investments during the years ended December 31, 2000 and December 31, 2001, respectively. The aggregate carrying value of non-marketable investments included in other assets in the accompanying consolidated balance sheets as of December 31, 2000 and December 31, 2001 were $6,666,000 and $9,845,000, respectively.

(7) 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 for the years ended December 31, 1999, December 31, 2000, and December 31, 2001 consists of the following (in thousands):

	1999	2000	2001
Domestic	$16,811	$31,570	$22,760
Foreign	759	2,467	4,282
Total	$17,570	$34,037	$27,042

The components of the income tax provisions (benefits) for the years ended December 31, 1999, December 31, 2000, and December 31, 2001 are as follows (in thousands):

	1999	2000	2001
Current —			
Federal	$5,497	$11,031	$ 8,424
State	628	1,463	1,038
Foreign	—	968	2,153
	6,125	13,462	11,615
Deferred —			
Federal	415	(471)	(1,846)
State	49	(139)	(158)
Foreign	—	(429)	(686)
	464	(1,039)	(2,690)
Income tax provision	$6,589	$12,423	$ 8,925

A reconciliation of the federal statutory rate to Forrester's effective tax rate for the years ended December 31, 1999, December 31, 2000, and December 31, 2001 is as follows:

	1999	2000	2001
Income tax provision at federal statutory rate	35.0%	35.0%	35.0%
Increase (decrease) in tax resulting from —			
State tax provision, net of federal benefit	3.7	3.3	2.8
Non-deductible costs related to acquisition	1.1	—	—
Non-deductible expenses	0.6	0.6	0.5
Tax-exempt interest income	(1.7)	(3.1)	(5.8)
Benefit of foreign sales corporation	(0.6)	—	—
Other, net	(0.6)	0.7	0.5
Effective income tax rate	37.5%	36.5%	33.0%

Deferred income taxes as of December 31, 2000 and December 31, 2001 are related to the following temporary differences (in thousands):

	2000	2001
Non-deductible reserves and accruals	$ 2,041	$ 2,749
Depreciation and amortization	563	723
Deferred commissions	(2,874)	(1,555)
Net operating loss and other carryforwards	17,238	17,470
Total	$16,968	$19,387

Forrester has aggregate net operating loss carryforwards for federal tax purposes of approximately $49.2 million related to exercises of employee stock options. These net operating losses were recorded as a benefit to additional paid-in capital within stockholders' equity and will expire between the years 2015 and 2021. The use 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.

A provision has not been made for US or additional non-US taxes on $7.4 million of undistributed earnings of foreign subsidiaries that could be subject to taxation if remitted to the US because Forrester plans to keep these amounts permanently reinvested overseas.

(8) Commitments

Forrester leases its office space and certain office equipment under operating leases. At December 31, 2001, approximate future minimum rentals due are as follows (in thousands):

2002	$ 9,125
2003	8,550
2004	8,816
2005	8,822
2006	7,269
Thereafter	6,889
Total minimum lease payments	$49,471

Aggregate rent expenses were approximately $2,760,000, $6,428,000, and $9,388,000 for the years ended December 31, 1999, December 31, 2000, and December 31, 2001, respectively.

(9) Stockholders' Equity

- **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.

- **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.

(10) 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, 1998 to December 31, 2001 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, 1998	4,097	$ 2.75 — $19.98	$10.85
Granted	4,414	0.81 — 33.88	14.31
Exercised	(1,184)	2.75 — 19.85	7.46
Forfeitures	(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
Forfeitures	(227)	9.57 — 75.50	20.11
Outstanding at December 31, 2000	6,278	2.75 — 70.84	19.65
Granted	1,361	15.47 — 55.00	24.83
Exercised	(1,146)	2.75 — 34.16	12.81
Forfeitures	(643)	11.69 — 70.84	29.09
Outstanding at December 31, 2001	5,850	$ 2.75 — $70.84	$21.17
Exercisable at December 31, 2001	2,526	$ 2.75 — $70.84	$18.18
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

On January 29, 2002, Forrester approved the grant of approximately 744,000 additional options under the Plan at an exercise price of $16.28 per share.

The following table summarizes information about stock options outstanding and exercisable at December 31, 2001 (in thousands, except per share data):

	Options Exercisable at Dec. 31, 2001	Weighted Average Exercise Price of Options Outstanding	Weighted Average Remaining Contractual Life	Options Exercisable at Dec. 31, 2001	Weighted Average Exercise Price of Options Exercisable
Range of exercise prices					
$ 2.75 — $ 6.50	75	$ 4.72	4.47	75	$ 4.72
9.47 — 11.57	434	10.10	6.06	359	9.81
11.69 — 13.50	1,574	11.72	6.85	839	11.75
13.94 — 16.10	153	15.40	7.94	77	14.98
16.22 — 18.69	238	17.14	7.89	123	17.42
18.94 — 21.59	683	20.20	7.55	430	20.06
22.25 — 24.64	1,084	24.08	7.51	358	24.07
25.16 — 27.68	840	25.23	8.95	—	—
28.47 — 31.39	211	28.71	8.05	59	28.75
33.49 — 39.03	118	35.18	8.24	40	35.00
41.47 — 49.94	262	47.33	8.64	112	48.07
52.67 — 70.84	177	59.23	8.56	53	59.81
	5,850	$ 21.17	7.54	2,526	$ 18.18

The weighted average remaining contractual life of stock options outstanding at December 31, 1999, December 31, 2000, and December 31, 2001 was 8.6, 8.1, and 7.5 years, respectively. As of December 31, 1999, December 31, 2000, and December 31, 2001, options available for future grant under the Plan and the Directors' Plan were approximately 2,261,000, 4,025,000, and 3,307,000, 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, 1999, December 31, 2000, and December 31, 2001 using the Black-Scholes option pricing model prescribed by SFAS No. 123, and the following assumptions:

	1999	2000	2001
Risk-free interest rate	5.54%	6.22%	4.09%
Expected dividend yield	—	—	—
Expected lives	5 years	3 years	3 years
Expected volatility	55%	64%	71%
Weighted average fair value	$6.65	$15.32	$13.67

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, 1999, December 31, 2000, and December 31, 2001 would have been approximately as follows (in thousands, except per share data):

Years Ended December 31,	**1999**	**2000**	**2001**
As reported —			
Net income	$ 10,981	$ 21,614	$ 18,117
Basic net income per common share	$ 0.61	$ 1.03	$ 0.80
Diluted net income per common share	$ 0.55	$ 0.88	$ 0.76
Pro forma —			
Net income	$ 2,902	$ 9,093	$ 2,087
Basic net income per common share	$ 0.16	$ 0.43	$ 0.09
Diluted net income per common share	$ 0.14	$ 0.37	$ 0.09

In January 1998, Forrester's founder and principal shareholder granted certain key employees options to purchase 2 million 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, 2001, approximately 282,000 options remained outstanding, all of which were exercisable.

(11) Employee Pension Plans

Forrester sponsors several defined contribution plans substantially covering all eligible employees. Generally, the defined contribution plans have funding provisions which, in certain situations, require contributions based upon formulas relating to employee wages or the level of elective participant contributions, as well as allow for additional discretionary contributions based upon profitability. Further, certain plans contain vesting provisions. Forrester's pension contributions totaled approximately $521,000, $813,000, and $1,276,000 for the years ended December 31, 1999, December 31, 2000, and December 31, 2001, respectively.

(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, 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
June 30, 2001	54,658	$19.20
December 31, 2001	40,580	$17.12

(13) Operating Segment and Enterprisewide Reporting

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, as defined under SFAS No. 131, in deciding how to allocate resources and assess performance. Forrester's chief decision-making group is the Executive Team, consisting of the Chief Executive Officer and other 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. Long-lived tangible assets by location as of December 31, 2000 and December 31, 2001 are as follows (dollars in thousands):

	2000	2001
United States	$42,972	$46,462
United Kingdom	1,604	1,687
Europe (excluding United Kingdom)	1,447	2,504
Canada	—	—
Other	—	—
Total	$46,023	$50,653

Net revenues by geographic destination and as a percentage of total revenues for the years ended December 31, 1999, December 31, 2000, and December 31, 2001 are as follows (dollars in thousands):

	1999	2000	2001
United States	$67,477	$116,077	$112,349
United Kingdom	6,897	13,719	13,450
Europe (excluding United Kingdom)	5,345	12,671	17,288
Canada	3,571	6,747	7,086
Other	3,978	7,933	8,947
Total	$87,268	$157,147	$159,120

Net Revenues by Geographic Destination - *continued*	1999	2000	2001
United States	78%	74%	71%
United Kingdom	8	9	8
Europe (excluding United Kingdom)	6	8	11
Canada	4	4	4
Other	4	5	6
Total	100%	100%	100%

(14) Certain Balance Sheet Accounts

- **Accrued Expenses.** Accrued expenses as of December 31, 2000 and December 31, 2001 consist of the following (in thousands):

	2000	2001
Payroll and related	$ 8,320	$ 9,819
Other	9,064	8,119
Total	$17,384	$17,938

- **Allowance for Doubtful Accounts.** A roll-forward of the allowance for doubtful accounts as of and for the years ended December 31, 1999, December 31, 2000, and December 31, 2001 is as follows (in thousands):

	1999	2000	2001
Balance, beginning of period	$ 400	$ 580	$ 1,293
Provision for doubtful accounts	904	1,246	885
Additions arising from acquisitions (Note 2)	80	47	—
Write-offs	(804)	(580)	(1,212)
Balance, end of period	$ 580	$1,293	$ 966

(15) Summary Selected Quarterly Financial Data (Unaudited)

The following is a summary of selected quarterly financial data for the years ended December 31, 2000 and December 31, 2001 (in thousands, except per share data):

	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

	Quarter Ended			
	March 31, 2001	June 30, 2001	Sept 30, 2001	Dec. 31, 2001
Revenues	$43,645	$46,414	$34,410	$34,651
Income from operations	$ 5,904	$ 6,800	$ 2,105	$ 5,808
Net income	$ 4,865	$ 5,682	$ 2,677	$ 4,893
Basic net income per common share	$ 0.22	$ 0.25	$ 0.12	$ 0.21
Diluted net income per common share	$ 0.20	$ 0.24	$ 0.11	$ 0.21

(16) Subsequent Event

On January 10, 2002, in response to conditions and demands of the market and a slower economy, Forrester announced it would reduce its workforce by approximately 126 positions and expects to record a reorganization charge of approximately $4.0 million to $6.0 million in the quarter ended March 31, 2002. This charge will consist of severance and related expenses from the reduction of the work force, including office consolidations.

Company Information

Offices

Headquarters
Forrester Research, Inc.
400 Technology Square
Cambridge, MA 02139
USA
Tel: +1 617/613-6000
Fax: +1 617/613-5000
www.forrester.com

European Research Center
Forrester Research B.V.
Rijnsburgstraat 9-11
1059 AT Amsterdam
Netherlands
Tel: +31 20 305 43 00
Fax: +31 20 305 43 33
www.forrester.com

UK Research Centre
Forrester Research Ltd.
Charlotte House
9-14 Windmill Street
London W1T 2JG
UK
Tel: +44 20 7631 0202
Fax: +44 20 7631 5252

Research Center Deutschland
Forrester Research GmbH & Co. KG
Hanauer Landstraße 135-137
60314 Frankfurt am Main
Deutschland
Tel: +49 69 430891 0
Fax: +49 69 430891 10

San Francisco Research Center
Forrester Research, Inc.
799 Market Street
San Francisco, CA 94103-2033
USA
Tel: +1 415/848-1300
Fax: +1 415/848-1700

Sales Offices
- Austin
- Chicago
- Sydney
- Tokyo

Board Of Directors

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
Managing Partner
Center of Executive
Development

George R. Hornig
Chief Operating Officer
Private Equity Group
Credit Suisse First Boston

Michael H. Welles
Vice President and General Manager
NMS Communications

Executive Officers

Richard C. Belanger
Chief Technology Officer

Tahar Bouhafs
Managing Director, Forrester Asia, MEA,
Latin America

Neil Bradford
Managing Director, Forrester Global

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

Robert W. Davidson
Managing Director, Forrester Europe

Stanley H. Dolberg
Vice President, Strategy

Emily Nagle Green
Managing Director
Forrester North America

Warren Hadley
Chief Financial Officer and Treasurer

Timothy J. Moynihan, Esq.
General Counsel and Secretary

Timothy M. Riley
Vice President, Strategic Growth

CarolAnn Shindelar
Vice President, Marketing

Annual Meeting

Forrester's annual meeting of
stockholders will be held at
10 a.m. EDT on May 14, 2002,
at the offices of Ropes & Gray,
One International Place, Boston, MA

Investor Relations

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

Transfer Agent

EquiServe Trust Company, N.A.
P.O. Box 9187
Canton, MA 02021
USA
Tel: +1 781/843-4299

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 12, 2002, was 58.

The following table represents the ranges of high and low sale prices of Forrester's common stock for the fiscal years ended December 31, 2000, and December 31, 2001.

	2000		2001	
	High	Low	High	Low
First Quarter	$65.13	$22.84	$58.56	$22.13
Second Quarter	$81.50	$31.00	$28.98	$18.40
Third Quarter	$73.25	$43.38	$22.72	$14.27
Fourth Quarter	$62.88	$35.06	$20.52	$14.65

Dividends

Forrester did not declare or pay any cash dividends during the fiscal years ended December 31, 2000, and December 31, 2001. 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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