Annual Report 1998

Direction

Forrester Research, Inc.

Forrester Research, Inc.

Performance

Financial Highlights

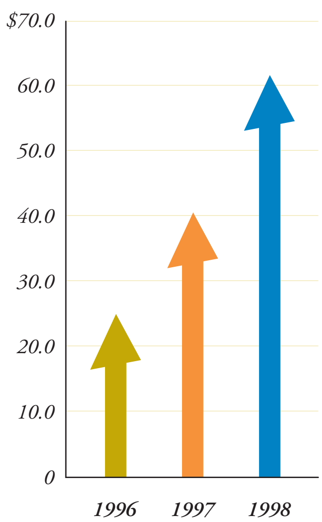
(in thousands, except statistical and per share data)

Year Ended December 31,	1996	1997	1998
Revenues	$24,963	$40,421	$61,567
Operating income	$ 4,082	$ 6,766	$ 9,182
Net income (1)	$ 2,806	$ 5,598	$ 7,547
Basic net income per common share (1)	$ 0.45	$ 0.67	$ 0.89
Diluted net income per common share (1)	$ 0.44	$ 0.63	$ 0.81

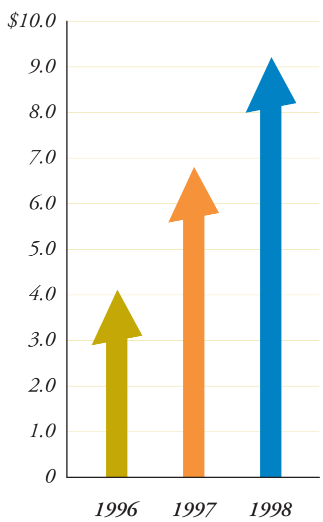
December 31,	1996	1997	1998
Stockholders' equity	$33,762	$40,505	$53,533
Deferred revenue	$17,816	$27,074	$38,894
Agreement value (2)	$30,034	$46,582	$69,095
Client companies (3)	885	1,029	1,271

(1) Pro forma to give effect to income tax adjustment that would have been recorded if the Company had been a C corporation throughout 1996.
(2) Agreement value, as measured by the Company, represents the total revenues recognizable from all core research and advisory service contracts in force at a given time, without regard to how much revenue has already been recognized.
(3) Client companies represents the total number of companies with which Forrester conducts business at a given point in time. The Company may provide multiple services to more than one business unit of the client company.

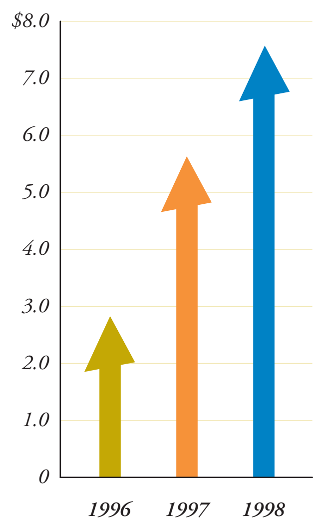
Revenues
(in millions)



Operating income
(in millions)



Net income
(in millions)



Fellow Stockholders,

It is very exciting to be right at the center of a business revolution! Forrester's efforts focus on ensuring that our clients thrive in this revolution — the emerging Internet economy. To this end, we executed four key business initiatives in 1998:

- We opened Forrester B.V. — our European Research Center.
- We launched two new research services related to eCommerce.
- We added consumer market research to our product offering.
- We held six Forrester Forums worldwide.

Forrester In Europe

In April 1998, we opened our European Research Center in Amsterdam. While we have had a dedicated base of clients in Europe for more than 10 years, I always believed that we had to be located on the continent to create accurate, focused research on the European markets. I wanted to have research, sales, and operations in one spot in Europe where we could accelerate our long-term effort to become the dominant technology research company in that part of the world.

Our first research service in Europe, European New Media Strategies, successfully launched in April. Our clients can now get sharp, differentiated views of technology in the United States and also in Europe — an important asset for multinational companies.

In addition to creating timely, locally informed research, we went to Europe to win new clients — and we have done that. Our visibility in Europe has greatly increased, with Forrester analysts quoted in the European press at twice the rate they were in 1997. Eighteen percent of the new clients that signed on with us in 1998 were European companies.

Additional New Research

In 1998, we also launched two research services related to eCommerce — On-line Retail Strategies and Commerce Technology Strategies.

On-line Retail Strategies has quickly established Forrester as the No. 1 player analyzing the retail portion of the Internet economy. Since its launch, this service has signed more than 400 clients, including 10 of the top 20 U.S. retailers, and it has generated more than 1,000 press quotes.

Commerce Technology Strategies was one of the fastest launches in the history of our company — proof of our ever-increasing agility in responding to the emerging needs of the marketplace. Over the next five years, every company of scale worldwide will have to adopt some form of electronic commerce. Our research ensures that they make the right technology moves at the right time.

The Consumer Data Business — Technographics®

In December 1996, Forrester sent a Report to clients that segmented consumers into 10 profiles based on their attitudes toward — and use of — technology. We called this segmentation Technographics.

This Report generated a great deal of interest among Forrester's clients. For instance, a top consumer bank knew that most of its customers would not bank on-line. It estimated, however, that 5% to 10% would, and that soon this number would grow. Yet a lot of key questions were unanswered. Who were the willing on-line banking customers? What technologies were they using? How should the bank market to them? With other companies facing similar questions — and having difficulty answering them — we knew that we had discovered an unmet need.

So in 1997, Forrester began gathering extensive quantitative data on North American consumers. We surveyed more than 120,000 consumers, applied Forrester's hard-hitting analysis to the results, and launched a new service in 1998 called Consumers & Technographics. Last year, this data business accounted for approximately 6% of our revenue.

Events

Another 1998 initiative was the expansion of our Forrester Forum Series. Our Forums put our current and prospective clients, our analysts, and top industry leaders in one room to have honest, direct discussions about the dynamic changes technology is bringing to business and society. The expanded 1998 schedule included four sellouts and enabled us to reach many more clients and prospects. By adding three Forums, we increased the total number of attendees by more than 85% from the previous year.

The 1999 Plan

In 1999, Forrester will perfect and expand the many new efforts we launched in 1998 and will continue to innovate and build upon our long-term successes.

We are focused on four major initiatives in 1999:

- Ongoing business development in Europe.
- New research coverage.
- Continued expansion of the Forrester Forum Series.
- Launching eResearch™.

After a successful inaugural year, we expect to double the size of our research staff in Europe in 1999. This increase will enable the rollout of two new research areas, European Corporate Technologies and European

Richard C. Belanger
Chief Technology Officer

William M. Bluestein, Ph.D.
Vice President, Corporate Strategy & Development

John W. Boynton
Vice President, Business Development

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

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

Technographics. This means that Forrester will offer a research view for our clients that spans European IT operations, new media, and consumers. In addition to building our European research, we expect to enhance our research in the U.S. in several areas, including technology services and outsourcing, supply chain technology, and Web site design. Finally, we will host an additional Forum in 1999, expanding our schedule to seven Forums worldwide.

eResearch

The boldest initiative that Forrester will drive in 1999 will be our move to eResearch, a project that we have been working on for 18 months.

eResearch consists of two elements:

- A new electronic format for our research.
- A new means of packaging our research.

As the Web grew in popularity, companies (including Forrester) simply shoveled their paper-based content onto this new medium. What you saw on-line was little more than a slightly dynamic representation of the paper version. In contrast, Forrester's new eResearch was designed for electronic media first and paper second, vastly improving the delivery of our research and its value for customers.

This new format will enable clients to:

- Dig deeper into the data behind our forecasts and market models.
- Personalize how they search and view our research.
- Continually interact with Forrester by providing feedback directly to analysts.
- Quickly navigate our research and download Report graphics.

In conjunction with the new delivery of our research, we have also developed a more content-focused system for packaging it. We've replaced our research services with "lenses"— flexible, solutions-oriented packages that align directly with our clients' challenges and issues. What's the benefit? Our clients can be confident that all of the research they receive will be relevant to their interests and that they are receiving Forrester's complete coverage of their business technology issues. eResearch will help Forrester increase client satisfaction and build a closer, more valuable long-term connection





Mary A. Modahl
Vice President,
Research

Timothy M. Riley
Vice President,
Strategic Growth

Jon D. Schwartz
Vice President,
North American Sales

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

Stuart D. Woodring
Vice President,
Research

to our customers. With the technology infrastructure that underlies eResearch, Forrester will be able to innovate continually by quickly adding features and new content ahead of the market.

Personal Thoughts

Probably the most fun I had in 1998 was seeing the growth and maturation of Forresterites. The company is young. But every day I encounter new examples of someone stepping up to the plate, taking on amazing responsibility, and achieving amazing results. Forrester is blessed by its ability to attract, develop, and retain top talent.

A Wall Street analyst asked me in 1998 what value I add to Forrester. After thinking long and hard about that question, I concluded that one of my most important contributions is acting as a driver of the Forrester DNA. This DNA is a subtle ingredient in our operation, but it consists of: getting big but staying small; having fun; driving innovation — always looking for a better way to help clients; and promoting our core values, "4C2Q1S"— client, communication, consistency, creativity, quality, quickness, and service.

Forrester's reputation and achievements have certainly expanded over the last 16 years. But I believe that our true destiny lies ahead. The Internet economy is just now dawning, and we are already taking clients on a magnificent voyage to new markets and new customers. As this new world emerges, Forrester's value and position as a trusted adviser for our clients will rise dramatically.

I look forward to seeing you in 1999 — perhaps at our annual stockholders' meeting in May. Please drop me a message at gcolony@forrester.com if you have any questions or comments about Forrester.

Best wishes,

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

Vision/

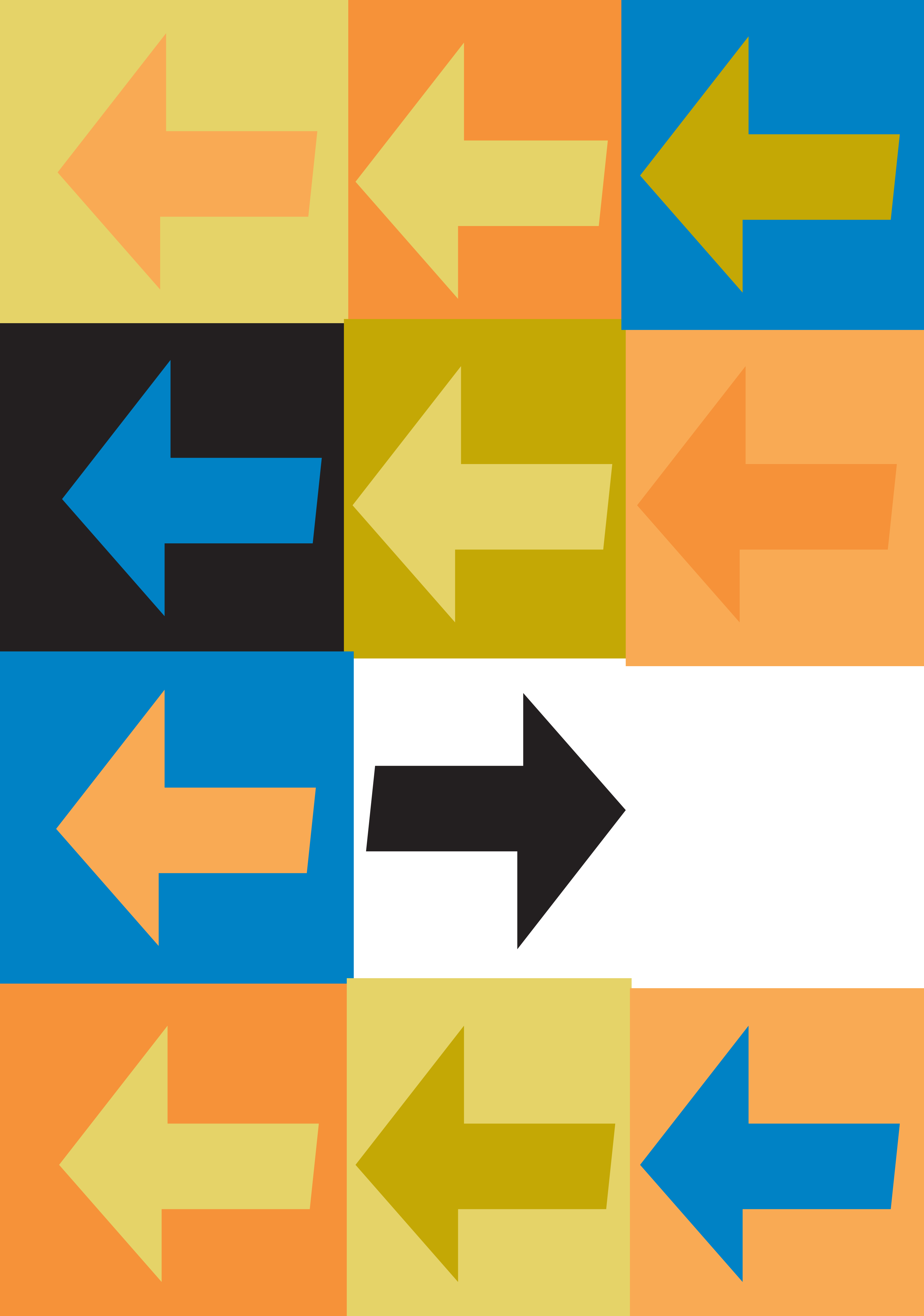
Opportunity

The Internet economy is evolving quickly — and presenting innumerable opportunities and challenges. That's great news for us. And even better news for our clients. Why?

The pace and significance of these changes means that companies, more than ever, need the type of technology guidance Forrester has built its reputation on. Smart, objective, concise analysis for forward-thinking leaders. So in today's business world, we can help our clients even more by doing what we do best — and enjoy most. Developing road maps and benchmarks for major technology initiatives. Defining how new technologies will reshape an industry. Sorting out promising technology trends from deceptive dead ends.

Taken together, insights like these can help transform a business decision into a stroke of genius. Our clients can find themselves outpacing their competition, boosting their bottom lines, and improving their business models in unexpected ways. If these sound like bold statements, they are. But a willingness to take a stand and embrace change is something Forrester and our clients have always shared.

In the global Internet economy of the next century, that willingness — applied wisely — will determine which companies come out on top. Forrester's goal is to ensure that our clients secure their place among those leaders.



Comprehensive/

Targeted

A company's technology decisions have broader business implications than ever before. And our research is written from this perspective. Forrester's cross-disciplinary research expertise delivers a uniquely informed view of technology change — one that is ideally suited to today's interconnected business technology environment.

What do we mean by "interconnected"? Most major technology decisions can't be properly addressed without the collective insight of many functional areas within a company. Recognizing this, Forrester provides comprehensive guidance by drawing upon the research of our three coverage areas: Internet Commerce, Corporate Technology, and Technographics Data & Analysis. While some of our competitors focus exclusively on either Internet-related topics or traditional information technology, we firmly believe that to assess one of these areas without knowledge of the other leaves clients with just part of the picture.

In addition, a growing number of today's technology decisions involve business partners outside of a company. Similarly, Forrester's research process includes extensive discussions with business leaders outside of our organization. Each of our strategic Reports and Briefs is based on dozens of in-depth interviews with companies whose business practices or industry positions are relevant to the topics being addressed. This aspect of our methodology is a critical element in our uniquely informed analysis.

Backed by this comprehensive research methodology, the packaging of our research offering is now aligned with business issues to ensure that clients receive the research that is most relevant to their particular interests. These targeted business solutions also improve our overall marketability by making the value of what we deliver more readily apparent to prospects.

Flexible/

Fast

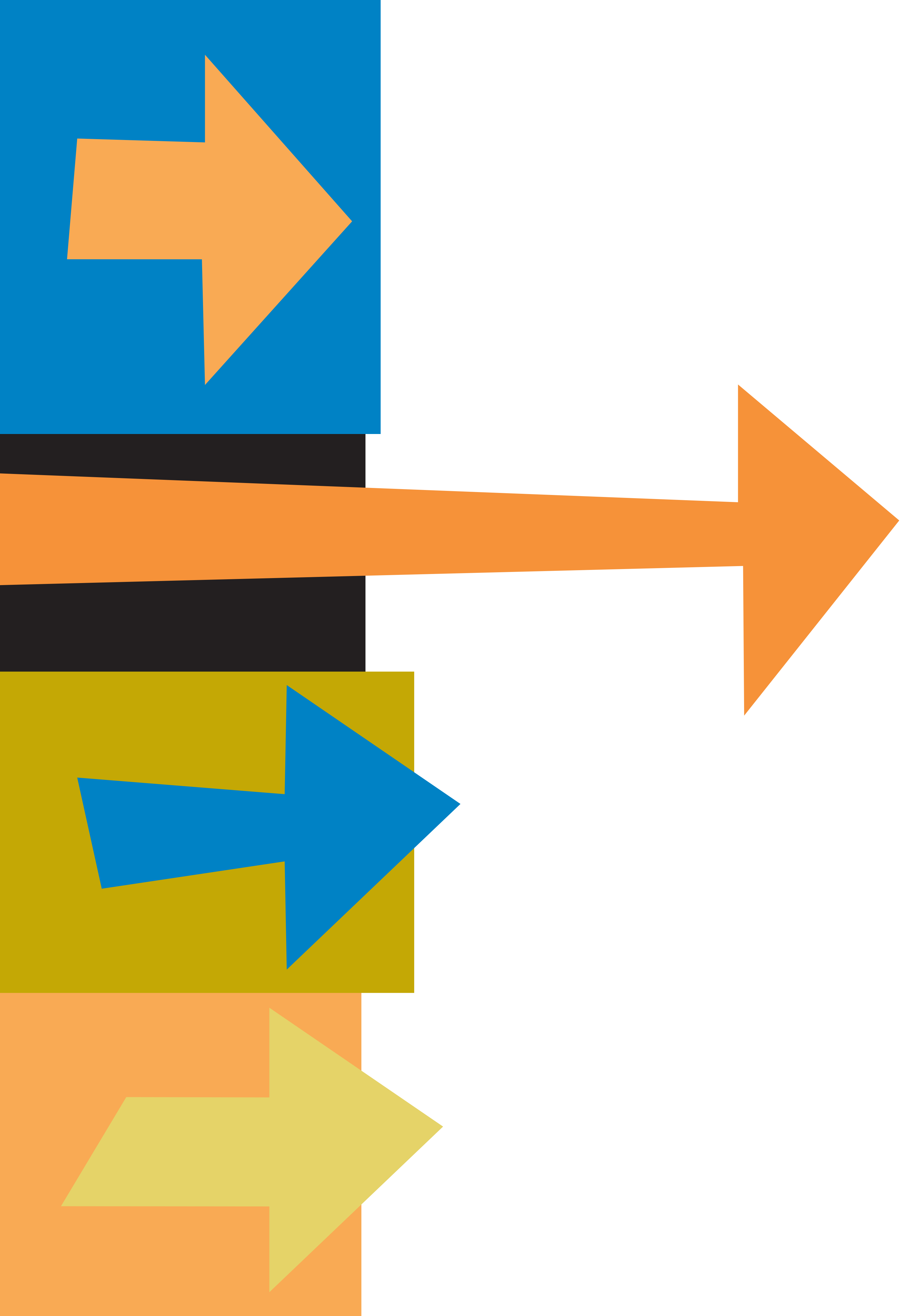
For years, we've helped top companies use technology in innovative ways to deliver their content to audiences. Now it's our turn. Forrester's eResearch demonstrates the future of content delivery and all it has to offer.

eResearch helps our clients succeed in today's world of real-time information, communication, and commerce by leveraging the Internet's most sophisticated capabilities to deliver our research. Offering advanced personalization features, downloadable data and graphics, and intuitive navigation, eResearch makes it easier than ever for clients to make the most of our analysis — in the way that works best for them.

How did eResearch develop? We began the initiative by asking our clients how they were currently using our research and in what new ways they would like to use it. Simultaneously, we explored new Internet capabilities that could enhance our clients' research experience.

Through extensive research, focus groups, and user testing, the answers to these questions took shape and a model for eResearch emerged. Of course, the best way to understand eResearch is to experience it for yourself. We encourage you to visit www.forrester.com to see eResearch at work.

eResearch is just one example of our client-focused approach to innovation. As Forrester continues to grow into the next century, we are committed to maintaining this approach in everything we do.



Analysis/

Results

Forrester Research, Inc. 1998 Financial Statements

Selected Consolidated Financial Data

(in thousands, except share and per share data)

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

Year Ended December 31,	1994	1995	1996	1997	1998
Consolidated Statement of Income Data:					
Revenues:					
Core research	$6,363	$10,150	$18,206	$30,431	$46,842
Advisory services and other	3,336	4,439	6,757	9,990	14,725
Total revenues	9,699	14,589	24,963	40,421	61,567
Operating expenses:					
Cost of services and fulfillment	3,424	5,486	8,762	13,698	22,038
Selling and marketing	3,593	5,643	8,992	14,248	20,896
General and administrative	1,045	1,389	2,509	4,500	6,688
Depreciation and amortization	150	287	618	1,209	2,763
Total operating expenses	8,212	12,805	20,881	33,655	52,385
Income from operations	1,487	1,784	4,082	6,766	9,182
Interest income	125	339	634	2,515	2,957
Income before income tax provision	1,612	2,123	4,716	9,281	12,139
Income tax provision	73	96	712	3,683	4,592
Net income	1,539	2,027	4,004	$ 5,598	$ 7,547
Pro forma income tax adjustment	583	739	1,198		
Pro forma net income	$ 956	$ 1,288	$ 2,806		
Basic net income per common share	$ 0.26	$ 0.34	$ 0.65	$ 0.67	$ 0.89
Diluted net income per common share	$ 0.26	$ 0.34	$ 0.62	$ 0.63	$ 0.81
Basic pro forma net income per common share	$ 0.16	$ 0.21	$ 0.45		
Diluted pro forma net income per common share	$ 0.16	$ 0.21	$ 0.44		
Basic weighted average common shares outstanding	6,000,000	6,000,000	6,191,667	8,339,381	8,520,475
Diluted weighted average common shares outstanding	6,000,000	6,000,000	6,425,718	8,851,251	9,371,853
Consolidated Balance Sheet Data:					
Cash, cash equivalents and marketable securities	$4,764	$ 7,518	$44,640	$54,914	$ 66,483
Working capital	$ 528	$ 991	$31,291	$36,016	$ 45,720
Total assets	$8,784	$15,426	$56,782	$73,536	$100,518
Stockholders' equity	$1,120	$ 2,047	$33,762	$40,505	$ 53,533

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

Overview

This Annual Report to Stockholders contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as "expects," "believes," "anticipates," "intends," "plans," "estimates," or similar expressions are intended to identify these forward-looking statements. These statements are based on the Company's current plans and expectations and involve risks and uncertainties that could cause actual future activities and results of operations to be materially different from those set forth in the forward-looking statements. Important factors that could cause actual future activities and results to differ include, among others, the need to attract and retain professional staff, the Company's ability to manage growth, possible variations in the Company's quarterly operating results, the Company's dependence on renewals of its membership-based research services, dependence on key personnel, risks associated with the Company's ability to anticipate market trends and offer new products and services, and competition. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. For further information, please refer to the Company's reports and filings with the Securities and Exchange Commission.

Forrester Research, Inc. ("Forrester" or the "Company"), is a leading independent research firm offering products and services that help its clients assess the effect of technology on their businesses. The Company provides analysis and insight into a broad range of technology areas such as computing, software, networking, the Internet, and telecommunications, and it projects how technology trends will impact businesses, consumers, and society. Forrester's clients, which include senior management, business strategists, and information technology ("IT") and marketing professionals within large enterprises, use Forrester's prescriptive research to understand and benefit from current developments in technology and as support for their development and implementation decisions.

Memberships to Forrester's Strategy Research and Quantitative Research are renewable contracts, typically annual and payable in advance. Accordingly, a substantial portion of the Company's billings are initially recorded as deferred revenue. Strategy Research revenues are recognized pro rata on a monthly basis over the term of the contract. Quantitative Research revenue is recognized upon delivery of the research. The Company's other revenues are derived from advisory services rendered pursuant to Forrester's Partners Program and Strategy Review Program and in conjunction with Quantitative Research and from Forrester Forums ("Forums"). The Company's advisory service clients purchase such services together with core research memberships. Billings attributable to advisory services are initially recorded as deferred revenues and recognized as revenue when performed. Similarly, Forum billings are initially recorded as deferred revenue and are recognized upon completion of each event.

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

The Company believes that the "agreement value" of contracts to purchase core research and advisory services provides a significant measure of the Company's business volume. Forrester calculates agreement value as 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. Agreement value increased 48% to $69.1 million at December 31, 1998 from $46.6 million at December 31, 1997. No single client company accounted for more than 3% of agreement value at December 31, 1998. The Company's experience is that a substantial portion of client companies renew expiring contracts for an equal or higher level of total core research and advisory service fees each year. Approximately 75% of Forrester's client companies with memberships expiring during the year ended December 31, 1998 renewed one or more memberships for the Company's products and services. The renewal rate was 80% for 1997. This renewal rate is not necessarily indicative of the rate of future retention of the Company's revenue base.

Results of Operations

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

Year Ended December 31,	1996	1997	1998
Core research	73%	75%	76%
Advisory services and other	27	25	24
Total revenues	100	100	100
Cost of services and fulfillment	35	34	36
Selling and marketing	36	35	34
General and administrative	10	11	11
Depreciation and amortization	3	3	4
Income from operations	16	17	15
Interest income	3	6	5
Income before income tax provision	19	23	20
Provision for income taxes	3	9	8
Net income	16%	14%	12%
Pro forma income tax adjustment	5		
Pro forma net income	11%		

Years Ended December 31, 1998 and December 31, 1997

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

Advisory services and other revenues increased 47% to $14.7 million in the year ended December 31, 1998 from $10.0 million in the year ended December 31, 1997. This increase was primarily attributable to demand for the Partners and Strategy Review Programs and the addition of three new Forums in 1998.

Revenues attributable to customers outside the United States increased 44% to $12.6 million in the year ended December 31, 1998 from $8.8 million in the year ended December 31, 1997, and decreased as a percentage of total revenues to 21% for the year ended December 31, 1998 from 22% for the year ended December 31, 1997. The increase in international revenues was primarily due to the Company's opening of an office in Amsterdam, Netherlands in April 1998, and the addition of direct international sales personnel. The Company invoices its international clients in U.S. dollars.

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

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

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

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

Depreciation and Amortization. Depreciation and amortization expense increased 129% to $2.8 million in the year ended December 31, 1998 from $1.2 million in the year ended December 31, 1997. The increase in this expense was principally due to investments in the Company's IT infrastructure and costs associated with the opening of the Amsterdam office.

Interest Income. Interest income increased to $3.0 million in the year ended December 31, 1998 from $2.5 million in the year ended December 31, 1997. This increase resulted from the Company's higher cash and marketable securities balances resulting from positive cash flows from operations.

Provision for Income Taxes. During the year ended December 31, 1998, the Company recorded a tax provision of $4.6 million reflecting an effective tax rate of 37.8%. During the year ended December 31, 1997, the Company recorded a tax provision of $3.7 million reflecting an effective tax rate of 39.7%. The decrease in effective tax rate resulted from a reduction in the Company's effective state tax rate, investments in tax-exempt instruments, and the formation of a foreign sales corporation.

Years Ended December 31, 1997 and December 31, 1996

Revenues. Total revenues increased 62% to $40.4 million in the year ended December 31, 1997 from $25.0 million in the year ended December 31, 1996. Revenues from core research increased 67% to $30.4 million in the year ended December 31, 1997 from $18.2 million in the year ended December 31, 1996. Increases in total revenues and revenues from core research were primarily attributable to an increase in the number of clients to 1,029 at December 31, 1997 from 885 at December 31, 1996 and the introduction of six new Strategy Research Services since January 1, 1996. Revenues from the Company's Quantitative Research Service were not material in 1997.

Advisory services and other revenues increased 48% to $10.0 million in the year ended December 31, 1997 from $6.8 million in the year ended December 31, 1996. This increase was primarily attributable to demand for the Partners and Strategy Review Programs and the addition of two new Forums in 1997.

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

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

Cost of Services and Fulfillment. Cost of services and fulfillment decreased as a percentage of total revenues to 34% in the year ended December 31, 1997 from 35% in the year ended December 31, 1996. These expenses increased 56% to $13.7 million in the year ended December 31, 1997 from $8.8 million in the year ended December 31, 1996. The expense increase in this period was principally due to increased analyst staffing for Strategy Research Services and related compensation expense. The decrease as a percentage of total revenues was principally due to the Company's increased leverage of its core research services.

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

General and Administrative. General and administrative expenses increased as a percentage of total revenues to 11% in the year ended December 31, 1997 from 10% in the year ended December 31, 1996. These expenses increased 79% to $4.5 million in the year ended December 31, 1997 from $2.5 million in the year ended December 31, 1996. The increases in expense and expense as a percentage of total revenues were principally due to staffing increases in operations and IT, the addition of a human resources department, and investment in the Company's infrastructure, including new financial systems.

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

Interest Income. Interest income increased to $2.5 million in the year ended December 31, 1997 from $634,000 in the year ended December 31, 1996. This increase resulted from the Company's higher cash and marketable securities balances resulting from positive cash flows from operations and net proceeds from the Company's initial public offering.

Provision for Income Taxes. During the year ended December 31, 1997, the Company recorded a tax provision of $3.7 million reflecting an effective tax rate of 39.7%. During the year ended December 31, 1996, the Company recorded a pro forma tax provision of $1.9 million reflecting an effective tax rate of 40.5%. The decrease in effective tax rate resulted from a reduction in the Company's effective state tax rate and investments in tax-exempt instruments.

Liquidity and Capital Resources

The Company has financed its operations to date through funds generated from operations. The Company generated $12.3 million in cash from operating activities during 1998 compared with $11.9 million of cash from operating activities during 1997. In 1998, the positive cash flow effect from an increase in income and depreciation was offset primarily by an increase in accounts receivable.

In 1998, the Company used $14.8 million of cash in investing activities consisting of $6.1 million for the purchase of property and equipment and $8.7 million for net purchases of marketable securities. The Company regularly invests excess funds in short- and intermediate-term interest-bearing obligations of investment grade.

In 1998, the Company generated a net $5.2 million in cash from financing activities. This includes proceeds of $2.5 million from stock option exercises, $657,000 of proceeds from the Employee Stock Purchase Plan, and $2.0 million from the tax benefit of stock transactions with employees. In December 1996, the Company received $33.2 million from the sale of 2,300,000 shares of common stock in its initial public offering.

As of December 31, 1998, the Company had cash and cash equivalents of $10.4 million and $56.1 million in marketable securities. The Company does not have a line of credit and does not anticipate the need for one in the foreseeable future. The Company currently plans to introduce new products and services and to continue to invest in its infrastructure over the next three to 12 months. The Company believes that its 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.

Year 2000 Disclosure

The Company's State of Readiness. The Company is implementing a broad-based remediation effort to address the year 2000 problem. This effort consists of the following three stages: 1) survey and assess the Company's operations for year 2000 compliance; 2) execute the necessary software and hardware remedial changes; and 3) test the remediation efforts to ensure year 2000 compliance. There can be no assurance that the Company's survey will identify all year 2000 problems in these areas or that the necessary corrective actions will be completed in a timely manner.

The first stage of the effort, a survey and assessment of the Company's operations for year 2000 compliance, has been completed. The Company identified three areas of operations where the year 2000 problem could arise:

- *External product delivery systems*. This includes the Company's three main platforms for electronic product delivery: Forrester's Web site, FTP site, and Lotus Notes system.
- *Internal information technology systems*. This includes the Company's MIS functions, customer service applications, and production systems.
- *Third-party vendors and service providers*. This includes a review of the Company's third-party vendors and service providers to establish their readiness for the year 2000 problem and assess any risks to the Company. Material third-party vendors and service providers include printers, mailing houses, and CD-ROM duplicators.

This survey included a review of the year 2000 compliance of the Company's Amsterdam office. The Company's external product delivery systems, internal IT systems, and a number of third-party vendors and service providers are also utilized by the Amsterdam office. The Company continues to monitor and review non-IT facililties and third-party vendors that are used exclusively by the Amsterdam office.

The Company is currently implementing the second stage, executing the software and hardware changes necessary to remediate potential year 2000 problems identified in the survey. The year 2000 compliance of the Company's external product delivery systems and internal IT systems ultimately depends upon the delivery of year 2000 compliant systems from the Company's vendors. The Company is working closely with these vendors to ensure the timely delivery of year 2000 compliant systems. The Company's Lotus Notes system is fully year 2000 compliant, and the Company has updated its Web site and FTP site to bring these external delivery systems into year 2000 compliance. The Company's MIS systems are fully compliant, and vendor-supplied upgrades for the Company's customer service applications and production systems have been delivered and will be installed during the second quarter of 1999. The Company's survey of non-IT facilities technology, which included a review of the elevator, HVAC, security, and energy management systems, indicated that these systems are currently year 2000 compliant due to the absence of date-sensitive microcontrollers.

During this second stage, the Company is also assessing its vulnerability to year 2000 problems of third-party vendors and service providers. The Company relies on third-party suppliers primarily to deliver printing services, mailing services, Internet and Web-hosting services, and CD-ROM duplication. The Company intends to continuously identify and prioritize critical service providers and vendors and communicate with them about their plans and progress in addressing the year 2000 problem.

The final stage of the Company's year 2000 efforts, the internal testing of all systems, is also currently under way. In the fourth quarter of 1998, the Company completed a successful test of its internal IT systems and intends to continue to test these systems during 1999. The Company anticipates that all testing for year 2000 compliance will be complete by mid-1999.

The Company's Year 2000 Risk. Based on the efforts described above, the Company currently believes that its systems will be year 2000 compliant by mid-1999. However, there can be no assurance that all year 2000 problems will be successfully identified or that the necessary corrective actions will be completed in a timely manner. In addition, the survey has indicated that the Company's compliance will require the delivery of upgrades by various vendors, and any failure to deliver these upgrades in a timely manner will adversely affect the Company's readiness for the year 2000 problem. The Company relies on the Internet for its external distribution systems, and any failure of the Internet due to year 2000 issues could adversely affect the Company.

The Company's Contingency Plans. The Company is designing a contingency plan for year 2000 problems. This contingency plan will be in place by mid-1999 and will be designed to mitigate the effects of third parties' failures to remediate their year 2000 issues and for unexpected failures in its own systems. Pursuant to the contingency plan, the Company has made arrangements for some alternate suppliers, such as Internet service providers, and will continue to identify potential alternate suppliers. If it becomes necessary for the Company to take these corrective actions, it is uncertain whether this would result in significant interruptions in service or delays in business operations or whether it would have a material adverse effect on the Company's results of operations, financial position, or cash flow.

Costs of Year 2000 Remediation. As of December 31, 1998, the Company has not incurred material costs related to the year 2000 problem. In the future, the Company may incur small incremental costs in connection with the upgrades of its external delivery systems and internal IT systems. The Company has not deferred other IT projects due to year 2000 expenses and does not expect to defer such projects in the future.

Report of Independent Public Accountants

To the Stockholders of
Forrester Research, Inc.:

We have audited the accompanying consolidated balance sheets of Forrester Research, Inc. (a Delaware corporation), and subsidiaries as of December 31, 1997 and 1998, 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, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Forrester Research, Inc., and subsidiaries as of December 31, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles.

Arthur Andersen LLP

ARTHUR ANDERSEN LLP

Boston, Massachusetts
January 27, 1999

Consolidated Balance Sheets

December 31, 1997 and 1998

ASSETS

	1997	1998
Current assets:		
Cash and cash equivalents	$ 7,742,094	$ 10,413,986
Marketable securities	47,171,975	56,069,332
Accounts receivable, net of allowance for doubtful accounts of approximately $325,000 and $400,000 in 1997 and 1998, respectively	11,192,887	21,158,040
Deferred commissions	1,368,106	2,124,292
Prepaid income taxes	520,018	334,370
Prepaid expenses and other current assets	1,052,326	2,604,834
Total current assets	69,047,406	92,704,854
Property and equipment, at cost:		
Computers and equipment	3,143,059	5,677,083
Computer software	1,003,558	2,765,754
Furniture and fixtures	778,084	1,249,185
Vehicle	30,098	30,098
Leasehold improvements	1,596,457	2,916,373
Total property and equipment	6,551,256	12,638,493
Less — accumulated depreciation and amortization	2,062,383	4,825,637
Property and equipment, net	4,488,873	7,812,856
Total assets	$73,536,279	$100,517,710

LIABILITIES AND STOCKHOLDERS' EQUITY

	1997	1998
Current liabilities:		
Accounts payable	$ 1,273,046	$ 1,433,486
Customer deposits	278,726	264,478
Accrued expenses	3,660,726	5,050,991
Accrued income taxes	622,997	932,795
Deferred revenue	27,074,379	38,894,149
Deferred income taxes	121,330	408,811
Total current liabilities	33,031,204	46,984,710
Commitments (Note 4)		
Stockholders' equity:		
Preferred stock, $.01 par value Authorized — 500,000 shares Issued and outstanding — none	-	-
Common stock, $.01 par value Authorized — 25,000,000 shares Issued and outstanding — 8,391,829 shares and 8,654,175 shares in 1997 and 1998, respectively	83,918	86,541
Additional paid-in capital	34,353,268	39,574,939
Retained earnings	6,007,642	13,554,906
Accumulated other comprehensive income	60,247	316,614
Total stockholders' equity	40,505,075	53,533,000
Total liabilities and stockholders' equity	$73,536,279	$100,517,710

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

Consolidated Statements of Income

For the Years Ended December 31, 1996, 1997 and 1998

	1996	1997	1998
Revenues:			
Core research	$18,205,851	$30,430,972	$46,842,023
Advisory services and other	6,757,270	9,989,965	14,725,111
Total revenues	24,963,121	40,420,937	61,567,134
Operating expenses:			
Cost of services and fulfillment	8,761,718	13,698,175	22,037,828
Selling and marketing	8,991,794	14,248,287	20,895,597
General and administrative	2,508,845	4,500,102	6,688,368
Depreciation and amortization	618,290	1,208,606	2,763,254
Total operating expenses	20,880,647	33,655,170	52,385,047
Income from operations	4,082,474	6,765,767	9,182,087
Interest income	633,798	2,514,889	2,956,878
Income before income tax provision	4,716,272	9,280,656	12,138,965
Income tax provision (Note 3)	712,000	3,682,616	4,591,701
Net income	4,004,272	$ 5,598,040	$ 7,547,264
Pro forma income tax adjustment (Note 3)	1,198,000		
Pro forma net income	$ 2,806,272		
Basic net income per common share	$ 0.65	$ 0.67	$ 0.89
Diluted net income per common share	$ 0.62	$ 0.63	$ 0.81
Basic pro forma net income per common share	$ 0.45		
Diluted pro forma net income per common share	$ 0.44		
Basic weighted average common shares outstanding	6,191,667	8,339,381	8,520,475
Diluted weighted average common shares outstanding	6,425,718	8,851,251	9,371,853

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, 1996, 1997 and 1998

	Common Stock Number of Shares	Common Stock $.01 Par Value	Additional Paid-in Capital	Accumulated Other Compre-hensive Income	Retained Earnings	Total Stock-holders' Equity	Compre-hensive Income
Balance, December 31, 1995	6,000,000	$60,000	$ -	$ 21,696	$ 1,965,527	$ 2,047,223	
Issuance of common stock in initial public offering, net of issuance costs of $3,565,947	2,300,000	23,000	33,211,053	-	-	33,234,053	
Distributions (Note 3)	-	-	-	-	(5,560,197)	(5,560,197)	
Net income	-	-	-	-	4,004,272	4,004,272	$4,004,272
Unrealized gain on marketable securities, net of tax provision	-	-	-	36,404	-	36,404	36,404
Total comprehensive income							4,040,676
Balance, December 31, 1996	8,300,000	83,000	33,211,053	58,100	409,602	33,761,755	
Issuance of common stock under stock option plans	70,246	702	446,851	-	-	447,553	
Issuance of common stock under employee stock purchase plan	21,583	216	293,306	-	-	293,522	
Tax benefit on exercise of stock options	-	-	402,058	-	-	402,058	
Net income	-	-	-	-	5,598,040	5,598,040	5,598,040
Unrealized gain on marketable securities, net of tax provision	-	-	-	2,147	-	2,147	2,147
Total comprehensive income							5,600,187
Balance, December 31, 1997	8,391,829	83,918	34,353,268	60,247	6,007,642	40,505,075	
Issuance of common stock under stock option plans	228,648	2,286	2,532,998	-	-	2,535,284	
Issuance of common stock under employee stock purchase plan	33,698	337	657,403	-	-	657,740	
Tax benefit on exercise of stock options	-	-	2,031,270	-	-	2,031,270	
Net income	-	-	-	-	7,547,264	7,547,264	7,547,264
Unrealized gain on marketable securities, net of tax provision	-	-	-	88,749	-	88,749	88,749
Cumulative translation adjustment	-	-	-	167,618	-	167,618	167,618
Total comprehensive income							$7,803,631
Balance, December 31, 1998	8,654,175	$86,541	$39,574,939	$316,614	$13,554,906	$ 53,533,000	

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

Consolidated Statements of Cash Flows

For the Years Ended December 31, 1996, 1997 and 1998

	1996	1997	1998
Cash flows from operating activities:			
Net income	$ 4,004,272	$ 5,598,040	$ 7,547,264
Adjustments to reconcile net income to net cash provided by operating activities —			
Depreciation and amortization	618,290	1,208,606	2,763,254
Deferred income taxes	436,714	(315,384)	287,481
Accretion of discount on marketable securities	(193,152)	(473,845)	(54,810)
Cumulative translation adjustment	-	-	157,740
Changes in assets and liabilities —			
Accounts receivable	(2,217,514)	(3,092,392)	(9,965,153)
Deferred commissions	(449,301)	(26,838)	(756,186)
Prepaid income taxes	-	(520,018)	185,648
Prepaid expenses and other current assets	(153,064)	(822,721)	(1,552,508)
Accounts payable	822,787	72,915	160,440
Customer deposits	41,964	139,433	(14,248)
Accrued expenses	1,656,296	459,615	1,390,265
Accrued income taxes	227,037	395,960	309,798
Deferred revenue	6,457,279	9,257,999	11,819,770
Net cash provided by operating activities	11,251,608	11,881,370	12,278,755
Cash flows from investing activities:			
Purchases of property and equipment, net	(2,033,157)	(3,226,337)	(6,087,237)
Purchases of marketable securities	(8,469,888)	(365,870,837)	(313,236,282)
Proceeds from sales and maturities of marketable securities	4,962,208	329,432,571	304,482,484
Net cash used in investing activities	(5,540,837)	(39,664,603)	(14,841,035)
Cash flows from financing activities:			
Proceeds from issuance of common stock under stock option plan and employee stock purchase plan, including tax benefit on exercise of stock options	-	1,143,133	5,224,294
Net proceeds from initial public stock offering	33,234,053	-	-
Distributions to stockholder	(5,560,197)	-	-
Net cash provided by financing activities	27,673,856	1,143,133	5,224,294
Effect of exchange rate changes on cash and cash equivalents	-	-	9,878
Net increase (decrease) in cash and cash equivalents	33,384,627	(26,640,100)	2,671,892
Cash and cash equivalents, beginning of year	997,567	34,382,194	7,742,094
Cash and cash equivalents, end of year	$34,382,194	$ 7,742,094	$ 10,413,986
Supplemental disclosure of cash flow information:			
Cash paid for income taxes	$ 87,053	$ 3,720,000	$ 1,117,000

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

(1) Operations and Significant Accounting Policies

Forrester Research, Inc. (the Company) creates, publishes and sells technology research reports and provides advisory services and technology conferences. The Company is incorporated under the laws of the State of Delaware and grants credit to its customers with locations throughout the world.

The preparation of the accompanying consolidated financial statements requires the use of certain estimates by management in determining the Company's assets, liabilities, revenues and expenses. Actual results could differ from these estimates.

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

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

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

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

Net Income and Pro Forma Net Income Per Common Share. Basic net income per common share and basic pro forma net income per common share are computed by dividing net income or pro forma net income by the basic weighted average number of common shares outstanding during the period. Diluted net income per common share and diluted pro forma net income per common share are computed by dividing net income or pro forma 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:

	1996	1997	1998
Basic weighted average common shares outstanding	6,191,667	8,339,381	8,520,475
Weighted average common equivalent shares	234,051	511,870	851,378
Diluted weighted average common shares outstanding	6,425,718	8,851,251	9,371,853

As of December 31, 1997 and 1998, 111,086 and 439,890 options, respectively, were outstanding but not included in the diluted weighted average common share calculation as the effect would have been anti-dilutive. As of December 31, 1996, there were no anti-dilutive options.

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

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

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

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

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

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

Comprehensive Income. SFAS No. 130, *Reporting Comprehensive Income*, requires disclosure of comprehensive income and the components of 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 statement of stockholders' equity and comprehensive income. The components of accumulated other comprehensive income as of December 31, 1996, 1997 and 1998 are as follows:

	1996	1997	1998
Unrealized gain on marketable securities, net of taxes	$58,100	$60,247	$148,996
Cumulative translation adjustment	-	-	167,618
Total accumulated other comprehensive income	$58,100	$60,247	$316,614

New Accounting Standards. In March 1998, the American Institute of Certified Public Accountants (AICPA) issued Statement of Position (SOP) No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. SOP No. 98-1 is effective for fiscal years beginning after December 15, 1998 and requires certain computer software costs associated with internal-use software to be expensed as incurred until certain capitalization criteria are met. The Company will adopt SOP No. 98-1 prospectively beginning January 1, 1999. Adoption of this statement is not expected to have a material impact on the Company's consolidated financial position or results of operations.

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

In June 1998, the Financial Accounting Standards Board (FASB) issued SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. SFAS No. 133 is effective for all periods beginning after June 15, 1999 and establishes methods of accounting for derivative financial instruments and hedging activities related to those instruments as well as other hedging activities. Adoption of SFAS No. 133 is not expected to have a material impact on the Company's consolidated financial position or results of operations.

(2) Cash, Cash Equivalents and Marketable Securities

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

The Company accounts for investments in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. Under SFAS No. 115, securities that the Company has the positive intent and ability to hold to maturity are reported at amortized cost and are classified as held-to-maturity. There were no held-to-maturity securities at December 31, 1997 and 1998. Securities purchased in order to be held for indefinite periods of time and not intended at the time of purchase to be held until maturity are classified as available-for-sale securities. At December 31, 1997 and 1998, these securities consisted of investments in federal and state government obligations and corporate obligations, which were recorded at fair market value, with any unrealized gains and losses reported as a separate component of other accumulated comprehensive income. There were no trading securities at December 31, 1997 and 1998.

At December 31, 1997 and 1998, marketable securities consisted of the following:

	1997	1998
U.S. Treasury notes	$10,025,860	$ 3,560,004
Federal agency obligations	21,772,795	15,125,624
State and municipal bonds	13,131,114	12,335,825
Corporate obligations	2,242,206	25,047,879
	$47,171,975	$56,069,332

The following table summarizes the maturity periods of marketable securities as of December 31, 1998:

	Less than 1 Year	1 to 5 Years	5 to 10 Years	Total
U.S. Treasury notes	$ 2,550,164	$ 1,009,840	$ -	$ 3,560,004
Federal agency obligations	8,924,325	6,125,100	76,199	15,125,624
State and municipal bonds	9,451,342	2,884,483	-	12,335,825
Corporate obligations	11,962,138	13,085,741	-	25,047,879
	$32,887,969	$23,105,164	$76,199	$56,069,332

Gross realized gains and losses on sales of marketable securities for the years ended December 31, 1997 and 1998, which were calculated based on specific identification, were not material.

(3) Income Taxes

The Company accounts for income taxes, including pro forma computations, 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.

The Company was an S corporation under Section 1362 of the Internal Revenue Code of 1986, as amended (the Code), until prior to the closing of its public offering in December 1996. As an S corporation, the taxable income of the Company was passed through to the sole stockholder and was reported on his individual federal and state income tax returns. Payments to the stockholder to cover the tax liabilities as a result of the Company's taxable income were recorded as distributions in the accompanying statements of stockholders' equity. In December 1996, a distribution was recorded to distribute the cumulative S corporation earnings taxed or taxable to the original stockholder net of the amounts previously distributed. This distribution totaled approximately $5,231,000.

As discussed above, the Company terminated its S corporation election prior to the closing of its initial public offering of common stock and became subject to federal and state income taxes at prevailing corporate rates. Accordingly, the accompanying statement of income for the year ended December 31, 1996 includes a pro forma income tax adjustment for the income taxes that would have been recorded if the Company had been a C corporation for that period.

The components of the historical and pro forma income tax provisions are approximately as follows:

	1996	1997	1998
Current —			
Federal	$ 67,000	$3,045,000	$3,800,000
State	208,000	953,000	504,000
	275,000	3,998,000	4,304,000
Deferred —			
Federal	354,000	(244,000)	255,000
State	83,000	(71,000)	33,000
	437,000	(315,000)	288,000
Actual provision for income taxes	712,000	$3,683,000	$4,592,000
Pro forma income tax provision	1,910,000		
Pro forma income tax adjustment	$1,198,000		

The Company's income tax provision for the year ended December 31, 1996 consisted primarily of corporate-level state income taxes that were levied against the Company as an S corporation and the cumulative effect of temporary differences between the financial reporting and tax basis of certain assets and liabilities on the date of the S corporation termination as discussed in the following paragraph. The pro forma tax provision does not materially differ from the Company's combined federal and state statutory rate of 40%.

Upon termination of the S corporation election, deferred income taxes were recorded for the tax effect of cumulative temporary differences between the financial reporting and tax basis of certain assets and liabilities, primarily deferred commissions, accrued expenses and cumulative tax depreciation in excess of financial reporting allowances. These temporary differences resulted in a net deferred income tax liability of approximately $510,000. The Company recorded this tax liability as a one-time increase in the actual tax provision during 1996.

A reconciliation of the federal statutory rate to the Company's effective tax rate is as follows:

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

Deferred income taxes as of December 31, 1997 and 1998 related to the following temporary differences:

	1997	1998
Nondeductible reserves and accruals	$ 397,000	$ 360,000
Depreciation and amortization	33,000	38,000
Deferred commissions	(551,000)	(807,000)
	$(121,000)	$(409,000)

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

(4) Commitments

The Company leases its office space under operating leases. At December 31, 1998, approximate future minimum rentals due are as follows:

1999	$1,523,000
2000	1,528,000
2001	825,000
2002	412,000
2003	54,000
Total minimum lease payments	$4,342,000

Rent expense was approximately $664,000, $983,000 and $1,463,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

(5) 401(k) Plan

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

(6) Stockholders' Equity

(a) Initial Public Offering. In December 1996, the Company sold, through an underwritten public offering, 2,300,000 shares of its common stock at $16.00 per share. The proceeds to the Company from the Company's initial public offering, net of underwriting discounts and expenses, were $33,234,053.

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

(7) Stock Option Plans

In February 1996, the Company adopted the Forrester Research, Inc. 1996 Equity Incentive Plan, which was amended in September 1996 (the Plan). The Plan provides for the issuance of incentive stock options (ISOs) and nonqualified stock options (NSOs) to purchase up to 2,750,000 shares of common stock. Under the terms of the Plan, ISOs may not be granted at less than fair market value on the date of grant (and in no event less than par value). ISO grants to holders of 10% of the combined voting power of all classes of Company stock must be granted at an exercise price not less than 110% of the fair market value at the date of grant. Options generally vest ratably over three years and expire after 10 years. Options granted under the Plan immediately vest upon certain events, as defined.

In September 1996, the Company adopted the 1996 Stock Option Plan for Non-Employee Directors (the Directors' Plan), which provides for the issuance of options to purchase up to 150,000 shares of common stock. Under the Directors' Plan, each non-employee director shall be awarded options to purchase 6,000 shares of common stock, at an exercise price equal to the fair market value of the common stock upon his or her election as a director. These options vest in three equal annual installments commencing on the date of grant. In addition, each non-employee director will also receive an option to purchase 4,000 shares of common stock, at an exercise price equal to the fair market value of the common stock, each year immediately following the Company's annual stockholders' meeting. These options will vest in three equal installments on the first, second and third anniversaries of the date of grant. The Compensation Committee (the Committee) of the Board of Directors also has the authority under the Directors' Plan to grant options to non-employee directors in such amounts and on such terms as set forth in the Directors' Plan as it shall determine at the time of grant.

Stock option activity from the inception of the Plan and of the Directors' Plan to December 31, 1998 was as follows:

	Number of Shares	Exercise Price per Share			Weighted Average Exercise Price per Share
Granted	814,046	$ 5.50	-	13.00	$ 8.16
Canceled	(30,673)	$		5.50	$ 5.50
Outstanding at December 31, 1996	783,373	$ 5.50	-	13.00	$ 8.28
Granted	334,395	$17.56	-	29.19	$22.52
Exercised	(70,246)	$ 5.50	-	13.00	$ 6.37
Canceled	(28,387)	$ 5.50	-	22.00	$14.18
Outstanding at December 31, 1997	1,019,135	$ 5.50	-	29.19	$13.00
Granted	1,481,500	$19.13	-	39.75	$25.48
Exercised	(228,648)	$ 5.50	-	29.19	$11.08
Canceled	(223,519)	$ 5.50	-	39.69	$18.08
Outstanding at December 31, 1998	2,048,468	$ 5.50	-	39.75	$21.70
Exercisable at December 31, 1998	427,721	$ 5.50	-	29.19	$12.71
Exercisable at December 31, 1997	363,174	$ 5.50	-	22.00	$10.56
Exercisable at December 31, 1996	157,376	$		5.50	$ 5.50

The following table summarizes information about stock options outstanding and exercisable at December 31, 1998:

Range of exercise prices	Number Outstanding at December 31, 1998	Number Exercisable at December 31, 1998	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price per Share
$ 5.50	221,791	148,982	7.14	$ 5.50
11.00 - 13.00	265,643	148,896	7.70	$12.03
17.56 - 21.50	937,126	73,041	8.91	$19.22
22.00 - 26.69	59,850	30,432	8.55	$23.12
27.00 - 32.63	123,058	26,370	8.98	$29.44
33.06 - 39.75	441,000	-	9.48	$38.57
	2,048,468	427,721	8.68	$21.70

The weighted average remaining contractual life of options outstanding at December 31, 1996, 1997 and 1998 was 9.4, 8.6 and 8.7 years, respectively. As of December 31, 1996, 1997 and 1998, options available for future grant under the Plan and the Directors' Plan were 2,116,627, 1,810,619 and 552,638, 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. The Company has determined that it will continue to account for stock-based compensation for employees under Accounting Principles Board Opinion No. 25 and elect the disclosure-only alternative under SFAS No. 123. The Company has computed the value of options granted in 1996, 1997 and 1998 using the Black-Scholes option pricing model prescribed by SFAS No. 123, using the following assumptions:

	1996	1997	1998
Risk-free interest rate	6.21%	6.32%	5.28%
Expected dividend yield	-	-	-
Expected lives	7.5 Years	7.5 Years	5 Years
Expected volatility	0%-64%	59%	40%

The weighted average grant date fair value of options granted under the Plan and the Directors' Plan during the years ended December 31, 1996, 1997 and 1998, were $3.40, $15.16 and $25.48, respectively.

Had compensation cost for the Company's stock option plan been determined consistent with SFAS No. 123, net income would have been approximately as follows:

	1996	1997	1998
As reported —			
Net income	$2,806,000	$5,598,000	$7,547,000
Basic net income per common share	$ 0.45	$ 0.67	$ 0.89
Diluted net income per common share	$ 0.44	$ 0.63	$ 0.81
Pro forma —			
Net income	$2,429,000	$3,833,000	$4,569,000
Basic net income per common share	$ 0.39	$ 0.46	$ 0.54
Diluted net income per common share	$ 0.38	$ 0.43	$ 0.49

In January 1998, the Company's founder and principal stockholder granted certain key employees options to purchase one million shares of his common stock. The options have an exercise price of $19.13 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. At December 31, 1998, 149,628 options have been exercised and 850,372 options remained outstanding.

(8) Employee Stock Purchase Plan

In September 1996, the Company adopted the 1996 Employee Stock Purchase Plan (the Stock Purchase Plan), which provides for the issuance of up to 200,000 shares of common stock. The Stock Purchase Plan is administered by the Committee. With certain limited exceptions, all employees of the Company who have completed six months or more of continuous service in the employ of the Company and whose customary employment is more than 30 hours per week, including officers and directors who are employees, are eligible to participate in the Stock Purchase Plan. Purchase periods under the Stock Purchase Plan are generally six months in length and commence on each successive July 1 and January 1. During each purchase period under the Stock Purchase Plan, the maximum number of shares of common stock that may be purchased by an employee is limited to the number of shares equal to $12,500 divided by the fair market value of a share of common stock on the first day of the purchase period. An employee may elect to have up to a maximum of 10% deducted from his or her regular salary for the purpose of purchasing shares under the Stock Purchase Plan. The price at which the employee's shares are purchased is the lower of (a) 85% of the closing price of the common stock on the day that the purchase period commences, or (b) 85% of the closing price of the common stock on the day that the purchase period terminates. Employees purchased 21,583 shares of stock at $13.60 for the first purchase period under the Stock Purchase Plan, which ended June 30, 1997. Employees purchased 14,885 shares at $19.34 for the purchase period that ended December 31, 1997 and 18,813 shares at $19.66 for the purchase period that ended June 30, 1998. Subsequent to year-end, employees purchased 12,515 shares at $34.53 for the purchase period that ended December 31, 1998.

(9) Segment and Enterprise Wide Reporting

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

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

	1996	1997	1998
United States	$19,694,363	$31,652,524	$48,922,414
Europe	2,751,858	4,892,523	7,374,138
Other	2,516,900	3,875,890	5,270,582
	$24,963,121	$40,420,937	$61,567,134

United States	79%	78%	79%
Europe	11	12	12
Other	10	10	9
	100%	100%	100%

(10) Certain Balance Sheet Accounts

Accrued Expenses. Accrued expenses consist of the following:

	1997	1998
Payroll and related	$1,702,050	$2,950,984
Other	1,958,676	2,100,007
	$3,660,726	$5,050,991

Allowance for Doubtful Accounts. A summary of the allowance for doubtful accounts at December 31, 1996, 1997 and 1998 is as follows:

	1996	1997	1998
Balance, beginning of period	$119,920	$200,000	$325,000
Provision for doubtful accounts	312,317	398,637	375,483
Write-offs	(232,237)	(273,637)	(300,483)
Balance, end of period	$200,000	$325,000	$400,000

(11) Summary Selected Quarterly Financial Data (Unaudited)

The following is a summary of selected quarterly financial data for the years ended December 31, 1996, 1997 and 1998 (in thousands, except per share data):

Quarter Ended	March 31, 1996	June 30, 1996	Sept. 30, 1996	Dec. 31, 1996
Revenues	$ 4,746	$ 5,316	$ 6,312	$ 8,589
Income from operations	$ 459	$ 566	$ 1,129	$ 1,928
Pro forma net income	$ 339	$ 409	$ 716	$ 1,314
Basic pro forma net income per common share	$ 0.06	$ 0.07	$ 0.12	$ 0.19
Diluted pro forma net income per common share	$ 0.06	$ 0.07	$ 0.11	$ 0.19

Quarter Ended	March 31, 1997	June 30, 1997	Sept. 30, 1997	Dec. 31, 1997
Revenues	$ 8,171	$ 9,126	$ 10,117	$ 13,007
Income from operations	$ 1,073	$ 1,461	$ 1,656	$ 2,576
Net income	$ 1,019	$ 1,215	$ 1,332	$ 2,032
Basic net income per common share	$ 0.12	$ 0.15	$ 0.16	$ 0.24
Diluted net income per common share	$ 0.12	$ 0.14	$ 0.15	$ 0.23

Quarter Ended	March 31, 1998	June 30, 1998	Sept. 30, 1998	Dec. 31, 1998
Revenues	$13,131	$15,043	$15,070	$18,322
Income from operations	$ 1,448	$ 1,893	$ 2,257	$ 3,583
Net income	$ 1,342	$ 1,617	$ 1,874	$ 2,714
Basic net income per common share	$ 0.16	$ 0.19	$ 0.22	$ 0.32
Diluted net income per common share	$ 0.15	$ 0.17	$ 0.20	$ 0.29

Company Information

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Board of Directors

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Executive Director, Cap Gemini N.V.

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

Robert M. Galford
Faculty of Executive Programs,
Columbia University Graduate School of Business

George R. Hornig
Executive Vice President,
Deutsche Bank Americas Holding Corporation

Michael H. Welles
Vice President of News Operations,
NewsEdge Corporation

Executive Officers

Richard C. Belanger
Chief Technology Officer

William M. Bluestein, Ph.D.
Vice President, Corporate Strategy & Development

John W. Boynton
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Vice President, Strategic Growth

Jon D. Schwartz
Vice President, North American Sales

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

Stuart D. Woodring
Vice President, Research

Annual Meeting

The Company's annual meeting of stockholders will be held at 10 a.m. EST on May 11, 1999 at the offices of Ropes & Gray, One International Place, Boston, Massachusetts.

Investor Relations

Requests for financial information should be sent to:
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Independent Public Accountants

Arthur Andersen LLP
Boston, Massachusetts

Legal Counsel

Ropes & Gray
Boston, Massachusetts

Stock Listing and Trading Symbol

The Company's common stock is listed on the Nasdaq National Market System under the trading symbol "FORR." The approximate number of stockholders of record as of March 5, 1999 was 34.

The following table represents the ranges of high and low sale prices of the Company's common stock for the fiscal years ended December 31, 1997 and December 31, 1998:

	1998		1997	
	High	Low	High	Low
First Quarter	$35.88	$18.50	$29.13	$18.00
Second Quarter	43.75	28.75	32.88	15.50
Third Quarter	42.63	29.50	32.25	26.38
Fourth Quarter	44.00	23.75	27.75	22.75

Dividends

The Company did not declare or pay any dividends during 1997 or 1998. The Company anticipates that future earnings, if any, will be retained for the development of its business, and the Company does not anticipate paying any cash dividends on its common stock in the foreseeable future.

Form 10-K

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

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