



Client First

2004 FORRESTER RESEARCH ANNUAL REPORT



Forrester is an independent technology research company that provides pragmatic and forward-thinking advice about technology's impact on business. Business, marketing, and IT professionals worldwide collaborate with Forrester to align their technology investments with their business goals. Established in 1983, Forrester is headquartered in Cambridge, Mass.



RESEARCH
DATA
CONSULTING
COMMUNITY

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

Year Ended December 31,	2002	2003	2004
Revenues	\$ 96,936	\$ 125,999	\$ 138,479
Operating income (loss)	\$ (1,143)	\$ 1,578	\$ 2,013
Net income	\$ 589	\$ 2,191	\$ 4,132
Basic net income per common share	\$ 0.03	\$ 0.10	\$ 0.19
Diluted net income per common share	\$ 0.02	\$ 0.10	\$ 0.18
December 31,	2002	2003	2004
Stockholders' equity	\$ 213,868	\$ 208,322	\$ 199,846
Deferred revenue	\$ 42,123	\$ 68,630	\$ 72,357
Agreement value ¹	\$ 78,134	\$ 126,285	\$ 137,100
Client companies ²	1,125	1,812	1,866

¹ Agreement value, as measured by Forrester, 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.

² Client companies represents the total number of companies with which Forrester conducts business at a given point in time. Forrester may provide multiple services to more than one business unit of the client company.

Fellow Shareholders,

2004 WAS THE YEAR WHEN FORRESTER BEGAN TO GROW AGAIN. IT WAS THE year in which the Giga-plus-Forrester integration was completed. It was the year when our product strategy was reformulated to generate maximum value for our clients. We are pleased with our performance in 2004, and we believe that it positions the company for continued growth in 2005 and beyond.

2004 Milestones

In 2004, Forrester grew 10%, finishing with revenue of \$138.5 million. Net income in the year grew from \$2.2 million to \$4.1 million.

The number of clients that Forrester serves grew from 1,812 to 1,866 in 2004. Importantly, renewing clients bought more services, with enrichment moving from 99% to 107%. Our client renewal rate of 76% was the highest since 2000.

In 2004 we had the lowest attrition of Forrester employees in eight years. This was especially encouraging considering the ongoing integration of Giga with Forrester.

In 2004 we built out the range of services for our clients. This portfolio includes four product sets: Research, Data, Consulting, and Community. Forrester can now help its clients improve on a wider array of decisions, across a broader range of business issues.

Paths To Growth

Forrester's compound annual growth rate in the 1990s was 56%. Growth was interrupted by the technology recession of 2001–2003. Forrester got back on the organic growth curve in 2004 and we expect to accelerate expansion as the decade progresses. Forrester's growth is driven by four factors:

1. *Technology remains complex and confusing.* With large corporations increasing their IT budgets, implementation and management challenges have increased. We expect the complexity of technology to intensify — stimulating the demand for Forrester's services.
2. *Continuing digitization.* The long wave of digitization has just begun in most large companies. The way companies sell, manufacture, service, develop, communicate, and operate will be radically altered by technology. As companies digitize, they will need Forrester's guidance and advice.
3. *Globalization.* The strategic use of technology has been a North American and European phenomenon for the most part. In the coming years, companies in Asia, Africa, and South America will turn to technology to transform and drive their markets, stimulating demand for Forrester's services beyond our current geographical markets.
4. *Target market untapped.* Forrester sells primarily to \$1 billion-plus companies — the 4,700 worldwide companies with more than \$1 billion in yearly revenue. Fourteen percent of these companies are presently Forrester clients — meaning that more than 80% of our market remains untapped. We expect many more of these companies to increase their technology IQ and expenditure, increasing the likelihood that they will require our services.

The 2005 Plan

In 2005, Forrester will:

1. *Increase the cross-sell of the four products groups in our portfolio.* The expanded set of services now available from Forrester — Research, Data, Consulting, and Community — means that our enrichment opportunities have grown — we will be intensifying this cross-sell in 2005.
2. *Widen our data services.* Led by Forrester's Ultimate Consumer Panel, launched in 2004, Forrester will continue to expand its analysis of worldwide consumer and business data.
3. *Broaden our community offerings.* Community encompasses Forrester's boards business, which we call Oval, as well as Events. Oval expanded from 4% of our revenue in 2003 to approximately 7% in 2004 — we expect Oval to become a larger part of our revenue in 2005. The benchmarking, best practices, and personal connections driven by the Forrester Oval Program™ offer an extraordinary way for Forrester's clients to connect with each other, learning how to avoid mistakes and gravitate to best practices.
4. *Continue our long-term effort to globalize.* In 2005, we will build on our successes in Europe while investing in the expansion of our Asia-Pacific business. While India has been the fastest-growing region for Forrester over the past two years, we expect China to become our most important emerging market by the end of the decade. We are still on track to build a business that is 50% US, 50% outside the US.

Client First

Seven values underlie the work of Forrester: client, communication, creativity, consistency, quality, quickness, and service — 4C2Q1S. While all are important, client remains paramount. Without exception, we remain devoted to our clients. Our goal is to do our absolute best for our clients at all times.

When Giga joined Forrester, it brought excellent processes for helping clients, many of which Forrester has adopted over the past two years. In an age of “Googlization,” where much information is freely available, Forrester's intimacy and strong connection to our clients clearly stands apart from the flood of generic information. To ensure that our clients are happy at all times, we are instituting a service commitment backed by a money-back guarantee for our clients. We believe that this will keep Forrester continually focused on improving what is already high customer service.

Final Thoughts

As I look back over the past five years, I am very proud of how the company weathered the technology recession of 2001–2003 and is poised to move into double-digit growth in 2005. While we have had to make difficult decisions over the past several years, we never stopped innovating, we never stopped thinking about our clients, we never stopped improving our services, and we never stopped believing in the long-term mission of the company, which is to help large corporations use technology to thrive.

The team that runs Forrester has never been stronger and more committed to our mission. I feel very privileged to be working with such a talented and passionate group of professionals.



LEFT TO RIGHT > George M. Orlov, *Chief Information Officer and Chief Technology Officer*; Warren Hadley, *Chief Financial Officer and Treasurer*; Gail S. Mann, *Chief Legal Officer and Secretary*; Charles W. Chang, *President, Forrester Asia-Pacific*; George F. Colony, *Chairman of the Board and Chief Executive Officer*; Robert W. Davidson, *President, Forrester EMEA*; Brian E. Kardon, *Chief Strategy and Marketing Officer*; Daniel Mahoney, *Chief Research and Client Officer*; Neil Bradford, *President, Forrester Americas*; Timothy M. Riley, *Chief People Officer*.

It's still a lot of fun for me as I move closer to my 25th year in the industry of helping companies grapple with technology. For me, Forrester's potential lies ahead, especially as the world becomes more globalized, more connected by technology, and more digitized. Our vision is that technology changes everything. In a world where that is true, society, companies, and individuals will need help to come to grips with this great change. And that's what Forrester does. We've got an amazing future ahead of us.

I hope to see you during the coming year, and I welcome any ideas or feedback you may have — please contact me at gcolony@forrester.com.

Thank you very much for your continued support.

GEORGE F. COLONY
CHAIRMAN AND CEO
FORRESTER RESEARCH, INC.

■ Forrester Change

RESEARCH

“One of the key resources for success in the IT industry is topflight intelligence, insights, and advice. For over 15 years, HP has considered Forrester a tier one advisory partner providing us with research, data, consulting, and access to a community of peers from other companies. Their research and analysis touches the breadth of HP around the world from our business units to target market segments to corporate operations to our strategy and planning offices.”

Carter Lusher
Director, Analyst Relations
Corporate Marketing
Hewlett-Packard

TECHNOLOGY CHANGES EVERYTHING. FROM HOW WE ENTERTAIN OURSELVES to how our grocery shelves are supplied to the reality of many customer service centers halfway around the world.

Businesses keep pace with dynamic change by being forewarned and forearmed with critical, up-to-the-minute research on their industry, competitors, and customers. They need to know: How much is being spent? What technology is being bought and by whom? What's in, what's out, what's next? This knowledge becomes power when distilled, interpreted, and communicated by Forrester analysts. Our research gives clients insight into the challenges they face every day.

We provide a range of services that is comprehensive. With WholeView 2™, the foundation of all of Forrester's products and services, we literally present clients with a whole view of their business environment. We explain how business and technology integrate internally and externally, and provide detailed information clients can use to create new strategies and pursue new opportunities.

In magnitude, our information-gathering is enormous. In quality, it is exceptional.

Each year we perform more than 250,000 consumer surveys — second in size only to the US Census; 30,000 in-depth interviews with business, marketing, and IT professionals; 80 hands-on lab tests of products; and 250 vendor evaluations.

The information and analysis we gather and deliver encompasses a wide range of industries from travel to retail, healthcare to finance, and disciplines from security to insurance.

Clients can also choose our research subject matter through our aptly named Client Choice program. Launched in 2004, this democratic process allows clients to vote from a varied selection of research topics. The winning topic is addressed by Forrester analysts and presented within 30 days, making it extremely relevant and timely.

Last year, thousands of individual clients voted in Client Choice. Many find our information so valuable, that rather than choose from our menu, they take the time to write in alternatives that are important to them.

In addition, we offer clients Forrester Inquiry, 30-minute one-on-one interactions with an analyst. It's a unique opportunity to pose questions or get clarification on a research document. In 2004, we handled more than 20,000 Inquiries, so we know what's foremost on our clients' minds on a daily basis.

We continue to explore new ways to put clients first and involve them so they get the most out of our ideas and analysis when making informed decisions. Through products and services such as WholeView 2, Client Choice, Inquiry, and our fast response time, Forrester makes research as accessible as it is invaluable.



Client First

■ Forrester Choice

DATA

"In today's hotly competitive airline environment, data-based research gives an airline like Delta critical lift. We have used Forrester's Consumer Technographics data to help identify the best target audience when we launched Song, its Web site review service to keep Delta.com at the forefront of network airline Web sites, and analyst interactions to gain topical and timely insight into industry issues and new technology and eCommerce developments."

Manon Brochu
General Manager, Online Sales and Services
Delta Air Lines

WHAT PERCENTAGE OF CONSUMERS HAS DIFFICULTY MAKING MEDICATION choices? By how much will North American enterprises increase spending on storage hardware and software in 2005? And how do European bank customers feel about conducting transactions via their mobile phones?

These are the kinds of questions we have been asking since 1997 in surveying households across the US, Canada, and Europe about their attitudes toward and purchasing intentions for technology. This proprietary data is a core element of Forrester's differentiation.

Clients leverage Forrester's years of experience and millions of completed surveys with our Consumer and Business Technographics® — the most comprehensive offering of its kind in the world. Just as important, our specialists help clients interpret our extensive data, create custom surveys, and invite them to tap into Forrester's proprietary consumer panel.

In Forrester's Ultimate Consumer Panel, we capture a vast amount of consumer behavior every month. Ultimate currently tracks purchases, payments, and account activity for 10,545 credit card accounts and for 5,482 banking accounts.

In addition to this monthly accumulation, we also collect demographics, attitudes, product ownership, media consumption, and retail behavior through surveys conducted every two months.

This rich, deep, and timely data is extremely reliable in capturing actual consumer behavior. There are multiple benefits. Our clients can benchmark themselves against their competition, evaluate their pricing, gauge the value of the Internet, measure ROI on online advertising, and analyze new technologies and their potential impact on their present strategies.

We also tap into large, midsize, and small businesses throughout North America and Europe, gathering material on trends and demands, as well as business firms' technology budgets, decision processes, purchase plans, and brand preferences.

The value of our data is in how we make it easy for clients to fine-tune the results of carefully crafted research questions to jump-start their initiatives.



Client First

“Over the past few years, Forrester has emerged as a premier technology intelligence and marketing insight company. Forrester analysts have their fingers on the pulse of the industry and their fresh thinking — in both their research and consulting services — has significantly helped us elevate the level of our client delivery.”

Amanda Van Nuys
Executive Director, Corporate Marketing and Alliances
Organic, Inc.



CONSULTING

Forrester Knowledge

CLIENTS COME TO FORRESTER FOR CONSULTING ENGAGEMENTS BECAUSE they get the highest level of advice and counsel, backed by unsurpassed quantities of Forrester data and research. They know that our research will be applied to their individual needs, and the consultation will be directed by an expert: a Forrester analyst.

Our combination of technology expertise and specific industry knowledge is powerful and extremely effective.

Recently, one of the world's largest oil companies consulted with us to develop a cohesive enterprise content management (ECM) strategy. Forrester analysts brought extensive experience in ECM strategies and document management to the table. Therefore, getting up to speed was a foregone conclusion, and the client quickly had the results it needed to move ahead successfully.

Similarly, our extensive experience advising the healthcare industry on technology trends equipped our analysts to expedite a Web site comparison for a major healthcare provider.

Research comes to life with a Forrester client consultation. Whether it lasts for a few hours or several weeks, a one-on-one dialogue or series of meetings is always productive for our client's senior management team.

When one client sought to gauge market interest in an electronic fraud detection device, we surveyed the market, met with the client, discussed our findings, and showed the client that there was not enough interest in developing the device. The concept was shelved, saving the client several hundred thousand dollars.

Forrester consultants are leading experts in the client's industry, having conducted research, given speeches, and chaired discussions that are pertinent to the on-site sessions. By leveraging our WholeView 2 research, we help clients understand that the market strategies we define for them are grounded in the interplay of business demands and technology capabilities.

The tangible value of our consulting is that we save clients time and money. The intangible benefit is that this interaction between Forrester and client builds relationships and brings us closer.

By identifying with our clients' challenges on a firsthand basis, we better understand their objectives. We know the challenges clients face, can guide them toward best practices, and are a trusted partner in solving problems and providing direction.



Client First

“While Forrester provides valuable research and insights in technology trends, the CIO Group puts you in direct contact with CIO-level executives in relaxed settings where information exchange between peers can occur easily and naturally. The Forrester analysts bring new and interesting perspectives to CIO-level issues.”

Joe Puglisi
CIO
EMCOR Group



COMMUNITY

 **Forrester Advantage**

FORRESTER IS UNIQUE IN THAT WE PRESENT HIGH-LEVEL MARKETING AND IT executives with opportunities to meet with their peers, connect with our senior analysts, and take advantage of customized research.

This confluence of ideas and experience leads clients to make informed decisions, move their companies forward, become more productive and more profitable — whether they are in automotive, consumer electronics, financial services, government, healthcare, media, retail, telecom, or travel.

Within our Community products and services are the Forrester Oval Program, CMO and CIO Groups, Councils, analyst-run Boot Camps, and Forrester Events.

Launched in 2004, our CMO Group Program helps executives thrive in a time where technology is dramatically altering consumer behavior.

Forrester's CIO Group Program helps top IT executives align their long-term vision with tactical realities. Issues addressed can include how the best IT organizations are crafting their strategic plans and how firms are balancing their spending against newer investments.

With a membership representing more than 100 global \$1 billion-plus companies, our CIO Group addresses CIOs' needs for information and helps them understand how others in their field operate.

Our Boot Camps are one- or two-day hands-on sessions developed and led by Forrester analysts. They can be tailored to clients and delivered on-site with subject matter ranging from Web site analysis to justifying technology investments to what's next for TV advertising.

Forrester Event themes include: discussions on how carmakers and dealers can accelerate innovation; what the barriers are between IT and business that are hindering communication and strategic effectiveness; and up-to-the-minute research on European consumers' buying habits and product preferences.

Executive Forums have included high-level keynote speakers such as Kevin Rollins, President and Chief Executive Officer, Dell; Thomas Stemberg, Founder and Executive Chairman, Staples; and Dee Dutta, Corporate Vice President, Head of Marketing, Sony Ericsson Mobile Communications.

Clients at Forrester Events throughout North America and Europe have the opportunity to meet and interact with keynote speakers, other attendees, and Forrester analysts.

Invariably, participants in our Community programs are energized and revitalized when coming together with Forrester analysts. An integral part of our client first focus, these meetings of the minds help executives make informed decisions, focus their team efforts, and leverage current and future business opportunities around the efficient use of technology.



Client First

Forrester Service

FORRESTER CLIENTS WILL CONTINUE TO BENEFIT FROM ENHANCED PRODUCT offerings and an increase in quality data made available to them across our Research, Data, Consulting, and Community portfolio.

- The content of our Consumer Technographics research is up 180% and we have added new surveys on Youth and Affluent market segments.
- In Business Technographics, the number of surveys we conduct has risen from 6,500 to 10,000, and we now include large-company reports on hardware, networking, telecom, and software.
- Our research coverage is increasing in applications development, IT services, healthcare, government, finance, and security.
- Forrester Waves™ — a standard way for us to evaluate competing suppliers and more clearly present our findings to clients — grew from 30 studies in 2003 to 44 in 2004, and 90 to 100 are planned for 2005.
- In Forrester's Ultimate Consumer Panel we are adding more panelists so our data is richer and deeper, enabling us to help clients with issues such as product development, competitive intelligence, pricing, and promotion strategies.
- Our Custom Consumer Research will include new and more valuable content.
- Through Client Choice, we produced 45 documents in 2004. That number will more than double in 2005.

Clients see the value in our research and analysis as a catalyst for change, to energize growth while protecting them from costly mistakes. They look to the future with confidence, knowing that decisions they make are based on solid groundwork and smart advice.

The quality of our client relationships is enhanced greatly by collaboration, something we have fostered for more than 20 years. We see clients as partners, and keep the lines of communication open through daily contact, emails, teleconferences, Events, and any other way that will promote trust and confidence.

We are committed to providing consistent, quick, high-quality service to every client. As a clear demonstration of our confidence in our ability, Forrester is instituting a service commitment to clients backed by a money-back guarantee. This service commitment will keep us focused on client first with every contact, every communication, every business day.

Client First



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- George M. Orlov**
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- Timothy M. Riley**
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Company Information

ANNUAL MEETING

Forrester's annual meeting of stockholders will be held at 10 a.m. EDT on May 10, 2005, at the offices of Ropes & Gray LLP, One International Place, Boston, Mass.

INVESTOR RELATIONS

Requests for financial information should be sent to:

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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 2, 2005, was 52.

The following table represents the ranges of high and low sale prices of Forrester's common stock for the fiscal years ended December 31, 2003, and December 31, 2004.

	2003		2004	
	High	Low	High	Low
Q1	\$ 17.40	\$ 11.61	\$ 19.67	\$ 16.01
Q2	\$ 16.65	\$ 13.85	\$ 19.50	\$ 16.48
Q3	\$ 17.29	\$ 13.33	\$ 18.82	\$ 15.24
Q4	\$ 19.97	\$ 14.14	\$ 18.10	\$ 12.66

DIVIDENDS

Forrester did not declare or pay any cash dividends during the fiscal years ended December 31, 2003, and December 31, 2004. 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 annual 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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