



FORRESTER RESEARCH 2005 ANNUAL REPORT



Helping Business Thrive On Technology Change

Forrester Research (Nasdaq: FORR) is an independent technology and market research company that provides pragmatic and forward-thinking advice about technology's impact on business and consumers. For more than 22 years, Forrester has been a thought leader and trusted advisor, helping global clients lead in their markets through its research, consulting, events, and peer-to-peer executive programs. For more information, visit www.forrester.com.

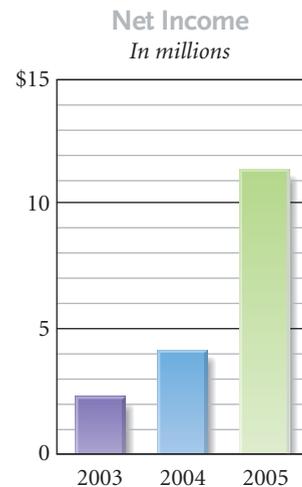
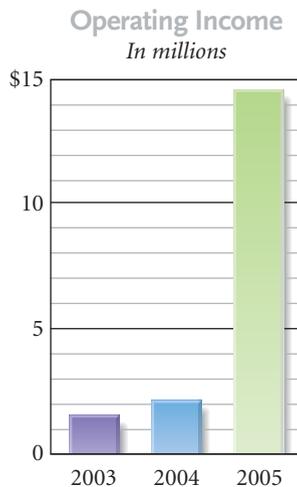
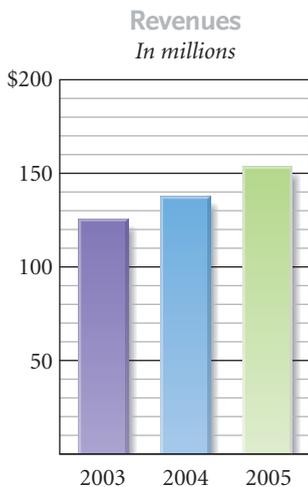
Financial Highlights in thousands, except client companies and per share data



Year Ended December 31,	2003	2004	2005
Revenues	\$ 125,999	\$ 138,479	\$ 153,229
Operating income	\$ 1,578	\$ 2,013	\$ 14,656
Net income	\$ 2,191	\$ 4,132	\$ 11,348
Basic net income per common share	\$ 0.10	\$ 0.19	\$ 0.53
Diluted net income per common share	\$ 0.10	\$ 0.18	\$ 0.52
December 31,	2003	2004	2005
Stockholders' equity	\$ 208,322	\$ 199,846	\$ 198,754
Deferred revenue	\$ 68,630	\$ 72,357	\$ 86,663
Agreement value ¹	\$ 126,285	\$ 137,100	\$ 148,640
Client companies ²	1,812	1,866	2,007

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.



DEAR FELLOW SHAREHOLDERS,

After expanding at fast rates in the 1990s and taking a step backward in the technology recession of 2001 to 2003, Forrester has fully recovered to grow again at double-digit rates. In 2005, we saw significant expansion across all of our important metrics:

- ▶ Revenue grew 11% to \$153.2 million.
- ▶ Pro forma net income grew 16% to \$14.3 million.
- ▶ Client companies grew 8% to 2,007.
- ▶ Cash flow increased 33% to \$23.9 million.
- ▶ Deferred revenue increased 20% to \$86.7 million.



WHY ARE WE GROWING?

- ▶ The industry in which we operate, technology research for large corporations, has consolidated from four to two players. Forrester is one of the two major sources for this type of analysis.
- ▶ Forrester's business model successfully mixes high-touch products like consulting with syndicated products like leadership boards. This combination yields intimacy and impact, driving renewal rates and attracting new clients.
- ▶ Our broad portfolio of offerings (research, data, consulting, peer-to-peer boards, and events) has widened our addressable market.
- ▶ The technology market is generally healthy, with US tech spending increasing 6% in 2005.
- ▶ Forrester's brand remains strong. In 2005, our analysts were quoted more than 35,000 times in leading media around the world.

While much clicked in 2005, we had our challenges. Our goal in 2005 was to grow our business outside of the US to 34% of total revenue. We missed that number, coming in at 30%. Four reasons underlie these results:

- 1) Softening sales in our EMEA operating group.
- 2) Flat sales in our Asia Pacific operating group.
- 3) Strong performance of the Americas operating group.
- 4) Currency weakness in Europe.

Our long-term goal is to have 50% of our business within the US and 50% outside of the US. We are taking actions in 2006 to get back on track to attain this goal.

FOCUS ON PROFIT

Before the technology recession of 2001 to 2003, Forrester's pro forma operating margin was in the 16% to 19% range. During the recession, our pro forma operating margin dropped to 11%. We have been working hard to move it back into our traditional range, gaining one point of operating margin a year for the last two years.

In 2005, we instituted two major efforts to increase profitability. The first was an intensified focus on \$1B+ companies. These clients renew at higher rates, enrich at higher rates, and are more likely to sign on for enterprise contracts. The second was our continuing push to keep business balanced at approximately 65% syndicated and 35% nonsyndicated. This proportion ensures that we maintain intimacy with clients while retaining leverage.

I am glad to report that both efforts showed success in 2005. \$1B+ clients expanded from 698 to 747. Our business was 64% syndicated, 36% nonsyndicated. Our fast-growing boards business, data business, and a revived WholeView 2 led the syndicated charge.

INNOVATION

As has always been true at Forrester, we continue to look for innovative ways to increase client value. Four efforts stand out in 2005:

- ▶ Client Choice — enabling our clients to drive the research agenda.
- ▶ The Forrester Wave™ — our methodology for grading the strategy and offerings of technology vendors.
- ▶ Asia Pacific Consumer Technology Adoption Study — gathering and analyzing data on consumers in China, India, and Japan.
- ▶ Money-back guarantee.

Under Client Choice, Forrester's clients vote on what research they need. In 2005, we moved from 5% of research driven by Client Choice to 10%. We expect this percentage to continue to increase in 2006. Not surprisingly, Client Choice documents are among our most popular and highest-rated reports.

Forrester published 43 Waves in 2005, up from 28 in 2004. The Forrester Wave will be expanded to 80 markets in 2006. Client feedback has been strong; customization and transparency of methodology make the Wave an attractive alternative in the marketplace.

Asia Pacific Technographics is our first foray into gathering primary consumer research on the major economies of Asia Pacific. We believe that this data will be valuable to North American and European corporations looking to sell into the Asia Pacific region and to local Asian companies. Both our consumer and business AP Technographics lay the groundwork for additional research coverage that we plan to roll out over the next three years in that region.

In 2005, we instituted an unconditional money-back guarantee for our clients, a precedent-setting move in our industry. The money-back guarantee has attracted new business, enabling prospects to try Forrester's research at low risk. For me, the money-back guarantee demonstrates the ethical, fair, and straight way of conducting business that Forrester has always stood for.

2006

For 2006, Forrester will seek to:

- ▶ Win new \$1B+ companies as clients. We will work to add 75 \$1B+ companies in 2006.
- ▶ Maintain our balance of syndicated and nonsyndicated business.
- ▶ Expand our boards business by 40%, adding 150 members.
- ▶ Expand research coverage in Asia — particularly in India, Japan, and Australia.
- ▶ Broaden our data business, launching into new areas, including Hispanic American technology adoption.

SOME PERSONAL THOUGHTS

Forrester remains ever fascinating and ever educational — primarily because of its great clients and employees. Our clients are looking for the information and analysis to help them make better decisions. Their needs keep us asking the tough questions and looking for the hard-to-find but relevant data and analysis. Our clients are not just our audience, they are our partners — working with us to figure out the best path through the ever-more complicated maze of technology. We are teaching and learning from each other.

But none of that happens without the amazing Forrester team. It is energized, driven, full of ideas and innovation, courageous, and always ready for the next big problem to solve and understand. I feel truly gifted to be able to spend my time with the motivated and smart people of Forrester.

One of the most visionary research projects we conducted in 2005 identified the three major waves of technology that have crested and matured over the last 50 years, the latest having been the Internet wave. Forrester believes that a fourth wave, driven by service-oriented architecture, X Internet, social computing, outsourcing, and digital business architecture, will commence in the 2008/2009 timeframe. Clearly, technology will continue to change everything as we move forward, widening Forrester's opportunity and intensifying the demand for the measured, well-considered, and balanced guidance that we have always strived to bring to our clients. That's the challenge that keeps me engaged and as ambitious as ever to continue building Forrester into a world-class company.

Thank you for your support in 2005. Please email me directly at gcolony@forrester.com if you have any feedback, questions, or comments.



George F. Colony

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President, Forrester Americas

ANNUAL MEETING

Forrester's annual meeting of stockholders will be held at 10 a.m. EDT on May 9, 2006, at the offices of Ropes & Gray LLP, One International Place, Boston, MA

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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 10, 2006 was 50.

The following table represents the ranges of high and low sale prices of Forrester's common stock for the fiscal years ended December 31, 2004, and December 31, 2005.

	2004		2005	
	HIGH	LOW	HIGH	LOW
Q1	\$19.67	\$16.01	\$18.46	\$13.79
Q2	\$19.50	\$16.48	\$18.77	\$13.61
Q3	\$18.82	\$15.24	\$21.58	\$17.45
Q4	\$18.10	\$12.66	\$21.00	\$17.28

DIVIDENDS

Forrester did not declare or pay any cash dividends during the fiscal years ended December 31, 2004, and December 31, 2005. 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.

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